

# SNIP for All

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## Friendly Guide to Navigate through the Bureaucracy of Projects

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This is a friendly guide to navigate through the bureaucracy of one of the most complex administrative systems of the Peruvian State, the National Public Investment System (SNIP). The document is aimed at those who need to prepare pre-investment studies (planners) and shows how to face the typical situation of the project formulation and evaluation process. To that end, this guide proposes elements and criteria to understand the logic of SNIP in public administration, in order to successfully achieve project viability.

## Content

<a href="#">Presentation</a> .....	3
<a href="#">1. Getting to Know the Technique, Yes. Understand the Evaluator, Better.</a> .....	4
<a href="#">2. Public Rationality and the SNIP: Public Service.</a> .....	6
<a href="#">3. Projects that Qualify and may Qualify under the SNIP...and those that Don't.</a> .....	9
<a href="#">4. Pre-investment Study Contents: What you Need to Focus On....</a> <b>¡Error! Marcador no definido.</b>	
<a href="#">5. The Formulation Unit and other Bureaucracies</a> .....	21
<a href="#">6. Changes in the Dossier and Viability Verifications. What to Do?</a> .....	21
<a href="#">7. Relationship with the Investments Programming Office (OPI): Never Leave it for Last</a> .....	26
<a href="#">Final Comments</a> .....	<b>¡Error! Marcador no definido.</b>

## Presentation

At the end of the 90s, there was a discussion going on in the Ministry of Economy and Finance (MEF) about the urgent need to have an instrument in place to improve expenditure quality. Evaluation reports and studies available showed disturbing results: 30 cents out of every sol invested in Peru were lost due to deficiencies in project management. That included the "white elephants" (oversizing) the "marble projects" (cost overruns), projects that do not last (zero sustainability), and also mismanagement of resources (corruption). This was the scenario where the National Public Investment System (SNIP) was created.

Today, the SNIP has almost 5,000 professionals distributed in the three government levels. All sectors, regional governments, public companies and almost half of the 1,800 municipal governments have been incorporated into the System, with more than 80,000 projects approved since it was created, in 2000. We must also say that the Peruvian SNIP is considered today one of the most complete and advanced in Latin America, comparable to those in Colombia and Chile, countries with highly competent bureaucracies. This has been the product of the work of many first class professionals, first in the Ministry of Economy and Finance, then in the different sectors and ministries, and now in the regions and municipal governments (provinces and districts).

When I started writing this document, I thought that it would be more helpful to share those issues that are always present in discussions, but hardly ever in texts. So I chose then to write, not about methodologies to formulate projects, but about the rationality of the SNIP; that is, about the criteria that explain how public employees think and decide. This is, then, a friendly guide to navigate through bureaucracy, that while rigid and full of procedures, has a reason to be and if one is fully acquainted with it, may well have positive results.

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## Getting to Know the Technique, Yes. Understand the Evaluator, Better

Approval of projects within the National Public Investment System (SNIP) may mean huge and exhausting discussions between those who formulate the project (planner) and those who approve it (evaluator). Whether due to form, presentation and supporting of information or due to communication problems when defending the study, SNIP objections may frustrate the best projects professional. If you are a planner, you most likely have had long and rarely fruitful discussions with the SNIP. But don't worry, this happens to everyone that starts to become acquainted with the System and, in particular, state bureaucracy. Once you become familiar with the rationality of the public employee, and especially of the project evaluator, you will start moving forward, slowly but surely; this is the first recommendation we must make when working with the SNIP.

Like every professional relation in a mega organization like the State is, technical knowledge is not enough. It is a common error among planners (engineers, economists, educators, physicians, etc.) to believe that a solution must be accepted because science and experience have proved it right. This is just a partial image. Don't fall into that trap, regardless of the number of years you have been planning projects. In the first place, because we always have to defend what we want to do when we are dealing with public budget. In the second place, because there are other elements related to organizational culture and institutional dynamics that we must incorporate into the preparation of a project; these elements explain decision making, execution of actions and approval of reports and dossiers, including SNIP pre-investment studies. It is therefore necessary to know these institutional factors to navigate through the structures of a complex corporation such as the public sector. This entails understanding the meaning of its procedures and rules and becoming acquainted with the rationality of its teams, public employees.

The SNIP is like any other quality control system in the State. For instance, the health registries of the food we eat, granted by the Ministry of Health, the Civil Defence certificate for safety of premises; the SENASA certificate for import of food, etc. There is, however, a substantial difference in the SNIP evaluation. Preparation of projects involves users and operators directly. It is not just a product on which a number is stamped, it includes persons with opinions, demands, expectations and knowledge. It is essential to know how to handle the technique of projects, as the SNIP is basically a technical tool. You need to keep in mind that such technique does not only include handling the methodology of preparation, but also the rationality of processes and their operators.

If you are a member of a Formulation Unit in a Public Entity, or a consultant specialized in projects, this document may offer you some helpful elements to obtain approval. This guide

seeks to develop guidelines to obtain Public Investment Project (PIP) viability, but looking into institutional and organizational aspects, which may be as important or more important than the technical aspects in the preparation of investment projects.

This, therefore, is not a guide on law review or social evaluation of projects, or a cost-efficiency analysis manual for public investment. These tools have indeed been discussed extensively in the general guides of the MEF or in different university books<sup>1</sup>. We must, of course, be well acquainted with these tools, but knowing them is not always enough to prevent objections and obtain viability of a PIP. There are other variables in an administrative system such as the SNIP and which may be found in some of the following questions:

- What is the rationality of the SNIP and of the evaluators of the Investment Programming Offices (OPI)?
- What does the decentralization of the SNIP mean exactly?
- What makes some public investment projects (PIP) qualify under the SNIP? Which are the ones that fail to qualify? And lastly, which are the PIPs that could qualify and under what conditions?
- Should we elaborate all minimum contents in detail or should we give more attention to some of them?
- What is the importance of political priority in the preparation of projects? Is it enough to secure approval of a PIP?
- Why does the SNIP require authorizations and permits in the pre-investment stage? What is the best way to establish a relationship with other offices?
- What conditions are accepted by the SNIP when changes are made in the dossier?
- What to do when there is already a technical dossier and they ask us to go ahead with the pre-investment?
- When and how do you submit the study to the OPI?

These and other questions are discussed in the next chapters of this document; some of them with specific answers and most with criteria to answer them in line with the context in which they appear. The latter is important, as the evaluation of projects is not an exam with preset answers; it rather depends on the type of project, the conditions under which it takes place and, certainly, the evaluator. There is, then, and it is quite normal, a degree of discretion in the SNIP evaluation, which we must understand. Such discretion must be understood positively, given the tremendous differences in the social situation and in the country. That must not be reason for fear or distrust with regard to the technical rigorousness of the evaluation but, on the contrary, we must be aware that just like an evaluating panel, evaluation criteria are applied according to the problem that requires solving and to the soundness with which the planner presents the study, formally and informally.

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<sup>1</sup> See [www.mef.gob.pe/dgpm](http://www.mef.gob.pe/dgpm) and "Social Evaluation of Projects" by Ernesto Fontaine (Universidad Católica de Chile) or Arlette Beltrán (Universidad del Pacífico).

## 1. Public Rationality and the SNIP: Public Service

*“Private logic is the client's logic, where the one that pays more receives more; the one that pays less receives less; and the one who doesn't pay, simply doesn't receive anything. Public services do not work that way.”*

The quote above has no known author. It is used in Public Administration Schools to remind future officers about their calling to serve and their primary objective, which is to safeguard public good. The SNIP was built based on these classical visions of bureaucracy, its primary goal being the good use of public resources (quality of public expenditure), guaranteeing that an investment project has positive results for society. That is why they say that social return is what matters rather than private economic return.

