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FINAL REPORT: PAPI PROJECT IMPLEMENTATION REVIEW

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Contractor Team:

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FINAL REPORT:
PAPI PROJECT IMPLEMENTATION REVIEW

IMPLEMENTING POLICY CHANGE PROJECT
Project No. 936-54-51

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I. INTRODUCTION

This document is the final report of the PAPI Project Management Review prepared by the consultants who visited Lima in August of this year. All of the issues discussed reflect their own impressions and points of view, which have been expressed freely with no interference from the representatives of the institutions involved in implementing the project. Comments to earlier versions of this report have been incorporated as needed.

The document chiefly comprises the consultants' conclusions and recommendations, the results of the management review, and an analysis of the conditions in which the project would be carried out in the future if the recommended strategic options are adopted.

The document addresses the major concerns set out in the "Scope of Work" and examines other issues required for deciding on the future of the project. The consultants' specific objective was to provide the implementing agencies with a basis on which to take corrective action--which is, in the opinion of the consultant team, absolutely necessary.

II. PURPOSE OF THE MANAGEMENT REVIEW

The purpose of the management review of the PAPI Project is to provide USAID and the Government of Peru with guidelines for improving project performance, effectiveness and management, and to make it more relevant to Peru's current economic situation.

III. CONCLUSIONS AND RECOMMENDATIONS

1. The project has furthered the development and implementation of the policies that stabilized the Peruvian economy. This contribution was more evident in 1990-92, when the government was making its economic reform decisions. Although the contribution can be said to have been significant, this is quite difficult to pinpoint because the goals of the original design were so broad that anything with an economic content would count as a contribution.
2. Project performance in terms of studies produced might be satisfactory, although this is extremely difficult to judge because of the lack of specific goals and criteria. There is no clear idea of the number, type or quality of the studies required. By August 1994 the project had funded thirty-eight studies, twenty-seven in the public sector and eleven in the private sector. Twenty-one of them were produced in 1991-92 directly by USAID, and

seventeen in 1993-94 through the Institutional Contractor. As can be seen, the rate at which studies were produced picked up when the Institutional Contractor arrived.

Performance in the area of training has been less than satisfactory. The fact that the Institutional Contractor team was not fully staffed and the absence of a clear, precise strategy were key elements in the lack of progress in the training component.

3. Generally speaking, project implementation is behind schedule, particularly in the area of training. Among the reasons are: ups and downs in relations between the United States and Peru that kept the Institutional Contractor from joining the project when planned; disagreements between the domestic counterpart agencies and the Institutional Contractor over their respective powers and obligations, which took time to resolve; a system that limits studies to those selected through the "rondas" system for prioritizing and selecting proposals from the public sector, and makes a quick response to requests from important users impossible; and underutilization of the technical expertise available, which limits a larger number of proposals from being implemented each year.
4. The original design of the project appears to have been appropriate for Peruvian economic conditions at the time. Its wide-ranging goals made for flexible implementation during a period when the government had no alternate sources of financing for consultant studies. However, now that the Peruvian economy has stabilized and is growing, the design seems far less appropriate and should be readjusted or modified to make the project more effective.
5. The areas which most concern Peru at present and on which project support could focus are: achieving growth capable of providing employment for the neediest; extreme poverty; poor management skills in the public sector hampering enforcement of policies already in place; rationalization of procedures; improving human resources; modernizing backwards sectors such as agriculture; rural development, microenterprise; health; education; and housing.
6. Some users perceive the existing system for prioritizing and selecting public sector proposals as cumbersome, not very transparent, and inefficient. For example, of the 160 study and training proposals submitted by public sector entities to the Technical Unit since January 1993, less than twenty were selected and approved for implementation with project funds. According to some users, the system lacks clear standards for selecting and/or rejecting proposals, and fails to take advantage of the Institutional Contractor's

technical expertise. All of the above could detract from the project's image in the eyes of the beneficiaries. In view of these criticisms, PAPI should clarify and articulate the selection criteria more frequently and precisely.

7. The system for considering proposals from the private sector worked satisfactorily as long as USAID operated directly with CONFIEP, as the Institutional Contractor is now doing. Except for slight delays due to the lack of full time coordinator for the PAPI project at CONFIEP, the process generally has been both practical and smooth.
8. For various reasons--some of which have nothing to do with the project--project management was not structured as planned. The inoperative CIAEF and CCP were eliminated, and in the absence of the Institutional Contractor USAID assumed the latter's role for a long time. Management is now centralized in the Technical Unit. Although this was a solid model at the beginning of the project (before the Institutional Contractor arrived), and it currently facilitates access to the project at the highest level, at the same time, it detracts from the quality, effectiveness and efficiency of the technical role the Institutional Contractor should be playing.
9. The project implementation information system is fragmentary. USAID has its own system for internal purposes, and the Technical Unit and the Institutional Contractor have theirs, but there is no source of complete, readily-available and up-to-date information on the project at a single location to meet the needs of all the implementing agencies on a timely basis.
10. As of August 15, 1994, well into the fifth year of project implementation, US\$2,175,000--equivalent to 30% of the funds originally earmarked for the project--have been used. At the current implementation rate, the remaining 70% will not be expended by the scheduled March 31, 1995, project completion date.
11. As of August 15, 1994, only US\$850,000 of the approximately US\$2,402,500 originally set aside for studies and training had been used. This is 35% of the total originally planned for studies and training.
12. Total expenses incurred in project implementation as of August 15, 1994 are double the expenses incurred for studies and training per se. This two-to-one ratio brings up the question of whether there might have been another, more efficient and effective way to use the project's human and financial resources.
13. Since Peru's economic situation has changed substantially from the

conditions prevailing at project start-up in 1990, and considering that project implementation is far behind schedule and has fallen short in many regards, three alternatives are proposed: a) make no changes and carry on with the design as is (the consultants do not recommend this alternative; but if chosen, they recommend that the project be terminated at PACD); b) make limited changes to the original design so as to ensure full and efficient use of all the human and financial resources available; and c) modify the project concept and design significantly, creating an analysis unit whose main objective would be to support the government in analyzing economic policy and in developing its own, sustainable policy analysis capabilities.

14. Depending on which of the three alternatives discussed herein is chosen by USAID and the Government of Peru, not only the objectives and goals but also the organizational structure for project implementation and the proposal prioritization and selection procedures would have to be revised in order to make them simpler, less costly, and more efficient. The changes would also need to include a review of the role to be played by the Institutional Contractor and the types of professionals it would need in order to be more relevant in the new environment.
15. To make the changes, USAID and the Government of Peru would need to do the following:
 - a. agree and decide if the original design should be modified. (In this regard, both parties are seen to have similar goals.)
 - b. agree on the areas of concern the government wants the project to support. (There is an initial consensus as to the Government's principal areas of concern.)

IV. METHODOLOGY EMPLOYED FOR THE MANAGEMENT REVIEW

The PAPI Management Review was carried out to determine whether the project had fulfilled its Planned Purpose or whether, since it has not yet been completed, it was moving in the right direction.

When a project is well designed, the Purpose is usually achieved upon successful completion of the Outputs, and the Goal or desired impact is attained with successful achievement of the Purpose. This means that there must be a close causal relationship between these objective levels. Success is attained when the Purpose is achieved as stated and set out in the form of goals with indicators.

The management review carefully analyzed whether the hierarchy of project objectives and the causal relationships between them had been well conceived at the design stage, and whether or not they had been attained in practice. It also studied whether the planned Budget had been adequate and whether it was sufficient in practice, and whether management and external technical assistance had been effective.

To answer these questions and those posed by USAID in the "Scope of Work", the consultants charged with the management review analyzed the written information they received from the implementing agencies, as well as the information obtained through interviews with officials from domestic public and private entities and representatives of bilateral and multilateral international agencies.

Among the principal entities interviewed were: USAID, Office of the President of the Council of Ministers; Secretary General of the Office of the President of the Republic (SEP); Ministry of Economy and Finance (MEF); Ministry of the Office of the Presidency; Ministry of Energy and Mines; Ministry of Industry, Tourism, Integration and International Trade Negotiations; Central Reserve Bank (BCR); Office of the National Tax Administration Superintendent (SUNAT); National Business and Securities Supervisory Commission (CONASEV); National Confederation of Business Institutions of Peru (CONFIEP); representatives of the International Monetary Fund and the World Bank; and officials from the project's Technical Unit and Institutional Contractor.

The documents reviewed included the agreement between USAID and Peru; the project report; the amendments to the agreement; the contract between USAID and the Institutional Contractor; USAID strategies for Peru; the studies funded by the project; the Institutional Contractor's and USAID's progress reports; correspondence between USAID, the Technical Unit and the Office of the Executive Secretary of the Office of the President; profiles of studies submitted by the public entities to the Technical Unit; and other documents the consultants felt the need to review.

The officials interviewed are listed in Annex 1.

The team of consultants comprised Dr. Silvio De Franco, an economist and expert in macroeconomics and economic policy analysis; and Dr. Rafael Diez, an economist and expert in project design and evaluation.

V. OVERVIEW OF THE PROJECT

During its lifetime, the PAPI project has made some significant achievements. It has produced more than thirty studies on various subjects for the public and the private sectors, and has provided more than 400 public officials with various degrees of training in diverse fields. This has been achieved despite operating in an environment that has not been particularly facilitative since the outset: the Government of Peru underwent political upheaval that changed both its decision-making processes and some of its priorities. Moreover, due to reasons beyond its control, the Institutional Contractor did not receive permission to move to Peru until more than 16 months after the contract was signed. Nevertheless, the support and assistance provided to the government through the studies--particularly during the stabilization period--were of critical importance. PAPI has made several contributions to the general dialogue on Peruvian economic policy by raising the level of awareness of certain macro and sectoral problems, by improving the level of dialogue on pressing economic policy matters, and by furthering understanding of the cost and benefit implications of implementing those policies. Despite its short life, the project also has developed some interesting advantages: its availability and potential responsiveness to a wide variety of situations as compared with other donors; public sector familiarity with the project and the mechanisms for tapping its resources; solid sectoral demand that PAPI can meet; the existence of good permanent installed capacity at the Institutional Contractor, the TU and USAID alike; and the fact that the project funds already exist and are available. Moreover, funding studies through other donors would take time--during which the need for them could disappear. The project's flexibility to adapt to new situations and needs could be of particular use during the transition from stabilization to broad-based growth.

