

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PERU

**IMPROVEMENT OF THE PUBLIC SECTOR PAYROLL BUDGET INFORMATION
SERVICE**

(PE-L1247)

LOAN PROPOSAL

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REQUIRED LINKS	
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Required link 2	Monitoring and evaluation plan
Required link 3	Procurement plan

OPTIONAL LINKS	
Optional link 1	Safeguard Policy Filter and Safeguard Screening Form
Optional link 2	Economic analysis
Optional link 3	Itemized budget
Optional link 4	Project Operations Manual - draft

ABBREVIATIONS

AIRHSP	Aplicativo Informático para el Registro Centralizado de Planillas y de Datos de los Recursos Humanos del Sector Público [software application for the centralized register of public sector payrolls and employee data]
AWP	Annual work plan
CGR	Office of the Comptroller General
COTS	Commercial off-the-shelf
DGGFRH	Human Resource Fiscal Management Branch
DGGRP	Public Resources Management Branch
ENAP	National School of Public Administration
IMF	International Monetary Fund
MEF	Ministry of Economy and Finance
MEP	Monitoring and evaluation plan
OGIP	General Office of Investments and Projects
OGTI	General Office of Information Technologies
SECI	Institutional capacity assessment system
SERVIR	National Civil Service Authority
SIAF	Integrated financial management system
SIAF-RP	Integrated financial management system – public resources
SIGEP-SP	Payroll budget management system – public sector
SUNAT	National Customs and Tax Administration
UCCTF	Technical and Financial Coordination Unit

PROJECT SUMMARY

PERU IMPROVEMENT OF THE PUBLIC SECTOR PAYROLL BUDGET INFORMATION SERVICE (PE-L1247)

Financial Terms and Conditions				
Borrower:			Flexible Financing Facility ^(a)	
Republic of Peru			Amortization period:	10 years
Executing agency:			Disbursement period:	5 years
Ministry of Economy and Finance (MEF)			Grace period:	7 years ^(b)
Source	Amount (US\$)	%	Interest rate:	LIBOR-based
			Credit fee:	^(c)
IDB (Ordinary Capital)	26,600,000	80	Inspection and supervision fee:	^(c)
Local	6,650,000	20	Weighted average life:	8.31 years
Total	33,250,000	100	Currency of approval:	U.S. dollar
Project at a Glance				
Project objective/description: The general objective is to help boost the efficiency of public spending on payrolls by the national, regional, and local governments, through more effective and efficient management of the payroll budget for employees and pensioners.				
Special conditions precedent to the first disbursement: The borrower, acting through the executing agency, has submitted evidence of the following to the Bank's satisfaction: (i) the Operations Manual for the project has been approved under the terms agreed upon with the Bank; and (ii) the Public Resources Management Branch (DGGRP) has hired the project coordinator and a technology specialist (paragraph 3.2).				
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)		GD <input type="checkbox"/>	CC <input type="checkbox"/>	IC <input checked="" type="checkbox"/>

^(a) Under the terms of the Flexible Financing Facility (FN-655-1), the borrower has the option of requesting changes in the amortization schedule as well as currency, interest rate, and commodity conversions. 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 the 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 relevant policies.

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

^(e) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. PROJECT DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

- 1.1 **Macroeconomic and fiscal aspects.** Peru has maintained a sustained economic balance since 2008, with an average increase in real GDP of approximately 3.6% in the period 2013-2018. Despite this, the fiscal balance has presented a successive deficits since 2014 (0.2% of GDP), culminating in a deficit of 3.1% of GDP in 2018. This is explained by: (i) the reduction in tax revenues from 16.7% of GDP in 2013 to 14% of GDP in 2018; and (ii) the increase in public spending from 15.4% of GDP in 2013 to 16.6% of GDP in 2018.
- 1.2 One of the public expenditure categories that grew most over the period was spending on wages and pensions,¹ which accounts for about 43% of total spending.² Between 2013 and 2018, public spending on wages and pensions grew from 8% of GDP to 8.7% in 2018,³ which, in nominal terms, implies an increase at an average rate of 8.1% a year. This problem is difficult to control because the absence of an effective and efficient payroll budget information service is a large obstacle to managing public sector spending on personnel.
- 1.3 At present, the Peruvian civil service has about 2.3 million employees and pensioners (63% in the national government, 29% in regional governments, and 8% in local governments).⁴
- 1.4 **Current institutional framework.** The Peruvian government is promoting modernization of the public sector's financial administration with the goal of consolidating fiscal sustainability and accountability. The basic guidelines for this reform process were established in a series of legislative decrees issued in 2018,⁵ which identified human resource fiscal management as one of the areas included in public sector financial administration.⁶ Article 15.1 of Decree Law 1436/2018 defines human resource fiscal management, which is the responsibility of the Human Resource Fiscal Management Branch (DGGFRH),⁷ as the evaluation and validation of the wages paid to public sector employees. Article 6.1 of Decree Law 1442/2018 establishes that the DGGFRH, which reports to the Ministry of Economy and Finance (MEF), is the competent entity in the area of financial compensation. The same article indicates that one of the DGGFRH's functions is to administer the centralized public sector payroll software application,⁸ as the only

¹ Public sector wages in Peru are between 18% and 28% higher than private sector wages. Izquierdo, Pessino, and Vuletin, 2018.

² Source: Public Resources Management Branch (DGGRP)-MEF.

³ Source: [International Monetary Fund \(IMF\) Article IV, 2018](#).

⁴ Source: DGGRP-MEF.

⁵ Decree laws 1432/2018, 1436/2018, 1437/2018, 1438/2018, 1439/2018, 1440/2018, 1441/2018, and 1442/2018.

⁶ Under Decree Law 1436/2018, the other areas included in Peru's public sector financial management are the systems for the national public budget, treasury, public debt, accounting, supply, and multiyear investment programming and management.

⁷ In line with the Fourth Final Complementary Provision of Decree Law 1436/2018, all legislative references to the DGGRP are understood as extending to the DGGFRH.