What does public rationality mean, exactly? In simplified terms, it is the way public employees think, communicate, decide and act. These employees form part of a state body known as *civil service*; they are direct champions of public interest. Their rationality is strongly associated to the formal processes and procedures and while many pay special attention to results<sup>2</sup>, which is always the point, it is very unlikely they will act or decide beyond the applicable law. Public bureaucracies, not only in Peru, but also worldwide, are persistently loaded with much rigidity and excessive inclination towards procedure rather than towards results. The SNIP public employee is not alien to these characteristics, although that does not deny the existence of many proactive and creative employees.

A key concept we must bear in mind is *public service*. This is a concept as old as the existence of the States and is associated to their functions. We all need public services and we have all been benefited or affected when we have required them; when we request a birth certificate or a construction permit in the municipality, medical attention in a hospital, when filing a complaint in a police station, when paying the toll in the highway, in a court action, when applying for a driver's license or a passport, when receiving assistance from the PRONAA or the Glass of Milk Program, when using drinking water, etc. These are all public services with a direct window to citizens, users, taxpayers or beneficiaries, however we wish to call them. But there are also other intermediate (or supporting) public services, those related to the administrative systems of public entities and which make it possible for the State's public services to operate. There we may find offices such as logistics, treasury, budget, control and auditing, proprietorship and, of course, investments, where the SNIP is included. These

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<sup>2</sup> This is the logic of results-based management and budgeting, set in motion in several countries in the 90s as part of their State reforms. In Peru it is being implemented since 2007 approximately.



systems, as we should keep in mind, are fundamental because they are the ones that enable public spending.

Public service operates within the framework of public function, which is defined by the authority, established in the laws and regulations of state entities. They set forth the competences and responsibilities of the provision or financing of services, whether at a national or sub-national (regional and local) level.

It is very difficult (almost impossible) for a SNIP employee to approve a project that is not explicitly competent in an organizational law or equivalent provision. Unfortunately, there still exist gaps in State regulations with regard to clarity in competences (Law on Regional Governments, Law on Municipalities and, recently, Organizational Law of the Executive, in addition to the regulations of the ministries). This is observed, for instance, with regard to productive promotion, territorial management, etc. This has caused that many initiatives of SNIP projects have been impossible to implement (see chapter 3).

From an economic perspective<sup>3</sup>, public service is not strictly exclusive of the State. In fact, public service is not the same as the service provided by a public entity. The difference is relevant, since many believe that the SNIP only accepts projects operated (provided) by the State. This is inaccurate. If that were the case, there would be no irrigation projects funded by the State, but operated and provided by irrigation boards and committees (100% private entity). The State may fund investment to improve services provided by the private sector, so long as its functions allow it, as in the case of irrigation. Meanwhile, there are services of public interest, such as education, health or research, which are shared with the private sector. Furthermore, in recent years, the State has sought that services associated to public infrastructure, such as airports, ports, highways, hydroelectric plants, dams for agriculture, be executed by private investment<sup>4</sup>. This does not preclude, of course, the SNIP from performing the corresponding evaluation when co-funding by the State is involved.

The problem with public services is that since they are usually quasi-monopolies (only the State provides them), there is little incentive for them to be more efficient, transparency is limited, their practical objective is fuzzy and decisions are slow. Nevertheless, public administrations have managed to make progress with good management practices to face these limitations. Results-based Management and Budgeting is an approach that has contributed to these efforts and, in fact, it is already being gradually implemented in Peru. Apart from that, there are public entities that have managed to build a highly qualified bureaucracy, providing high quality public services<sup>5</sup>.

Public bureaucracy rationality is driven rather by the logic of the user, the beneficiary or the administrated party than by client logic. In this approach, access to goods and services is not

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<sup>3</sup> These are the concepts of public goods and externalities of the public economy theory.

<sup>4</sup> Cases known as PPAs (Public Private Associations).

<sup>5</sup> See successful cases in [www.cad.org.pe](http://www.cad.org.pe)

necessarily associated to how much they may pay, but rather to the social benefits inherent to a public service. The public good philosophy is firmly associated to the people's rights to access basic services as the basis of the State's role of fair and equitable distribution expressed in the Constitution. Accordingly, potable water projects seek to lower acute diarrheic disease rates; road projects seek to reduce times and enhance safety to travel from one place to another (transitability); rural electrification projects, energy time for families; river bank defences pursue the protection of the population or of productive areas, etc. That does not prevent the SNIP, as we will see later, from making a rigorous sustainability analysis to ensure the success of a project.

One of the most relevant criticisms made about bureaucracy is its excessive sluggishness. Nevertheless, we must keep in mind that bureaucracy is not a phenomenon of the State and its public administration offices, but specifically of large organizations. The larger an organization, the more complex the processes, procedures and rules among workers, given that relationships between them become much more complicated. It is easy to coordinate with a 3-person team, but with 3,000, that is a completely different thing. The State, like large corporations, is slow, not because it is public, but because of its size. Don't think that a bank, a telephone company or a transnational mining company is faster in its decision-making than the State. Imagine a large ship, with hundreds of tons capacity. It is certainly able to carry much more merchandise and, if it has good turbines, at high speed, but it is much more difficult to move it to a different direction once it is in motion. That is what the State is: a large ship with a very hard steering wheel. That is why it is important to know when to embark and where to go, as pre-investment is in projects.

The most recent evaluation made by the Agency SERVIR, has estimated that there are about 5,000 employees working under the SNIP<sup>6</sup>. That is equivalent to the largest companies in Peru. We are talking about a corporation of considerable dimensions. While the System was decentralized in 2007<sup>7</sup>, the truth is that many decisions concerning project approvals are under the supervision of the national governing body, the Public Sector Bureau of Multi-annual Programming (DGPM). In fact, this Bureau is not only responsible for methodological procedures (guides and manuals) and for the regulatory framework, but also manages the Projects Bank, where all SNIP projects in the country are registered. This tool has certainly a very powerful monitoring capacity to supervise the formal performance of SNIP operators. These data are important, as quite often direct consultation will be required with the Ministry of Economy and Finance (MEF) with regard to technical aspects of the methodology, registration or regulatory procedure.

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<sup>6</sup> After several decades, the State is making knowledge evaluations of its personnel. They have started with the SNIP and in May 2010, they have presented the first results, which aside from being interesting, are quite helpful to improve permanent training and education actions for public employees.

<sup>7</sup> The most important measure was to decentralize actions, turning over to the ministries, regional governments, municipal governments, etc. the authority for them to declare the viability of their projects. Prior to that, the authority was held by the MEF, which while delegating such authority depending on the amounts involved, kept the power until 2006.



## 2. Projects that Qualify and may qualify under the SNIP... and those that Don't

*"...The return on investments in human capital is substantially higher than on investments in physical capital. (...) capital does not need to materialize in a tangible thing, and things that until recently were considered consumption, are actually expenses that contribute to raising productivity of a country."*

*Ernesto FONTAINE "Social Evaluation of Projects"*

The objective of the SNIP to ensure expenditure quality includes permanently battling against those who understand public investment only as brick and mortar, like something tangible that we may all see and touch. Something that has been sought to introduce in the SNIP is a more economic approach to capital and which, as quoted by Ernesto Fontaine<sup>8</sup>, goes far beyond physical capital. Improving public services with mortar (physical capital) is not only an incomplete approach, but also an inefficient one.