Although PAPI has produced some very satisfactory results, there are also several concerns regarding the development of the project which have contributed to its slow progress. Among these are:

- A perceived lack of clarity or defined strategy concerning procedures for selecting and managing studies.
- Underuse or inappropriate use of the project's human resources and installed capacity.
- Slow expenditure of project funds (a few months short of PACD, a mere 35% of the amount allocated for studies has been expended).
- User perception of lack of transparency in project procedures and processes.

- Lack of organizational strategy to guide the selection of studies.
- Perceived high cost and poor performance.
- Failure to develop a sustainable analytical capacity. Once the project is completed, there will be no mechanism for continuing.
- Lack of a direct mechanism for determining the impact of the studies on the making and enforcement of economic policy.
- Concern that the project is not meeting its goal.
- A certain degree of concern about the ease of communication and relationships between the key project players.
- Little or no transfer of technology or economic policy analysis expertise.

Although there is a certain degree of satisfaction that the project has shown some fairly positive achievements, there is at the same time a feeling that the project could have done a lot more. It would be easy to chalk the disappointment up to project design, but, as the recommendations show, PAPI's present design is flexible enough to produce--with a few modifications--far more satisfactory results.

VI. RESULTS OF THE REVIEW

The results of the review are as follows:

1. Project implementation is entering its fifth year. Implementation began in September 1990 with the signing of the agreement, and will finalize on March 31, 1995 if there are no extensions.
2. Project implementation is behind schedule, as the budget execution data show. This is due to several factors related to the political and social emergency Peru went through between 1990 and 1993; the ups and downs in U.S-Peruvian relations, particularly after April 1992, when the Institutional Contractor was not allowed in as planned (there were security restrictions as to the number of American residents); the suspension of aid from April to December 1992; and certain disagreements between the domestic counterpart agencies and the Institutional Contractor that took time to resolve.
3. Between 1990 and the end of 1992, the project was implemented directly by USAID. Only after September 1993, when the Team Manager and other advisors from the Institutional Contractor arrived, did implementation begin as planned, albeit with initial delays (from two to three months) stemming from disagreements between Technical Unit and Institutional Contractor staffers over their respective powers and responsibilities under the agreement, in addition to an initial learning period on the part of the Institutional Contractor about USAID procedures and requirements.
4. Peru's macroeconomic situation has changed dramatically for the better, and is now quite different than it was in 1990 when the project was designed and started up. The indicators in Table 1 below show the change that has taken place.
5. Despite its defects, the original project design has been shown to have been appropriate for Peru's critical situation in 1990. The project's objective hierarchy, with broad, diffuse and not particularly targeted goals, made it possible to act flexibly at times when Peru's serious financial situation so required.

The Purpose and the Goal are stated correctly and there is a good cause-and-effect relationship between them, but the Objectively Verifiable Indicators are too vague, with indicators that are not specific enough and, in many cases, too optimistic. This makes it very difficult to determine to what extent the goals have actually been reached.

Table 1: Economic Indicators		
	1990	1993
GDP Growth (%)	-4.4	7.1
Inflation Rate (%)	7,650.0	39.5
Domestic Investment (% of GDP)	16.8	23.6
Domestic Savings (% of GDP)	15.2	17.6
Budget Deficit (% of GDP)	6.5	-1.4
International Reserves (US\$M)	174.0	700.0
Tax Revenue (% of GDP)	9.6	10.3

The Outputs enunciated in the Logical Framework as "studies" and "training" are correct, but such statements as "IFI's and their support for strategies against drug trafficking" and "net flow of private investment" are too abstract and hard to link to the project. What is more, the goals are stated in terms of faulty indicators.

Generally speaking, the original design of the project had its defects, but it worked for Peru in the early nineties because its broad goals made for flexible implementation. However, since Peru has managed to stabilize its economy by adopting appropriate economic and legal policies, the hierarchy of planned objectives (with their respective goals) must be reviewed and restated with greater clarity, focus and precision so as to meet the needs of the new situation in Peru. Adjusting the original design would be even more necessary were the project completion date to be extended.

6. The project's achievements relative to its planned objectives are as follows:

Purpose

The analysis and the discussions suggest that the Purpose of the project, "assist the Government of Peru and the private sector in developing sound economic policies and strengthening the policy dialogue and decision-making process," is being achieved insofar as policy development is concerned. It is highly likely that project activities do strengthen debate, but it is impossible to say whether or how much direct impact any of these have had on the policy decision-making process.

The extent and degree to which the project is achieving its Purpose is, however, impossible to determine because the goals spelled out in the original design were so broad, diffuse and nonspecific that there was room for virtually anything related to economics.

Specifically, it can be said that the project has helped the Peruvian government and private sector develop and formulate economic policies, some of which were used as the basis for carrying out the reforms which stabilized the country's economy by drafting the main standards and decrees that led to stabilization (see Project Status Reports, 1991-1993). This was particularly true in 1991-1992, when the government worked intensely on reforms and the project supported it by engaging competent domestic consultants to perform the studies and draft the decrees. Cooperation from the project was of vital importance to the economic authorities during that time because the country lacked alternate funds to engage consultants on an emergency basis.

Since September 1993, the Project's contribution to the goals as spelled out in the Purpose has been oriented much less towards assistance with decrees and more towards studies which served as the basis for the relevant domestic entities to issue policies and/or implement operating improvements.

Goal or Impact Objective

The project's Goal or impact objective of "stabilizing the economy" has been achieved by the government; the Peruvian economy has stabilized and is on the road to recovery. It is felt that the project made a significant contribution to this outcome, but, as with the Purpose, it is impossible to determine the extent of that contribution because the goals as originally defined were so broad, diffuse, and optimistic that any action related to such diverse matters as increasing GDP growth, decreasing the fiscal deficit, increasing employment, eliminating hyperinflation, increasing nontraditional export growth, achieving a real increase in income, decreasing infant malnutrition and mortality, and increasing income among the most disadvantaged could be interpreted as a contribution.

Outputs

To achieve the Purpose of the project, the original design called for preparing studies, training personnel and other, more abstract outputs whose relationship to the project is very hard to perceive. In practice, the project targeted only the first two: studies and training.

Studies

The project financed the preparation of thirty-eight studies, twenty-seven in the public sector and eleven in the private sector. Of the thirty-eight studies, twenty-one (fifteen in the public sector and six in the private sector) were carried out during 1991-1992 under the direct supervision of USAID, and seventeen (twelve in the public sector and five in the private sector) were contracted and supervised by the Institutional Contractor in 1993-1994, as can be seen in Annex 2.

The studies prepared in 1991-1992 for the public sector were carried out chiefly at the request of the Ministry of Economy and Finance. Often, these studies were more akin to technical opinions issued by competent domestic advisors engaged by USAID to provide technical support for Peru's economic authorities for developing the economic/legal instruments for prescribing and implementing reforms to stabilize the country's economy. Several of these opinions served as the basis for significant policy decisions.

The public sector studies prepared during 1993-1994 under the supervision of the Institutional Contractor, were geared towards consolidating the new economic policies that had been adopted, spurring dialogue with the private sector, improving procedures and/or implementing administrative and operating improvements. The issues selected for study and their scopes and quality vary widely, and no specific focus or strategy for study selection is discernible.

The studies performed with the assistance of the Institutional Contractor after September 1993 were analyzed according to two major criteria: Applicability and Analytical Rigor, as presented in the matrix in Annex 3. For the purpose of this study, analytical rigor can be defined as: the existence of an explicit, solid theoretical framework, and a methodology that closely reflects that theoretical framework. It should be pointed out that, depending on the purpose, each study carried out would require a larger or smaller degree of analytical rigor. The scale of one to five used in Annex 3 seeks only to express or indicate a nominal scale and is derived from a review and summary of the analyses and feedback received from users and interested parties. The results indicate the following:

- The most successful studies are those whose principal goals were linked to "standards and procedures". In these cases, before the studies there was first a client with a very specific need who was capable of making the changes recommended in the studies, or a client with a specific directive from decision-makers at the highest

level. Examples of such studies are "Public Records Reform" and "Tax Evasion".

- Studies which sought to establish "dialogue" were unsuccessful, despite their solid analytic basis, as was the case with "Labor Relations". Others were unsuccessful because they lacked an interlocutor that was clearly defined and commanded the requisite attention from the government, as was the case with "Structural Economic Reforms".
- Mixed-objective studies such as "Export Sector Cost Overruns" and "Small Industry" have had very good results in terms of dialogue and dissemination. The exception is the "Agricultural Marketing" study, a subject the government does not seem interested in discussing.

Taking the studies prepared since September 1993 as a whole, they are heading in the direction of the Purpose of the project. Nevertheless, it is hard to discern any synergy between the various studies carried out, or a common strategic focus for their selection.

There is little doubt that the PAPI studies have had a positive impact on policy formulation and implementation. The studies have certainly contributed to improving the quality of dialogue on economic policy options and alternatives, while furthering the analysis and development of alternatives. The problem lies in establishing how much, how and where.

Even in the best of cases, the direct influence or cause and effect of the PAPI studies on policy formulation can be determined only intangibly. To establish a better and more reliable link, the entire policy formulation and selection process would have to be documented. Opinions from and statements by participants and key policy-makers will also be vital for establishing these links, while recognizing that the studies must be carried out with the explicit intent to make certain policy changes.

