

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**PERU**

**CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CCLIP) FOR THE  
SECTOR INNOVATION PROGRAM  
(PE-O0006)**

**FIRST INDIVIDUAL OPERATION: INNOVATION, TECHNOLOGICAL  
MODERNIZATION, AND ENTREPRENEURSHIP PROGRAM  
(PE-L1263)**

**LOAN PROPOSAL**

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## CONTENTS

### PROJECT SUMMARY

I.	PROJECT DESCRIPTION AND RESULTS MONITORING .....	1
A.	Background, problem addressed, and rationale.....	1
B.	Objectives, components, and cost .....	8
C.	Key results indicators .....	13
II.	FINANCING STRUCTURE AND MAIN RISKS .....	14
A.	Financing instruments .....	14
B.	Environmental and social safeguard risks.....	16
C.	Fiduciary risks .....	16
D.	Other key risks and issues.....	16
III.	IMPLEMENTATION AND MANAGEMENT PLAN .....	17
A.	Summary of implementation arrangements .....	17
B.	Summary of arrangements for monitoring results .....	20
IV.	ELIGIBILITY CRITERIA.....	21

## APPENDICES

Proposed resolution

ANNEXES	
Annex I	Summary Development Effectiveness Matrix (DEM)
Annex II	Results Matrix
Annex III	Fiduciary Agreements and Requirements

LINKS
<b>REQUIRED</b> <ol style="list-style-type: none"><li>1. <a href="#">Multiyear execution plan / annual work plan</a></li><li>2. <a href="#">Monitoring and evaluation plan</a></li><li>3. <a href="#">Procurement plan</a></li></ol>
<b>OPTIONAL</b> <ol style="list-style-type: none"><li>1. <a href="#">Multiyear macroeconomic framework 2021-2024</a></li><li>2. <a href="#">Investment gap in business innovation activities</a></li><li>3. <a href="#">Challenges in strategic sectors</a></li><li>4. <a href="#">Program regulatory framework</a></li><li>5. <a href="#">Environmental and climate change considerations in the financed projects</a></li><li>6. <a href="#">Economic analysis of the project</a></li><li>7. <a href="#">Program structure</a></li><li>8. <a href="#">Bibliography</a></li><li>9. <a href="#">Demand study</a></li><li>10. <a href="#">Program Operating Regulations</a></li><li>11. <a href="#">Summary of competitions and eligibility conditions</a></li><li>12. <a href="#">Safeguard policy filter and safeguard screening form</a></li></ol>

## ABBREVIATIONS

CCLIP	Conditional Credit Line for Investment Projects
CGR	Office of the Comptroller General
CITE	Centro de Innovación Productiva y Transferencia Tecnológica [Center for Productive Innovation and Technology Transfer]
COFIDE	Corporación Financiera de Desarrollo [Development Finance Corporation]
CONCYTEC	Consejo Nacional de Ciencia, Tecnología e Innovación Tecnológica [National Council on Science, Technology, and Technological Innovation]
ENIIMSEC	Encuesta Nacional de Innovación en la Industria Manufacturera y Empresas de Servicios Intensivas en Conocimiento [National Survey on Innovation in the Manufacturing Industry and Knowledge-Intensive Services Enterprises]
GDP	Gross domestic product
ICB	International competitive bidding
IMF	International Monetary Fund
INACAL	Instituto Nacional de la Calidad [National Quality Institute]
INEI	Instituto Nacional de Estadísticas e Informática [National Institute of Statistics and Computing]
ITP	Instituto Tecnológico de la Producción [Technological Institute for Production]
LIBOR	London Interbank Offered Rate
MEF	Ministry of Economy and Finance
MSMEs	Micro, small, and medium-sized enterprises
OECD	Organisation for Economic Co-operation and Development
PROCIENCIA	Programa Nacional de Investigación Científica y Estudios Avanzados [National Program for Scientific Research and Advanced Studies]
PRODUCE	Ministry of Production
PROINNOVATE	Programa Nacional de Desarrollo Tecnológico e Innovación [National Program for Technological Development and Innovation]
QCBS	Quality- and cost-based selection
R&D	Research and development
R&D&I	Research, development, and innovation
SEPA	Sistema de Ejecución de Planes de Adquisiciones [Procurement Plan Execution System]
SIAF	Sistema Integrado de Administración Financiera [Integrated Financial Management System]
SINACYT	Sistema Nacional de Ciencia, Tecnología e Innovación [National System for Science, Technology, and Innovation]
SMEs	Small and medium-sized enterprises

