

**Regulation for the Implementation of the Agreement on  
“Debt-for-Development Swap” between the Government of the Italian Republic  
and the Government of the Republic of Peru**

In compliance with the Agreement on “Debt-for-Development Swap”, signed in Lima on October 10<sup>th</sup> 2001, hereinafter referred to as the Agreement, the Government of the Italian Republic and the Government of the Republic of Peru, establish a Counterpart Fund named “*Fondo Italo Peruano*”, hereinafter referred to as CF – FIP, and the related Management Committee and Technical Committee, hereinafter referred to respectively as MC and TC. To the effect of this technical document, hereinafter referred to as the Regulation, the Peruvian Party will be represented by the *Director General de Crédito Público* of the Ministry of Economy and Finance, hereinafter referred to as DGCP – MEF.

**1. Creation of the Counterpart Fund generated by the Debt-for-Development Swap**

According to art. 2. of the Agreement, the Peruvian Government shall deposit into the CF - FIP the equivalent, in Peruvian Soles, of each installment of the ODA debt (principal and interest) due to the Italian Government at its maturity date, in the period between the entry into force of the Agreement and 31 December 2006.

The CF - FIP financial endorsement shall be deposited at *Banco Wiese Sudameris*, hereinafter referred to as the Bank, which was selected by the MC after considering the conditions offered by five of the main banks operating in Peru. The Parties reserve the right to jointly decide to establish the CF - FIP at another major international private bank operating in Peru in case of mismanagement or any other serious financial problem.

The DGCP – MEF shall communicate, within 15 days from the maturity date of each installment, the following information to *Mediocredito Centrale* (MCC):

- a) the amount (in Peruvian Soles), deposited into the CF - FIP and the relevant exchange rate utilized (including the relevant administrative documents proving the amount deposited);
- b) the outstanding amount of the CF - FIP.

MCC after an authorization issued by the Italian Ministry of Economy and Finance, shall communicate to the DGCP – MEF the beginning of its checking activity and cancellation. In particular MCC shall verify that the amount deposited (in Peruvian Soles) into the CF - FIP is equivalent to the expired installment of the ODA debt (in Euros); the exchange rate Euro/Peruvian Sol shall be ascertained by the *Superintendencia de Banca y Seguros del Perú* on the business day before the maturity date of each installment. MCC shall notify within 15 (fifteen) days to the DGCP – MEF the total or partial cancellation of the installment.

The mechanism of the transfer of funds into the CF - FIP is directly linked to the process of project selection, since the outstanding amount of the CF - FIP (that is the total amount of the installments transferred into the CF - FIP) should not exceed the total budget of the selected projects.

After one year, MCC shall also verify that the outstanding amount of the CF - FIP does not exceed the total amount of the selected projects. Should the outstanding amount of the CF - FIP exceed the total amount of the selected projects, MCC shall inform the Italian Authorities and give instructions to the DGCP – MEF to interrupt the deposit into the CF - FIP, should this become necessary. The exceeding amount already deposited shall remain in the CF - FIP. At maturity, the successive installments shall be frozen for a 6 (six) month maximum period, without bearing interests. At the end of said period, in case the outstanding amount of the CF - FIP continues to exceed the total amount of the selected projects, the Peruvian Government shall repay to MCC the future due installments (capital and interests), including the frozen installments (capital only) due in the preceding 6 (six) months. The Peruvian Government shall be allowed to stop the payments to MCC and start again the deposits in the CF - FIP only once the ratio between the outstanding amount of the CF - FIP and the amount of the selected projects is restored to a value equal to 1 (one).

### ***1.1 Utilization of the Counterpart Fund***

The CF - FIP shall be used exclusively to finance development projects, in compliance with the Agreement, equitably distributed in the following sectors:

- a) social and infrastructural services and realizations:
  - i. realization of health centers, schools, water system, sanitation, sewage and drainage system, small rural roads for services access;
- b) sustainable economic, productive and infrastructural development:
  - i. realization or strengthening of micro-credit system to poor population in order to incentive the creation of micro and small business;
  - ii. realization or strengthening of small and medium structures or infrastructures to support communities in economic and productive development;
  - iii. land titling for rural population;
- c) community development:
  - i. realization of projects for indigenous communities development;
- d) environment protection and sustainable development:
  - i. reforestation;
  - ii. development of legal native crops;
  - iii. alternative crops;
- e) feasibility studies, executive design, training and technical assistance related to projects on the above issues;
- f) institutional strengthening, democracy consolidation, local governance, citizenship rights, etc.