In all instances, the key to ensuring that PAPI's efforts are truly linked to implementation of beneficial policy is open and ongoing dialogue between the TU, the IC and the ministries involved, thereby helping clarify ways of thinking and to determine the studies' real needs.

Training

The project has done very little in the way of training, chiefly because the Institutional Contractor's training specialists did not arrive until September 1993. Nor has there been much progress in developing a methodology for

determining the quality of the training provided and received; for now, this is judged merely on the basis of the report the Institutional Contractor asks the trainee to submit upon completion of training.

In the public sector, the project trained 400 people locally--300 of them in "school management" during a thirteen-day course and the rest in seminars and short conferences. Outside Peru, the project sent twelve officials to Mexico and the United States for one- to twelve-week courses, three on privatization and the others on stock markets and pension funds. The most favored institutions were the Central Reserve Bank, CONASEV and SAFP. The latter two are public entities that regulate the Lima stock exchange and private pension fund associations. CONASEV regulates the Arequipa stock exchange and supervises listed companies.

For the private sector, USAID organized one conference and two short seminars on economic issues. These were held in Lima and attended by 60 people.

Dissemination

The Institutional Contractor made a single attempt at dissemination in 1994, helping CONFIEP publish the book *Towards a Business Agenda*, and holding four three-hour meetings for 156 people from the private sector to spotlight the book's subject matter.

7. Some project constituents feel that allocating \$30,000 limits their ability to carry out longer-term, more in-depth, or sequential studies that would require or benefit from using the same consultants. According to USAID, however; the limit was set to encourage greater participation and make the project more accessible; in addition, the limit is flexible and the amounts can be larger or smaller.

Structure and Organization

8. In order to manage the project, the organizational structure in the original design comprised two Peruvian implementing agencies: a Technical Unit within SEP charged with implementing the public sector component, and CONFIEP, responsible for implementing the private sector component. In order to identify needs and approve requests for assistance from public sector entities, the structure also provided for an Interministerial Committee for Economic and Financial Affairs (CIAEF) responsible for approving the public sector implementing agency's quarterly and yearly plans.

Each implementing agency had specific functions and was supposed to

receive technical support from an outside consultant (Institutional Contractor) engaged by USAID to manage the project's study and training funds.

To support project activities, the structure also called for a consultive council composed of the Secretary of the Office of the President, the Prime Minister or his representative, the Vice Minister of Economy, the Head of the National Planning Institute, the Manager of the Central Reserve Bank, the President of CONFIEP, and the Director of USAID.

In practice, managing the project with this organizational structure ran into many difficulties that hampered and delayed implementation--particularly the public sector assistance component. Notable among the difficulties were: the removal of CIAEF from the project in 1993 by means of an implementation letter; the ineffectual Project Consulting Council (PCC), which never met, and which seems to have been created simply to meet one of the prerequisites for the agreement; the apparent break-up and dissolution of the National Planning Institute (INP), whose functions were divided between the MEF and the Ministry of the Office of the President; and the disagreements between government counterpart agencies and the Institutional Contractor over their respective powers and obligations under the agreement--these were resolved in part with USAID intervention.

Moreover, project management changed hands constantly. At USAID there were three Project Managers and three Project Coordinators; two Executive Secretaries at SEP; two Technical Unit Heads; and two Team Heads (one of them on an interim basis) and two Training Specialists (both of them part time) at the Institutional Contractor. See Annex 4.

Although greatly improved, project management is still complicated and contributes little to smooth, efficient progress towards implementation. Study prioritization and selection, as well as gatekeeping, is overly centralized in the person in charge of the Technical Unit. This includes technical issues which would best be handled directly by the Institutional Contractor. Centralization also interferes with informal dialogue between users and the Institutional Contractor--a vital element for ensuring that the studies do meet the former's needs.

In order for the project to continue, management should be improved and simplified. Exactly how to do this would depend on the model chosen from among the options suggested below for continuing the project. Nevertheless, the new management would have to be designed in keeping with the project's new Purpose and Outputs, rationalizing and minimizing management staff as required, setting up a more strategic or synergistic

system for prioritizing and selecting studies and training; enhancing the role played by technical staff and facilitating their interaction with beneficiary institution personnel; upgrading the implementation control information system; and, possibly, bringing all the leaders together in a single workplace.

9. Responsibility for project implementation lies chiefly with: the Office of the Executive Secretary of the Office of the President; the Head of the Technical Unit; the IC Chief of Party and the group of three professionals from the Institutional Contractor; and USAID's Project Manager and Project Coordinator. All of them, as well as the CONFIEP officials, are professionals of high academic standing who are well-versed in the technical aspects of the project. Although this structure was conceived as a team to manage the project, it is perceived to be overly formal, to thwart communication, and to hamper relationships among team members.
10. Prioritization and selection of public sector proposals for studies and training are handled by the so-called "ronda" method. There were three "rondas" in all: two in 1993 and one in 1994. About 160 proposals were submitted by public sector agencies, of which the project selected less than twenty, following criteria that several users regarded as lacking in clarity and which, apparently, were known only--albeit not consistently--to the implementing agencies.

Several users regard the process for prioritizing and selecting proposals and implementing studies as complicated and time-consuming. The entire process consists of the following steps:

- a. The Office of the Secretary General of the Office of the President, on the basis of discussions with the project Technical Unit, sends a letter to central government and autonomous public sector agencies requesting a list of their study and/or training needs requiring PAPI support. The agencies are given thirty days to respond.
- b. Within the time limit, the institutions send their lists and needs to the Technical Unit; generally, there are many more proposals than the project, for reasons of priority and operating capacity, could commit to fund.
- c. The Technical Unit sends copies of the proposals to its USAID and Institutional Contractor counterparts, asking them to review and assess the proposals on the basis of their own criteria. The three subsequently meet to discuss their opinions and draw up a joint list of proposals which could be funded by PAPI. This list, too, is longer

than the one finally approved. During this stage, it is USAID's prerogative to discard proposals it does not consider appropriate or which do not meet its standards.

- d. The Technical Unit sends the list of selected projects to SEP and meets to discuss it. SEP decides and sends a letter to the Technical Unit identifying the proposals which have been approved by that office.
- e. On the basis of the SEP letter, the Technical Unit sends a note to the beneficiary institutions and tells them which study and training proposals have been approved for funding by the project.
- f. Once the study or training proposals have been selected, the Technical Unit charges the Institutional Contractor with selecting and engaging consultants to carry them out. The beneficiary institutions provide further input regarding detail on the conditions, costs and terms of reference of the proposals. Consultants are selected by a committee consisting of representatives from the Technical Unit, the institution or agency requesting the study, and the Institutional Contractor. Although USAID has no vote on the committee, it does have to approve the consultant selected.
- g. Once consulting services have been engaged and work begins, the Institutional Contractor is responsible for work supervision and quality control.

The consultants detected considerable dissatisfaction with this process on the part of beneficiaries and the Institutional Contractor. Some of the beneficiaries' comments:

- "Delay in processing, slow prioritization; the prioritization criteria are not clear."
- "They take so long...PAPI should be faster and more responsive."
- "There are others that are slower than PAPI. They should develop something that is more technical assistance and less training."
- "I never knew about criteria for approval or not. I am not familiar with PAPI's selection procedures."
- "Lots of delays. Three proposals and only one is moving forward. We do not know the process or the criteria."

In short, they complained about the lack of transparency, the absence of clear, open criteria for selection and approval, and the loss of control over their own proposals once they are approved and move on to implementation and supervision, since from then on the Institutional Contractor takes over. The Institutional Contractor, in turn, complains that its support is circumscribed to administrative tasks such as engaging and supervising consulting firms, well below the level of technical expertise for which it was engaged, and that this has demoralized its technical staff. Both the IC and the requesting agency complain about not being allowed to communicate directly with each other to discuss technical issues, since the Technical Unit prefers to call formal meetings for this purpose.

In general, the Institutional Contractor's staff members feel that their technical knowhow is not being utilized to the fullest and that there are few opportunities to take advantage of their expertise and technical capabilities. In some cases, this has led to a certain degree of frustration. Generally speaking, the IC's technical capabilities are applied only during the quality supervision of studies performed by outside consultants. If the IC's role is chiefly administrative and supervisory, one could well ask why it is necessary to have only highly qualified economists instead of administrative and/or contract experts with a certain degree of training. The management review team is of the opinion that it would be useful to reexamine the IC's role. Since the IC is chiefly an administrator and the project derives almost no benefit from its staffers' technical expertise, the main thing to ask is: Should this technical expertise be better taken advantage of or put to better use? If so, how could this be done?

11. The process for prioritizing and selecting study and training proposals from the private sector is as follows:
 - a. CONFIEP sends USAID a yearly agenda and terms of reference for comments and approval.
 - b. Once the USAID Project Coordinator has approved the terms of reference, the Institutional Contractor calls for bids from consultants.
 - c. Once the consultants have been selected, the Institutional Contractor supervises the quality of the study.

The process has posed no significant problems, although there were delays in implementing proposals due, more than anything else, to the lack of a coordinator in CONFIEP to follow-up on processing and implementation of proposals.

12. There is no relationship between SEP and CONFIEP. In meetings with executives of the latter it was seen that there was not and never had been any working relationship or dialogue between these two implementing agencies. At this stage of implementation, establishing a dialogue between them does not seem very useful.
13. The original proposal called for a total of US\$7,150,000 for implementing the project in five years, as can be seen in Annex 5. Of this total, approximately US\$3,500,000 were earmarked for implementing studies and training; the remainder was for other expenses related to the Institutional Contractor and USAID project administration.

As of September 30, 1993, before the Institutional Contractor arrived, a total of US\$1,175,000 had been spent, of which US\$494,000 were for studies and training.

As of August 15, 1994, a total of US\$2,175,000 had been spent, of which US\$850,000 were for studies and training.

These figures show that the pace of project implementation has been quite slow. In more than four years of implementation, and only six months from the scheduled project completion date, only 30% of the total and 35% of the funds allocated for studies and training had been spent. The pace of implementation picked up after the Institutional Contractor arrived in September 1993, going from 16% of the total to 30%, and from 14% of the funds earmarked for studies and training to 24%.