⁸ The centralized public sector payroll will consolidate payroll information at the MEF on active and retired employees for the entire public sector (at the national, regional, and local levels).

body authorized to create registers of positions or posts, wage categories and amounts, as established in the consolidated list of public employee wage items.⁹

- 1.5 At present, there are different computerized payroll systems at the three levels of government, which are not integrated and do not contain standardized information. The MEF developed a payroll module for the personnel system (SISPER) which it shares with the line units of some ministries. However, the Ministries of Education, Health, and Defense, and the National Customs and Tax Administration (SUNAT) have their own systems, and the regional and local levels have a variety of computerized solutions. In 2014, the Public Resources Management Branch (DGGRP) developed a software application for the centralized public sector register of payrolls and employee data, which was intended to make a start on a process of centralizing the information contained in the different systems. However, wage planning and calculation have remained the responsibility of the line units' systems.
- 1.6 **Background.** To consolidate the process of centralizing and improving payroll information, the Peruvian government promoted the project to improve the public sector payroll budget information service, which was supported by the Bank (2991/OC-PE). The project was approved in 2013 and its main output was supposed to be the development and introduction of a payroll budget management system for the public sector (SIGEP-SP) for the national and regional governments that would serve as a repository for the standardization and centralization of the information contained in different systems and databases used to manage the payroll budget (although it did not include wage planning and calculation). The project made significant progress in the analysis of specifications and the functional design of SIGEP-SP, but the system was not implemented because the contract with the winning bidder ended up being cancelled, pursuant to challenges to the processes of tendering and awarding the system's technology products by the Technical and Financial Coordination Unit (UCCTF) and the General Office of Information Technologies (OGTI) of the MEF.
- 1.7 In parallel, the MEF decided to expand the scope of SIGEP-SP as follows: (i) to include in the system, in addition to the process of payroll budget management, the functions of wage planning and calculation, and execution of employee and pensioner payrolls, leaving the integrated financial management system (SIAF) only with the responsibility of making payments; and (ii) in addition to the modules for the national and regional governments, to include a module for local governments.¹⁰ To support this broadened functional and administrative scope of the system, the MEF decided to conduct new technical studies that fueled momentum for institutional improvements that focused on closing gaps in definitions and process reengineering, and also on changes in the strategy for implementing the system (procurement and customization of commercial off-the-shelf software (COTS), instead of outsourcing a made-to-measure solution) and in the administration of technology infrastructure (contracting of an external hosting service instead of in-house operation) that had been considered under the earlier operation.

⁹ The decree law is in force. Its regulations will be approved within 180 working days after it was published on 16 September 2018.

¹⁰ The SIGEP-SP will be implemented in 298 local governments out of a total of 1,831.

- 1.8 The procurement and customization of COTS substantially reduces procurement and implementation risks, since only the functional specifications of the software application are required and it is not necessary to go down to the specification level for programming. It also allows the system to be implemented more quickly than with a made-to-measure solution and guarantees maintenance since the firm that produces the COTS software is required to provide a new version for its clients whenever improvements are made or flaws are detected in the software. Contracting of an external hosting service for the technology infrastructure also makes the tendering and implementation processes simpler, faster, and entails less risk that the expected results will not be achieved, given the wide variety of providers of the different services and variants who offer plans to suit every need and every budget.
- 1.9 The MEF and the Bank have estimated that an additional \$18 million (for a total of US\$33 million) and five more years than planned will be required for execution. Given the above, the MEF decided to cancel the original operation and to request a new one based on the designs and functional and nonfunctional specifications needed for procurement and customization requirements arising under operation 2991/OC-PE, the lessons learned from implementing that project (see paragraph 1.14), and the analyses performed to support broadening the scope of the system.
- 1.10 **Problem and rationale.** The absence of a suitable payroll budget information service in Peru's public sector limits the effectiveness and efficiency with which the budget for wages and pensions is managed. From the standpoint of effectiveness, this is reflected in shortcomings in: (i) budget planning and execution (in 2018, the budget for wages and pensions was 4.3% higher than the cost reported the software application for the centralized register of public sector payrolls and employee data (AIRHSP); and (ii) the process of verifying that payments comply with current legislative requirements (it is estimated that in 2018, payments to public sector employees and pensioners at the national and regional levels not reported in AIRHSP amounted to 4.8% of total spending on these items and that payment of other wage items not supported by an legal enabling framework accounted for an additional 8.8%).
- 1.11 From the standpoint of efficiency, the lack of a suitable payroll budget information service means that the difference activities associated with payroll and pension budget management take longer than they would if the SIGEP-SP were fully operational. For example, the results of a survey of human resource office operators in a representative sample of the public sector indicate that it takes an average of 83 person-hours a month to calculate employee earnings, while the time could be reduced to 32 person-hours if the SIGEP-SP were implemented. It is also estimated that the preparation of reports of different kinds requires 116.6 person-hours a month, while with the SIGEP-SP, just 39 person-hours would be required for the task.¹¹

¹¹ Source: Informe que Sustenta la Modificación del Proyecto Servicio de Información Presupuestaria de Planillas del Sector Público. Proyecto de Preinversión MEF, 2019.

1.12 The main reasons why the payroll budget information service is inadequate at present are:

- a. **Not enough information is available for planning, execution, and control of the budgeting process for payroll management for employees and pensioners** because: (i) the information is scattered among different computerized payroll management systems on three levels of government (national, regional, and local), with no standardization or organization.¹² Although the MEF has the AIRHSP information system which includes 86% of public employees at the three levels of government registered in SUNAT for tax purposes, it is simply a registration system, with limited architecture and a limited platform, unable to perform payroll management functions related to estimates, planning, execution (wage calculation), and reporting and it was not designed to deal concurrently with a large number of users; (ii) the MEF's technology infrastructure is insufficient to host and maintain a centralized payroll management system, given that the proposed system will centralize the operation and storage of data on the country's approximately 2.3 million public employees and pensioners; and (iii) the General Office of Information Technologies (OGTI) which is responsible for managing the MEF's information technology does not have sufficient technical resources to certify the quality of the new technological environment, operating processes, or modules in the new system.¹³
- b. **Gaps in the capacity of payroll management personnel** caused by insufficient training for the staff responsible for planning, information analysis, and reporting. By way of example, in an evaluation of the knowledge of the operators of the regional and national governments' human resource offices conducted by the National Civil Service Authority (SERVIR) in 2013, just 63% of national staff and 60% of regional staff responded correctly to questions on payroll administration.

1.13 **The Bank's experience.** The Bank has been supporting the Peruvian government in payroll management through operation 2991/OC-PE, which undertook a process of data review and technical and institutional coordination between the MEF and users of the payroll system. That operation and the project proposed here draw on the Bank's extensive experience in supporting the countries of the region in their efforts to improve human resource management through projects such as the program to support transparency and integrity reforms in Argentina (4244/OC-AR), the national program to support modernization of management and planning in Brazilian states and the Federal District (1718/OC-BR), the program to support fiscal strengthening in the Dominican Republic (3110/OC-DR), the program of fiscal strengthening for inclusive growth in El Salvador (4542/OC-ES), the program to support fiscal consolidation in Honduras (3590/BL-HO), and the programs for

¹² The main systems are: (i) the AIRHSP; (ii) the Ministry of Health's payroll management system (PLANIRHUS); (iii) the Ministry of Education's centralized payroll management system (SUP); (iv) the Ministry of Defense's personnel system; and (v) the Ministry of the Interior's personnel and payroll system. The regional and local governments also have their own payroll management systems/mechanisms. Some ministries that do not have their own applications use the MEF's system. Other national government agencies, such as SUNAT, have their own payroll systems.

¹³ The country has 2,688 line units (394 national, 449 regional, and 1,845 municipal).

public sector efficiency (4374/OC-JA) and public sector transformation (3121/OC-JA, 3122/CH-JA) in Jamaica.