## PROJECT SUMMARY

### PERU CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CCLIP) FOR THE SECTOR INNOVATION PROGRAM (PE-O0006)

#### FIRST INDIVIDUAL OPERATION: INNOVATION, TECHNOLOGICAL MODERNIZATION, AND ENTREPRENEURSHIP PROGRAM (PE-L1263)

Financial Terms and Conditions					
Borrower:				Flexible Financing Facility <sup>(a)</sup>	
Republic of Peru				Amortization period:	14.5 years
Executing agency:				Disbursement period:	5 years
Ministry of Production (PRODUCE)				Grace period:	6.5 years <sup>(b)</sup>
Source	CCLIP (US\$)	First Program (US\$)	%	Interest rate:	LIBOR-based
IDB (Ordinary Capital):	300,000,000	100,000,000	71	Credit fee:	(c)
				Inspection and supervision fee:	(c)
Local:	0	40,000,000	29	Weighted average life:	11.23 years
Total:	300,000,000	140,000,000	100	Approval currency:	United States dollar
Project at a Glance					
<b>Objective of the CCLIP:</b> To increase business productivity by: (i) increasing private investment in business innovation; and (ii) strengthening the Peruvian government's capacity to design, steer, and implement long-term business innovation policies.					
<b>Objective of the first individual operation under the CCLIP:</b> The general objective is to increase business productivity through greater private investment in innovation activities. The specific objectives are: (i) to increase investment in innovation and the development of innovations in established beneficiary enterprises, incorporating environmental sustainability and climate change considerations for some of the enterprises receiving support; (ii) to increase early financing to promote the growth of new beneficiary innovative enterprises, incorporating environmental sustainability and climate change considerations for some of the new enterprises receiving support; (iii) to reduce productivity gaps among the beneficiary MSMEs, incorporating environmental sustainability and climate change considerations for some of the MSMEs receiving support; and (iv) to improve the sector and regional orientation of innovation policies, incorporating environmental sustainability and climate change considerations.					
<b>Special contractual conditions precedent to the first disbursement of the loan proceeds:</b> As special contractual conditions precedent to the first disbursement, the borrower, acting through the executing agency, will submit evidence of: (i) approval of the program <a href="#">Operating Regulations</a> , in accordance with the terms previously agreed upon by the Bank; and (ii) the trust agreement contract signed by the Ministry of Production (PRODUCE) and the Development Finance Corporation (COFIDE), in accordance with the terms previously agreed upon by the Bank (paragraph 3.6).					
<b>Exceptions to Bank policies:</b> None.					

Strategic Alignment			
<b>Challenges:</b> <sup>(d)</sup>	SI <input type="checkbox"/>	PI <input checked="" type="checkbox"/>	EI <input type="checkbox"/>
<b>Crosscutting themes:</b> <sup>(e)</sup>	GE <input checked="" type="checkbox"/> and DI <input type="checkbox"/>	CC <input checked="" type="checkbox"/> and ES <input type="checkbox"/>	IC <input checked="" type="checkbox"/>

- (a) Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency, interest rate, and commodity conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.
- (b) Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.
- (c) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable policies.
- (d) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).
- (e) GE (Gender Equality) and DI (Diversity); CC (Climate Change) and ES (Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