To correct the bias investment equal physical capital, the SNIP has used a sufficiently general definition –yet specific at the same time– of Public Investment Project (PIP), which has justified its implementation and setting in motion in its almost 10 years of existence: *"An intervention limited in time that uses public resources to create, enhance or upgrade the capacity to provide a good or a service (Article 2 of the Regulations)"*. Behind this definition there are concepts of economics and public management that it is important to understand; for example, the concept of public resource and of service.

Throughout the existence of the SNIP, it has been possible to build a group of PIPs that are recognized as such. In other words, there are no doubts about their investment concept, the use of public resources or the legal competence of the entity, or the contents that pre-investment studies must include. There is a common technical language (methodological guides) among planners and evaluators, available at the SNIP website<sup>9</sup>.

These investments may be observed in the Bank of Projects of the SNIP, where interventions that have been programmed are mostly in six sectors: transportation, sanitation, energy, agriculture (irrigation), education and health. In each of them, the pattern of project typology is similar and strongly concentrated in infrastructure. It is also in these sectors where most of the public investment budget is being executed.

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<sup>8</sup> Ernesto Fontaine, like Arnold Harberger, both from the Harvard School, are the ones that have had the most influence on the SNIP in Peru. It is highly advisable to read their texts about social evaluation of projects.

<sup>9</sup> See <http://www.mef.gob.pe/DGPM/instrumentos.php>

Notwithstanding the progress in the formulation of these projects, there are still aspects – besides the contents themselves, which we will discuss in the next chapter– that continue generating discussion and that it is worth mentioning. Let us see first those cases in each of these sectors. Then we will review the red lines and the PIPs that are having trouble to be approved by the SNIP.

## Transportation

The transportation sector is, by far, the one that has formulated the highest number of projects in the SNIP, mostly focused on: improvement and rehabilitation of road infrastructure, which in Peru is close to 80,000 km altogether (including by-roads). It should also be mentioned that our national and departmental road networks are practically defined and total around 42,000 kilometres. It is hard to find projects for new roads, except for an access road to a tourist attraction or for a large-scale project such as a mining operation or a hydroelectric plant. At local level there is, certainly, infrastructure, especially horse trails, although that represents a minor percentage in terms of budget. In terms of the SNIP, the Transportation OPI and its Execution Units have competent teams and assign a substantial amount of resources to pre-investment<sup>10</sup>.

In this kind of projects, the strongest discussions have revolved around budget changes due to cost increases and around environmental or archaeological authorizations in the project layout, which is quite common in infrastructure projects. We will revisit this point in the next chapters. For qualification purposes as a Pip, we must suggest paying attention to roads or highways that may benefit a private party in particular. This may make the project liable of objection and there have been some cases in rural zones and access zones to beaches.

An important element are those cases of municipal governments with substantial resources, that are interested in intervening in departmental or national roads, that is, outside their exclusive legal competence. That is possible provided there is a specific agreement with the Ministry of Transportation and a transparent mechanism for transfer of resources. The inverse situation is less complicated, that is, when a region wants to participate in projects involving rural roads, given that these may be implemented under the principle of "*a maiore ad minus*" (from greater to smaller). That, however, may be a source of disorder and confusion, so it is always advisable to keep good communication channels at all government levels.

## Sanitation

The sanitation sector follows transportation in importance. Besides the classical problems of infrastructure projects, the PIP qualification has not represented a material problem in its approval process. Sanitation PIPs approved by the SNIP include construction, improvement

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<sup>10</sup> As in many sectors, in recent years the technical teams of the Transportations sector have been affected by turbulences created by the political changes and pressures.

and rehabilitation of drinking water systems, sewerage, and lately (which is good news), wastewater treatment projects.

There are, however, some aspects that continue being a matter of discussion regarding sanitation PIP qualification. It is worth mentioning two situations.

In the first place, interventions inside houses (in-home), which are strictly considered private investments as part of the commitment of the families. In urban zones, companies have promoted the execution of in-home infrastructure, side by side with the execution of water and sewerage networks. Such in-home infrastructure has been funded by the families through their savings or through loans from the formal or informal microloans market (hardware stores). In rural zones, the State and the NGOs install latrines for single-family or multi-family use, as solutions may not be collective, but individual, given that the installation of sewerage is not technically feasible. However, these interventions are accepted as PIPs as they have positive direct social effects in the sanitation objectives of the families. Furthermore, families must make contributions to the funding, although not necessarily in cash but in materials and labour.

In the second place, a marked lack of coordination has been observed on the competences side, between municipal works and works authorized by the sanitation service provider (EPS). It is important to strengthen the position of the water company and to have the company execute the projects. If for different reasons the municipality has the execution capacity, it is necessary to respect the company's technical authorization and supervision strictly, as it is the company that has the knowledge about the water infrastructure and availability and will be in charge of its operation and maintenance. The SNIP OPIs, therefore, will always tend to request the opinion of the EPS, as part of its requirements to approve the project. The case of the Sanitation Service Administration Boards (JASS) –very common in rural zones– is somewhat more complicated. Their public nature is not clear, as it is an association of private users, similar to the irrigation boards, but within a less specific legal framework. Likewise, the JASS receive the support of the municipalities with the PIPs and are in charge of their operation and maintenance.

## Energy

In the energy sector there is great discussion with regard to the role of the State in the generation of electric power, as well as in oil and gas exploration. In the case of hydraulic energy, efforts are engaged in special projects at regional level (ex INADE), in some local governments with funds from the extraction tax (canon) but, in particular, in power generation companies owned by the State, which are the ones that develop the leading projects. In the case of projects under municipal or regional governments, given the scale of the projects, the OPIs usually rely on the opinion of the Ministry of Energy and Mines or even the Ministry of Economy and Finance.

Public investment in energy is currently focusing in rural electrification projects aimed at expanding access to energy to populations in rural areas, which have been calculated in close to 5 million inhabitants. As in the sanitation sector, the lack of coordination in the planning and execution of the projects at sub-national levels, by the power distribution companies and the Ministry of Energy and Mines causes duplication of efforts and inefficiencies in the executed projects. While the expansion of the electric frontier pertains to the competence of the regions and municipal governments, it is also true that greater efficiency would be achieved incorporating functions and specialized capacities of the power companies. Ultimately, these companies will always have, as in the sanitation sector, the technical responsibility to approve the technical viability of the projects that are executed within the scope of their concession. Thus, every rural electrification project through expansion of networks must obtain a supply feasibility document awarded by the corresponding power distribution company, as a prior requirement to obtain viability.

With regard to the limits of public investment, distribution PIPs do not consider in-home interventions which, as in sanitation, are considered investments that must be assumed by the users. However, in extreme poverty populations, where service offer is scarce, this characteristic could represent a considerable restraint for the population to benefit from the use of electric power. This matter, as well as the updating of the calculation of social benefits of rural electrification and the measurement of impacts of these projects, should be prioritized in the sector's agenda to improve their instruments for the expansion of the electric frontier.

### **Agriculture and Irrigation**

In the agriculture sector, most of the PIPs have focused on major and minor irrigation infrastructure in all aspects: storage, uptake, transportation and distribution. This typology has not presented any major complications, except the typical fact that a project must not be just for the benefit of a few private parties. The SNIP will always see to it that it is of collective interest.