- 1.14 **Lessons learned.** The lessons learned from operation 2991/OC-PE were kept in mind in designing the proposed project, particularly the need for specialized assistance in reviewing technical specifications and preparing bidding documents for the software products and technologies to be procured. This new operation will incorporate functional specialists and technology specialists and a legal advisor into the DGGRP's executing team from the start. The Bank is also supporting the MEF in strengthening the UCCTF so that in addition to its traditional fiduciary and procurement functions, it can incorporate project management methods to track project progress, equipped with tools similar to the Bank's project monitoring reports, so that the Bank and the MEF will have similar criteria and tools for evaluating the project's status, management, and development objectives.
- 1.15 The following lessons from the project to modernize the public financial administration system (2445/OC-PE) have also been taken into account: (i) the importance of establishing an executing team inside the DGGRP to take charge of technical coordination of the project, consisting of functional specialists and information technology specialists; (ii) the need for the executing team to lead the stringent preparation of the bidding documents for the SIGEP-SP, with functional validation by the DGGRP and SERVIR and information technology validation by the OGTI; and (iii) the advisability of reaching formal project management agreements, in particular with the DGGRP, SERVIR, and the OGTI, that will remain valid in the event of changes in those agencies' authorities. These lessons will be included in the project Operations Manual.
- 1.16 Lastly, based on the project completion report on the national program to support modernization of Brazilian states and the Federal District (1718/OC-BR), which included actions to centralize the payrolls of some states, the following lessons have been included: (i) carefully scale the targets in function of the resources available; (ii) avoid the fragmentation of outputs; and (iii) consider the differences in institutional capacity of the institutions involved in the modernization (the project includes a component fully devoted to training).
- 1.17 **Factors that increase the project's likelihood of success.** The following factors have been identified: (i) existence of a new regulatory framework that, among other things, calls for implementation of a centralized public sector payroll and its software applications and centralizes payroll management in the MEF;¹⁴ (ii) unlike the previous operation, this project is part of a much broader effort to modernize the management and technological infrastructure of public finances in Peru, which is being supported by the Bank through other operations and provides for fortifying and developing the capacity of the UCCTF/General Office of Investments and Projects (OGIP) and the General Office of Information Technologies (OGTI) (see paragraph 1.13); and (iii) the tendering process will be strengthened by functional specialists with specific experience in payrolls and technical and legal specialists who will help to ensure that the technical specifications for the bidding are sufficiently clear and exact. These specialists will also facilitate dialogue with service providers and support decision makers. This new approach to bid

¹⁴ Decree laws 1436/2018 and 1442/2018.

management will help to prevent potential complications in the bids for the information products and services to be procured and during execution of the contracts arising from the bids.

- 1.18 **Internal and external validity.** This intervention is intended to improve the quality of the information in the hands of the national, regional, and local governments for planning and executing public spending on payrolls. It is related to public policy interventions to improve the quality of the information available on the workforce. Jovanovic (1982) has shown theoretically how having more information on the workforce can lead to improvements in productivity inside a firm. This theory has been borne out empirically in different contexts. In the United States, Baker et al. (1994) has shown how as company managers have access to more information on the nature of their workforces, productivity increases. Similarly, Cardoso et al. (2015) has conducted an experiment in which employers are furnished with different levels of information on their workforces. These authors have found significant gains in productivity in interventions of this kind, to the point where programs of this type have internal rates of return of between 9% and 25%. Studies by Beaman and Magruder (2012), Beaman et al. (2015), and Abel et al. (2016) confirm the relationship between the amount of information available on the workforce and gains in productivity.
- 1.19 Digitization and unification of human resource management processes simplifies and facilitates administrative processes in public management, translating into greater transparency and efficiency in the use of resources (IMF, 2019). That is why those two steps were included in the recommendations of the Organisation for Economic Co-operation and Development (OECD) in 2010. However, quantitative evidence of the impact of those processes on savings and efficiency in the use of resources is limited. Program 1718/OC-BR was a project carried out between 2007 and 2013 with an objective similar to that of the proposed project in Peru. Although no quantitative evaluation of the impact of that program is available, the qualitative evaluations suggest that the program brought economic benefits (see the [project completion report](#) for operation 1718/OC-BR and Ferreira Vasconcelos, 2009).¹⁵
- 1.20 **Complementarity with other Bank operations.** This project is complemented with three of the Bank's specific investment operations in Peru: (i) a program for modernization of the financial administration system which is being prepared and will support the development of the core of the integrated financial administration system-public resources (SIAF-RP) and its interoperability with systems or software applications in other parts of the country's public financial administration; (ii) a project to improve the national supply system, also being prepared; and (iii) the project to boost the efficiency of government investment and contract management (4428/OC-PE), currently in execution. Like project PE-L1247, the above operations will finance the development of computer applications or systems to support their respective areas of activity and will be interoperable among themselves and with the SIAF-RP core. Furthermore, these projects will finance strengthening of the UCCTF/OGIP so that its operations can be executed in accordance with project management parameters and will support the strengthening of the OGTI's capacity to lead construction of the technology

¹⁵ The evaluation proposed in the [monitoring and evaluation plan \(MEP\)](#) will make a contribution to the literature by providing quantitative evidence of the impact on the integrated payroll system in Peru.

architecture and platform that will support the systems in the public sector financial administration, provide sustainability for the investments and technology systems, and guarantee the security and privacy of the systems and information administered.

- 1.21 **Strategic alignment.** The program is aligned with the Update to the Institutional Strategy 2010-2020 (document AB-3008) and the challenge of boosting productivity and innovation inasmuch as it promotes the use of technology to improve efficiency and effectiveness in the management of government expenditures. The program is also aligned with the crosscutting theme of institutional capacity and rule of law, through the improvement in public sector capacity to manage the payroll budget for government employees and pensioners. The program will also contribute to the Corporate Results Framework (CRF) 2016-2019 (document GN-2727-6), particularly to the indicators: (i) government agencies benefited by projects that strengthen technological and managerial tools to improve service delivery; (ii) subnational governments benefited by decentralization, fiscal management, and institutional capacity projects; and (iii) countries benefited by IDB projects to improve the leveraging of domestic resources. It is also aligned with the Growth and Institutions for Social Welfare Sector Strategy (document GN-2587-2), since it supports management of a very large portion of public expenditure. It is consistent with the Fiscal Policy and Management Sector Framework Document (document GN-2831-8), inasmuch as it supports greater efficiency in the use of public resources, and with the Decentralization and Subnational Governments Sector Framework Document (document GN-2813-8), inasmuch as it helps to improve the efficiency of public spending on wages and pensions at the regional and local levels. The project is aligned with the country strategy with Peru 2017-2021 (document GN-2889) through its contribution to the strategic objective of improving public management. Finally, the loan is included in the 2019 Operational Program Report (document GN-2948).¹⁶

B. Objectives, components, and cost

- 1.22 The project's general objective is to help boost the efficiency of public spending on payrolls by the national, regional, and local governments, through more effective and efficient management of the payroll budget for employees and pensioners.
- 1.23 The direct beneficiaries will be users of the SIGEP-SP, i.e. staff of the MEF's DGGFRH, SERVIR, and the human resource offices of line units at the three levels of government, who will have better information for payroll management. In the broader sense, it will also benefit: (i) the Peruvian government, which will obtain savings in personnel expenditures that can be used to implement its public policies; and (ii) the general public, which will benefit from those public policies as a result of the positive impact of spending to improve the quality of information for payroll programming and execution. The project has the following two components.