## I. PROJECT DESCRIPTION AND RESULTS MONITORING

### A. Background, problem addressed, and rationale

- 1.1 **Slowing growth before COVID-19.** From 2000 to 2019, Peru's gross domestic product (GDP) grew 4.6% annually.<sup>1</sup> However, potential GDP growth fell from 7.1% in 2007 to 3.1% in 2019.<sup>2</sup> This growth depends on the accumulation of factors (capital and labor) and the productivity<sup>3</sup> with which they are used. Productivity, which depends on innovation, grew 1.3% annually between 2000 and 2013 but since then has contracted by -0.2% per year.<sup>4</sup> This slowdown is associated with stalled private investment in innovation, which dropped from annual growth of 6.8% in 2010-2013 to annual growth of just 1.1% in 2014-2017.<sup>5</sup>
- 1.2 **COVID-19.** The Peruvian economy was severely affected by the COVID-19 pandemic, with an 11.1% drop in GDP<sup>6</sup> in 2020. Micro, small, and medium-sized enterprises (MSMEs) were particularly affected, contending with demand for digitalization and quality.<sup>7</sup> Depending on the evolution of the pandemic, GDP is expected to recover 8.5% in 2021, with growth at 5.0% for 2022-2023.<sup>8</sup> The pandemic revealed the importance of having a strong National System for Science, Technology, and Innovation (SINACYT) to respond to similar emergencies and stimulate recovery afterwards.
- 1.3 **Investment gaps in innovation.** Peruvian businesses<sup>9</sup> do not invest much in innovation (2.0% of sales in 2017, compared with the respective regional and OECD averages of 2.5% and 4.0%)<sup>10</sup> and do not present a neat pattern. A full 34% of Peruvian businesses do not feel the need to innovate. Of the rest, only 11% implemented their projects, while 55% discontinued (34%) or delayed (21%) them due to some obstacle. These obstacles vary depending on whether a business is new or established and whether it is an MSME. The deficit in private investment in innovation is estimated at US\$1.140 billion per year ([optional link 2](#)).
- 1.4 **Obstacles to innovation in established businesses.** The typical business in this segment is a small or medium-sized enterprise (SME) with 65 employees. These businesses invest in innovation but have delayed their projects due to cost (35% of businesses), risk (27%), imitation (25%), or lack of access to financing for innovation (16%).<sup>11</sup> This segment accounts for 44% of the investment deficit.

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<sup>1</sup> The Conference Board (2021).

<sup>2</sup> [Optional link 1](#).

<sup>3</sup> Total factor productivity.

<sup>4</sup> The Conference Board (2021).

<sup>5</sup> INEI (2019).

<sup>6</sup> IMF (2021).

<sup>7</sup> IDB (2020b).

<sup>8</sup> IMF (2021).

<sup>9</sup> 2.3 million formal businesses. INEI (2020).

<sup>10</sup> IDB (2020a).

<sup>11</sup> [Optional link 2](#).

Partial nonreimbursable contributions,<sup>12</sup> which share the private investment cost with society, are the main public policy support for innovation in Peru. However, nonreimbursable contributions, in addition to having limited penetration (2.7% of businesses),<sup>13</sup> are only appropriate in the case of obstacles related to imitation and risk.<sup>14</sup> Businesses also face financing problems, for which loans are better suited. However, policy instruments that promote credit for innovation are lacking.

- 1.5 **Limited collaboration for innovation.** Collaboration between businesses and with science and technology institutions makes it possible not only to share the risks involved in innovation but also to take on innovation projects with strong positive externalities.<sup>15</sup> Collaborative innovation could be used to address challenges in sectors such as health, food, manufacturing, and climate change.<sup>16</sup> However, only 7.7% of Peruvian businesses collaborate on innovation,<sup>17</sup> due to lack of experience and the absence of interventions to support these projects.
- 1.6 **Obstacles to new innovative enterprises.** In all, 50% of new businesses founded on an innovative idea cite financing as their primary obstacle.<sup>18</sup> Although 400 new innovative enterprises are established every year, few succeed in scaling up. Financing for innovative entrepreneurship varies according to the stage of development: (i) seed capital to validate ideas; (ii) early investment funds for product development; and (iii) investment funds and banks for expansion.<sup>19</sup> Each stage depends on the flow of projects from the previous one. The supply of seed capital comes from emerging angel investment networks whose activity slowed down during the pandemic.<sup>20</sup>
- 1.7 More than 26 incubators and accelerators provide technical assistance to help entrepreneurs obtain financing. However, they handle a small number of projects (16 per incubator in Peru, versus 25 in Chile),<sup>21</sup> which could affect their sustainability. Moreover, few incubators offer advanced services (e.g. internationalization). Lastly, most incubators are driven by targets that reward the quantity of businesses incubated over quality.
- 1.8 **Obstacles to technological modernization of MSMEs.** The typical enterprise in this segment has 16 workers, and even if it does not innovate, it seeks to build capacity to do so.<sup>22</sup> In addition to a lack of funds (49%) and lack of access to

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<sup>12</sup> Or matching grants.

<sup>13</sup> INEI (2019).