Based on these figures and on the limited operating capacity of the implementing agencies, and despite the fact that the project is working better and implementation is speeding up, there is no prospect that the budget can be utilized in full in the six months remaining for project implementation.

14. As of August 15, the expenses incurred by USAID, SEP and the Technical Unit in managing and administering the project, along with the Institutional Contractor's expenses, total US\$1,649,700. Compared with the cost of the studies prepared and the training provided, two dollars have been spent on management and administration for every dollar spent on studies and training performed. This raises the question of whether it would be cheaper to purchase studies directly from competent Peruvian professionals instead of trying to produce them at a high cost.
15. It is extremely difficult to determine the Institutional Contractor's ability to administer studies, because it is not the IC who decides the number or type

of studies to be put on the agenda nor which studies are to be carried out. Moreover, they have very little to do with the generation of ideas for the project. There are so many different studies that it is impossible to develop time or level of effort standards for performing them. There is a feeling of being powerless to define the agenda or its content. The way things are, the IC spends a lot of time just on paperwork and the budget which cuts into the time available for supervising the studies and the unit's ability to carry them out. As USAID points out however, there are some concrete reasons why this occurs:

- a) USAID contracting provisions requires the the IC utilize time in these areas, and
- b) the IC has invested considerable time in paperwork and the budget because of a lack of knowledge of AID procedures and how to prepare budgets. AID points out that DEG was selected, in part, because of supposed familiarity with AID procedures (which in practice it did not have). As a result USAID has had to employ valuable time in showing the IC these procedures.

16. PAPI is in a rather unique position vis a vis other organizations such as UPEAS. UPEAS and PAPI are creatures of rather different concepts. PAPI is primarily an administrator of studies that are selected and contracted through the collaboration of SEP, USAID, the UT, and PAPI's institutional contractor. PAPI has not made any attempt to develop its own capacity to carry out studies. UPEAS, on the other hand, has been designed as the primary analytical unit for the Ministry of Finance. It is assigned studies that it is to carry out, either with its own personnel or through collaboration with consultants. It is also attempting to improve its own analytic capacity. The fact that UPEAS is sited in the MEF also gives it direct access and influence in an important policy making center. Given the different concepts, duplication should only occur when the PAPI takes on a study already being undertaken by UPEAS or vice versa. The simplest mechanism to avoid this is to include a representative of UPEAS on the PAPI selection committee and/or closer dialogue between the directors of UPEAS and PAPI.

VII. THE FUTURE OF PAPI

1. Economic Transition

Peru's economic progress over the past four years has been very encouraging. When President Fujimori took office, inflation was running at 7,650% a year and the GDP was plummeting. In addition, terrorist activities, combined with the blunders of the previous administration, had driven per capita income back thirty years. The strict stabilization program introduced by the Fujimori administration cut inflation to 2% a month; this, in conjunction with structural adjustments, allowed the economy to grow 7% in 1993, with 9% growth forecasted for 1994 (according to USAID estimates).

Such achievements would not have been possible without managing the economy skillfully, controlling terrorism, and sending a very clear message that Peru was moving toward a market economy via an aggressive privatization program.

The somewhat surprising achievements made in such a short time are obvious, but there is still much left to do. It is necessary to move from growth based on the reactivation of some key sectors, such as mining and fisheries, to broad-based sustainable growth. There is nothing easy about this transition because Peruvian infrastructure is weak, external debt remains very high (US\$22 billion), extreme poverty and unemployment are widespread and state institutions are fragile.

2. Major Tasks Pending

Along with the economic transition, other major tasks pending are consolidation and entrenchment of democratic foundations through an improved strategy for social spending, increased community involvement and improved governance (administration of justice, transparency, accountability, etc.).

These tasks are not without risks: it would be tempting to spend the proceeds from privatization on populist measures; structural reforms might not keep pace with economic growth (or could even be reversed by poor implementation); the threat of violence remains a risk, albeit significantly diminished in comparison to recent years.

In this context, the major tasks pending can be defined more precisely as follows: 1) generate and sustain international support for the continuation of policies, especially those concerning structural reform; 2) implement the reforms still pending in the social sector so that spending to alleviate poverty and train human resources is more focused and efficient; 3) reactivate certain key areas of the economy, such as agriculture, in which many policies are yet to be defined; 4) provide immediate relief for the extremely poor; 5) address unemployment; 6) redefine the tasks corresponding to the state, including the cutting of transaction costs, efficient law enforcement, reinforcement of property rights, regulation of monopolies and oligopolies, etc.; and 7) achieve full reinsertion of the country in the international financial community by means of some kind of Brady Plan.

3. Obstacles

These tasks are formidable in themselves and are complicated by institutional factors, by the very logic of the reactivation processes after the upheaval Peru underwent in the eighties, and by the significant institutional weakness of the state.

Although Peru has been quite successful in downsizing the state, it has not been so successful in developing middle management or managerial skills. The public sector is plagued by inefficient administrative procedures which reflect considerable inertia from the past.

The delay in jump-starting such labor-intensive sectors as agriculture and certain subsectors of the metalworking industry, along with the failure to define agrarian property rights and the lack of consistent thinking in this regard, hampers investment and hinders the generation of productive employment and diversification of the export base.

Public spending is still not efficient or prioritized enough to meet the problems of extreme poverty in some sectors, so there is already a certain degree of impatience with policy results. The lack of stable and transparent rules of the game for the civil service highlights impermeability to the culture of reform at all levels of the public sector.

Lastly, another significant barrier is the lack of fully competitive markets in some sectors--the most obvious example being agricultural products.

4. Short-term Concerns

There are reasons to think that over the short term it will be very hard for the government to take new policy initiatives because its top priority this election year will be to consolidate policies already in place and alleviate extreme poverty.

On the administrative front, the consolidation of policies already in place is in the most difficult stage because far more detailed and painstaking implementation management procedures and processes are yet to be established. For this reason, the government is not expected to emphasize the generation of new policies, even in such needy areas as rural development and industrial reconversion.

5. Advantages and Disadvantages of PAPI

The major advantage of the project is that its original design made it responsive to immediate technical needs at a time when there were no other sources of quick financing. Its major weakness was that its objectives were defined too broadly, its goals were expressed in terms of extremely ambitious indicators, and cause-and-

effect relationships were not spelled out.

In practice, the project as initially used was exceedingly useful; indeed, it provided critical support for the formulation of decrees that laid the groundwork for the stabilization program. However, as time passed and the project started and stopped, the disadvantages stemming from a design that was too broad and ambitious became more evident.

The potential strong points of the project, which could be significant in the new situation, are:

- Immediate availability and potential responsiveness to the country's new needs.
- The existence of demands in various key sectors of the economy that the project could meet.
- The excellent installed capacity of the Institutional Contractor, the Technical Unit and USAID, which could prove very useful.
- Heightened awareness as to the existence of the project in various sectors of the government, which could aid the detection of needs and demands.
- The immediate availability of resources which are still considerable.

The project's drawbacks, arising both from original design weaknesses and from delays in implementation, are:

- Despite improvements over the past year, the prioritization, selection, and implementation of studies are still very slow.
- The project's technical staff is not being utilized to their full potential in carrying out core activities.
- The studies performed are scattered and vary in quality and impact, with no noticeable synergy nor commitment to implement their recommendations.

6. Strategic Options

Given Peru's present situation and USAID's new strategy for the country, how could PAPI help meet the new challenge, capitalizing on its strong points and reducing its drawbacks? The strategic options are listed below:

- 1) Continue the project as is, without changes.

- 2) Continue the project, with modifications to the original design.
- 3) Continue the project, with a completely new design.

Unlike the first option, the second and third options seek to make modifications to change the course of the project. The second option seeks only to modify some relationships and roles to increase efficiency and take greater advantage of the project's financial and human resources. The third option is far broader in scope. It would require substantial changes in both the conception of PAPI's role and its present structure. The suggestions for option one can be implemented quickly, while the changes required for the third option would necessitate extensive changes, albeit with more far-reaching benefits than could be expected from the other options.

Option One: Continue the project as is, without changes

This option has certain advantages: the project seems to be coming into focus, progress has been made on the implementation learning curve, and the users are familiar with the project. The project does have problems, though: in terms of efficiency, the project is not making full use of its human resources; the selection mechanism is meeting needs that others could cover (the clearest example is the support the Central Bank received) and that do not necessarily relate to the strategic requirements of the moment. Moreover, the project is too open for effective follow-up and evaluation; the fixed cost appears too high compared to the cost of the studies and training per se; and at the current rate of implementation the funds would not be fully expended by March 1995.

Taking these factors into account, the team of consultants does not consider this to be a good option. Were it chosen, it probably would be best to let the project terminate on the current PACD date (March 31, 1995).

Option Two: Continue the project, with slight modifications to the design

This option consists of making slight changes to the project objectives and goals, stressing the clarification of roles, and increasing the degree to which the Institutional Contractor is involved in both the selection and the implementation of studies. This goal can be attained by formulating the project more strategically. The objectives would be changed to overcome the project's current weaknesses, establishing objectives and goals that focus more on specific government concerns and that have USAID support.

Although it is recommended that the project keep its characteristic flexibility in order to serve areas not covered by other donors, it is also recommended that

significant project resources be channeled to some of the government's priority areas. To do so, PAPI must work on developing a strategy that spells out the principal objectives of its studies and training and makes it possible to concentrate resources in certain areas for the sake of more in-depth analysis and greater linkage between studies. Some of these are:

- Budget reform, i.e., everything related to planning and handling public spending, especially for alleviating poverty and carrying out social and infrastructure programs.
- Institutional reforms that clarify the rules of the game, institutionalize the civil service and eliminate overlaps and gaps in the apparatus of state.
- Generating and implementing high-impact projects, particularly social projects.
- Decentralizing and enhancing management skills at a local level.
- Enhancing public management skills for implementing reform, cutting transaction costs, simplifying procedures and regulating monopolies and oligopolies.
- Spurring thought and discussion of alternative sectoral policies for the future, stressing agriculture particularly.
- Field training to improve managerial skills.