¹⁶ The project appearing in document GN-2948 with the same operations number but with the title "program to modernize the payroll system, stage II" was initially designed as a single operation with three components but was later separated into three operations.

1.24 Component I. Budget management system for public sector payrolls (US\$28,825,988). This component will finance the following:¹⁷

- a. The selection, contracting, customization, and implementation of a SIGEP-SP that will enable the earnings of the employees and pensioners at the three levels of government to be managed, integrating all public sector institutions. This will also include: (i) the migration of data from the different payroll systems, most of which are already included in the AIRHSP; (ii) corrective maintenance of the system to keep it up to date with changes in the regulations during implementation; (iii) training in the use of the system; and (iv) a help desk, as the sole point of contact with system users to respond to their concerns (consultations, requests, and events).
- b. Technology platform for the operation and storage of the data in the SIGEP-SP. This will include: (i) contracting a hosting environment for the technology infrastructure (development environment, comprehensive testing environment, acceptance environment, and production environment) to support the system; (ii) equipment for the datacenter, storage, production/development and contingency environments, and telecommunications and (iii) specialized software licenses to operate the technology infrastructure, and software application licenses.
- c. Certification of the quality of the tools created during the subactivities involving customization, implementation, launch, and corrective maintenance of the SIGEP-SP to ensure the smooth functioning of the system.
- d. Design and implementation of a strategy for managing change in the institutions affected by the project to mitigate/reduce/eliminate resistance to change by future users of the SIGEP-SP. This will include: (i) sensitization and communication campaigns; (ii) identification of stakeholders; (iii) coordination of communication strategies; (iv) measurement of user satisfaction; and (v) design and implementation of actions to achieve effective use of the system.

1.25 Component II. Improvement in the capacity of the budget information service (US\$1,391,931). This component will finance an ongoing training program in budget management of public sector wages and pensions for the employees of the human resource offices. It will include: (i) development of contents and materials for in-person training in the basic and specialized training modules; (ii) organization of trainings on the basic and specialized modules for operators in the national and regional human resource offices, and publications for operators in the local human resource offices; (iii) development of an e-learning program for basic and specialized courses based on the contents of the in-person versions of those same courses; and (iv) inclusion of the contents to be developed in the platform of the National School of Public Administration (ENAP).

1.26 Project management. The program will also include supervision and monitoring and evaluation activities for approximately US\$3,032,081.

¹⁷ All these activities are associated with the actions described in component I of Invierte.pe.

C. Key results indicators

- 1.27 The results indicators refer to: (i) effectiveness—number of public employees whose payrolls are processed centrally out of all public sector employees; payments that are not consistent with the centralized public sector payroll software application out of all payments reported in that application; and the budget allocated to pay the wages of employees and pensions out of the total amount planned in the application; and (ii) efficiency—average person-hours/year to update budget information by the staff of the national and regional line units; average person-hours/year to estimate wages by the staff of the national and regional line units; and average person-hours/year to generate management reports by the staff of the national and regional line units.
- 1.28 **Economic justification.** A [project economic analysis](#) was performed comparing the effectiveness of the proposed operation with a similar Bank operation completed in 2013 in the state of Rio de Janeiro, Brazil (1718/OC-BR), which was judged to be a success in its project completion report. The state of Rio de Janeiro centralized the payroll of about 458,000 employees at a total cost of US\$9.8 million, or US\$21.51 per employee. The proposed operation plans to centralize the payroll for about 2 million employees at a total cost of US\$33.25 million, or US\$16.35 per employee. Based on the assumption that the two interventions are qualitatively comparable, the study concludes that, once implemented, the project will be substantially more effective than the other successful Bank project on centralizing payrolls.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 This operation was designed as a specific investment loan with a total estimated cost of US\$33.25 million to be financed from the Bank's Ordinary Capital resources for up to US\$26.6 million and a local counterpart contribution of US\$6.65 million. The distribution of funds by source and category is shown in Table 1. An itemization of the costs disaggregated by activity can be found in the [itemized budget](#).

Table 1. Estimated program cost (US\$)

Category	IDB	Local	Total	%
1. Direct costs	26,600,000	3,617,919	30,217,919	91
Component I. Budget management system for public sector payrolls	25,486,455	3,339,533	28,825,988	87
Component II. Improvement in the capacity of the budget information service	1,113,545	278,386	1,391,931	4
2. Project management	0	3,032,081	3,032,081	9
Total	26,600,000	6,650,000	33,250,000	100

2.2 **Disbursement programming.** The disbursement period will be five years:

Table 2. Disbursement schedule (US\$)

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Total
IDB	2,806,305	3,743,030	7,068,128	6,491,268	6,491,268	26,600,000
Local	701,576	935,758	1,767,032	1,622,817	1,622,817	6,650,000
%	11%	14%	27%	24%	24%	100%

B. Environmental and social risks

- 2.3 In accordance with the Bank's Environment and Safeguards Compliance Policy (OP-703) and the results of the Safeguard Policy Filter, the project is classified as a category "C" operation. It will support better payroll management and will not finance infrastructure or civil works, so no socioenvironmental risks are anticipated.

C. Fiduciary risks

- 2.4 When the operation was being designed, a medium level of risk was identified of overcosts and longer implementation times on account of the need to abide by the Bank's fiduciary policies. The current organizational structure of the UCCTF, which will be replaced by the OGIP, will be insufficient to cover the execution demands of the operation and maintain efficient fiduciary processes. This risk will be mitigated by: (i) a systems engineering team to improve the quality of the technical documents; (ii) an information technology consultant who will facilitate coordination between the project's technology activities and the OGTI; (iii) support for the preparation of bidding documents and contracts; and (iv) fiduciary training for all actors involved in project execution.

D. Other key issues and risks

- 2.5 A risk management workshop was held following the Bank's methodology and the project risk was determined to be medium. The risks identified are:
- a. **Public management and governance.** The following risks were classified as medium: (i) delays in project execution owing to resistance by the line units to adopting the SIGEP since a number of these agencies have their own systems and will be apprehensive that they could lose funding, which will be mitigated by an activity to manage change that will be carried out during the entire execution period; (ii) delays in project execution because the consolidated list of wage items is incomplete owing to missing information, a risk that will be mitigated by supplementing the information in the AIRHSP with information from the different systems used to calculate payrolls; and (iii) delays in project execution owing to deficient coordination between the UCCTF/OGIP and the DGGFRH. This risk will be mitigated by actions to strengthen the UCCTF/OGIP, which will be financed by the project to improve the national supply system, also being prepared. In addition, the DGGFRH's execution team will contract an information technology consultant, who will help to ensure that the bidding documents prepared by the UCCTF/OGIP adequately reflect the project's functional and technology requirements. The risk of delays in implementing the technology platform was classified as high,

since the OGTI is undergoing modernization. This risk will be mitigated by contracting an information technology consultant with project funds who will facilitate coordination between the project's technology activities and the OGTI.