Projects that have generated great controversy to qualify under the SNIP are those involving technical irrigation interventions, especially of works and equipment within a plot. The System is reluctant to accept technical irrigation projects that include equipment for 100% private use, as they are considered private investment. Nevertheless, that does not mean that such irrigation PIPs will necessarily be rejected, that is not so. The recommendation is that these projects must include all the works and equipment required at a collective level (including costly systems and equipment in some cases), and the financing of the equipment within the plot is to be worked out with the users. The project may well include equipment in the plot for pilot, demonstrative projects for a small number of hectares, which may comprise, for instance, financing for hoses (drip irrigation) or sprinklers (sprinkle irrigation). The Ministry of Agriculture, however, is currently preparing a technical irrigation program with the Sub-sector

Irrigation Program that includes the coast and the mountains. It is an opportunity to specify methodologies for the formulation of this kind of projects.

A breakthrough in the PIPs accepted by the SNIP were the river protection and defence structures. The current methodological guide has made it possible to make progress in the formulation of these projects, including risk analysis in the event of natural hazards, which has, indeed, extended throughout the SNIP methodology.

In the case of reforestation projects, since there is no official methodological tool, there still persist many conceptual concerns between SNIP planners and evaluators. There are, for instance, different approaches as to whether the primary objective of a reforestation project is commercial exploitation or protection against land erosion or of the ecosystem. The latter has greater acceptance in the SNIP, but there are no specific guidelines yet or methodological guides. However, planners are advised to defend projects along this line and to present the environmental benefits they will provide. Another complicated element in these projects refers to interventions in private properties. In these cases, it is technically possible to justify reforestation interventions, presenting them with objectives that involve protection of imminent dangers, such as avalanches (*huaycos*), landslides, etc. and which can have an impact on a public service, such as the transitivity of a road or the safety of a bridge or a town.

Productive projects are also a source of recurring objections by the SNIP. Under the directives<sup>11</sup>, only pilot interventions, at demonstrative scale, are permitted, which for planners represents a serious restriction. The best recommendation is to propose these projects under a technological innovation scheme, and with the least possible costly equipment. This would imply a proposal with a high know-how content (technical assistance), but always presenting its nature as a pilot and innovative project. To insist at this point that the SNIP accepts projects involving massive production support could be a very intricate effort, all of which does not prevent, however, that public entities may discuss in greater depth with the MEF less strict guidelines or alternative budgetary mechanisms.

## Education

In education, unfortunately, the PIPs have focused on the refurbishment and construction of educational infrastructure. We say this because these interventions are not necessarily the best way to improve the quality of education, which is the core issue, but for different reasons, more political than social, investment priorities in education fall on the brick and mortar side. We do not deny the need of these projects, which are certainly technically necessary when it is clearly shown there are safety risks in a school that is in very poor conditions or sanitation risks in the classrooms and toilets.

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<sup>11</sup> See guidelines for the formulation of projects to improve competitiveness of productive chains in: [http://www.mef.gob.pe/DGPM/docs/instrumentos\\_metod/agricultura/PautasparaPIPproductivofinal.pdf](http://www.mef.gob.pe/DGPM/docs/instrumentos_metod/agricultura/PautasparaPIPproductivofinal.pdf)



There is no questioning on the side of the SNIP in educational infrastructure projects, although cases have been observed when the municipality has tried to intervene in private schools, usually under the administration of a religious institution. That may be a matter of objection by the OPI evaluators and may be lifted in the event there should be some kind of agreement between the State and the private institution, such as an assignment agreement for use of equipment or furniture in rural zones. The best is to consult with the respective Local Education Management Unit (UGEL).

Some interventions that may qualify as a PIP are those known as education quality, which usually include educational activities for teachers, upgrading of teaching techniques, classroom management, monitoring, etc. At present there are no specific methodological guides, although the education guide of the SNIP does mention these elements. Furthermore, the Ministry of Education (MINEDU) has begun to strongly support programs to improve primary level education quality. However, at public investment level, SNIP operators in the OPIs are still doubtful about the pertinence of these interventions as PIPs. It is advisable to present them at a moderate scale and to work with the MINEDU and the MEF using a specialized methodological guide.

## **Health and Nutrition**

In the health sector, SNIP investments have also focused on the enhancement, refurbishment and construction of health care establishments, from health posts, health care centres to level III hospitals, including equipment and infrastructure. PIPs involving solid waste treatment, recently approved in the methodological guides of the MEF, have also been incorporated to the health sector.

We must discuss separately interventions that have to do with nutrition programs, where the governing body has published a draft in its website that opens the possibility to formulate projects. In fact, the FONIPREL, an Investment Fund for regional and local governments, managed by the MEF, accepts investment projects that seek to fight malnutrition. Thus, while there is no methodological guide as yet, everything seems to indicate it is possible to accept a nutrition-related PIP, but focused on the improvement of health equipment for the control of children and mothers, access to drinking water and specific training for good hygiene and food practices. The MEF has published in the website of the Bureau of Multi-annual Programming a document for consultation on this kind of projects<sup>12</sup>.

## **Replacement**

Replacements are interventions that the SNIP has accepted as investment, but that do not require viability for their execution, that means they do not require pre-investment studies. What we must keep in mind is that replacement is thought for interventions, mainly

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<sup>12</sup> See Public Investment to face chronic child malnutrition – General guidelines, in [http://www.mef.gob.pe/DGPM/instrumentos\\_nuevo.php](http://www.mef.gob.pe/DGPM/instrumentos_nuevo.php)



equipment, minor repairs or periodical maintenance of assets, such as machinery, computer systems, elevators, furniture, etc. The concept "replacement" of a bridge, a new school, a pool of machinery, is not possible for the SNIP, which will always require in these cases a classical pre-investment study.

It is worth mentioning that many Projects may be delayed with replacement investments. We must take this into account when presenting a PIP, as the OPI pays special attention to the so-called optimized situation, which prevents major spending. The optimized situation considers precisely such minor interventions that solve a problem and do not require major investments. Such is the case of periodical maintenance of roads or irrigation channels that prevent costly rehabilitation works.

### SNIP "Red Lines"

In addition to the sectors mentioned, there is a significant number of projects that receive substantive objections from the SNIP. In this section we will discuss the concepts that evaluators use and that explain to a good extent the reluctance of the SNIP in some interventions that seek to qualify as public investment.

The definition of PIP has two key elements that are conditions required for a SNIP employee to accept it as such: a) its investment nature and 2) its public nature. This is expressed in the table below, which has been divided by the public/private axis and by the expense/investment axis. The B quadrant where they meet constitutes the scope of the System.

### Scope of SNIP Participation

		Competence	
		Public	Private
Type of expense	Current Expenses	<b>Quadrant A</b> E.g. operation and maintenance	<b>Quadrant C</b>
	Investment	<b>Quadrant B</b> <b>Scope of the SNIP</b>	<b>Quadrant D</b> Private investment

Own preparation.

The first condition may be observed in the horizontal dividing line, between current expense and investment. A PIP must prove it is an investment project in order to access public budget resources (capital expenditure). That means it must not contain components or activities that may be understood as current expenses, which is nothing else but actions with permanent

nature like public service salaries and wages. Cases like this are often seen, for instance, municipal citizen safety projects. Some projects have tried to include the salary of the patrols, as there are no resources available to pay them, at least until a paying culture is developed among the neighbours. This is not accepted by the SNIP and, although it may seem unfair, the truth is that it is not possible to improve or to create a service without securing funding of the operation over time. For the SNIP, it is like throwing paper into a fire, it burns fast, the fire goes out and the project ends up being a frustration.