Projects shall be financed only in compliance with art. 3.3 of the Agreement.

Each project proposal to be financed under the Agreement shall not be below the equivalent value of US\$ 250,000.

## **2. The Management Committee**

The MC is the highest decision-making body for the utilization of the CF - FIP and shall take decisions by consensus. As indicated in art 4.5 of the Agreement, the Parties, through this Regulation, establish the rules and the procedures for enabling the MC to perform its functions.

The MC shall communicate every 6 (six) months to the Italian Embassy, as well as to the *Dirección General de Crédito Público* – MEF, the following information regarding projects selected for financing:

- a) a list of all selected projects to date, divided into categories (not yet started; ongoing; concluded);
- b) the amount allocated for each selected project and the relevant timing of disbursement;
- c) a progress report on the disbursement occurred in the previous 6 (six) months;
- d) a copy of the progress report of the projects.

Upon completion of each phase of the project selection process, the yearly budget of each selected project shall be allocated and disbursed, according to the implementation plan schedule of the project, to the entity which shall be responsible for project presentation and realization. Should a selected project in a given year not start being implemented within 12 (twelve) months from the date of its approval, the project shall be considered as cancelled and any disbursement shall be returned to the CF - FIP. Once projects have started, the annual financial budget may be carried over the following year.

### **2.1 *Composition of the Management Committee***

The MC shall be composed by:

- a) on behalf of the Government of the Republic of Peru, by the Minister of Economy and Finance of Peru, or his/her delegate; to be nominated by Supreme Resolution signed by the President of the Republic of Peru and the Minister of Economy and Finance;
- b) on behalf of the Government of the Italian Republic, by H.E. the Ambassador of Italy in Peru or his/her delegate.

The MC shall commence its duties upon signature of this Regulation.

## **3. The Technical Committee**

As per article 4 of the Agreement, the TC shall assist the MC in its duties.

The nomination of the TC members shall be made by the Parties within one month as from the signature of this Regulation. Each Party shall notify to the other one its respective nominees.

The TC shall meet on a regular basis at least every 2 (two) months and shall hold additional meetings, if deemed it necessary. Decisions shall be taken by consensus, in the presence of four members, at least.

The TC shall be assisted by supporting staff composed of at least two senior experts, one designated by DGCP - MEF and one designated by DGCS - Ministry of Foreign Affairs. The salary for the expert designated by DGCS - MAE shall be paid by the Italian Party, while the CF - FIP will cover the salary of the expert designated by DGCP - MEF. Said senior experts will be assisted by technical, administrative and executive staff as needed.

The Peruvian side shall provide an adequate space for the TC and its supporting staff. The DGCS shall contribute to the support of the TC by financing equipment, administrative staff (contracted locally) and local experts, as foreseen in Annex 2 to the Agreement.

For the evaluation of specific issues and projects, the TC can seek technical advice by locally contracted experts, as needed.

The TC shall seek technical advice on the feasibility of each project above US\$ 1,000,000.-, including an evaluation of the estimated budget, by an International Development Agency of the United Nations or an International Development Bank. The costs related to such formal technical advice shall be borne by the CF - FIP according to art. 3.1 of the Agreement. If deemed it necessary, the TC may seek technical advice also for projects and programs equal or below US\$ 1,000,000.-.

### **3.1 *Composition of the Technical Committee***

The TC shall be composed as follows:

- a) a representative of the Ministry of Economy and Finance of Peru, nominated by Ministerial Resolution, who will act as President of the TC, signing all acts jointly approved by the TC;
- b) the Executive Director of the Peruvian Agency for International Cooperation (APCI), or his/her delegate;
- c) a representative of the Italian Directorate General for Development Cooperation (DGCS), nominated by the Director General of DGCS;
- d) a representative of the Government of the local departments concerned, on a rotating annual basis;
- e) two representatives of different Peruvian Civil Society organizations, to be selected on a rotating annual basis, one belonging to an indigenous organization.

Each Party shall nominate its members and bear all the relevant costs. As far as previous points d) and e) are concerned, the representatives shall be nominated by the Peruvian Party and accepted by the Italian Embassy.