<sup>14</sup> There is a tax incentive for large companies for R&D&I (IDB, 2020b).

<sup>15</sup> Innovation projects, which are knowledge-intensive, generate positive results that extend to other enterprises beyond the initial investor. The social return on these investments can be greater than the private gain.

<sup>16</sup> [Optional link 3](#).

<sup>17</sup> 25% among OECD member countries (OECD, 2011).

<sup>18</sup> Goñi and Reyes (2019).

<sup>19</sup> IDB (2014).

<sup>20</sup> Peruvian Seed and Venture Capital Association (2021).

<sup>21</sup> Kantis (2017).

<sup>22</sup> [Optional link 2](#).



financing (30%), these businesses cite a lack of information on technologies (14%), markets (9%), and digital technologies (10%) as barriers to innovation. This segment accounts for 30% of the investment deficit.<sup>23</sup> The Technological Institute for Production (ITP) addresses these challenges through a network of Centers for Productive Innovation and Technology Transfer (the CITE network).<sup>24</sup> Most of these centers have been operating since 2015 and need to take action to strengthen the scope and coverage of their services. In addition, not all technologies recommended for MSMEs by the CITEs can be implemented, due to lack of financing.

- 1.9 **Quality gaps.** Integrating enterprises into global value chains is essential for innovation and requires compliance with strict quality standards.<sup>25</sup> That said, MSMEs are not adopting modern quality management practices (only 10% use certifications in production).<sup>26</sup> This is because they are unaware of the available certifications (63.1% of MSMEs) and because of the cost involved in getting certified (23.1%).<sup>27</sup> Furthermore, metrology services are located in Lima, making it more expensive to get certified in the regions.
- 1.10 **Business digitalization.** Peruvian MSMEs are behind in adopting digital technologies. Digitalization is key to handling the disruptions caused by the pandemic as well as changing consumer habits.<sup>28, 29</sup> However, there are significant gaps in adoption of these technologies. Notably, in 2018, only: (i) 15.7% of MSMEs advertised online; (ii) 6.6% sold their products online; and (iii) 2.4% distributed their products online.<sup>30</sup> Certain public support services for business digitalization need to be scaled up through partnerships with technology providers and e-commerce platforms. The digital divide also extends to human capital,<sup>31</sup> but online courses (bootcamps) could be offered to promote the rapid acquisition of digital skills.
- 1.11 **State failures: PROINNOVATE institutional capacity.** The National Program for Technological Development and Innovation (PROINNOVATE), which, following a merger, inherited the National Innovation Program for Productivity and Competitiveness, Innóvate Perú, is the lead agency for innovation policies. It has 90 employees and executes US\$23 million per year. However, its institutional capacity is at an intermediate level compared with its counterparts in the region.<sup>32</sup> Of particular note are its weak technology platform and the need to modernize and simplify processes and build capacity for impact evaluation and

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<sup>23</sup> [Optional link 2.](#)

<sup>24</sup> 46 [CITEs](#), public and private.

<sup>25</sup> Ghezzi (2020).

<sup>26</sup> INEI (2018a).

<sup>27</sup> INEI (2018a).

<sup>28</sup> IDB (2020b).

<sup>29</sup> E-commerce grew 400% in 2020 ([optional link 1](#)).

<sup>30</sup> INEI (2018b).

<sup>31</sup> Coursera (2021).

<sup>32</sup> Angelelli et al. (2017).

socioenvironmental management for the projects receiving support (paragraph **Error! Reference source not found.**).