If a sensitive line does indeed exist in the SNIP, it is the inclusion of salaries and wages, or of any expense of the kind, in service provision improvement. This causes that any actions that seek to include auxiliary personnel in agricultural extension or in nutrition services, may generate many objections in the evaluator. In turn, it is certainly possible to include personnel for supervision and follow up, like auditing, in reasonable proportions according to the cost of the project. Other sensitive components in the SNIP are the PIPs with cultural, commercial and tourist activities, such as sports tournaments, craftwork fairs and others. These activities, though they may form part of the municipal functions, are better understood in current expense budgets.

The dividing line between investment and current expense is sometimes fuzzy. The SNIP had to explicitly specify in its regulations and guidelines that operation and maintenance did not qualify as investment. However, this has not sufficed. Maybe the latest breakthrough was associated to the definition of replacement (Article 3 of the General Directive), which, while being a capital expenditure from a budgetary point of view, does not qualify as PIP and, therefore, does not require obtaining viability from the SNIP. Replacement was thought of especially for public entity efficiency cases, such as for example, the purchase of equipment in health care centres, furniture, computer equipment and elevator repairs, periodical maintenance of assets, etc. In this respect, the SNIP has been able to facilitate many acquisitions that while not being current expenses, were neither interventions that could qualify as PIPs, and therefore did not require necessarily a pre-investment assessment.

There are, however, other interventions that generate more controversy, as is the case of social programs, such as for instance, literacy, immunization, and nutrition, historically considered by the MEF as current expense. The controversy grew particularly in regions and districts beneficiaries of the extraction tax (canon), which sought to implement these programs as PIPs. The SNIP has reiterated its position not to consider these interventions as PIPs, basically for conceptual reasons. Regardless of the technical discussion, which is absolutely necessary, the truth is that currently it is not viable to formulate this kind of interventions in the SNIP.

The second condition of a PIP appears in the dividing line between the competence of the public sector and that of the private sector. This separation is much more complex than the first one, as it is associated to what is considered the role of the State. While Peru has in place

laws where the subsidiary role of the State is defined (it intervenes if, and only if, it is absolutely necessary and the private sector has no interest), the truth is that in the real world there is still confusion and vagueness, especially regarding the specific duty of the State in its role in the fight against poverty and in economic promotion.

In this discussion, it is possible to find initiatives involving public projects associated to entrepreneurial activities, such as milk processing plants, municipal hotels, craft fairs, purchase of breeders, etc. Here, it is important to keep in mind that the SNIP has a "red line" to accept State entrepreneurial activities, based on the subsidiary economic regime established in the Constitution, which expressly precludes any intervention in entrepreneurial activities. The only exceptions are Sanitation Service Companies (EPS) and power generation companies; eventually, some butcheries, still in municipal hands, but this should actually be regularized promptly to transfer them to the private sector, as was done some decades ago with hotels, theatres and/or movie theatres that operated commercially.

Productive projects are worth a special mention. Here, the SNIP has accepted them as PIPs, however, under certain conditions. They must be at pilot scale, must have an innovative nature and must not compete with the private sector. Even if the existing Directive for productive projects is specific enough<sup>13</sup>, it is true that compliance is still loaded with problems. An open discussion is, thus, still pending between SNIP operators to improve the technical tools for formulation and evaluation.

The dividing line between public and private has given rise to many discussions about what a public good or service is. In fact, the SNIP Directive specifies a definition in the Regulations and states that goods and services must be provided by a public entity. The specification in the legal provision is repetitive, since if the project is funded with public resources, it must necessarily be provided by a public entity. Nevertheless, some operators have understood that the project must improve the capacity of a public entity to provide the service and, therefore, it may not intervene in private property. Thus, cases have been found where PIPs involving reforestation and landslide protection have been rejected because they were located in the property of the community. That is absolutely not the case. What a PIP pursues to improve is the capacity to provide a service, in this case, protection against natural hazards, which is perfectly aligned with the SNIP.

#### **4. Pre-investment Study Contents: What you Need to Focus On**

*A SNIP study must show a complete analysis of the service to be improved, even though sustainability may appear to be obvious or repetitive.*

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<sup>13</sup> See [http://www.mef.gob.pe/DGPM/docs/instrumentos\\_metod/produccion/RD\\_005\\_08\\_anexo.pdf](http://www.mef.gob.pe/DGPM/docs/instrumentos_metod/produccion/RD_005_08_anexo.pdf)

The first and foremost recommendation is to consider the SNIP evaluation protocol<sup>14</sup>. There you will find all the questions that an OPI evaluator must ask and that every planner must know and answer in pre-investment studies. While the protocol is not a strict tool (there may be more or even less questions), it is extremely useful in order to standardize general criteria, particularly in studies at profile level. Pre-feasibility or feasibility studies have a special treatment according to the type of project.

Assuming then that the planner has answered the protocol questions, it may be helpful to revise the rationality behind each chapter in the minimum contents demanded by the SNIP. While there will always be a technical-theoretical explanation, there is also "common sense" in the questions considered by the SNIP.

One: Regarding the general aspects of the study, remember that an OPI evaluator, regardless of his experience and efficiency, will have to evaluate a great number of documents and studies, which makes it impossible for him to know and "feel" the problems that a project seeks to solve. Therefore, do not hesitate to always include all the information regarding the problem, including charts and graphics with reliable statistics, pictures and maps, and others. The great contribution of the SNIP is to put in writing the pre-investment technical support.

The name of the project must be clear. Avoid more than two-line titles. A large title predisposes the evaluator negatively, just like a professor when he reads a 50-word thesis title. When the name includes the intervention area of several localities, do not mention each locality in the title but in the body of the document. The name is its identity, and thus, what allows you to be recognized by the SNIP evaluator among other projects.

Do not underestimate the beneficiaries' participation, particularly in projects at local level where social and political pressure is important for expense execution. Include and encourage participation in the design as much as required and show it to the SNIP evaluator. It is also important that you get as complete information as possible from your beneficiaries. It is better if you can make quick sample surveys. The collection of primary information is greatly appreciated by the OPIs.

Two: Identification. Identify very clearly the public service aimed to be improved or created with the PIP. Accurately describe the problem and its causes. OPIs usually pay special attention to coherence in the cause-effect analysis. The best recommendation is to check already approved projects. Take the time to research and obtain viable projects, and compare them with the reality you found. Probably, the causal analysis is the same; what changes is the support of the critical cause according to the quantification presented. For example, in the reconstruction of a school it is likely that the safety problem and the safety risk are the same; the same if we have to restore a water intake in order to ensure water availability. What changes is the problem scale and magnitude, according to specifications in the offer and the

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<sup>14</sup> See Evaluation Protocol at <http://www.mef.gob.pe/DGPM/instrumentos.php>

amount of people affected (demand). Avoid sophistications in the logic frame or problem tree, particularly if quantification is not possible.

Many have criticized the excessive quantitative bias of the SNIP. That may be an economy or an engineering bias; both disciplines are closely related to project management. The truth is that for the SNIP evaluator *what cannot be measured, is not known; and that which is not known, does not exist.* Certainly, quantification does not have to be associated to a monetary indicator. Absolutely not. The indicator may perfectly consist of qualitative goals, but goals that can always be measured. For example, number of children with diarrheic diseases, number of institutional baby deliveries, number of students that pass logical-mathematical tests, etc.

A very common error that can be avoided is when the planner assumes the alternative for a solution is obvious and focuses on design and budget aspects. This is logic for the planner, who has usually been closely related to the problems and has done the corresponding field work. It is also likely that the planner has already performed his own alternative analysis and has quickly reached the best solution offer. However, he does not put it in writing and does not allow the evaluator to understand the considerations that led him to the final offer. Always write down in your study all your alternative analysis details. While some SNIP evaluators may easily understand the solution, most of them will require supporting documentation and detailed explanation, even if the solution is "obvious".