Members shall commit themselves to participate in the meetings and to fully meet the requirements arising from the activities related to the CF - FIP management.

### **4. Duties of the Management Committee**

In compliance with the Agreement the MC shall:

- a) approve the policy guidelines proposed by the TC for the project selection in the framework of the Technical Annex;
- b) approve projects presented by the TC for the financing and the subsequent payments;

- c) approve possible project amendments submitted by the TC;
- d) approve possible additional selection criteria defined by the TC;
- e) approve the technical reports on the on-going activities and on the project achievements presented every 6 (six) months by the TC;
- f) approve the pre-selection of the International Development Agencies of the United Nations or the International Development Banks which will/may be charged of providing technical advice on the feasibility of the projects and sign the relevant general framework agreement;
- g) approve the pre-selection of the international independent auditing firm, as per point 8. of this Regulation, and sign the relevant general framework agreement;
- h) formally acknowledge and accept the Auditing Reports on the Financial Statements presented by the entities in charge of the approved projects and the briefing note/s transmitted by the TC;
- i) in case of mismanagement of any financed projects, the MC shall act as per point 9. of this Regulation.

The MC shall meet on a regular basis at least every 4 (four) months and shall hold additional meetings, if deemed it necessary. Decisions shall be taken by consensus.

#### 5. Duties of the Technical Committee

In conformity with the Agreement and this Regulation, the TC shall:

- a) take care of the administration of CF - FIP;
- b) prepare and propose to the MC the policy guidelines for the project selection in the framework of the Technical Annex;
- c) prepare an annual working program;
- d) set up the calls for project proposals (i.e. advertising on the initiative in its general terms, setting of deadlines for proposals, etc.);
- e) appraise the projects and list them by order of merit (ranking list), by verifying the compliance with the conditions and criteria indicated in the attached FIP Selection and Application Forms, and submit them for approval to the MC with a written advise statement;
- f) pre-select the International Development Agencies of the United Nations or the International Development Banks which will/may be charged of providing technical advice on the feasibility of the projects, prepare a draft of the related general framework agreement and transmit it to the MC;
- g) sign specific operational agreements with the International Development Agencies of the United Nations or the International Development Banks to be based on the provision set up in the general framework agreement;
- h) sign the agreements with the entities presenting the projects approved by the MC;
- i) submit to the MC possible project amendments with no additional costs;
- j) promote synergies with other development projects and programs;
- k) organize and/or conduct monitoring and/or evaluation of projects, according to point 7. of this Regulation;
- l) prepare and transmit to the MC the 6 (six) month technical report on the on-going activities and on the project achievements;
- m) pre-select the international independent auditing firm, as per point 8. of this Regulation, prepare a draft of the related general framework agreement and transmit it to the MC;

- n) sign specific operational agreements with the auditing firm to be based on the provision set up in the general framework agreement;
- o) transmit to the MC the Auditing Reports on the Financial Statements presented by the entities in charge of the approved projects, together with the related briefing note/s on a yearly basis;
- p) submit to the MC proposals for project suspensions/cancellations, as per point 9. of this Regulation.

**6. Project Presentation, Selection and Financing**

The presentation and selection modalities shall be based upon the Agreement criteria and shall follow the rules indicated in this Regulation. The financial contribution shall be made directly to the applicant (requesting entity). The expected duration of projects shall not exceed three years from the date of the first CF - FIP payment.

**7. Monitoring of Projects**

All projects shall be monitored at least once during their implementation and the related costs shall be borne by CF – FIP. Each Party may request an *ad hoc* monitoring or evaluation activity regarding single projects, at its own expense.

**8. Auditing of the Financial Statements**

The MC shall nominate an international auditing firm which shall be responsible for reviewing the Financial Statements presented by the entities in charge of the approved projects on a yearly basis. The auditing firm shall be pre-selected according to Peruvian governing rules and regulations and a basic general framework agreement indicating, among others, all the criteria for appraisal, shall be finalized. The TC, with the assistance of the Secretariat, shall transmit to the MC the Auditing Reports, together with the related briefing note/s. The formal acknowledgement and acceptance of said documents by the MC shall be conditional to the payment of the second and third annual installments to the entities in charge of the approved projects and programs, to be made according to the implementation plan schedule. However, pending the acceptance of the Auditing Reports, the Secretariat may advance a three-month payment of the following installment, in order to avoid any project interruption. The costs of the audit activity shall be borne by the CF – FIP, according to art. 2.6 of the Agreement, and shall be accounted as part of the overall cost of each concerned project.

