



2006 Survey on Monitoring The Paris Declaration

Country Chapters

PERU

The 2006 Survey on Monitoring the Paris Declaration was undertaken in 34 countries that receive aid. The results of the survey are presented in two volumes. **Volume 1** provides an overview of key findings across 34 countries. **Volume 2** presents the baseline and key findings in each of the 34 countries that have taken part in the survey. This chapter is based primarily on the data and findings communicated by government and donors to the OECD through the Paris Declaration monitoring process. A more detailed description of this process, how this chapter was drafted and what sources were used is included in Volume 1, Chapter 2.

Both Volume 1 (Overview) and Volume 2 (Country Chapters) of the 2006 Survey on Monitoring the Paris Declaration can be downloaded at the OECD website:

www.oecd.org/dac/effectiveness/monitoring

A second round of monitoring will be organised in the first quarter of 2008 and will be an important contribution to the Accra High-Level Forum on Aid Effectiveness in September 2008.

26 PERU

WITH A POPULATION OF ABOUT 28 MILLION, Peru has the gross national income (GNI) per capita of a lower middle-income country (USD 2 360 in 2004). National income is quite unequally distributed, however, and a large number of Peruvians live in very poor conditions. Around 18% of the population fall below the dollar-a-day international poverty line, and as much as 38% of the population fall below the two-dollars-a-day line. Many of the poor and the extremely poor live in highland areas at considerable distances from both the national capital and departmental headquarters.

Peru has endorsed the Paris Declaration and is concerned that its middle-income status should not lead the international community to underestimate its need for poverty-focused assistance. Although aid harmonisation and alignment have not been prominent issues in the country until lately, there has been a recent change of government, and the dialogue on the Paris Declaration commitments is now intensifying. Peru is not an aid-dependent country. Net official development assistance (ODA) in 2004 was USD 487 million, which represented 0.7% of GNI. A total of nine donors responded to the 2006 baseline survey, and these agencies are responsible for around 87% of official aid flows to Peru.

DIMENSIONS	BASELINE	CHALLENGES	PRIORITY ACTIONS
Ownership	Moderate	No overarching strategy for reducing poverty and inequality.	Consider a government initiative to fill this gap. Donors should adapt their strategies and programmes to the approved Peruvian co-operation policies and plans.
Alignment	Low	Low integration of aid information in the budget. Low effective participation of government in grant-funded projects.	Improve co-ordination between the Ministry of Finance and the Peruvian Agency for International Cooperation. Increase effective participation.
Harmonisation	Low	Programme-based approaches, particularly those calling for common procedures, are rare.	Set an appropriate target for programme-based approaches.
Managing for results	Not available	Not available	Not available
Mutual accountability	Low	No mechanism for mutual accountability currently exists.	Build on the recent initiatives to increase government oversight of aid.

OVERVIEW
Box 26.1
Challenges
and priority
actions

OWNERSHIP

INDICATOR 1

OWNERSHIP, A CENTRAL CONCEPT in the Paris Declaration, is considered critical to achieving development results in circumstances of low as well as high aid dependency. Ownership has been defined as a country's ability to exercise effective leadership over its development policies and strategies. In these terms, ownership has several dimensions and cannot be measured by a single indicator. For donors, it implies a commitment to supporting countries' leadership, policies, institutions and systems. This is commonly referred to as "alignment" (see below). Donors are in a better position to do this when governments set out clear priorities and operational strategies – the main focus of Indicator 1 of the Paris Declaration.

For countries eligible to receive aid through the International Development Association, the baseline data for Indicator 1 are being drawn from the World Bank's Comprehensive Development Framework Progress Report. This provides an assessment and numerical score determining the degree to which the country has a well-articulated medium-term development plan, with priorities and targets, and the extent to which this governs the allocation of resources through the national budget and a Medium-Term Expenditure Framework. However, equivalent information is not available for Peru.

Development planning is technically quite well developed in Peru. However, there are numerous thematic and sectoral documents that are not drawn together in a single National Development

Plan, and there is no strategy specifically aimed at the reduction of inequality and poverty. The consistency with which these policies are pursued is also undermined by the high turnover of senior officials after elections. In the poorest regions of the country where much of the donor-supported activity is located, the presence of the government, and particularly the influence of government policy guidelines, is limited. Finally, the national budget is characterised by a high degree of rigidity, with limited resources for reallocation in light of new strategic priorities. A clear plan for addressing this limitation has not yet been developed.