Three: Chapter size, location and technology (formulation), the critical aspect will be the offer and demand analysis. Accurately identify public and private service providers, particularly if there is a great number of operators, such as is the case of technical assistance projects. In the offer case, always seek to rely on the best statistics available. If none exist, use similar experiences and build your own estimation with general information. In-depth interviews to some operators are useful. Do not leave this aspect with information that is too generic.

With regard to location aspects, prioritize your actions to ensure availability of the land. The physical and legal clearance of the property is one of the main reasons for stopping or delaying execution of projects. Many planners consider this is solved at technical dossier level. In fact, the SNIP does not specify this in its minimum contents nor in its evaluation protocol. However, it is highly recommended to solve this issue at pre-investment level. This will not only prevent expensive reformulations, but will also show the SNIP evaluator there is a sound support from the beginning in relation to the project location (or planning). We should furthermore add the SNIP recent efforts to include a pre-investment risk assessment<sup>15</sup>. All or almost all OPI evaluators have been trained in this subject; therefore, they have special interest in incorporating it into their daily evaluations. Any planner who strives to make a good risk assessment will have greater possibilities to obtain viability.

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<sup>15</sup> See [http://www.mef.gob.pe/DGPM/docs/instrumentos\\_metod/PautasRiesgos.pdf](http://www.mef.gob.pe/DGPM/docs/instrumentos_metod/PautasRiesgos.pdf)



As for the demand, always try to rely on some primary level information, even though it may not be required. It is not necessary to make very expensive user surveys, particularly when not allowed by the study budget; however, it is possible to make some pilot interviews. For the SNIP, it is very important to know what the user thinks and demands. Whenever possible, coordinate with the OPI regarding the content of the questions in the questionnaire to be applied. With regard to the estimation itself, sometimes it is certainly very difficult to elaborate classic demand studies, as user identification is not clear. For example, surveillance system PIPs for protected natural areas or environmental protection, defence systems for bridges, water intakes, etc. In these cases use indirect assessment methods accepted by the SNIP<sup>16</sup>, however, do not fail to make the demand study.

The project cost formulation and support must be as detailed as possible. The SNIP rarely accepts projects with excessively aggregated goals and activities, even for minor profiles. Although it is not necessary to detail estimates and prices per unit in a technical dossier (in the case of works), it is important to try as hard as possible to show goals with more accurate measuring units. This prevents the high risk, which is essential for the SNIP evaluator, of having budget underestimates that are then revealed and thus require verification of the viability (this will be discussed in detail in point 5). Do not forget to include a sum for assessment and audits in your budget; this is acceptable to the SNIP.

Four: Estimates on economic return. Always use conservative scenarios and let the evaluator know it. The SNIP appreciates prudent estimates, and even though the Internal Rate of Return (IRR) and Net Present Value (NPV) are not the best economic indicators, the fact that they are positive but realistic makes them more credible. Some planners are too optimistic and present excessively high results, with very few supporting documents. For example, they overestimate agricultural output, car traffic growth, the amount of assistance given, etc. Such "make-up" is useless, particularly when you have a strict evaluator, who will, on the contrary, be predisposed negatively.

Five: Finally, we have sustainability and institutional organization. Make sure to have a good cost assessment for operation and maintenance. Explain clearly how service provision is guaranteed after completion of the project. This is a sensitive issue for the SNIP, since the core element for expenditure quality is the life, the sustainability of the project. A SNIP evaluator is trained to have special awareness to guarantee the conditions a project requires to grant the benefits offered throughout its lifetime. In many PIPs, these conditions are expressed by the users' willingness to pay and in public service rates like water supply and sewerage service, rural electrification, irrigation, etc. In other cases operation and maintenance is associated to the public entity's budget (health centre, schools, etc.). In this case, request the necessary information, show it and explain it in the study, especially if you require budget increases. Some OPIs are very demanding and request, as viability requirement, specific agreements from

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<sup>16</sup> See hedonic evaluation methodologies or contingent evaluation, for example.



the Municipal Council or competent entity to committing themselves to increase the current budget to ensure service operation. This is not part of the minimum contents of the SNIP, but it is up to the evaluator's consideration to request all information and documentation he may deem necessary." We recommend you coordinate with the OPI on this point, from the beginning.

Regarding institutional arrangements, it is very important to mention the strengths of the Execution Unit or body in charge of executing the project. While direct administration is not generally recommended, it is very difficult to require public bidding processes in rural townships or places with difficult access, where contractors do not go or demand very expensive fees compared to the low budget available. Consider that in the case of medium or large scale works, the advantage of direct administration is not evident, thus, it is very likely that the OPI evaluator will ask questions in this regard. It is not enough to argue that work under contract is more expensive, it is necessary, eventually, to justify that the Execution Unit offers logistic and equipment capacities to do it just as good or better. It is mostly recommended to leave direct administration as strictly required and for minor scale works.

## **5. The Formulation Unit and other Bureaucracies**

*Pre-investment does not only consist in preparing studies and doing fieldwork. It requires dedication and patience in the necessary relationships between planners and other public administration agencies.*

### **The Formulation Unit is not Always the Execution Unit**

The Formulation Unit (UF) is responsible for elaborating the project. Thus, it is the SNIP that prepares and suggests the PIP and must have a technical team that is fully aware of the problems involved. Usually, the Execution Units specialized in the management and start-up of investment projects are UFs. This is clearly shown at country level with entities such as Provías Nacional in the Ministry of Transportation and Communication (MTC); Agrorural and SENASA in the Ministry of Agriculture (MINAG); Agua para Todos in the Ministry of Housing; and line bodies such as the Bureau of Rural Electrification in the Ministry of Energy and Mines; the Regular Basic Education Bureau in the Ministry of Education, which also execute the projects; public entities, such as Electroperú and Sedapal; hospitals and universities; or the Special Projects at regional level, such as Chavimochic in La Libertad, Chira Piura, Huallaga Central in San Martín, AUTODEMA in Arequipa, Plan Meriss in Cusco, among others.

However, a UF does not have to be the Execution Unit. In fact, the first is a SNIP concept and the second, a Budget System concept, which have their own criteria and language to classify the State bodies' functions. In the case of the SNIP, a UF may be a General Directorate

(Bureau) or a Management Office in particular, with functions clear enough to perform their competencies in the matter of projects, although not necessarily being an Execution Unit. It is important to know this for the purpose of preparing a PIP.

One: When the UF is not the agent in charge of executing the administration and budget of the investment project, it is important to explain the relationship between the UF and the Execution Unit in the SNIP study. Objections are usually raised when the Administration or Management Office of the Ministry, Regional Government or Municipality is in charge of the execution, and not an Execution Unit specialized in projects. The latter is the better alternative (UF = Execution Unit), however, the technical, institutional and political conditions are not always given.

Two: Access to information. All PIP documentation has to come from the UF, particularly regarding quantitative and intervention design aspects. Keep in mind that the SNIP study must be signed by the UF. Aspects related to the offer and demand assessment may rest more on the users, however, other factors, such as diagnosis, costs, planning and evaluation, must be structured based on the UF teams and their available information.

Three: In the cases when the study is outsourced, always keep a continuous and fluent relationship with the Formulation Unit teams. External consultants must not make the mistake of working independently on the elaboration of the study when receiving the assignment from a high management or political office. This may be the cause of great delays when the PIP is to be revised by the UF for its subsequent delivery to the OPI of the SNIP.