- 1.12 **Limited policy targeting.** Most public programs in support of business innovation are crosscutting. However, programs targeted to address sector or regional challenges increase the returns on innovation by making it possible to select projects with greater externalities. At present, 4.7% of funds supporting business innovation in Peru are targeted (the OECD average is 70%).<sup>33</sup> Further targeting will require strengthening public-private coordination. Accordingly, the Ministry of Economy and Finance created sector councils<sup>34</sup> to identify market failures and help guide innovation policies. To improve their effectiveness, they must be strengthened and resources must be made available for addressing challenges.
- 1.13 **Limited capacity of regional governments.** The regions have low innovation capacity, and investment in innovation is highly concentrated in Lima (86%).<sup>35</sup> Most regional governments do not have own resources for innovation but rather leverage national sources for that purpose. Weak capacity makes leveraging these sources difficult. Furthermore, there is little collaboration around an innovation agenda between businesses and institutions outside the capital region. In order to build regional innovation capacity, the regional governments' coordination with these actors (business, academia, and civil society) must be improved.
- 1.14 **SINACYT strategic framework.**<sup>36</sup> The governance of SINACYT is divided between two agencies, with the National Council on Science, Technology, and Technological Innovation (CONCYTEC) in charge of interventions in the sciences and advanced human capital, and the Ministry of Production (PRODUCE) in charge of interventions in innovation.<sup>37</sup> The Presidency of the Council of Ministers, where the Multisector Committee and the Advisory Committee on Science, Technology, and Innovation both operate, handles coordination across sectors. The Peruvian government has made strengthening SINACYT a priority through: (i) the National Competitiveness and Productivity Plan and Policy; (ii) the National Plan for Productive Diversification; and (iii) the National Policy for the Development of Science, Technology, and Technological Innovation, all of which set targets to strengthen SINACYT governance, promote innovation and quality for MSMEs, and generate knowledge in line with the country's needs.
- 1.15 **Rationale for the CCLIP and the first individual operation under the CCLIP.** The Peruvian government requested financing for an innovation, technological modernization, and entrepreneurship program that would provide PROINNOVATE with technical and financial support. The Peruvian government and the Bank agree to address the challenges facing SINACYT through a conditional credit line for investment projects (CCLIP). Innovation policies materialize in uncertain contexts

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<sup>33</sup> IDB (2020d).

<sup>34</sup> Sector councils (*mesas ejecutiva sectoriales*) have been established for forestry, aquaculture, fishing, mining and energy, tourism, innovation, and MSMEs.

<sup>35</sup> INEI (2019).

<sup>36</sup> [Optional link 4](#).

<sup>37</sup> Through PROCENCIA and PROINNOVATE, respectively.

and are reinforced during implementation. To be effective, they must be supported by a flexible long-term technical and financial support framework. The CCLIP is an ideal instrument that will: (i) provide a programmatic framework consistent with the National Plan for Competitiveness and Productivity (2019-2030) for addressing business innovation needs; (ii) create a long-term intervention framework for the Bank and PROINNOVATE that will promote institutional learning; and (iii) implement an efficient mechanism for preparing priority operations for the Peruvian government. The rationale for the first individual operation is based on the fact that increasing private investment in innovation is essential for productivity growth, and therefore, obstacles that affect the different businesses must be addressed. This means: (i) improving the supply of financing for business innovation; (ii) improving early financing and services for innovative enterprises; (iii) promoting technological modernization of MSMEs; and (iv) strengthening institutional capacity for the implementation of innovation policies. The first operation under the CCLIP will lend continuity to prior operations (paragraph 1.16) through support for individual business innovation and entrepreneurship projects and will incorporate innovative instruments, including technological guarantees, public procurement of innovation, and digitalization of MSMEs.

- 1.16 **Sector knowledge.** The Bank has supported the sector since 2006, through the following operations: (i) Science and Technology Program (1663/OC-PE), which implemented matching grants for business innovation projects for the first time in Peru; (ii) Innovation Project for Competitiveness (2693/OC-PE), which began providing support for innovative entrepreneurship through Startup Peru; and (iii) Improved Levels of Productive Innovation at the National Level (3700/OC-PE), which incorporates support for subnational innovation and technology extension activities. The first two operations were executed successfully, while the third has disbursed 55% of funds with a commitment to 78%. In 2014, the Peruvian government created Innóvate Perú at PRODUCE based on the execution unit for program 1663/OC-PE, and in 2021 it created PROINNOVATE, expanding Innóvate Perú's structure, scope, and coverage. The institutional capacity developed through these projects has helped give continuity to the innovation policies.
- 1.17 The project completion report for operation 1663/OC-PE found that the 13 most successful innovation projects (of 118 that were funded) allowed the State to recover the entire amount borrowed. Meanwhile, the project completion report for operation 2693/OC-PE highlighted that the project increased beneficiaries' business investment in innovation compared with a control group, with an ex post social return of 24%. Furthermore, the quasi-experimental evaluation of Startup Perú found that the new businesses that were supported multiplied sales by a factor of 2.1 and employment by 1.6 compared with the control group businesses.<sup>38</sup>
- 1.18 This operation benefits from the knowledge generated under the CCLIPs promoting innovation in Argentina, General Program of Technological Innovation (operation AR-X1015); Brazil, Innovation for Growth Program (operation BR-O0004); and Uruguay, Promote Innovation, Entrepreneurship,

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<sup>38</sup> Goni and Reyes (2018).