Against this backdrop, the government of Peru is starting to co-ordinate external assistance to the country. The *Agencia Peruana de Cooperación Internacional* (APCI) (Peruvian Agency for International Cooperation), formed in 2002, has put in place a Cooperation Forum for official donors, obtained approval for a National Policy on International Cooperation in 2006, and formulated an Annual Plan for donor interventions with thematic and territorial priorities beginning in 2006. These strategic documents were approved by all the ministries of the Executive branch and sub-national representatives after a long period of joint work. Peruvian law establishes that these documents constitute the legitimate guidelines to co-ordinate external assistance. Therefore, donors will need to adapt their respective strategies, policies and programmes to this framework to promote ownership.

ALIGNMENT

PERU AND ITS DONORS have announced their commitment to align aid with country policies and systems. According to the results of the baseline survey, this is a welcome initiative, and there is much to be done to give substance to it. The immediate obstacles to be overcome include the weaknesses of the government's policy framework

for addressing inequality and poverty, indicated above, together with other weaknesses in country systems, discussed below. Donors will need to step up efforts to encourage the government to take action on these points, and match these actions with more comprehensive alignment efforts.

BUILDING RELIABLE COUNTRY SYSTEMS

Public financial management in Peru is rated as only “moderately strong” by the World Bank’s Country Policy and Institutional Assessment (CPIA). It is given a score of 3.5 on a scale running from 1 to 6 which measures the extent to which a country has:

- a comprehensive and credible budget linked to policy priorities;
- effective management of budget expenditure and budget revenues;
- timely and accurate fiscal reporting;
- clear and balanced assignment of expenditures and revenues.

The Paris Declaration invites donors to significantly increase their use of country financial management systems where these are at least moderately strong. It expects countries to improve their rating by at least half a point by the target year of 2010. To meet its Paris Declaration commitments, Peru would therefore need to raise its rating to at least 4.0.

A similar approach is being taken to national procurement systems. However, an assessment of Peru’s baseline position with respect to the quality of procurement legislation, institutions and practices is not yet available.

INDICATOR 2a

INDICATOR 2b

ALIGNING AID FLOWS ON NATIONAL PRIORITIES

The absence of a National Development Plan, and in particular the lack of a coherent strategy for tackling inequality and poverty, places some constraints on external partners to align their support with the country’s policies. The efforts of APCI to draw together the relevant country policy documents in such a way as to provide a framework for aid co-ordination are considered very significant. However, as some donors point out, this would carry more weight if it were backed up by a National Plan or poverty-reduction initiative benefiting from political support at the highest level.

Indicator 3 of the Paris Declaration follow-up aims to provide a quantitative baseline for overall aid alignment. It measures the degree to which donor financial commitments are reflected fully and accurately in the national budget. The general target for this indicator set by the Paris Declaration (85%) calls for two kinds of achievement: a high level of budget realism on the part of the country authorities, and a high degree of willingness and ability of donors to provide information in a timely fashion and in a suitable form.

The table provides government’s budget estimates of aid flows for fiscal year 2005 (numerator) as a percentage of aid disbursed by donors for the government sector for the same period (denominator).

Are government budget estimates comprehensive and realistic?

	Government’s budget estimates of aid flows for FY05 (USD m) a	Aid disbursed by donors for government sector in FY05 (USD m) b	Baseline ratio* c=a/b (%) c=b/a
Belgium	2	8	23%
European Commission	33	47	69%
Finland	0	3	0%
Germany	16	50	32%
Global Fund	--	0	
Japan	125	136	91%
Spain	0	30	0%
Sweden	1	1	79%
Switzerland	1	11	5%
United Nations	4	19	21%
United States	16	124	13%
Total	197	429	46%

* Baseline ratio is $c = a / b$ except where government’s budget estimates are greater than disbursements ($c = b / a$).