### **Authorizations and Permits**

According to data collected in 2009 from regional governments, the main sources of delay in the approval and execution of projects did not lie on SNIP evaluations, but in the difficulties to obtain authorizations and permits, municipal building licenses and land availability (physical and legal property clearance). Some people consider these factors should be solved during the investment stage. It is not necessary so. They may be worked out as of the pre-investment stage and in fact, they may greatly contribute to streamlining PIP management.

In the case of authorizations, the main ones are archaeological and environmental authorizations. The first ones (Certificate of Absence of Archaeological Remains – CIRA) are issued by the National Institute of Culture (INC). In the case of environmental authorizations, there are two competent entities, the Ministry of Transportation and Communication and the Ministry of the Environment. It is strongly recommended that in the case of PIP infrastructure, you obtain an expert's assistance when dealing with protected natural areas and parks, among others, or buffer zones. Authorizations are not explicitly regulated by the SNIP, however, the need to have an environmental impact assessment is mandatory. Due to the foregoing, the OPI officer usually asks for the respective authorization as viability requirement. This, as

mentioned above, is particularly sensitive in environmentally and culturally protected zones and when the dimension and scale of the PIP is significant.

Municipal permits are related to the authorization for work construction. They are usually requested during the technical stage of the dossier, but it is worthwhile to coordinate with the OPI in this regard. Where there is the possibility of social conflicts or conflicts with private parties affected by the execution of the project, the conditions for the project location must be ensured.

The physical and legal clearing of the property is another source of delay in the execution of projects, particularly of infrastructure projects. Several pre-investment studies omit this procedure and postpone it until the technical planning stage, which entails many problems. When studies do not make a good location and property availability work, it will certainly reflect negatively when the physical execution starts. In some cases it is the target population, the rural zone community that resists execution, usually because they were not consulted. In other cases, it is due to conflicts with private parties who do not agree to sell their properties even though they get a fair price. In any case, due to technical design reasons (location), it is of utmost importance that this is worked out as of the pre-investment stage.

### **The Technical Opinion of Third Parties**

A drinking water or energy PIP will rarely be executed without the favourable technical opinion of the water or electricity company, as the case may be. They determine resource availability and it is an essential requirement for project viability. Thus, it is vital to work out this aspect from the start. Do not hesitate to coordinate all necessary issues to obtain the corresponding final approval. The case is similar for irrigation works, where the water authority must issue a water availability report. These opinions are very important for the SNIP as they affect the number of beneficiaries. Many project goals had to be reformulated when the formal confirmation of water or electricity availability was received.

The case is similar in other sectors. Interventions in education not only require institutional approval by the School Principal and the parents to have social support, but also by the Local Education Management Unit (UGEL), currently under the Regional Government. SNIP OPIs usually request technical opinion to ensure consistency with education policies. Ensure this point by coordinating meetings with the Formulation Unit and the respective education sector. The same procedure should be used with the health sector, where the Regional Health Office (DIRESA) may be required to issue technical opinion. Its intervention is also required by PIPs concerning environmental quality of water and its human consumption. Coordinate with the SNIP OPI as many times as required in this aspect.

These relationships between the SNIP and other State entities may take more time than estimated. Many people consider them bureaucratic procedures that contribute very little to the formulation of projects. This is an inaccurate appreciation. While there are persons that do

not collaborate much among the people responsible for these procedures, there are other public employees that perform a very good work. For example, it is unacceptable to elaborate drinking water projects with poor studies regarding quality of water; irrigation projects with half of the water programmed; schools or health centres without personnel available; roads that cross and damage hypersensitive environmental areas. These cases may sound absurd, but they really exist in Peru. The SNIP seeks to avoid them even if this entails some "bureaucratic" costs, which certainly should not have to take time. Therefore, it is necessary to take them into account from the beginning of the pre-investment stage.

Formality is very important in this coordination work with other agencies. That means written communications and official requests to obtain technical opinion. They must be issued, as far as possible, by the person directly responsible of the Formulation Unit, and when deemed necessary, by the highest authority. However, non-formal communications are just as important. Call for meetings, hold telephone communications, and make direct visits to the persons in charge. Sometimes, it may be difficult due to distance and access; however, if authorizations and permits are required, it is better to invest some time on them. Explain to the person in charge the benefits of the project and listen carefully to his opinion and comments. Observe what sensitive aspects are important. In many cases an opinion will just be part of the process, however, the effort is still necessary. It is just like buying a travel insurance policy, just in case.

## **6. Changes in the Dossier and Viability Verifications. What to Do?**

*Pre-investment may, if necessary, include detailed engineering to prevent future substantial changes in the project.*

One of the most important efforts made at spend management level is the integration of the budget and investments systems. To that effect, since 2008 the SNIP and Budget codification have been integrated, allowing for a more effective and accurate follow up in project execution. That is why today it is possible to identify from the information systems of the MEF, when a project has exceeded its approved investment amount. In fact, it is possible now to alert when an investment project is registered or approved with indicators that raise some flags. This actually enables the MEF to rapidly detect projects that have undergone substantial modifications, and to send prompt communications to the responsible parties.

Viability verification is one of the tools the SNIP has to supervise possible changes in the execution stage. In other words, the work of the SNIP does not end once it awards viability; it may and it must have a say when changes are made in the investment and execution stage.

Thus, when the technical dossier shows changes in costs, goals or other, the SNIP makes an evaluation and issues a technical opinion on the project.

Pursuant to SNIP regulations, if changes in costs are equivalent to less than 10% viability verification is not necessary. It is assumed that they are minor or insubstantial changes and that the Execution Unit is responsible for their approval. However, if costs increase between 10% and 30% or *substantial changes* have occurred, then verification by the SNIP is required. Of course, if the change is greater than 30%, there will be no verification and the project is sent back to its pre-investment stage and it will be necessary to formulate a study again.

The first recommendation we must give SNIP planners is to avoid viability verification to the extent possible. While there may always be unforeseen or extraordinary situations that may modify the design of the project, it is also true that most verifications obey to a poorly worked pre-investment stage. It is a mistake to carry out "superficial" engineering studies, with the idea that a serious study will be performed in the technical dossier. Soil mechanics studies, for instance, must be sufficiently complete to determine proper location of the work and a reasonable cost estimate. It is unacceptable that a technical dossier reveals a rocky ground not shown in the pre-investment stage. If there were any doubts, the pre-investment study may well include detailed engineering, which would then, actually, not be necessary in the technical dossier. In short, do what you need to do and invest as deemed necessary for the pre-investment study.

There are certainly unforeseen situations that deserve special attention and this should not mean going back to re-doing pre-investment studies and the SNIP regulates possible viability changes. This is what the SNIP calls substantial modifications.

On the costs side, substantial modifications may obey to price increases in the local market as a result of some exceptional situation. Many such cases were seen in 2008, when cement and iron registered sharp price increases. Another factor may be caused by the occurrence of a disaster that blocked a road for several weeks or even months, forcing the project to incur in greater costs. Finally, although less common, there have been cases where costs that were impossible to know during the pre-investment stage were underestimated, especially in places of hard geographical access, such as high Andean areas and rural rainforest areas. These or other similar situations are deemed acceptable by the SNIP and, duly substantiated, should not present viability verification problems and have positive results.

There are other substantial changes which are not cost-related. For example, when a water supply project keeps the same budget but reduces considerably the number of connections and, hence, of beneficiaries. These types of cases have been observed and it is reasonable they should deserve to be reviewed by the SNIP, as that may question the goodness of the project. The same situation arises when a component is eliminated or drastically reduced, for instance, when no defences are included to protect the water treatment plant because they are considered too expensive and hard to execute. This kind of decisions cannot be made without



a technical opinion of the evaluator and not only of the Execution Unit. Other substantial factors may refer to institutional arrangements, including those that guarantee the sustainability of a project. For example, when administration is changed to a different Execution Unit or entity in charge.