These areas are more targeted and are much more in line with the country's real needs. Over the past year, the project has been focusing on these areas, and there is considerable agreement between the government and USAID in this regard.

Recommendations: Change the role of the Institutional Contractor to enable it to participate more actively in the generation, processing, selection and implementation of policy analysis studies. Since this is not now the case, this could be achieved only by mutual agreement among USAID, the government through its delegated institutions, and the Institutional Contractor. To this end:

- 1) the principal players and parties involved in the project should meet to review its current status. The review should cover PAPI's processes and their effectiveness and efficiency, as well as the findings and recommendations of the management review. A review of the relationships between the components of the project and the current relationship structure among the principal players would be advisable as well.

- 2) a project strategy should be developed outlining the substantive areas to be emphasized so as to reduce the current trend toward fragmentation of studies, and generate greater expertise in certain areas (analytical comparative advantage).
- 3) the role of the Institutional Contractor should be broadened to a more technical/substantive one so as to take advantage of its current installed capacity. This could be useful both to fill in gaps and to initiate studies of common inter-ministerial interest. It could also be a resource to help improve the local consultants' technical skills and methodology through increased cooperation on the part of the CI's technical staff.
- 4) a consensus should be reached and demand for studies generated by stepping up visits by the IC and other project actors to government centers and working with them to draft an agenda of needs and priorities for studies and training, thus making it possible to visualize and decide on a series of projects or larger projects with explicit criteria. This means reducing the current emphasis on short-term studies and developing a program or strategy for sequential studies for fine-tuning policy implementation and institutionalization. On-going, informal dialogue between the IC and requesting agencies would give rise to better proposals and put an end to the ministries' uncertainty regarding the study selection process.
- 5) once the strategy or program of studies has been developed, the interested agencies should be reminded periodically of the criteria and policies for the selection of studies, stressing the importance of linkage and sequential studies. If there are key or strategic areas to be studied, these preferences should be articulated clearly to the interested agencies.
- 6) assessments should be carried out with interested strategic agencies to outline training needs and develop a program that meets these needs.
- 7) the training unit within the project should be reinforced to make it capable of designing, coordinating and delivering training.
- 8) the management structure should be strengthened so as to add specialists in the areas of administration and contracts and relieve the technical staff of these tasks. They should be recruited locally. If current funding would not permit this additional expense, then the possibility/feasibility of substituting one of the technical staff for an administrative/contracts specialist should be explored.
- 9) development of standards for determining the impact of studies on the making of economic policy should begin. This is especially important for

evaluating the results of the strategies proposed in paragraph 5) above.

- 10) the criteria for funding studies should be reviewed and broadened to encompass sequential or longer-term studies. The new policy should be disseminated to eliminate the perception that studies are limited to US\$30,000.
- 11) a closer working relationship should be developed with the TU in order to spur more informal, productive dialogue with policy-makers on priorities and needs for studies and training.

The advantage of this option is that it would be more in line with Peru's current needs and with USAID's new strategy for Peru. Another advantage is that it would make for greater use of the project's installed capacity, particularly that of the Institutional Contractor, and would tend to further the efficient use of project resources. It is expected that by allowing more time for reviewing studies and facilitating communication between consultants, the IC, and the users, results would be obtained more efficiently at a low marginal cost. Increasing project efficiency would improve the current ratio of total cost to the cost of studies and training. The possibility of using more accurate and operative achievement indicators is another argument in favor of this option.

Among the disadvantages are the fact that reaching agreements between USAID and the government on objectives and areas to support would require an intense effort, and the changes might provoke resistance from the players. Despite these potential obstacles, though, this option would make it possible for PAPI to continue to participate in and contribute significantly to the policies and measures the country needs to consolidate and further its achievements. If this option is adopted, an extension of the project should be considered.

Option Three: Continue the project, with significant design modifications

A third option would be to significantly alter the nature of the PAPI project in order to create a direct policy analysis support and delivery capability rather than the current pass-through, supervisory role it currently plays. Under this option the CI would need to play a more fully developed role in the design and execution of studies than is presently the case (the Mission might also consider the elimination of the CI, it does have present installed capacity that can form the core for a more

full-blown technical analysis unit. USAID has assisted in the development of several such policy analysis units around the world. There are successful examples of such units both in Bolivia and Honduras. There are several reasons that might justify such a shift: 1) to institutionalize policy analysis support capacity, 2) to take greater advantage of the technical resources supplied by the CI, 3) to develop a greater degree of coherence and long term study capability than now appears to be the case, 4) improve the response time to requests by the Ministries, and 5) to develop a clearer connection between studies and actual policy decisions.

If it were decided to alter PAPI toward the development of a Technical Analysis Unit, then it would be extremely important to consider and weigh the options for placement of the Unit. There are at least three alternatives: 1) remain under the direct aegis of USAID, 2) autonomy or independence with an informal link to either a government agency or another organization such as a university, and 3) direct attachment to a significant policy making agency.

- 1) A direct link to AID seems the least favorable of the options because it would be viewed as an external agency. Its access to prominent policy making centers would likely be limited, and at worst it would be viewed as a foreign policy agent, thereby limiting host country ownership of policies developed. A significant advantage of this option is that it would allow AID to exercise a closer role in supervising the CI as well as in the development of the Unit's policy analysis agenda. As an instrument for promoting the US Government's policy agenda, it has considerable appeal.
- 2) Under a model of independence or semi-independence, it would be indispensable to have a strong, politically effective patron in one of the critical ministries. At the same time, in order to avoid the foreign agent stigma, the CI would need to reinforce itself through a policy of high profile use of Peruvian technical experts while diminishing the role of the expatriates. A comparative advantage of this model would be the capacity of the unit to develop a coherent agenda of studies and the independence to do so. If independent it would also be vital for the Unit to prove itself both efficient and capable of delivering high quality products, and highly responsive to needs of clients. It would be important for both the Government and the Mission to feel that it has significant input into defining the Unit's agenda.
- 3) Under the model of attachment to a significant but broad based policy making agency, some of the problems encountered in 1 and 2 could be mitigated. While such a unit might be similar in certain functions to UPEAS, it would be less narrowly defined and capable of attending to a broader array of issues. It is important to note that through such attachment, the

head of the Unit would report to the Agency head and USAID would have less control over the Unit's agenda. However, by being under the tutelage of such an agency, access will be easier, ownership of the policy studies will be enhanced, and it will be easier to develop and more focus and coherence in the policy studies agenda. It might be noted that both the Bolivian and Honduran Policy Analysis Units are based on similar models.

Recommendations: In order to achieve a more full-fledged policy analysis unit model (regardless of which model chosen) the following recommendations should be followed:

- The Unit should have at least three key components:
 - A **technical component** (for carrying out studies, dialogue, and developing data bases and information systems.)
 - An **administrative component** (for administration of contracts, recruitment, reporting and financial management)
 - A **training component** (with capacity for design, coordination, and delivery of training programs to government clients)
- Strengthen the unit through the addition of specialized contract and administrative staff to relieve the burden from the technical staff.
- Develop a clear client relationship with one or more of the key or critical policy ministries through responsiveness to short term demands and high-quality and efficient service delivery. This means that the Ministries should have some access to the Unit's services outside the "ronda" selection procedures.
- As a corollary to the preceding, the Unit should attempt to develop a strong patron (a key policy maker) within the government both for protection as well as promotion and marketing of the Unit.
- Develop a clear strategy and rationale for the selection of studies and the design of training. It would be best if that strategy were relative narrow to maximize resources. Once developed, the criteria for selection of studies should be clearly and frequently articulated to client ministries.
- The Unit will need to develop a clear outreach program to the client ministries through informal dialogue, and through the sponsoring of events such as round-tables on critical policy issues. Outreach will also be helpful

in developing feedback as to the benefits of the Unit's services and products.

- The Unit will need to develop significant training capacity and delivery capability. It is recommended that a full-time training unit be established for design coordination, and delivery.
- Role should be closely defined in conjunction with other important analytical units in order to avoid duplication but also institutional jealousies.
- A Board of Directors with representatives from key stakeholders should be formed to assure that Unit recommendations and studies have broad support. Board should, at a minimum have representatives from the UT, USAID, the private sector

Some advantages of this approach would be:

- Decreased management needs for USAID
- More direct access to the highest levels of policy decision-making.
- Greater utilization of the CI's technical capabilities, more effective use of expensive and scarce resources.
- Greater ownership by the Government of Peru.
- Likelihood of increased coherence among studies.
- Greater development of sustainable institutionalized analytical capacity.

The new design would involve establishing objectives in clear, precise and measurable terms; sizing costs on the basis of goals; and structuring the organization for carrying them out with a size and cost more in keeping with the magnitude and importance of the objectives. It would also involve reviewing the role to be played by the Institutional Contractor and determining whether locating the project in some other agency might be more appropriate in the current circumstances.

The advantages of this option would be that it would focus the project on the current situation; it would make project management easier and less costly; and it would maximize the benefit for the country because it would start nearly from scratch yet take advantage of most of the advantages of the previous option.

The disadvantages would be that it would require greater effort than the previous option because more consultations would be necessary and more agreements would have to be reached between the government, USAID and the Institutional Contractor. It poses the likelihood of a serious alteration in the role of the institutional contractor and renegotiation of its contract, and presents the question of what to do with the Institutional Contractor if its role were to be significantly reduced or eliminated altogether.