INDICATOR 3
Table 26.1

This ratio tells us the degree to which there is a discrepancy between budget estimates and actual disbursements. The discrepancy can be in two directions: indeed budget estimates can be either higher or lower than disbursements. In order to have a single measure of discrepancy that is always less than 100%, the ratio is flipped when budget estimates are higher than disbursements. The baseline value for Indicator 3 in Peru is 46%. Achieving the target agreed in Paris of 73% (halving the gap) for this indicator will require concerted efforts by donors and government.

A principal reason for under-reporting of aid flows in the budget is that responsibility for maintaining the database on ODA is split between the Ministry of Finance, which deals with concessional loans, and APCI, which deals with grants. In general, grants are poorly captured in the budget. The budget also does not include the finances of levels of government below the department or quasi-autonomous public bodies, which are significant in the portfolios of several donors. Furthermore, aid disbursed may include administrative costs of the donor that are not recorded on budget. The current figures do not allow any conclusions about the performance of donors as providers of information to the Peruvian authorities.

However, they do indicate that there is considerable scope to improve the realism of the budget in respect of development co-operation funds. It should be noted that, even though the Ministry of Finance tends to exclude grant figures from the budget, APCI keeps detailed records of ODA disbursements (capturing information from both executors and donors). As an illustration, APCI registered USD 429 million in disbursements for the 11 donors mentioned on Table 26.1 during FY05.

CO-ORDINATING SUPPORT TO STRENGTHEN CAPACITY

The Paris Declaration underlines the need for greater co-ordination of external support to capacity development, spearheaded by government. In many low-income countries, capacity deficits are a major obstacle to country ownership of the development agenda, and poorly delivered technical assistance is considered a major source of aid misalignment. In Peru, capacity limitations affect the conduct of government but they arise fundamentally from the absence of a professionalised permanent public administration, the frequent rotation of public officials which ensues, and the difficulties thereby created for the accumulation of institutional capacities. Although this is a problem that concerns donors, it is not to any significant degree the result of ill-coordinated aid nor susceptible to improvement on the basis of better co-ordination. In these respects, Indicator 4 has a different significance than in most survey countries.

In fact, identifying even a small number of donor activities meeting the survey's definition of a co-ordinated capacity development programme proved quite difficult for the joint donor-government group in Peru. The numbers in Table 26.2 include all projects and programmes where there is some element of collaboration between at least two donors. They also include projects that are not strictly supporting the government sector, but involve the private sector, non-governmental organisations and communities.

INDICATOR 4
Table 26.2

How much technical assistance is co-ordinated with country programmes?

	Co-ordinated technical co-operation (USD m) a	Total technical co-operation (USD m) b	Baseline ratio* (%) c=a/b
Belgium	1	5	29%
European Commission	0	45	0%
Finland	0	1	0%
Germany	10	15	68%
Global Fund	0	0	--
Japan	0	8	3%
Spain	0	72	0%
Sweden	0	6	4%
Switzerland	1	14	6%
United Nations	0	15	0%
United States	1	88	2%
Total	14	267	5%

How much aid for the government sectors uses country systems?

INDICATOR 5
Table 26.3

	Aid disbursed by donors for government sector (USD m) a	Public financial management				Procurement	
		Budget execution (USD m) b	Financial reporting (USD m) c	Auditing (USD m) d	Baseline ratio (%) avg(b,c,d) / a	Procurement systems (USD m) e	Baseline ratio (%) e / a
Belgium	8	4	4	0	30%	4	45%
European Commission	47	19	0	17	25%	18	39%
Finland	3	0	0	0	0%	0	0%
Germany	50	32	32	32	63%	32	63%
Global Fund	0	--	--	--	--	--	--
Japan	136	127	127	127	93%	127	93%
Spain	30	18	0	0	20%	1	3%
Sweden	1	0	0	0	5%	0	8%
Switzerland	11	0	0	0	2%	0	2%
United Nations	19	1	0	0	1%	0	0%
United States	124	7	0	7	4%	5	4%
Total	429	209	163	183	43%	188	44%

The table includes Japanese programmes that support Peru along with other Latin American countries. Few, if any, of the programmes considered co-ordinated here benefit from a strong sense of direction imparted by the government of Peru.

The Paris Declaration follow-up sets as a general target that a country should receive half of its technical assistance on a co-ordinated basis, with government taking a leadership role, by 2010. When partners discuss harmonisation and alignment of international co-operation in Peru, they will need to fix an appropriate objective in this regard, given the public-sector capacity constraints.