- b. **Development.** There is a medium risk of delays in project execution as a result of inadequate offers by bidders on the information system. This risk will be mitigated by implementing a test environment in which suppliers can demonstrate their applications and the authorities can confirm that their offers are compatible with the requirements.¹⁸
- c. **Sustainability.** There is a medium risk of: (i) difficulty in maintaining the SIGEP-SP after the end of the project owing to the absence of funds for the purpose, which will be mitigated by making the OGTI responsible for operating and maintaining the system after the end of the contract with the supplier, and resources will be programmed for maintenance; and (ii) deterioration in the quality of the payroll management services owing to a lack of telecommunication support for a web solution. This risk will be mitigated by developing off-line solutions for line units with telecommunication problems.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 The MEF will be the project's executing agency, through the UCCTF, which will be replaced by the OGIP,¹⁹ with the DGGFRH's participation for technical coordination purposes. The functions of the UCCTF/OGIP and the DGGFRH will be spelled out in the project Operations Manual, and will include the following activities as a minimum:
 - a. For the UCCTF/OGIP: (i) handling of all the financial management and procurement aspects required for the project; (ii) administration of the project's financial resources and preparation of disbursement requests; (iii) preparation, consolidation, updating, and implementation of the procurement plan; (iv) preparation of the financial statements; (v) monitoring of project execution in line with the parameters of the Bank's project monitoring system; and (vi) approval of the project Operations Manual.
 - b. For the DGGFRH: (i) planning of the technical aspects of the project, including preparation, consolidation, and submittal of the annual work plans; (ii) preparation of terms of reference and technical specifications for the contracts; (iii) coordination and monitoring of activities with the participating line units of the national, regional, and local governments; (iv) supervision of progress in execution; and (v) implementation, monitoring, and evaluation in coordination with the OGTI of the technical aspects of the project that are within its remit.

¹⁸ This approach has already been used in loan 3214/OC-PE (project to consolidate tax and customs administration) with respect to the SUNAT component.

¹⁹ Under the reform associated with modernization of public finance management being carried out by the MEF with Bank support.

- c. Interagency coordination: As part of the DGGFRH's preparations to launch, develop, and implement this operation, it has held a series of roundtable discussions with the ministries that account for 80% of government payroll spending (Ministries of Health, Education, Defense, and the Interior). At the roundtables, information has been compared on personnel, the work and pension regimes to which they belong, wage and pension levels, etc. This information is crucial for building the database and business architecture of the system to be developed. Mechanisms to exchange information and for institutional coordination are being established to serve as a basis and an example that can be replicated with the other public institutions at the three levels of government (national, regional, and local) that will form part of this project. This experience will be formalized through directives that will govern the new centralized payroll management system.
- 3.2 **Special conditions precedent to the first disbursement.** The borrower, through the executing agency, has submitted evidence of the following to the Bank's satisfaction: (i) the [Operations Manual](#) for the project has been approved under the terms agreed upon with the Bank; and (ii) the DGGRP has hired the project coordinator and a technology specialist.²⁰ These conditions are crucial since the technical, operational, fiduciary, and institutional accountability aspects need to be regulated for orderly project execution.
- 3.3 **Recognition of expenditures.** The Bank may recognize eligible expenditures by the borrower against the local contribution prior to the date of approval of the loan in the categories of goods and nonconsulting and consulting services up to a total of US\$100,000 (1.5% of the estimated local contribution), provided requisites substantially similar to those established in the loan contract have been fulfilled and the expenditures are consistent with the program's objectives. They must have been made after 9 April 2019 (date of approval of the project profile) but may in no event include expenditures made more than 18 months prior to the date on which the loan is approved. These expenditures will be used to finance the consulting services engaged to prepare terms of reference for the technology solution related to component I.
- 3.4 **Fiduciary agreements and requirements.** These establish the framework for financial management and planning, and procurement supervision and execution applicable to the operation. Loan proceeds may be disbursed in the form of advances of funds, reimbursement of expenditures, and direct payments to suppliers. For advances of funds, disbursements will be based on projected expenditures for up to 180 days. At least 80% of total cumulative balances pending justification must be substantiated, using the Bank's forms. The UCCTF/OGIP will submit the project's audited annual and final financial statements in the terms and at the times required in the Bank's policies. To that end, the UCCTF/OGIP undertakes to select and contract a firm of independent auditors acceptable to the Bank for the duration of the operation.
- 3.5 The procurement plan will be managed through the electronic online system known as the procurement plan execution system (SEPA) or a system determined

²⁰ The DGGRP prepares terms of reference and monitors, and approves the project's outputs as support for the UCCTF which will be replaced by the OGIP.

by the Bank. Procurements and contracts will conform to the Policies for the Procurement of Goods and Works Financed by the IDB (document GN-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9) or their subsequent updates. However, considering that both the partial and advanced use of Peru's country system for procurement and contracting have been approved by the Bank's Board of Executive Directors (documents GN-2538-11 and GN-2538-22 of 2013 and 2017, respectively), that system may be used after the implementation and monitoring actions established in the Report on the Acceptance of Peru's Country Procurement System have been taken and once the procurement plan has been modified. The electronic reverse auction and electronic catalogue subsystems in the framework agreements may be used, given that the recommendations precedent to their use have been implemented.

B. Summary of results monitoring arrangements

- 3.6 **Monitoring.** Will be based on: (i) the [multiyear execution plan](#) and the [annual work plans](#); (ii) the [procurement plan](#); (iii) the Results Matrix; (iv) the [monitoring and evaluation plan](#); and (v) the project monitoring reports. The executing agency will prepare semiannual reports on progress in attaining the targets for outcomes, outputs, and financing for approval by the Bank, which will conduct regular inspection visits and perform ex post reviews as part of program monitoring.
- 3.7 **Evaluation.** The program will be evaluated against the annual outcome and output targets and indicators in the program's Results Matrix. The [monitoring and evaluation plan](#) provides for independent midterm and final evaluations.²¹ The borrower will prepare and submit a midterm evaluation to the Bank within 90 days after 50% of the loan proceeds have been disbursed or 36 months after execution begins, whichever comes first. It will also submit a final evaluation to the Bank which will be used as an input for the project completion report, within 90 days after 95% of the loan has been disbursed. Lastly, the program provides for an evaluation based on differences-in-differences, in cooperation with the UCCTF/OGIP, to identify the causal effect on narrowing gaps. The UCCTF/OGIP will conduct the evaluation in close cooperation with the Bank's project team.

²¹ The UCCTF/OGIP will be responsible for contracting these evaluations and will obtain the Bank's no objection to the terms of reference.