General Considerations Regarding Alteration of the Project:

Any of the alternatives listed may be equally valid depending on the wishes and needs of the principal stakeholders of PAPI. The problem appears to be that there is a relatively high degree of uncertainty or perhaps lack of consensus regarding what exactly it is that PAPI should be. Without a clear definition it will be difficult to define the role of the CI and expectations regarding output of the project. It will also be equally difficult to select an option from those just outlined. If any re-design or modification is to take place, it is strongly recommended that PAPI's principal stakeholders (including at a minimum USAID, the CI, the UT, Confiep, SEP, and critical policy-making Ministries) meet and begin to advance toward agreement about just what it is that they would like to achieve with the project. Some of the following questions might be considered:

- **Role of PAPI.** What should PAPI be trying to achieve, for whom, and why? Should it just be aimed at producing studies via contracted consultants? Should it become an alternative and permanent policy analysis resource?
- **Principal Objectives.** What should be PAPI's primary tasks? Simple contracting of studies and training, technical resource assistance to government agencies, development of permanent and sustainable capacity? Should PAPI just produce studies? Should the project try to build and/or institutionalize analytic capacity? What should be the balance between producing studies in response to requests versus capacity building? Who should produce the studies? How should studies be selected? What should be the role of the CI? What is the role of training? What should the training pursue? What should the PAPI assistance seek to achieve (a niche, overall analytic capacity, macro-economic specialization, sectoral specialization....?)
- **Content.** What sorts of studies and aimed at what? Macro or sectoral analysis, or both, what sort of balance? Content of training?

- **Size.** How big should PAPI be? This can only really be determined by first deciding on the previous three questions.
- **Who should be involved?** This question is directed not only to the composition of a potential policy analysis unit but also at the Board of Directors of such a unit, and can only be determined after there is some consensus regarding the role, objectives, and content of PAPI. Nevertheless, very serious and careful consideration must be given to this question.
- **Placement of PAPI.** If the policy analysis unit model is chosen, then careful consideration must be given to the placement of the Unit. Before meeting to decide, it will be important that USAID canvas government agencies and key stakeholders on their opinions.
- **Permanent versus horizon.** Should PAPI become a permanently installed function within the Government of Peru or should it be time-bound, to simply expire on a predetermined date?

ANNEX ONE
LIST OF PERSONS INTERVIEWED

35

LIST OF PERSONS INTERVIEWED

USAID

George Wacktenheim
Don Boyd
Jeff Boyer
Jerre Manarolla
Ena Gardland
Arturo Briceño

Mission Director
Dep. Mission Director
Chief, PDP
Project Manager
Project Coordinator
Economist

INTERNATIONAL CONTRACTOR

Shane Hunt
Jorge Vega
Roxana Barrantes
María Elena Esparza

Chief of Party
Dep. Chief of Party
Training specialist
Training specialist

PUBLIC SECTOR

Mariela Guerinoni Romero
Adrián Revilla
Clara Ogata
Leonie Roca

Jaime Garcia
Victor Loayza
Hernán Martínez
César Morgan
Eduardo Ishi Ito

Zoila Documet
Roberto Eslaba
Dulio Bercelli
Irene Vera
José Roca
Atahualpa Jessen
Ivan Rivera

Secretaría General SEP
Superintendente Nacional SUNAT
Jefa, Unidad Técnica
Consultora, Pdcia. Consejo de
Ministros
Viceministro de Industria
Gerente General CONASEV
Jefe Registros Públicos
Viceministro Desarrollo Regional
International Cooperation, Min. of
the Presidency
Banco Central de Reserva
BCR
BCR
BCR
BCR
Ministerio de Energía y Minas
Asesor, Ministerio de Economía

PRIVATE SECTOR

Arturo Tello D.
Alvaro Quijandría F.

Carlos Bologna

Gerente CONFIEP
Gerente Estudios y Proyectos
CONFIEP
ex-Ministro de Economía

INTERNATIONAL ORGANIZATIONS

Valdemar Di Morais
Edgardo Favaro

IMF Representative
Country Economist

ANNEX TWO

LIST OF STUDIES PREPARED AND TRAINING PROVIDED BY PROJECT

ESTUDIOS ELABORADOS POR EL "PAPI"
(AL 15 DE AGOSTO DE 1990)

ESTUDIOS	ENTIDAD	FECHA DE RECEPCION DE LA SOLICITUD	FECHA DE APROBACION DEL FINANCIAMIENTO POR USAID	COSTO DEL ESTUDIO
SECTOR PUBLICO				
(SEP)				
1. Revisión y propuestas de modificaciones de dispositivos legales del P.E.	SEP	3/91	3/91	\$ 33,400
2. Relaciones del Peru en el Sistema Internacional de los 90s.	SEP	3/91	4/91	\$ 32,400
(DER)				
3. Deseo Binoma	MIEP	3/91	4/91	\$ 23,920
4. Política de Hidrocarburos	MIEP	3/91	4/91	\$ 14,310
5. Reformas Financieras	MIEP	3/91	4/91	\$ 24,172
6. Programa de Inversión Fideicomiso	MIEP	8/92	9/92	\$ 33,530
7. Política Arancelaria	MIEP	3/91	4/91	\$ 20,262
8. Evaluación de la Actividad Empresarial del Estado	MIEP	3/91	3/91	\$ 20,262
9. Simplificación de procedimientos administrativos de Comercio Exterior	MIEP	3/91	4/91	\$ 17,020
10. Area de relación con organismos multilaterales y bilaterales	MIEP	10/91	11/91	\$ 4,580
11. Política de promoción de inversiones	MIEP	8/91	8/91	\$ 15,340
12. Fomento del comercio exterior y seguros	MIEP	10/91	12/91	\$ 10,131
13. Reformas estructurales de Turismo. Módulo A (fondos otorgados a CONFIEP)	CONFIEP/MITI	10/92	11/92	\$ 17,000
14. Reformas estructurales de Turismo. Módulos B y C (fondos a CONFIEP)	CONFIEP/MITI	10/92	11/92	\$ 16,987
15. Estudio integral de tipo de cambio (fondos otorgados a CONFIEP)	CONFIEP/MIEP	10/92	11/92	\$ 24,306
(CI)				
16. Comercialización de productos agrícolas	MIEP/MACON	6/93	10/93	\$ 13,500
17. Nuevos instrumentos financieros	CONASEV/SAPP	6/93	12/93	\$ 18,692
18. Subvenciones del sector exportador	MITI/MIEP	6/93	1/94	\$ 32,722
19. Evolución Fidei	SUNAT	10/93	1/94	\$ 21,000
20. Reformas de los Registros Públicos	JUSTICIA	10/93	4/94	\$ 30,200
21. Papeles Industriales (Olefinas y seminarios)	MITINCI	11/93	2/94	\$ 21,008
SECTOR PRIVADO				
(DER)				
22. Reformas económicas de la Constitución	CONFIEP	3/92	7/92	\$ 20,682
23. Ley de la Inversión Privada	CONFIEP	8/91	9/91	\$ 32,500
24. Investigaciones en leyes propuestas para consolidar Reformas Estructurales	CONFIEP	5/92	6/92	\$ 29,700
25. Sistema de pagos diferidos	CONFIEP	1/92	2/92	\$ 3,000
26. Conversión de deuda en inversión	CONFIEP	9/91	11/91	\$ 13,663
27. Inversión directa extranjera en minería	CONFIEP	3/91	6/91	\$ 17,000
(CI)				
28. Impuestos municipales: alternativas y reformas	CONFIEP	4/93	4/93	\$ 10,800
29. Reforma laboral	CONFIEP	4/93	3/93	\$ 16,500
30. Política macroeconómica	CONFIEP	6/93	7/93	\$ 19,514
31. Reformas económicas estructurales	CONFIEP	8/93	8/93	\$ 10,000

**CAPACTACION PREVISTA POR EL "FAP"
(AL 11 DE AGOSTO DE 1994)**

CAPACTACION	ENTIDAD	FECHA DE RECEPCION DE LA SOLICITUD	FECHA DE APROBACION DEL FINANCIAMIENTO POR USAID	COSTO
SECTOR PUBLICO				
(SEP)				
1. Policia Economica - CCD	SEP	12/92	1/93	\$ 27,300
2. Privatizacion	MITINCI	10/91	10/91	\$ 11,580
(DIR)				
3. Seminario La Moneda	SEP	3/92	3/92	\$ 7,000
(CI)				
4. Aspectos economicos y operativos de Banco Central.	BCR	9/93	12/93	\$ 8,459
5. Presenta en Banco de Mexico y BANAMEX	BCR	9/93	11/93	\$ 2,132
6. Curso NYIP "US Money & Capital Markets"	CONASE	10/93	2/94	\$ 11,744
7. Curso NYIP "The Futures Market"	CON/SEP	10/93	2/94	\$ 10,185
8. Curso NYIP "Securities Clearance.... etc.	CON/SEP	1/94	2/94	\$ 4,838
9. Curso NYIP "Mergers and Acquisitions"	CON/SEP	1/94	4/94	\$ 4,170
(CI)				
10. Capacitadores de Directores de Colegio	EDUCACION	11/93	2/94	\$ 32,222
SECTOR PRIVADO				
(DIR)				
11. Difusion del tipo de cambio	CONFEP	4/93	4/93	\$ 836
12. Seminario Fisher	CONFEP	10/91	11/91	\$ 4,330
(CI)				
13. Publicacion: "Hacia una Agenda Empresarial Privada"	CONFEP	12/93	1/94	\$ 10,000
14. Relaciones de direccion de publicacion	CONFEP	2/94	3/94	\$ 2,016

BEST AVAILABLE

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ANNEX THREE

**APPLICABILITY AND ANALYTICAL RIGOR OF STUDIES
PREPARED UNDER SUPERVISION OF INSTITUTIONAL CONTRACTOR**

ANÁLISIS DE LA APLICABILIDAD Y RIGOR ANALÍTICO DE LOS PROYECTOS EJECUTADOS EN 1980-84

	PROPOSITO	RIGOR ANALITICO	APLICABILIDAD		
			A Norma Legal o Precedentes	B Diagnostico	C Diálogo
SECTOR PUBLICO					
1. Comercialización productos agrícolas	A,C	3	1	3	2
2. Nuevos Instrumentos Financieros	A	4	3	4	2
3. Sobrecostos del Sector Exportador	A,B,C	4	4	4	4
4. Evasión Fiscal	A	3	4	4	1
5. Pequeña Industria	A,C	2	2	3	3
6. Reforma de los Registros Públicos	A	3	3	4	3
SECTOR PRIVADO					
1. Impuestos Municipales	A	3	3	4	1
2. Reformas Laboral	C	4	1	3	3
3. Política macroeconómica	C	4	1	4	3
4. Reformas Económicas Estructurales	C	3	2	3	2

Nota: 3 es el más alto.