Human Capital, and Research (operation UR-O1153). The impact evaluations of these operations suggested the following: (i) nonreimbursable contributions partially correct market failures, especially when collaborative designs are used; (ii) loans increase private investment in innovation, except in startups; (iii) technology extension closes productivity gaps in MSMEs; and (iv) the beneficiaries of innovative entrepreneurship support programs achieve more growth if adverse selection problems are corrected.<sup>39, 40</sup>

- 1.19 **Lessons learned.** Lessons learned from previous programs in Peru and the region have been incorporated into the program design. They include: (i) a long-term policy framework to build capacity can be strengthened by using the CCLIP; (ii) a targeted approach to challenges makes it possible to finance projects with more externalities, through collaborative innovation; (iii) deconcentrating investment in innovation out towards the interior of the country requires an ecosystem approach through support for collaborative projects between public and private actors throughout the country; (iv) leveraging private sector resources increases policy effectiveness, through the provision of technological guarantees;<sup>41</sup> and (v) PROINNOVATE needs to modernize and digitize its processes.
- 1.20 **Coordination with other donors.** The World Bank is preparing a multiphase program for CONCYTEC focused on advanced human capital and university-industry technology transfer. Areas of complementarity with the proposed program include institutional strengthening, coordination of competitive calls, and insertion of human capital into innovative businesses.
- 1.21 **Complementarity with other IDB operations in execution.** This operation complements the project 3700/OC-PE, scaling up prior interventions like support for CITEs and regional ecosystems. It also complements policy reform programs, namely the: (i) Program to Improve Productivity and Competitiveness (4957/OC-PE); and (ii) Reform Program to Support Economic Recovery and Competitiveness (5203/OC-PE), by strengthening public-private dialogue and SINACYT governance. Lastly, it also complements operations ATN/ME-17695-RG and ATN/ME-18305-PE for the digitalization of MSMEs with a gender approach, and operations ATN/OC-16643-PE and ATN/KR-17948-PE, which strengthen the sector councils and the National Quality Institute (INACAL), respectively.
- 1.22 **Strategic alignment.** The program is consistent with the Second Update to the Institutional Strategy 2020-2023 (document AB-3190-2), as it aligns with the development challenge of productivity and innovation, by financing incentives for business innovation, and with the crosscutting areas of: (i) institutional capacity and the rule of law, by modernizing PROINNOVATE's processes; (ii) gender equality, by expanding opportunities for women entrepreneurs and promoting gender balance with regard to digitalization (paragraph 1.23); and (iii) climate change, by prioritizing innovation projects that address this issue (paragraph 1.24).

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<sup>39</sup> In order for these programs to be effective, both the quality of support (e.g. an incubation service) and the correct selection of beneficiaries for support are important (Goñi and Reyes, 2018).

<sup>40</sup> Development Effectiveness Overview (2021) in press.

<sup>41</sup> Letters of guarantee issued by a guarantor affirming that an innovative MSME has access to private credit to finance its innovation projects.

According to the [joint methodology of the multilateral development banks](#), an estimated 25.62% of operation proceeds will be invested in the promotion of innovation and technologies with a positive environmental and climate impact. These resources will contribute to the IDB Group target of increasing financing for climate-related projects to 30% of annual approvals. Furthermore, the program will contribute to the Corporate Results Framework 2020-2023 (GN-2727-12) through the following indicators: (i) micro, small, medium enterprises financed; (ii) enterprises provided with technical assistance; (iii) women beneficiaries of economic empowerment initiatives; (iv) agencies with strengthened digital technology and managerial capacity. It is also consistent with: (i) the Innovation, Science, and Technology Sector Framework Document (GN-2791-8), by promoting better policies for business innovation; (ii) the Gender and Diversity Sector Framework Document (GN-2800-8), by promoting gender equality; and (iii) Climate Change Sector Framework Document (GN-2835-8), by promoting further inclusion of climate considerations in different sectors. It is aligned with the: (i) Sector Strategy on Institutions for Growth and Social Welfare (GN-2587-2), by strengthening institutional capacity for innovation; and (ii) the IDB Group Country Strategy with Peru (2017-2021) (GN-2889), under the strategic objectives: (i) strengthen the business climate; and (ii) support business development. Lastly, it has been included in the 2021 Operational Program Report (GN-3034).