Development Effectiveness Matrix		
Summary		
I. Corporate and Country Priorities		
1. IDB Development Objectives	Yes	
Development Challenges & Cross-cutting Themes	-Productivity and Innovation -Institutional Capacity and the Rule of Law	
Country Development Results Indicators	-Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)* -Countries benefited by IDB’s projects aimed at improving domestic resource mobilization (#)* -Subnational governments benefited by decentralization, fiscal management and institutional capacity projects (#)*	
2. Country Development Objectives	Yes	
Country Strategy Results Matrix	GN-2889	Improve public management
Country Program Results Matrix	GN-2948	The intervention is included in the 2019 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	9.4	
3.1 Program Diagnosis	2.4	
3.2 Proposed Interventions or Solutions	4.0	
3.3 Results Matrix Quality	3.0	
4. Ex ante Economic Analysis	7.6	
4.1 Program has an ERR/NPV, or key outcomes identified for CEA	2.2	
4.2 Identified and Quantified Benefits and Costs	3.3	
4.3 Reasonable Assumptions	0.0	
4.4 Sensitivity Analysis	2.2	
4.5 Consistency with results matrix	0.0	
5. Monitoring and Evaluation	8.9	
5.1 Monitoring Mechanisms	2.5	
5.2 Evaluation Plan	6.4	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	Medium	
Identified risks have been rated for magnitude and likelihood	Yes	
Mitigation measures have been identified for major risks	Yes	
Mitigation measures have indicators for tracking their implementation	Yes	
Environmental & social risk classification	C	
IV. IDB’s Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting. Procurement: Information System, Price Comparison, Contracting Individual Consultant, National Public Bidding.
Non-Fiduciary		
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		

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

Evaluability Assessment Note:

The main objective of the operation is to contribute to the improvement of efficiency in public spending on payrolls in the central, regional and local government through improvements in the effectiveness and efficiency of the budget management of active staff and pensioners.

To achieve this goal, the operation defines an approach for the three specific areas in which the project intervenes. These areas focus on improving the effectiveness and efficiency in the budget management of active staff and pensioners. Each of these areas defines a component. The document includes a description of the gaps leading to weaknesses in each of these three areas.

The economic analysis compares the effectiveness of the present operation with an operation of similar characteristics that was considered successful by its PCR. The analysis of the average cost of effectiveness establishes that the present operation will fulfill its results with a cost of US \$ 16.35 per employee versus US \$ 21.51 of the compared operation.

The monitoring is based on reports from the Dirección General de Gestion Fiscal y Recursos Humanos and the executing unit. The final evaluation includes an impact evaluation with the differences in the model in order to identify the effects of the public sector payroll budget management system in a group of municipalities, taking as counterfactual municipalities with the same characteristics where the system is not implemented. The results of the evaluation are the changes in the budgetary execution and the savings in the realization of estimates of income and pensions and the time reduction in the process of reports preparation and the update of information of the tax analysis. The rest of the results of the Matrix will be measured with the before and after methodology.

Within the identified risks there is one classified as high and seven as medium risks. The main risks are delays in the execution of the project on the implementation of the technological platform due to the modernization process that the Office of Information Technology Management (OGTI) is going through. The mitigation measure for this risk is the employment of an Information Technology (IT) consultant for the project to serve as a facilitator in the coordination between the technology actions of the project and the OGTI.

RESULTS MATRIX

Project objectives:	The general objective is to help boost the efficiency of public spending on payrolls by the national, regional, and local governments, through more effective and efficient management of the payroll budget for employees and pensioners.
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EXPECTED OUTCOMES

Indicator	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
OUTCOME #1: To boost the effectiveness of payroll management processes and systems											
Indicator #1 – Number of public employees whose payrolls are processed centrally/total public sector employees	%	30%	2018	30%	30%	40%	50%	60%	60%	DGGFRH annual management report	Baseline calculation formula: Number of public employees whose payrolls are processed centrally = 690,000 Total public employees = 2,300,000
Indicator #2 – Payments not consistent with the centralized public sector payroll software app/total payments reported in the centralize payroll app	%	13.6%	2018	13.6%	13.6%	10%	8%	5%	5%	DGGFRH annual management report	Baseline calculation formula: (i) 4.8% + (ii) 8.8% = 13.6%. Inconsistencies refer to: (i) payments to personnel not registered in the app/total payroll payments; and (ii) payments for wage items that have no legal enabling framework. Source: DGGFRH
Indicator #3 – Budget allocated to pay the wages of employees and pensions/amount planned in the centralize payroll software app	%	4.3%	2018	4.3%	4.3%	4%	3%	2%	2%	DGGFRH annual management report	Baseline calculation formula: Ratio of excess public allocations/cost reported in the app = 4.3% Source: DGGFRH
OUTCOME #2: To boost the efficiency of payroll management processes and systems											
Indicator #4 – Average person-hours per year to update budget information by the staff of the national and regional government line units	Person-hours	24.92	2018	24.92	24.92	20	16	14	14	DGGFRH annual management report	Baseline calculation formula: Total person-hours in 2018 National and regional governments = 21,007 Total line units (national and regional governments) = 843

Indicator	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
Indicator #5 – Average person-hours per year to calculate wages by the staff of the national and regional government line units	Person-hours	996	2018	996	996	800	700	600	600	DGGFRH annual management report	Baseline calculation formula: Total person-hours in 2018 National and regional governments = 839,628 Total line units (national and regional governments) = 843
Indicator #6 – Average person-hours per year to generate reports on human resource management by the staff of the national and regional government line units	Person-hours	1,399	2018	1,399	1,399	1,100	1,000	900	900	DGGFRH annual management report	Baseline calculation formula: Total person-hours in 2018 National and regional governments = 1,179,525 Total line units (national and regional governments) = 843

OUTPUTS¹

Indicator	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
Component I: Budget management system for public sector payrolls											
1.1 SIGEP-SP incorporating all public sector agencies, with the option for off-line operations	Software	0	2019	0	0	0	0	1	1	DGGFRH annual management report	The system will be considered implemented when at least one user has used the software and verified that it works properly.
Milestone 1.1.1 Contracting and customization	Software	0	2019	0	1	0	0	0	1		
Milestone 1.1.2 Data migration	Data	0	2019	0	1	0	0	0	1		
Milestone 1.1.3 Corrective maintenance of the system	Software	0	2019	0	0	0	1	0	1		
Milestone 1.1.3 Training in use of the system for the line units	Line unit	0	2019	0	0	896	896	896	2.688		
Milestone 1.1.4 Help desk to support users in solving problems	Help desk		2019	0	0	1	0	0	1		
1.2 Technology platform for data processing and storage for the SIGEP-SP	Hardware	0	2019	0	0	1	0	0	1	OGTI annual management reports	The datacenter will be considered implemented when the first employee uses the infrastructure.

¹ Results are yearly.