USING COUNTRY SYSTEMS

Indicator 5a is a measure of the use of three components of country public financial management systems by donors. The average utilisation across the three components is 43%, reflecting donors' greater propensity to rely on budget execution than on financial reporting arrangements, with audit (under the responsibility of the *Contraloría de la República*) occupying an intermediate position. Given Peru's reasonably high CPIA score for public budgetary and financial management, this average should rise to 62% by 2010.

The results for Peru on this indicator reflect in part the situation described above, where the budget system is more oriented towards capturing information on loans than on grants. Increased co-ordination between the Ministry of Finance and APCI should help. Greater use of government financial reporting systems would also be expected to follow if the government were to become less reliant on the national budget as its sole or principal instrument of financial accountability (discussed under "predictability" below). Other obstacles to the use of public financial management systems include the fact that many donor-financed activities take place in zones of the country where the presence of the government is limited and that the government itself sometimes favours donors' using their own systems to speed up execution of projects.

According to the survey results, 44% of the aid from reporting donors made use of the country's procurement system. The targets for this indicator depend on an authoritative assessment of the quality of the country system, which is not currently available.

Donors in Peru have been taking steps towards alignment with country systems that are not captured by these quantitative measures. They include efforts to present information in a form that is consistent with the *Sistema Nacional de Inversión Pública*, reported by the EC and Spain, and a study to promote harmonisation of reporting formats and timetables so that they conform to standards of the Peruvian public sector, being undertaken by Belgium.

AVOIDING PARALLEL IMPLEMENTATION STRUCTURES

The Paris Declaration calls for a substantial reduction in the number of project implementation units (PIUs) that are parallel in the sense that appointment decisions and accounting relationships involve the donor alone. The respondents in Peru took care to collect data that complied with the spirit of this commitment, discounting the fact that all public-sector projects in the country are in principle co-directed by a donor nominee and a government representative, and recognising the reality that the commonest pattern is for project management to be accountable only to the donor. Using this rigorous and realistic definition of a parallel PIU, the current baseline figure for Peru is 55 such structures.

The Paris Declaration target is to reduce the stock of parallel PIUs by two-thirds, meaning a 2010 number of just 18 in Peru. Again, success will be affected by the fact that grant-funded projects often take place in isolated rural areas where government presence is limited, a situation that will be difficult to alter in the medium term. On the other hand, donors and the government may tackle the fact that the use of parallel systems reflects the low quality of execution observed in projects that are fully integrated in government offices. The EC and other donors have pledged to gradually enhance the substantive involvement of government counterparts in the management of PIUs.

PROVIDING MORE PREDICTABLE AID

It is an ambitious task for any country to improve the predictability of support, and measure performance in this regard. In the case of Peru, a number of issues make it even more difficult.

The table looks at predictability from two different angles. The first angle is donors' and government's combined ability to disburse aid on schedule. In Peru, donors scheduled USD 440 million for disbursement in 2005 and actually disbursed – according to their own records – slightly less than expected (USD 429 million). The discrepancy varies considerably among donors and is mainly due to late disbursements carried over to 2005 and to delays in implementing programmes. The second angle is donors' and government's ability to record comprehensively disbursements made by donors for the government sector. In Peru, government systems recorded USD 211 million out of the USD 429 million notified as disbursed by donors (48%), indicating that a significant proportion of disbursements were not captured, either because they were not appropriately notified by donors or because they were inaccurately recorded by government.

INDICATOR 6
Table 26.4

How many PIUs are parallel to country structures?

	Parallel PIUs (units)
Belgium	8
European Commission	4
Finland	0
Germany	0
Global Fund	0
Japan	0
Spain	29
Sweden	0
Switzerland	5
United Nations	8
United States	1
Total	55

Are disbursements on schedule and recorded by government?

