

August, 1996

International Bank for Reconstruction
and Development
1818 H Street, N.W.
Washington, D.C. 20433

RE: PERU: Loan 4068-PE (Second Social Development and
Fund Project)
Subproject categories - Annual Review Items
Monitoring Indicators and Targets

Dear Sirs:

Please refer to the Loan Agreement (Second Social Development and Compensation Fund Project) between the Republic of Peru ("the Borrower") and the International Bank for Reconstruction and Development ("The Bank") of even date herewith ("the Loan Agreement") and the Project Agreement (Second Social Development and Compensation Fund Project) between the Bank and Fondo Nacional de Compensacion y Desarrollo Social ("FONCODES") of even date herewith ("the Project Agreement"). Whenever used in this letter, the several terms defined in the Loan Agreement have the respective meaning therein set forth.

As stated in Schedule 2 ("Project Description") to the Loan Agreement, FONCODES will carry out Part A of the Project through the execution of Community-based Subprojects and Productive Subprojects. These Subprojects will consist of:

1. Community-based Subprojects

(a) Subprojects for social assistance, consisting of family planning, information and education;

(b) Subprojects for social infrastructure, consisting of water treatment and supply, sewerage collection and treatment, environmental sanitation, health post rehabilitation and equipment, school rehabilitation and equipment; and

(c) Subprojects for economic infrastructure, consisting of the rehabilitation, extension and construction of wells, road and sidewalk rehabilitation, marketing infrastructures, and power supply.

2. Productive Subprojects

(a) Food storage and distribution facilities;

(b) Small animal production;

(c) Poultry production;

(d) Bee-keeping and production of honey;

(e) Fish farms;

(f) Small-scale food processing and preservation facilities;

(g) Livestock improvement;

(h) Production and marketing of arts and crafts;

(i) Small-scale projects in support of local tourism;

(j) Production of house plants; and

(k) Greenhouse garden crops.

It is understood and agreed that FONCODES and the Bank may agree

from time to time on the inclusion of other activities to be financed under the general rubric of Community-based Subprojects and/or Productive Subprojects provided, of course, that such other activities meet the eligibility criteria set forth in the Operational Manual. Without prejudice to the foregoing, in the case of investments in rehabilitation, extension and construction of irrigation systems and land rehabilitation and reforestation, they shall be included for financing under the rubric of Community-based Subprojects only if an agreement is reached between FONCODES and the Bank on the methodology to be applied for beneficiary contribution.

With reference to Sections 2.04 (c) and 2.05 (a) of the Project Agreement, please find attached hereto the Annual Review Items and Monitoring Indicators. The Bank and the Borrower may agree to revise the above items and monitoring indicators.

Very truly yours,

FONDO NACIONAL DE COMPENSACION
Y DESARROLLO SOCIAL

By _____
Authorized Representative

CONFIRMED:

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By: _____

Date: _____

MONITORING INDICATORS

I. Project inputs

I.1. Number of projects:

- (i) presented
- (ii) evaluated
- (iii) approved
- (iv) requiring budgetary expansion
- (v) executed
- (vi) liquidated
- (vii) paralyzed
- (viii) requiring legal process

II. Project processing

II.1. Average amount of project processing time (in days):

- (i) between presentation of the project profile and its evaluation;
- (ii) between pre-approval of the project profile and the disbursement of funds for project preparation;
- (iii) between the disbursement of funds and preparation of the project proposal;
- (iv) between presentation of the project proposal and its evaluation;
- (v) between approval of the project proposal and the first disbursement of funds for execution of the project;
- (vi) between the first and second disbursement of funds;
- (vii) between approval of the project proposal and completion of works;
- (viii) between completion of works and liquidation of the accounts.