Indicator	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
Milestone 1.2.1 Contracting a hosting environment for the technology infrastructure	Hosting service	0	2019	0	1	0	0	0	1		The hosting service is provided by a firm or organization that allows SIGEP-SP to use its web servers to store data and access different functions related to security and systems.
Milestone 1.2.2 Datacenter equipment	Hardware	0	2019	0	0	1	0	0	1		
Milestone 1.2.3 Specialized software licenses	License	0	2019	0	0	1	0	0	1		
1.3 Certification of the quality of the SIGEP instruments	Certification	0	2019	0	0	0	0	1	1	Certification report by the firm hired for this purpose	The system and the datacenter will be considered certified when the contracted firm issues a report certifying the system and the datacenter.
Milestone 1.3.1 System certification	Certification	0	2019	0	0	0	0	1	1		
Milestone 1.3.2 Datacenter certification	Certification	0	2019	0	0	0	1	0	1		
1.4 Strategy for managing change	Document	0	2019	1	1	1	1	1	1	DGGFRH annual management report	The strategy will be implemented continuously during the life of the project.
Component II: Improvement in the capacity of the budget information service											
2.1 Ongoing training program in budget management of public sector wages and pensions	Course	0	2019	0	0	20	32	52	104	DGGFRH annual management report	The courses will be considered implemented upon their completion.
Milestone 2.1.1 Development of contents and materials for in-person courses for the training program's basic and specialized modules	Course	0	2019	0	1	0	0	0	1		
Milestone 2.1.2 Inclusion in ENAP's technology platform of the contents of the in-person courses	Course	0	2019	0	0	1	0	0	1		
Milestone 2.1.3 Development of an e-learning program for the basic and specialized courses based on the contents of the in-person courses	Course	0	2019	0	0	0	1	0	1		

Indicator	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
Milestone 2.1.4 Trainings on the basic and specialized modules for human resource office operators on the national and regional levels	Course	0	2019	0	0	20	20	37	77		
Milestone 2.1.5 Publications for human resource office operators on the local level	Publication	0	2019	0	0	0	12	15	27		

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country:	Republic of Peru
Project number:	PE-L1247
Name:	Improvement of the Public Sector Payroll Budget Information Service
Executing agency:	Ministry of Economy and Finance (MEF)
Fiduciary team:	Gabriele del Monte, Andrés Suarez (FMP/CPE)

I. EXECUTIVE SUMMARY

- 1.1 The fiduciary assessment and analysis of the institutional capacity of the Technical and Financial Coordination Unit (UCCTF), which will be replaced by the General Office of Investments and Projects (OGIP), were performed using the Institutional Capacity Assessment System (SECI) tool, supplemented by meetings with the office's key staff, and meetings with the project team. It is important to note that the UCCTF, to be replaced by the OGIP, is already operating another Bank project through loan 2703/OC-PE. Risks related to project procurement and disbursements were identified on account of the repeated requests for clarification and challenges of the bid processes. The actions identified in the risk matrix will be used to mitigate this medium risk.

II. FIDUCIARY CONTEXT OF THE COUNTRY

- 2.1 The country's financial administration systems are adequate and reliable. The national procurement system is currently using the electronic reverse auction and electronic catalogue subsystems, in accordance with the framework agreements on government procurement in Peru, approved through document GN-2538-11.

III. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

- 3.1 The project will be executed by the MEF through the UCCTF, which will be replaced by the OGIP,¹ and the Public Resources Management Branch (DGGRP) for technical coordination. The functions of the UCCTF, to be replaced by the OGIP, and the DGGRP are spelled out in the project Operations Manual.

¹ Clause 56 of Law 30879/18 (the Public Sector Budget for fiscal year 2019) revokes Decree 25535, thereby extinguishing the program operated by the UCCTF, turning it into the OGIP. It will become the Office of the Secretary General for Project Investments and be responsible for managing the MEF's investments and projects financed through debt operations.

- 3.2 The UCCTF, to be replaced by the OGIP, will be the unit responsible for project management, with administrative and financial autonomy, in charge of administration (in the budgeting, projections, accounting, and treasury areas and, in particular, procurement), applying IDB and country economic and financial rules and procedures.
- 3.3 The MEF is adjusting its organizational structure, manuals, and management documents to comply with current regulations. Until the new structure of the OGIP is in place, the UCCTF will continue its functions, reporting to the Office of the Secretary General of the MEF.
- 3.4 Although the staff at the UCCTF, to be replaced by the OGIP, is able to operate the IDB's management tools, the SECI evaluation found it had a medium level of capacity, particularly in programming and planning, and therefore its organizational structure will be strengthened with full-time specialists working exclusively for the program in these specific areas.
- 3.5 The SIAF will be used for the financial management of the UCCTF, to be replaced by the OGIP, which is solidly developed and is being used in current operations (2703/OC-PE and 2991/OC-PE) for accounting and financial reports. The program will need qualified staff in the fiduciary areas and the Bank will provide training for that staff and other players responsible for project execution in the UCCTF, to be replaced by the OGIP.

IV. FIDUCIARY RISK ASSESSMENT AND MITIGATION MEASURES

- 4.1 On the basis of the risk assessment performed when the program was being designed, a medium risk was identified of cost overruns and longer implementation times on account of the need to abide by the Bank's fiduciary policies. The current organizational structure of the UCCTF/OGIP, will be insufficient to cover the execution demands of the operation and maintain efficient fiduciary processes. This risk will be mitigated by: (i) a systems engineering team to improve the quality of the technical documents; (ii) an information technology consultant who will facilitate coordination between the project's technology activities and the General Office of Information Technologies (OGTI); (iii) support for the preparation of bidding documents and contracts; and (iv) fiduciary training for all the actors involved in project execution.

V. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE LOAN CONTRACT

- 5.1 The UCCTF, to be replaced by the OGIP, will submit the project's annual and final financial statements, audited in accordance with terms of reference acceptable to the Bank within 120 days after the close of each of the borrower's financial years during the original disbursement period and any extensions. The audited final report will be presented within 120 days after expiry of the original period or any extensions.
- 5.2 To determine the equivalence between eligible expenditures in the borrower's local currency and the currency in which disbursements are made or the currency of approval for accounting purposes and expenditure justification, the exchange rate in effect on the date that the currency of approval or disbursement was converted

into local currency will be used (Article 4.10 (b)(i) of the General Conditions of the Loan Contract). For the purposes of determining equivalency of expenditures incurred in local currency from the local contribution or reimbursements of expenditures from the loan, the exchange rate will be the rate in effect on the date that the borrower, the executing agency, or any other natural or corporate party to whom spending authority has been delegated make such payments to a contractor, supplier, or beneficiary.