- 1.23 **Gender considerations.** The program closes gender gaps in the creation of new innovative enterprises. One characteristic of the Peruvian ecosystem is a gender imbalance in innovative entrepreneurship. A full 83% of founders are men.<sup>42</sup> The gender gap, which can be detected early in the project cycle, is the result of both lack of capacity and limited access to information among potential women entrepreneurs. These issues will be addressed through financing for projects submitted by agencies specialized in supporting women's innovative entrepreneurship (Network of Innovative Women Entrepreneurs). The projects will cover training, marketing, and mentoring activities (paragraph 1.32). There is also a gender gap in digital skills (49.9% of women use the Internet compared with 55.2% of men).<sup>43</sup> The program will help close these gaps through gender-equal scholarships for access to bootcamp-type educational courses (paragraph 1.34). These activities are consistent with the Update to the Gender Action Plan for Operations 2020-2021 (document GN-2531-19) through the lines of action identified for the sector, namely, promoting the participation of women in science, technology, and innovation activities, as well as human capital development with a gender focus.
- 1.24 **Environmental sustainability and climate change considerations.** The program emphasizes the financing of environmentally sustainable innovation projects that mitigate and/or adapt to climate change. Due to structural factors, Peru is among the countries most vulnerable to climate change. The increased intensity of climate phenomena generates higher temperatures, glacier loss, droughts, and floods, impacting the population, ecosystems, and the national

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<sup>42</sup> PROINNOVATE (2021).

<sup>43</sup> INEI (2019).

productive structure. As a result of the effects of climate change, potential GDP is expected to drop at an average annual rate of 8% through 2050.<sup>44</sup> However, only 7% of the competitive funds available through innovation policies are allocated to address these considerations.<sup>45</sup> The target is to increase this financing to 30%,<sup>46</sup> for which: (i) specific competitive calls will be held to allocate US\$34.8 million for projects oriented to environmental sustainability and climate change mitigation and adaptation ([optional link 5](#)); (ii) those projects that have received positive technical assessments and develop innovative solutions for environmental sustainability and/or seek to mitigate or adapt to climate change will be credited an additional 15 percentage points; (iii) as a condition of eligibility, all financed projects must comply with national environmental laws; and (iv) PROINNOVATE's capacity for monitoring projects that are environmentally sustainable and mitigate or adapt to climate change will be strengthened.<sup>47</sup> The target of 30% will be monitored annually to verify compliance and make adjustments as needed.

## **B. Objectives, components, and cost**

- 1.25 **Objective of the CCLIP.** The general objective of this sector CCLIP is increase business productivity by: (i) increasing private investment in business innovation; and (ii) strengthening the Peruvian government's capacity to design, steer, and implement long-term business innovation policies. The CCLIP will finance individual programs, projects, and/or activities in the following areas: (i) promotion of private investment in innovation: to increase returns and reduce the costs of business innovation projects. Financing will be provided for incentives for private investment in innovation, access to credit for innovation, collaborative business innovation projects, and stimulus for private innovation projects targeting strategic sector, regional, and national challenges; (ii) creation and development of new innovative enterprises: to increase the flow of new innovative enterprises. Financing will be provided for incentives for the creation and launch of new innovative enterprises, the attraction of innovative ventures from abroad, and support for venture capital financial intermediaries. Financing will also be provided for support services for the entrepreneurial ecosystem; (iii) closing of productive gaps among MSMEs: to improve MSME innovation capacity. Financing will be provided for demand incentives for digitalization, quality, and technology extension services. Financing will also be provided for the supply of public goods in these areas; and (iv) institutional strengthening: to build capacity for designing, steering, and implementing national, sector, and regional innovation policies. Financing will be provided for activities including support for streamlined processes, digitalization, public-private dialogue, and ecosystem coordination.
- 1.26 **Objective of the first individual operation under the CCLIP.** The general objective is to increase business productivity through greater private investment in innovation activities. The specific objectives are: (i) to increase investment in innovation and the development of innovations in established beneficiary

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<sup>44</sup> Ministry of the Environment (2020).