II.2. Time estimated for project execution vs. actual time

III. Project outputs

Roads: # of miles constructed
Bridges: # of bridges
Classrooms: # of classrooms renovated or constructed
Health posts: # of health posts renovated or constructed
Potable water: # of households served
Sewerage: # of households served
Electricity: # of households served
Canals: # of miles of canals built
Productive projects: # of production modules

IV. Project costs

IV.1. Cost per type of project:

S/. per kilometer of road
S/. per meter of bridge
S/. per classroom built
S/. per classroom rehabilitated
S/. per health post built
S/. per health post renovated
S/. per mile of canal built
S/. per production module
S/. per day of skills development training

IV.2. Unit wage costs, by region, and urban vs. rural:

(i) skilled labor
(ii) unskilled labor

IV.3. Beneficiary contribution, by poverty level:

(i) person-hours of unskilled labor programmed vs. actual
(ii) other contributions (land, cash, materials)

IV.4. Total budgeted cost vs. total actual cost

V. Project outcomes and socio-economic impact

V.1. Satisfaction of unmet basic needs:

(i) education
(ii) health
(iii) potable water
(iv) sewerage
(v) electricity

V.2. Targeting:

(i) allocated budget (asignacion) vs actual expenditure, by poverty level
(ii) employment generated, by poverty level

V.3. Participation by vulnerable groups:

(a) Institutional development:

Women:

(i) number of evaluators
(ii) number of supervisors
(iii) number of contracted inspectors
(iv) number of resident inspectors

(b) Beneficiaries:

Women:

- (i) participation in the project selection
- (ii) participation in the nucleo ejecutor
- (iii) participation in the project execution (person-hours)
- (iv) number of beneficiaries (direct and indirect)

Indigenous Groups:

Participation and incidence analysis by ethnic group and language.

V.4 Environmental indicators:

Number of Subprojects according to environmental classification.

Number of Subprojects with NGO participation and participation of municipalities.

ANNUAL REVIEW ITEMS

The annual reviews will focus on the following:

- (a) The role of FONCODES in the government's poverty alleviation strategy, the adequacy and appropriateness of its contributions to the strategy, and its future role.
- (b) Targeting and promotion of FONCODES Sub-projects to the poorest areas and population groups and participation of beneficiaries, including women and indigenous peoples.
- (c) Quality and distribution of the portfolio between and among categories, the adequacy and transparency of Subproject selection and procurement processes, internal Subproject processing rates, Project monitoring and supervision, Project completion and liquidation, Project costs and the adequacy of arrangements for operations and maintenance including cost recovery mechanisms in use, failure rate of Subprojects.
- (d) Coordination with local governments, NGOs and the line ministries in Subproject identification, preparation and execution by sector and type of Subproject, the consistency of FONCODES investments with sectoral priorities and adequacy of its contribution to the strengthening of local institutions.
- (e) Adequacy of the organizational structure and staffing of FONCODES in the central and regional offices, implementation of the staff and community training plans, installation of the MIS, progress in the decentralization of FONCODES operations and delegation of authority and responsibility to the regional offices and their contribution to the efficiency and effectiveness of FONCODES operations.
- (f) Programming, budgeting, accounting and auditing capacity, transparency in administrative and Project spending, regularity, rigor and independence of internal and external audits.
- (g) Administrative costs as a proportion of commitments and disbursements, comparability with similar agencies in Peru and other social funds in the regions.
- (h) Adequacy, completeness and accessibility of data in the MIS and integration into daily operations; reports prepared and the adequacy of the information provided for monitoring FONCODES operations.
- (i) Environmental assessment, including compliance with FONCODES new environmental guidelines, the environmental impact of Sub-projects, the adequacy of environmental assessments conducted for "C" category Sub-projects, and the effectiveness of the program of environmental awareness and education for beneficiaries.
- (j) Beneficiary participation, contributions of cash, materials and unskilled labor made, and the extent and kind of community organization.
- (k) The Productive Projects, the quality of ex-ante and ex-post indicators used, integration with other local investments, their

impact and sustainability.

(1) Economic evaluation of Sub-projects, including the extent to which wages paid by FONCODES are in line with prevailing market wages, and the use of cost-benefit analyses for selected economic infrastructure and productive projects.