VI. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 6.1 **Procurement execution.** Procurements will be made in accordance with the Policies for the Procurement of Goods and Works Financed by the IDB (document GN-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9). Procurements and contracts executed by the public institutions financed by this project will abide by those policies. The threshold for the use of international competitive bidding will be made available to the borrower through the executing agency, on the Bank's [portal](#). Below that threshold, the selection method will be determined in light of the complexity and nature of the procurement or contract, which will be reflected in the procurement plan approved by the Bank.
- 6.2 **Procurement of works, goods and nonconsulting services.** Contracts for works, goods, and nonconsulting services² arising under the project and subject to international competitive bidding will be executed using the standard bidding document issued by the Bank. Bids subject to national competitive bidding will be executed using the documents agreed upon with the Bank (or satisfactory to the Bank if no bidding documents have been agreed on as of the date). The Project Team Leader will be responsible for reviewing the technical specifications.
- 6.3 **Selection and contracting of consultants.** Contracts for consulting services under the project will be executed using the standard request for proposals issued by or agreed upon with the Bank, regardless of the amount of the contract (or satisfactory to the Bank if no request for proposals has been agreed on as of the date). The Project Team Leader will be responsible for reviewing the technical specifications.
- 6.4 **Selection of individual consultants.** Will be performed in accordance with document GN-2350-9.
- 6.5 **Prior review of procurements.** The Bank will review the selection, contracting, and procurement processes as established in the procurement plan. At any time during the project, the Bank may change the type of review, informing the borrower or the executing agency in advance. Changes approved by the Bank will be reflected in the procurement plan.
- 6.6 **National preference.** Will not be applied.
- 6.7 **Use of country procurement systems.** Under the framework agreements with Peru, the reverse auction and electronic catalogue subsystems may be used once the procurement plan has been modified. Peru's country procurement system, approved by the Bank's Board of Directors in November 2017 for operations

² Under the Bank's procurement policies, nonconsulting services are treated as goods.

financed and/or cofinanced by the Bank and carried out by executing agencies may be used once the actions described in the Report on the Acceptance of Peru's Country Procurement System have been implemented and the procurement plan has been modified.

- 6.8 **Initial procurement plan.** See the detailed [procurement plan](#) for the first 18 months. The executing agency will publish the procurement plan in SEPA or a system determined by the Bank and will update it semiannually as a minimum or when so required by the Bank to reflect real project execution requirements and the progress made.
- 6.9 **Procurement supervision.** Procurements will be reviewed ex ante and the Bank may also use ex post revision. The ex post reviews will cover a sample of contracts based on technical/professional criteria and will be performed by Bank staff or consultants or external auditors. Once the country procurement system has been implemented, the plan may be updated in function of the fiduciary risks.³
- 6.10 **Records and files.** The project's files are to be kept in the executing agency's offices under conditions that guarantee the completeness and security of the documents.
- 6.11 **Recognition of expenditures.** The Bank may recognize eligible expenditures by the borrower against the local contribution prior to the date of approval of the loan in the categories of goods and nonconsulting and consulting services up to a total of US\$100,000 (1.5% of the estimated local contribution), provided requisites substantially similar to those established in the loan contract have been fulfilled and the expenditures are consistent with the program's objectives. They must have been made after 9 April 2019 (date of approval of the project profile) but may in no event include expenditures made more than 18 months prior to the date on which the loan is approved. These expenditures will be used to finance the consulting services engaged to prepare terms of reference for the technology solution related to component I.

VII. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

- 7.1 **Programming and budget.** Expenditures for project activities must have been found feasible under the MEF's regulatory framework. At present, the national system for multiyear investment programming and management (Invierte.pe) is in force, which is intended to streamline approval of investment projects and make their execution by the three levels of government more flexible. Preparation of the annual programming and budget will be based on the provisions of the MEF's Public Budgeting Branch.
- 7.2 A multiyear execution plan will be prepared and, on that basis, the annual budget, giving consideration to the project's disbursement timetable. The budget assigned to the project will be approved by the MEF and the country's Congress and reported annually to the Bank. The budget will be operated under the SIAF.

³ Once the reverse auction and framework convention are used in operations as part of the strategy for using the country system, procurements will be monitored and supervised systematically, verifying and monitoring the stability of Peru's system.

- 7.3 **Accounting and information systems.** The SIAF's project execution module will be used for project accounting and reporting, which offers transparency and specific controls in budget execution. The module can issue financial reports, including disbursement requests and exchange rate controls, project financial statements, and other reports in accordance with Bank requirements. Cash-based accounting is used, in accordance with international accounting standards and the directives of the National Public Accounting Directorate.
- 7.4 **Disbursements and cash flow.** The country's cash flow system will be used in accordance with the directives of the National Debt and Treasury Directorate. Expenditures are subject to the budget and financial execution process and the related date must be reported in the MEF-SIAF under the rules applicable to each of their stages: committed, payable, issued, and paid. The executing agency will maintain a specific bank account in U.S. dollars and one in soles (monetization) to handle the loan proceeds. The possibility will be studied with the MEF of using the centralized cash account for lending programs. Considering the level of coordination with that agency, this option could be implemented in the short term.
- 7.5 Disbursements will be based on the project's real liquidity requirements (financial planning). The UCCTF, to be replaced by the OGIP, will submit disbursement requests to the Bank together with a financial plan that will initially cover projected expenditures for up to 180 days. At least 80% of total cumulative balances pending justification must be substantiated, using the Bank's forms.
- 7.6 The ex post review of records and supporting documentation for activities and transactions will be performed by the external auditors. All documents and records will be kept for a minimum of three years after the final disbursement. Ineligible expenditures will be repaid to the Bank from the local contribution.
- 7.7 **Internal control and internal audit.** The control environment, communication, information, and monitoring of the activities of the UCCTF, to be replaced by the OGIP, is governed by country regulations based on the national control system of the Office of the Comptroller General (CGR).
- 7.8 The MEF's organizational structure includes an office of the Institutional Control Body, whose function will be to perform internal and external controls in accordance with the law governing the national control system and the CGR. That office will receive copies of the external auditors' reports through the government audit system designed by the CGR, which it can use for inspection purposes.
- 7.9 **External control and reports.** Under the mandate of the CGR (the lead agency in the national control system) and its regulations, external audits of projects are outsourced to independent audit firms considered eligible by the Bank. The firms are evaluated periodically by the Bank. The CGR authorizes the UCCTF, to be replaced by the OGIP, to select and contract a firm, in accordance with Bank policies, for the entire project execution period, including any extensions. A firm with an eligibility level of I or II will be required.
- 7.10 The project's financial statements include: a cash flow statement, a statement of cumulative investments, the notes to the financial statements, and a declaration by the project manager (executing agency/UCCTF, which will be replaced by the OGIP). The auditors' report will include an evaluation of the internal control system.

Loan proceeds will be used to contract the external audits for the planned project execution period.

- 7.11 **Financial supervision plan.** The following plan may be adjusted depending on project execution and the external auditors' reports.

Table 1. Supervision plan

Activity	Nature/scope	Frequency
Financial	Portfolio review with the executing agency and the MEF	Twice a year
	Financial audit and submission of the financial statements	Annual and final
	Review of disbursement requests and attached reports	Four times a year
	Inspection visit/project status review/analysis of the control environment in the UCCTF, to be replaced by the OGIP	Annual

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/19

Peru. Loan ____/OC-PE to the Republic of Peru
Improvement of the Public Sector Payroll
Budget Information Service

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Peru, as Borrower, for the purpose of granting it a financing to cooperate in the execution of the project "Improvement of the Public Sector Payroll Budget Information Service". Such financing will be for the amount of up to US\$26,600,000 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 ____ 2019)