The TC shall keep originals or conformed copies of the records as well as of the relevant documentation on which entries are based.

**9. Consultation and Inspection**

The TC may control the implementation of the selected projects, at any time. In case of proved mismanagement of the funds, or of not compliance with the conditions under which the projects have been approved, the TC shall propose to the MC the suspension/cancellation of the project.

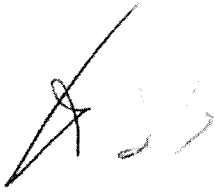
**10. Amendments**

Amendments to this Regulation shall be adopted through exchange of letters between the Parties.

**11. Entry into force and duration**

The Parties will confirm their agreement on this Regulation through exchange of written notifications. This Regulation will enter into force upon receipt of the last written notification and shall be considered concluded when the funds are completely disbursed and the reports of the auditing firms have been reviewed and approved, according to art. 5. of the Agreement.

Done in Lima on May 16<sup>th</sup>, 2002

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## ANNEX I

### RULES AND PROCEDURES FOR PROJECT PRESENTATION AND SELECTION

#### ***Procedures of Project Presentation***

Project proposal shall be submitted by one of the entities mentioned in art. 3.3 of the Agreement to the TC for the screening and technical evaluation, in the form of the here enclosed "FIP APPLICATION FORM" accompanied by all the pertinent documentation, as in the attachment to the form. The project proposal shall be presented within the dates indicated by each call for project proposal.

#### ***Procedures for Project Selection***

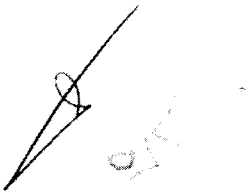
The screening of projects shall be made by the experts of the TC by using yes/no marks and marks from 1 to 6 to grade each line of the project Application Form.

To be considered for approval the projects shall pass all the mandatory criteria (yes/no) and have the minimum score in the priority criteria.

The application shall be accompanied by a written commitment by the relevant entities indicating that the project feasibility, the executive designs, the procedures for the procurement of goods and services and those related to any other expense comply both with the relevant Peruvian laws and regulations applying to that entity and with the use of its own ordinary budget resources (quoting the relevant legal provisions), in accordance with the legal principles of transparency, competitiveness and equity.

The project for which application is requested should include an overall minimum contribution by the entity concerned of 10% (of financial nature or in kind consisting in project activities).

The TC can ask for all the necessary documentation in order to verify the project data and the cost-effectiveness. All the projects that are eligible by the mandatory conditions and have the minimum score in the priority criteria shall be presented to the MC for possible approval.

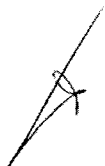
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**“Fondo Italo-Peruano” (FIP)**

**FIP SELECTION FORM – CRITERIA**

Project proposals presented to FIP shall be evaluated through a selection process that shall be based on 4 (four) mandatory conditions and on 5 (five) priority criteria (with a minimum score of 1 required). The mandatory conditions shall be graded with a “yes” or a “no”; these indications shall tell if the project proposal contains the elements considered indispensable and congruous according to the FIP objectives. The other requirements listed in the “Application Form” shall be graded with marks, from a minimum score of 1 (one) to a maximum score of 6 (six). Projects to be accepted must score at least 1 for every criterion.

MANDATORY CONDITIONS:	MARKS						NOTES
	YES	NO					
1. Applicants: a) Competent National Government Entities, b) Local Government Entities ( <i>departamento, provincia, municipalidad</i> ), c) Local or International NGO							
2. Geographic compliance with art. 3, point 3.3. of the Agreement (projects shall be targeted by at least 80% to departments with a poverty rate higher than the national average)							
3. Compliance with the agreed sectors/objectives as defined in section 1.1 of this Regulation (with indication of the relevant sector/objective)							
4. Applicant contribution not less than 10% of the FIP amount requested							
<b>PRIORITY CRITERIA:</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	
5. Sustainability (ability of the project to ensure its benefits after the termination of the financing)							
6. Correspondence with the National Plan for Poverty Reduction (relevant documents must be quoted by the requesting entity)							
7. Correspondence with the policy guidelines agreed by the relevant local <i>Mesas de Concertación</i> or by other local organizations representing the beneficiaries							
8. Cost-effectiveness per direct/indirect beneficiaries							
9. Poverty Rate							
10. Administrative cost not higher than 10%							