INDICATOR 7
Table 26.5

	Disbursements recorded by government in FY05 (USD m) a	Aid scheduled by donors for disbursement in FY05 (USD m) b	Aid actually disbursed by donors in FY05 (USD m) b	Baseline ratio* (%) c=a/b c=b/a
Belgium	2	11	8	18%
European Commission	33	49	47	67%
Finland	0	3	3	0%
Germany	31	40	50	75%
Global Fund	--	--	0	
Japan	125	136	136	91%
Spain	0	30	30	0%
Sweden	1	2	1	28%
Switzerland	1	14	11	4%
United Nations	4	14	19	27%
United States	16	140	124	12%
Total	211	440	429	48%

* Baseline ratio is $c = a / b$ except where disbursements recorded by government are greater than aid scheduled for disbursement ($c = b / a$).

Indicator 7 on predictability has been designed to encourage progress against both of these angles so as to gradually close the predictability gap by half by 2010. In other words, it seeks to improve not only the predictability of actual disbursements but also the accuracy of how they are recorded in government systems – an important feature of ownership, accountability and transparency. In Peru, this combined predictability gap amounts to USD 229 million (52% of aid scheduled for disbursement). Closing this predictability gap will require donors and government to work increasingly together on various fronts at the same time. They might work at improving:

- the realism of predictions on volume and timing of expected disbursements;
- the way donors notify their disbursements to government;
- the comprehensiveness of government's records of disbursements made by donors.

UNTYING AID

According to OECD data covering 37% of 2004 commitments, 63% of aid to Peru is untied. The low proportion of reported untying combined with the low coverage of the data suggests that the tying of aid remains a major limitation on aid quality in Peru. The Paris Declaration commits donors to making progress year by year on the proportion of their aid that is untied.

INDICATOR 8

HARMONISATION

WHILE PARTNERS SHARE A VISION of how to promote alignment of aid with country policies and systems in Peru, there is not the same level of support for aid harmonisation. In fact, harmonisation – which refers to forms of co-ordination among donors that reduce the transaction costs for the country – enjoys far less prominence than in many aid-dependent countries. This may reflect, in part, the government's relatively relaxed view on some aspects of the transaction-cost problem, because capacity constraints are less stretched (e.g. headquarters has ample capacity to deal with multiple donor missions). The lack of concern for harmonisation might also be due to the fact that grant-funded projects often call for only nominal government involvement (as described above). However, this will no doubt change if officials are given greater responsibility in projects.

INDICATOR 9
Table 26.6

How much aid is programme based?

	Budget support (USD m) a	Other PBAs (USD m) b	Total (USD m) c=a+b	Total disbursed (USD m) d	Baseline ratio (%) e=c/d
Belgium	4	1	5	9	57%
European Commission	14	0	14	56	25%
Finland	0	0	0	3	0%
Germany	15	0	15	57	26%
Global Fund	--	--	--	18	--
Japan	0	51	51	137	37%
Spain	0	0	0	90	0%
Sweden	0	0	0	6	4%
Switzerland	0	0	0	14	3%
United Nations	0	0	0	25	0%
United States	0	1	1	144	1%
Total	33	54	87	559	16%

INDICATOR 10a
Table 26.7

How many donor missions are co-ordinated?

	Co-ordinated donor missions (missions) a	Total donor missions (missions) b	Baseline ratio (%) c=a/b
Belgium	0	1	0%
European Commission	0	6	0%
Finland	0	2	0%
Germany	9	24	38%
Global Fund	0	2	0%
Japan	0	8	0%
Spain	0	18	0%
Sweden	0	1	0%
Switzerland	1	5	20%
United Nations	4	13	31%
United States	0	3	0%
Total (discounted*)	9	81	11%

* The total of co-ordinated missions has been adjusted to avoid double counting. A discount factor of 35% has been applied.

USING COMMON ARRANGEMENTS

The proportion of government sector aid using programme-based approaches (PBAs) is reported as 16%. However, this represents an overestimate. Given the near absence from the Peruvian scene of sector-wide approaches (SWAs) and other PBAs (aside from direct budget support), the joint donor-government group decided to adopt a more inclusive definition of PBAs (excluding common procedures). This may provide a more realistic baseline against which to assess progress in Peru, although it will somewhat distort the survey's aggregate findings. The joint group will need to decide whether the Paris Declaration target of 66% of aid based on programme approaches is appropriate for Peru.

CONDUCTING JOINT MISSIONS AND SHARING ANALYSIS

The baseline figure for co-ordination of donor missions is quite low at 11% compared with the Paris Declaration target of 40% (these numbers only include high-level missions requiring the attention of senior officials). However, as mentioned above, the government does not regard this as a priority issue, given that attending to visiting missions does not seriously disrupt officials' other duties.