ANNEX FOUR
PAPI MANAGEMENT PERSONNEL DURING PROJECT LIFETIME

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ENCARGADOS DE LA GERENCIA DE LA EJECUCION DEL PROYECTO "PAPI"

	1990	1991	1992	1993	1994	1995
USAID						
Project Manager Luis Arriaga Jerome Lapius Jerro Manarolla	-----	-----			-----	
Project Coordinator Kate Varley Alejandro Camino Ena Garland		-----	-----		-----	
SEP						
Victor Diaz Lau Mariela Guerinoni				-----	-----	
UNIDAD TECNICA						
Guillermo Runsiman Clara Ogata				-----	-----	
CONTRATISTA INSTITUCIONAL						
Chief of Party Dep. Chief of party Training Specialist I Training Specialist II			-----	-----	-----	-----

ANNEX FIVE

PAPI PROJECT FUNDING, EXPENDITURES AND PIPELINE

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PAPI PROJECT FUNDING, EXPENDITURES AND PIPELINE

Elements	Authorized in Project Paper	Obligations thru Amendment 4 As of 8/15/94	Expenditures Accrued only for IC	Expenditures only for IC	Pipeline as of 8/15/94
1. SEP Technical Unit	710	660	336	336	324
a) Coordination Staff	310	305	231.2	231.2	73.8
b) Technical studies	400	355	104.8	104.8	250.2
b.1) Studies			65.8		
b.2) Training			39		
2. Institutional Contracto	5200	5060	1194	1288	3772
a) Technical studies	1903	868	205	277	591
b) Training	1000	757	71	93	664
c) All other costs	2297	3435	918	918	2517
3. Direct AID implementz	200	422.5	376.5	376.5	46
a) Studies			364		
b) Training			12.5		
4. Project Coordinator	600	302.5	124	124	178.5
5. Evaluation	100	100	51	51	49
6. Audit	150	100	0	0	100
7. Contingency	190	0	0	0	0
TOTAL	7150	6645	2081.5	2175.5	4469.5

All numbers are in ,000 dollars

The numbers for studies and training (Amendment 4) under the Institutional Contractor, come from the BAFO and re-adjustments to the IC's budget, and do not include overhead. There are 257 extra funds from adjustment of DA budget and not yet allocated.

The numbers under expenditures for the IC come from S. Hunt's quarterly report (8/8/94)

The numbers under accrued expenditures (technical studies and training) for the IC, are unofficial estimated numbers by the IC. The n PIPELINE FOR IC = OBLIGATIONS - ACCRUED EXPENDITURES

Remaining funds for technical studies - training under each element

Elements	Obligations	Expenditures Accrued	Expenditur	Pipeline
1. SEP technical unit	355	104.8		250.2
2. Institutional Contracto	1625	147	370	1255
a) Technical studies	868	129	277	591
b) Training	757	18	93	664
3. Direct AID implementz	422.5	376.5		46
TOTAL	2252.5	628.3		1551.2

ANNEX SIX
SCOPE OF WORK

SCOPE OF WORK

MANAGEMENT REVIEW OF THE POLICY ANALYSIS, PLANNING AND IMPLEMENTATION (PAPI) PROJECT

I. BACKGROUND

The purpose of the Policy Analysis, Planning and Implementation (PAPI) Project is to assist the Government of Peru (GOP) and the private sector in developing sound economic policies and strengthening the policy dialogue and decision-making process. To this end it is organized in two activities:

- 1) **Technical Studies/Assistance** -- to carry out studies and provide follow-up technical assistance leading to the formulation and implementation of policies consistent with sound macro and sectoral economic objectives.
- 2) **Training and Information Dissemination** -- to increase the technical capacity of a wide range of public and private sector entities which play a role in the formulation, analysis and implementation of policy reforms in support of economic stabilization and growth strategies.

Requests for technical studies/assistance and training for the public sector are channeled by the Office of the Secretary General of the Presidency of the Republic (SEP). The National Confederation of Private Sector Institutions (CONFIEP) channels proposals coming from the private sector.

In September 1990, USAID/Peru signed a \$7.15 million grant with the Government of Peru (GOP) to assist in the analysis of current and proposed GOP economic policies, support dialogue on economic policy between the GOP and the private sector; develop and reinforce the GOP policy decision-making process; and assist the public and private sectors in establishing their own capacity to design and implement sound economic policies in the future. The PAPI project has a PACD (termination date) of March 31, 1995.

Since the GOP had to complete conditions precedent before the beginning of the contracting procedures for the Institutional Contractor, and in order to avoid a delay in project start-up due to the absence of the Institutional Contractor, which would have resulted in a gap of USAID's ability to provide technical assistance at the critical initial stages of the

Fujimori administration, budget elements were re-aligned to temporarily provide technical assistance through a Direct A.I.D. Implementation line item. Through this budget element, initially the project financed studies requested by the Ministry of Economics and Finance (MEF) and approved by the Secretary of the Presidency of the Republic (SEP), with the technical approval of the Technical Unit (TU).

During this period the PAPI project was the only source of funds available to help the GOP in the design and implementation of its economic reform program, including its negotiation of a Rights Accumulation Program with the IMF. At that time, the GOP could not receive financing from the World Bank, the IDB or the IMF, due to the arrears it had with these institutions. The PAPI project was equally instrumental in providing the GOP with the expertise necessary for a successful Paris Club renegotiation of Peru's external debt. In September 1991, the Mission Director reported of the PAPI project: "the impact to date has more than justified resources set aside by AID for policy assistance to help the new Government".

Pre-implementation studies and technical assistance by experts financed by the Project resulted in the following initial successes: rescheduling of the external debt by the GOP at the Paris Club meetings and formation of the Donor Support Group; enactment of two new laws governing public enterprises policy and initial privatization of public enterprises; a law governing financial institutions and project to merge state owned banks into one bank to increase efficiency; laws in the trade sector which led to a nearly total liberalization of the legal framework governing foreign trade.

The selection of an Institutional Contractor (the Developing Economics Group - DEG) was accomplished in March 1992, after a longer-than-expected contracting process. Key personnel were to have arrived at post June 1992, but before DEG staff could be relocated to Peru, the political events of April 5, 1992 (closing down of Congress) led to a suspension of U.S. direct assistance to GOP. This resulted in an long delay of the start-up of project activities under the Institutional Contractor. Nevertheless, the project continued to support private sector initiatives, through CONFIEP, using remaining funds in the Direct AID Implementation budget line item, which by that time were very small. During this period, the TU supported the Project Coordinator in the follow-up and evaluation of these studies. Limited training was provided, under AID direct Implementation, to support the GOP's

privatization process and the economic knowledge of the Congresspeople.

In December 1992, AID/W approved full resumption of the Project, with the Institutional Contractor (IC). At that time, the Deputy Chief of Party was hired, but due to security concerns of the U.S. Embassy in Peru, the American Chief of Party (COP) was unable to obtain clearance for permanent residence in Peru until September 1993. The training officer of the IC also began work in September 1993. Since the bulk of the training component of the PAPI Project is dependent on the IC's work plan, and since training funds can only be disbursed under IC supervision, implementation of the majority of the training component did not begin until late 1993.

Initially and up to April 1992, the PAPI project had great impact in terms of project purpose and goal. After that date, reasons external to the project: suspension of support to the GOP and security concerns of the American Embassy in Peru -- led to severe delays in the arrival of the IC. The bulk of project funds is under the Institutional Contractor, therefore, this delay in start-up also delayed project implementation and impact.

The project design placed coordination of GOP activities within the Secretary General of the Presidency (SEP) which was to work through a council composed of the major GOP economic Ministers, the CIAEF. Experience since May 1991 demonstrated that this structure was cumbersome in achieving timely prioritization of public sector requests for technical studies, which led to the introduction, in August of 1993, of streamlined procedures that eliminated the need for CIAEF approval.

The PAPI project can be divided in three phases: 1) from September '90 to November '92: the Institutional Contractor had not arrived and most project activities were carried out under Direct AID implementation; 2) from December '92 to August '93, the IC began to carry-out some activities through the Deputy Chief of Party; 3) from September '93 to the present, the IC is fully staffed. The management review should focus major attention on the analysis of this third phase.

Peru has undergone a profound change in economic policies during the last three years - from the "populist" policies of the Garcia Government to an orthodox market approach under the

current Fujimori Government. The new government, which took office in July 1990, implemented a comprehensive stabilization program and structural reforms aimed at rectifying the macroeconomic imbalances, improving competition and achieving an efficient allocation of resources, setting the foundations for long term growth.

The new economic program has had the following objectives: a) reduce inflation through fiscal and monetary discipline; b) promote efficiency by privatization, deregulation and trade liberalization; c) promote foreign and domestic investment by establishing clear rules and equality of treatment; d) encourage employment by making the labor market more flexible; and e) re-insert Peru into the international financial community.

The results of the stabilization program have been impressive on the macroeconomics front: the annual inflation rate has declined substantially -- to 40% in 1993, with a rate of 20% estimated for 1994. Further, international reserves have increased because of an inflow of external capital, and the budget deficit has declined to about 2 percent of GDP and is currently financed through external borrowing. Tax revenues are presently about 10 percent of GDP. The Peruvian Government has re-scheduled its official debt through the Paris Club and is beginning negotiations with its commercial bank creditors. Real GDP grew by almost 7 percent in 1993. The government has also begun a poverty program, financed mainly by the IDB and IMF.