*"Fondo Italo-Peruano" (FIP)*

APPLICATION FORM	
<b>1. Applicant</b> (with statement on any previous FIP financing)	
<b>2. Counterpart in the National/Local Peruvian Government</b>	
<b>3. Project title</b>	
<b>4. Project sector and sub-sector among those provided for:</b>	
<b>3.1 Project objectives</b>	
<b>3.2 Project estimated results</b>	
<b>3.3 Project activities</b>	
<b>3.4. Project risk factors</b>	
<b>5. Brief project description</b>	
• Estimated starting date	
• Estimated ending date	
<b>6. Project site with poverty rate indication</b>	
<b>7. Correspondence with National and/or local poverty reduction plan</b>	
<b>8. Beneficiaries</b>	
Number of beneficiaries: direct and indirect	
<b>9. Total project cost</b>	
8.1 Administrative cost	
8.2- Applicant Contribution	
8.3- Other Contribution	
<b>10. Total amount requested to FIP</b>	
<b>11. Sustainability</b>	
<b>12. Civil Society Participation</b>	
<b>13. Gender Issues</b>	
<b>14. Environmental impact</b>	
<b>15. Supported by</b>	
The Applicant itself	
Representative group of beneficiaries	
Peruvian NGO	
Italian NGO	
International NGO	
United Nations	
Local Government institutions	
National Government	
Institutions or beneficiaries in connection with on going projects of the Italian Co-operation for Development	



**Requested annexes:**

- 1) Statement by the legal representative of the requesting entity attesting:
  - that the information contained in the request is true;
  - its commitment to implement the requested project in compliance with the application and the annexed documents;
  - that the project feasibility, executive designs, procedures for the procurement of goods and services and for any other expense, comply both with the relevant Peruvian laws and regulations applying to that entity, and with the use of its own ordinary budget resources (quoting the relevant legal provisions);
  - its commitment to return the funds received in case of mismanagement or lack of use for project purposes.
- 2) Document attesting the legal status and sector of specialization of the requesting entity.
- 3) Project Document.
- 4) Budget.
- 5) Plan of expenditures and related activities.

After a positive evaluation by the TC, the requesting entity will be invited to present:

- 1) Overall Working Plan divided by year according to a standardized format.
- 2) Financial Plan divided by year according to a standardized format.
- 3) Description of the institutional framework and of the implementation modalities.

The Technical Committee may request any other additional document necessary to appraise the project.



## TECHNICAL ANNEX

The CF-FIP shall be used exclusively for financing development projects in compliance with art. 3 of the Agreement and the related Regulation. More specifically:

The areas of intervention have been selected by the Peruvian Party on the basis of the Poverty Index of the Ministry of Economy and Finance and have been accepted by the Italian Party.

### A. Rural Areas:

In obedience with the Agreement, at least 80 % of the development projects to be financed with CF - FIP shall be targeted to Provinces with a poverty rate higher than the national average and preference will be accorded to projects located into the areas with the highest poverty rate. In this context, the following two major areas of interventions have been identified:

i. Amazon area, which comprises the Loreto, Amazonas Departments.

Interventions in this area will contribute to the improvement of the living condition of the related population and simultaneously improve the environment and biodiversity. They will also strengthen local institutions and protect local cultivations.

ii. Andean area, which comprises the Huanuco, Puno, Cajamarca, Apurimac, La Libertad, Junin, Huancavelica, Ancash, Lambayeque and Ayacucho Departments.

Interventions in this very populated area will combat poverty and improve the general socio-economic living conditions of the related population.

### B. Urban Areas:

The remaining 20 % balance of the CF - FIP shall be utilized for financing development projects aimed at combating urban poverty. In this context, the following cities have been identified:

i. Lima. The capital city and the main commercial and industrial center which has a considerable part of its population affected by unemployment, poverty, criminality and social marginalization.

ii. Arequipa. The principal center for agro industry which is also affected by urbanization and has recently been affected by earthquake.

iii. Cuzco. A tourist city which has problems of poverty affecting, in particular, indigenous population.

The projects related to the areas of intervention as per previous points A. and B., may be implemented simultaneously.