For most donors involved in few country analyses, 100% of their country analytical work is conducted jointly. In other cases, the proportion is low, resulting in a low total. There are, however, a number of recent initiatives to promote greater sharing of the results of work that may have been done separately, including a virtual library being promoted by the UNDP and APCI, and a joint matrix covering the activities of European Union member states and the European Commission.

How much country analysis is co-ordinated?

	Co-ordinated donor analytical work (units) a	Total donor analytical work (units) b	Baseline ratio (%) c=a/b
Belgium	0	1	0%
European Commission	2	2	100%
Finland	0	0	--
Germany	1	1	100%
Global Fund	0	0	--
Japan	0	0	--
Spain	0	14	0%
Sweden	0	0	--
Switzerland	1	1	100%
United Nations	5	18	28%
United States	2	18	11%
Total (discounted*)	8	55	15%

* The total of co-ordinated analysis has been adjusted to avoid double counting. A discount factor of 25% has been applied.

INDICATOR 10b
Table 26.8

MANAGING FOR RESULTS

THE PARIS DECLARATION RECOMMENDS that partner countries and donors work together to manage resources on the basis of desired results and use information to improve decision making. This means both strengthening the capacity to undertake such management and helping to increase the demand for a focus on results. Indicator 11 looks at one component of this effort: the establishment of cost-effective results-oriented reporting and assessment systems by the country. For information on this indicator, the baseline survey draws on the World Bank's Comprehensive Development Framework Progress Report, which covers only those countries eligible for aid from the International Development Association. Therefore, no baseline can be set for Peru on this indicator.

INDICATOR 11

MUTUAL ACCOUNTABILITY

THE PARIS DECLARATION CALLS FOR DONORS AND PARTNER COUNTRIES to be accountable to each other for the use of development resources, and in a way that tends to strengthen public support for national policies and development assistance. Therefore, governments must take steps to improve country accountability systems and donors must be transparent about their own contributions. The indicator looks at monitoring to determine whether there is a country-level mechanism permitting joint assessment of progress in implementing agreed commitments on aid effectiveness, including those in the Declaration itself.

INDICATOR 12

Such a mechanism does not yet exist in Peru, although some of the guidelines on good practice that will be provided by the APCI Strategic Framework for Cooperation may be useful for monitoring. The theme of aid effectiveness is quite recent as a subject of discussion in Peru. In fact, Peru's endorsement of the Paris Declaration and the consultations prompted by the baseline survey represent the country's first steps in addressing the issues raised. The discussion will no doubt intensify in the coming months and years, particularly after the new government of President Alan Garcia has settled in.

BASELINES AND TARGETS

THE TABLE BELOW presents the 2005 baselines and the targets for Peru. The baseline values are a summary of the discussion above, which draws on various sources of information. The main source is the baseline survey undertaken in Peru under the aegis of the National Co-ordinator (Agustín Haya de la Torre).

Table 26.9
Baselines
and targets

INDICATORS	2005 BASELINE	2010 TARGET
1 Ownership – Operational PRS	Not available	Not applicable
2a Quality of PFM systems	3.5	4.0
2b Quality procurement systems	Not available	Not applicable
3 Aid reported on budget	46%	85%
4 Co-ordinated capacity development	5%	50%
5a Use of country PFM systems (aid flows)	43%	62%
5b Use of country procurement systems (aid flows)	44%	Not applicable
6 Parallel PIUs	55	18
7 In-year predictability	48%	74%
8 Untied aid	63%	More than 63%
9 Use of programme-based approaches	16%	66%
10a Co-ordinated missions	11%	40%
10b Co-ordinated country analytical work	15%	66%
11 Sound performance assessment framework	Not available	Not applicable
12 Reviews of mutual accountability	No	Yes

ACRONYMS

APCI	<i>Agencia Peruana de Cooperación Internacional</i> (Peruvian Agency for International Cooperation)
CPIA	Country Policy and Institutional Assessment
GNI	gross national income
ODA	official development assistance
PBA	programme-based approach
PIU	project implementation unit
SWAp	sector-wide approach