Consequently, Peru's economic situation has changed -- economic stabilization has progressed and is less of a serious problem, priority structural and sectoral policy reforms are also different now than before, and the institutional capacity of the major GOP economic policy entities is changing. These changes pose new demands on PAPI strategy and activities not foreseen at the time the Project was originally designed. The issues discussed below should constitute the substantive basis of the review.

II. OBJECTIVE

To produce a management review of the Policy Analysis, Planning and Implementation (PAPI) Project that will provide USAID and the GOP with guidance on how to improve project performance, effectiveness, management and relevance to Peru's current economic situation. The review will assess the

effectiveness of project activities, particularly technical assistance, in carrying out project objectives (impact on economic policy reform); the progress achieved by the project in developing the capability to carry out its functions; and the appropriateness of the basic project design. The review will synthesize findings on these points in order to identify any problems and constraints that are impeding achievement of project purpose. Finally, the study will suggest alternative solutions to the problems identified, recommending adjustments in project design, changes in policy focus, and improvement in procedures, where warranted.

III. STATEMENT OF WORK

A. Project Objectives: their Appropriateness and the Effectiveness of Project Activities in Achieving Them

1. Appropriateness of Project Objectives

The PAPI project was designed at a time when Peru had no access to financing from multilateral financial institutions, making PAPI the only source of funds available to help the GOP in the design and implementation of its economic reform program. Now that other donors are supplying financial resources to the GOP in far greater amounts than PAPI:

- What is PAPI's comparative advantage compared to these other donors?
- Should PAPI specialize? If so, in what areas?
- Should PAPI be flexible in order to cover vacuums of other donors?

Since the Project was originally designed, the Peruvian economy has evolved. For example, economic stabilization is less of a serious problem, while structural reforms are of greater importance. In addition, A.I.D. development assistance priorities have undergone some changes, with increased emphasis on growth with equity, strengthening democratic institutions and the importance of environmental, economic, financial and social sustainability. In the context of these changes:

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- Is the policy agenda outlined in the original project documents still appropriate? If not, what should the new policy agenda be? For example, how can the project assist in the development of efficient economic policies at the sectoral level, at the micro-economic level?
- Should PAPI continue to be limited to short-term policy studies? or should PAPI also carry out some long-term studies? If so, how can PAPI measure the economic impact of these long term policies? Should these impact indicators be relevant to determine the effectiveness of the PAPI project?

2. Effectiveness of Project Activities in Achieving Project Objectives

- a) What is the relationship of actual versus planned progress toward the project purpose -- to improve GOP economic policy formulation. Can the project accomplish its purpose, and if not, recommend changes either to the purpose or to the project's approach to achieving its current purpose.
- b) As regards GOP implementation of policy recommendations, are the project's policy-related studies sufficiently focused, applied and supported by an implementation strategy to achieve the project's policy dialogue and reform goals? Analyze the role of the Technical Unit in the implementation of the study results. What measures should be taken to improve the Project's ability to implement study results and, in general, maximize the impact of studies?
- c) Does the evaluation and monitoring system link effectively with USAID's strategic objectives and program outcomes.
 - Are the indicators in the logical framework sufficient and relevant, or should they be updated?
 - Are the quantitative and qualitative methodologies, used to measure the impact of the technical assistance/studies component on

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local and national development and on the achievement of USAID's strategic objectives, appropriate? If not, what alternative methodologies would you recommend?

- Are the quantitative and qualitative methodologies used to measure the impact of the training component on trainees appropriate? If not, make recommendations on ways to improve these methodologies.
- d) Examine the value of the short-term technical assistance provided to the GOP and CONFIEP through each of the three available line items:
- Direct A.I.D. Implementation,
 - The Technical Unit, and
 - The Institutional Contractor.

B. Effectiveness of Project Implementation

1. Effectiveness of Administrative and Management Structure

- a) What is the appropriate role of the Project Consultative Council (PCC), has it been effective in carrying out that role and should the role be changed? Areas of concern include its role in providing guidance on project implementation and overall direction of the project and long-term strategic planning.
- b) How effective is the current PAPI chain of command vis-a-vis USAID, the Institutional Contractor, SEP and the Technical Unit, in providing a decision making process that optimizes the use of resources for achieving the Project purpose?
- c) Does PAPI's present organizational structure facilitate or hamper each of the activities, i.e. technical studies/assistance and training? How can the organizational structure be improved?

2. Effectiveness of Institutional Relationships

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- a) Examine the relationship between SEP (PAPI's public sector counterpart agency) and CONFIEP (PAPI's private sector counterpart organization). How can dialogue and cooperation between the two be strengthened?
- b) How effective has cooperation been between the Institutional Contractor, the Peruvian counterpart agency (SEP), the Technical Unit working with SEP, the Ministries and other GOP sectoral participants, CONFIEP, CONFIEP-affiliated associations, and USAID?
- c) Review the relationship between PAPI and the recently established economic policy unit (UPEAS) in the MEF. Make recommendations to avoid duplication of effort and maximize GOP coordination of economic policy.

3. Adequacy of Project Resources

- a) How adequate are Project-financed human resources for project management and implementation? Is the present staffing adequate to achieve Project objectives? Is the chain of command appropriate? If not, what actions should be taken? The human resources funded by PAPI include:
 - USAID project management/coordination,
 - Technical Unit liaison with GOP sectors, and
 - Institutional Contractor carrying out of project activities.
- b) Examine the timeliness of the GOP in the provision of its counterpart contribution.

4. Appropriateness and Effectiveness of Project Procedures

- a) Review the procedures employed to prioritize technical assistance/study and training proposals. Has this process resulted in studies and training that address priority policy concerns of the GOP and the private sector?

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- b) How effective are the project's implementation procedures, including:
- submission of project proposals,
 - selection of proposals to be implemented,
 - degree and form of GOP (SEP, sectors submitting study/training proposals) and private sector (CONFIEP and affiliated associations) participation in the process,
 - preparation of terms of reference for policy studies and training requests:
 - initial preparation by individual public sectors
 - later refinement by PAPI staff,
 - selection of consultants and training providers,
 - completion of consultant reports or training programs, and finally
 - GOP implementation of policy actions based on study findings and recommendations.

5. Appropriate Implementation Rate of Studies and Training

- a) Determine the optimum rate for implementing policy studies and policy training actions (number of study and training projects implemented per quarter) as compared to the design rate implied in the original project design. The optimum implementation rate should:
- effectively support the GOP economic program, yet
 - maintain the quality of individual studies and training actions.
- b) On the basis of this optimum implementation rate and the time remaining until the PACD, determine

how much of the project funds are likely to be expended by the PACD.

- c) What are the alternative and appropriate courses of action if a significant portion of project funds will not be expended by the PACD?
- d) As relates to the decision regarding the PACD, what is the GOP's interest in continuing the project and the value they see in it.

6. GOP Policy Formulation Over the Longer-term

What are the prospects for the long-term sustainability of this activity, once the project ends. What is the likelihood that economic policy formulation capacity on the part of the public and private sectors will continue? How would it be funded? Have any plans been made in this regard?

IV. REPORTING REQUIREMENTS AND DELIVERY SCHEDULE

The contractor will provide USAID with a work plan for implementing the scope of work upon arriving in Peru.

The contractor will submit a draft report to the PAPI Project Coordinator and the Secretary General of the Presidency, including executive summary, three working days before the team leaves Peru. USAID will submit a unified set of comments on the draft to the team within two weeks of the team's departure from Peru, perhaps in the form of a conference call involving USAID, the staff of the PAPI project and the Secretary General of the Presidency.

The report will include the following: purpose of the review, how (and how successfully) the project fits into the Mission's overall strategy, methodology, management progress, analysis and suggested steps. The report will also describe each team member's field of expertise and the role they played in carrying out the study.

Lessons learned should be clearly stated. These should address the major Peruvian and USAID institutional relationships critical to project success or failure as well as other important factors relating to the Peruvian political

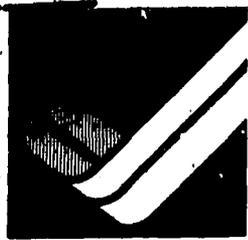
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situation (e.g. the run-up to elections in 1995), recent trends in Peru's economic and social development, the pace and focus of recent and projected Peruvian policy reforms, and the evolving redefinition of A.I.D. priorities. These should include a discussion of the techniques or approaches employed in carrying out the project which proved effective, those that did not and should be changed, and why. The report will include suggested actions to be taken, specific action officers and specific dates for completion of actions.

The contractor will submit a Final Report (ten copies) within two weeks of receiving USAID comments on the draft report but no later than the estimated completion date (see Block 8 of Cover Sheet). A Spanish-language version of the Executive Summary will accompany the full report in English.

The contractor will submit 2 copies of all deliverables to the R&D/EID Project Officer.

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**IMPLEMENTING
POLICY
CHANGE
PROJECT**

**MANAGEMENT
SYSTEMS
INTERNATIONAL**

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January 4, 1995.

S. Wade DeWitt
Document Acquisitions
PPC/CDIE/DI
SA-18 Rm 303
US Agency for International
Development
Washington, DC 20523-1802

Dear Mr. DeWitt,

I am submitting to CDIE the enclosed documents of Project #936-5451, the
Implementing Policy Change (IPC) Project (Contract #DHR-5451-Q-00-0110-00).
A list of these documents is enclosed for your reference.

Sincerely,


Susan Scribner
Deputy Research Director

Project Consortium Members:

Management Systems International, Prime Contractor
International Development
Management Center at the University
of Maryland
Development Alternatives, Inc.

Associated Organizations:

Institute for Public Administration
Research Triangle Institute
Deloitte and Touche
Thunder & Associates, Inc.
International Management Development

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