Viability verification, strictly speaking, should not exist if pre-investment is adequately worked out. Execution Units may handle imponderable situations. However, it was decided to have explicit regulations in this regard, as there was much use and abuse of changes in projects after viability had been awarded. Currently, many cases have emerged, already at public opinion level, and they reveal the huge problems that arise in the absence of adequate planning and good programming. Improvisation and short-term creativity are a source of such problems that affect expenditure quality.

## **7. Relationship with the Investments Programming Office (OPI): Never Leave it for Last**

Establish from the onset a good relationship between the OPI and the Formulation Unit. There is a common factor among projects that have been declared viable in reasonable terms: Active planner-evaluator cooperation. If there is support at political level, much better. That is always helpful for a productive and fluent work. That does not mean there will be certain advantages for project approval; forget about that when you are facing a professional OPI. On the contrary, it may have an opposite effect, especially in some SNIP offices known by their technical autonomy, starting with the governing body at the MEF and many OPIs across the country.

A proactive cooperation attitude is always positive. Suggest all the meetings you may consider necessary and involve the evaluator since the identification of the SNIP project. This is very helpful to become acquainted with those points where the evaluator places special interest or the contents that are considered particularly important to be worked in detail. Identify from the start these sensitive points and work them out very carefully in the study. Some evaluators tend to be quantitative and favour detailed statistical information about, for example, characterization of users, territory or behaviour of variables such as prices or costs. Other evaluators are more analytical and give special attention to the causal model (logical framework) and the coherence of the intervention. There are also more qualitative evaluators who pay special attention to technology or to the intervention model, including institutional variables and users' social participation. In short, different profiles to get acquainted with from the onset.

Do not make the mistake of relying in the formality of minimal contents, for instance, thinking that the information can be secondary. The SNIP evaluator may well request primary



information if deemed necessary. For example, asking for a soils study to ensure the location of a school or a topography for the design of a by-road or a water supply system. Another example, when he requests a demand study with a reliable sample of first-source surveys. Always keep in mind that the evaluator may request any information he may deem necessary. Of course, this does not imply asking for costly and complex information in a profile, but it is a power the SNIP has to clarify any technical doubts. It is important to be aware of this from the beginning and it will always be advisable to discuss methodology with the evaluator.

A good practice between the planner and the OPI is to agree on the logical framework, which is nothing else but the analysis of the problem to be solved and its causes. If you agree with the OPI on this item, you have almost half of the technical discussion solved. The other half is to discuss the offer and demand methodology as well as the methodology of the economic model of the cost-benefit evaluation. Even though some are already expressed in the SNIP guide, it is always helpful to review them with the evaluator. Certainly, if the PIP has no guide, like those concerning nutrition, citizen safety, tourism, etc., this exercise is very necessary. If the evaluator is not convinced about the methodology, you will most likely not obtain project approval promptly. Explain your model as completely as possible, refer to other experiences in the region, then in the country and, if you cannot find any, at international level.

We said at the beginning of this document that just like a panel of examiners in the defence of a thesis, evaluators always have a degree of discretion when approving a project. This will always be like that as long as the social evaluation of projects is a social science, that is, not an accurate science as mathematics, physics or engineering. That, however, must not underestimate the technical rigorousness of the evaluation. On the contrary, as there is not only one solution but eventually several, the capacity for analysis and substantiation may be much greater and complex. Regardless, there are some common criteria in the SNIP evaluator profile, which may be summarized as follows:

1. A good problem diagnosis and analysis are essential. The evaluator is trained to think along the line that what is unknown is not a problem and where there is no problem, there is no project. It is necessary to know the problem to then discuss a solution. The first step is to persuade the evaluator of the problem one intends to solve.
2. He differentiates need from problem. A SNIP evaluator approves projects that solve problems and not a need. A problem is a punctual situation that affects the adequate provision of a service in a negative way. A need may require more complex and comprehensive public intervention, such as a regular program.
3. Unlike many people believe, a SNIP evaluator does not assess by weight. To think that a PIP is better because it exhibits more volumes is a terrible mistake. It takes away seriousness from the work, especially when they are appendices and background information that do not add anything to the project. This predisposes the evaluator negatively.

4. A PIP always has to be a coherent intervention and never a list of activities without much justification. Avoid PIPs where 80% of the content consists of training workshops with no further purpose than to "build and develop capacities..."
5. A good offer and demand analysis and a full economic evaluation model are the best letter of introduction to the SNIP. Social return technically explained always represents an advantage. Be prudent and conservative in your scenarios. The SNIP evaluator appreciates the results obtained better.
6. Current expenses are a very sensitive nerve of the SNIP evaluator. Do not forcefully include costs and activities that may generate controversy or objections. In any case, reduce them as much as possible. While a PIP may well be intensive in work (technical assistance consultancies), provide a sound explanation of the temporary nature of the investment.
7. The cost-efficiency analysis must only be applied in extreme cases where it is too expensive or impossible to estimate benefits. Not even projects that are assumed to be profitable, such as drinking water supply or nutrition are calculated on a cost-efficiency basis. SNIP evaluators need to know that all efforts have been done making a cost-efficiency evaluation, hence the importance of an economic model.

## **Final Comments**

The preparation and evaluation of a project is a good practice introduced by the SNIP in public administration. Today, Peru has a culture of projects and it is healthy to find that the spending of public resources is preceded by intense discussions in public companies. I once heard a politician say that decisions used to be "easier" to make. They had only to define where, how and who would be in charge of executing a project. Today that is not possible and we must congratulate ourselves for this. There are two malign cancers in the State: Corruption and informality. Any effort to fight against them, like the SNIP, must be supported and strengthened.

Looking back to the progress achieved with the System, it is important to give a critical look and observe the errors and flaws that are still there. One reflection from an added approach is that it moved too fast into decentralization at local level. If the process had been more gradual, many costs would have been avoided, as for example learning and adjustment costs incurred by poor districts that were not prepared. The SNIP has neither been able to escape the procedural excesses of the State's administrative system. That includes regulatory language that is unfriendly and difficult to understand for operators. The System has also been affected by the absence of a public administration career, the excessive personnel turnover and political pressures. Finally and very sad to say, we must also accept that corruption has also been present, although in specific cases, especially at local level, which must be fought

against and removed. Regions and districts considered wealthy because of the extraction tax (canon) they receive require very strict supervision.

Despite these problems, the SNIP has managed to take measures to correct them and is seeking to improve its performance permanently. Legal provisions and procedures have been simplified without affecting expenditure quality; the Bank of Projects, which has to be the most complete and organized freely accessible database in Peru, has been substantially improved; the training program has been intensified and enriched across the country, seeking alliances with specialized institutions like universities. It is not an easy task, the challenge is massive taking into account that Peru has been experiencing sustained economic growth and there is increasing social pressure to solve long-standing problems.

The SNIP is a powerful tool, not only in times of shortage. Unlike what many believe, it is when resources are available when there is a need for more rigorous technical assessment. The economic history of Peru is, unfortunately, rich in examples of wasted periods of abundance. We may just recall the "golden" years of guano, rubber or fishmeal. We must end the terrible habit to improvise and do things without any more reflecting on them than the enthusiasm to execute works. It is necessary to think well before spending and that is the SNIP. The opportunity to close our gaps in infrastructure and access to basic services is now. We cannot afford to misspend one more Nuevo Sol.