<sup>45</sup> PROINNOVATE (2021).

<sup>46</sup> Consistent with the target reduction of greenhouse gas emissions for 2030.

<sup>47</sup> [Optional link 5](#).

- enterprises, incorporating environmental sustainability and climate change considerations for some of the enterprises receiving support; (ii) to increase early financing to promote the growth of new beneficiary innovative enterprises, incorporating environmental sustainability and climate change considerations for some of the new enterprises receiving support; (iii) to reduce productivity gaps among the beneficiary MSMEs, incorporating environmental sustainability and climate change considerations for some of the MSMEs receiving support; and (iv) to improve the sector and regional orientation of innovation policies, incorporating environmental sustainability and climate change considerations.
- 1.27 **Component 1. Incentives for private investment in innovation. (US\$53,325,000).** This component will increase private investment in innovation activities in formal MSMEs through support for individual and collaborative business innovation:
- 1.28 **Subcomponent 1.1. Individual business innovation (US\$32,500,000).** Through competitive calls, partial financing will be provided for the following individual business innovation projects:
- (i) Innovation projects. Financing will be provided in two phases. The first will be to develop prototypes (nonreimbursable contribution of up to 80% of the cost, for a maximum of US\$150,000 and up to 24 months). The MSMEs that have a prototype will have access to a second phase for technology packaging and technical-commercial validation of the innovation (nonreimbursable contribution of up to 60% of the cost, for a maximum of US\$250,000 and up to 24 months).
  - (ii) Innovation guarantees. Letters of guarantee will be provided for innovation scaleup projects submitted by MSMEs. The letters of guarantee will guarantee bank financing for these projects and up to 80% of the cost, for a maximum of US\$200,000 and up to 36 months.
- 1.29 **Subcomponent 1.2 (US\$20,825,000). Collaborative business innovation for challenges.** Through competitive calls, partial financing will be provided for the following collaborative business innovation projects:
- (i) Business network projects for technology solutions to address sector productive challenges. These challenges will be identified primarily through PRODUCE's sector technology roadmaps and public-private dialogue led by the sector councils. This subcomponent will finance projects that connect at least three businesses (two MSMEs) or at least two MSMEs with a technology center (nonreimbursable contribution of up to 70% of the cost, for a maximum of US\$800,000 and up to 36 months).
  - (ii) Projects to address production challenges in subnational value chains identified in the ITP production chains. Financing will be provided for projects that connect a CITE, an R&D organization, and at least three MSMEs in the chain (nonreimbursable contribution of up to 80% of the cost, for a maximum of US\$140,000 and up to 24 months).
  - (iii) Open innovation projects submitted by individual or associated businesses seeking to develop technology solutions through the

coordination of groups of businesses in innovation activities. Each project will have two consecutive phases, one in which the candidate business or group of businesses will define the challenges and another in which MSMEs are called to develop solutions (nonreimbursable contribution of up to 60% of the cost, for a maximum of US\$600,000 and up to 30 months).

- (iv) Open innovation projects designed to address major public challenges. The sector ministries, regional governments, or municipal governments will identify the challenges. Each project will have two phases, one for defining the challenges and another in which MSMEs will be called to develop solutions (nonreimbursable contribution of up to 80% of the cost, for a maximum of US\$300,000 and up to 24 months).

1.30 **Component 2. Early financing for venture capital (US\$21,330,000).** This component will increase the flow of new innovative enterprises and strengthen the entrepreneurial ecosystem:

1.31 **Subcomponent 2.1. Venture capital (US\$16,460,000).** Through competitive calls, partial financing will be provided for the following venture capital projects: (i) projects for validation of a minimum viable innovative product (nonreimbursable contribution of up to 70% of the cost, for a maximum of US\$18,000 and up to 12 months); (ii) projects for the commercial launch of a venture (nonreimbursable contribution of up to 80% of the cost, for a maximum of US\$40,000 and up to 18 months); (iii) projects to attract foreign entrepreneurs or subsidiaries of new early-stage foreign ventures, to encourage them to establish operations in Peru as a platform for their global businesses (nonreimbursable contribution of up to 80% of the cost, for a maximum of US\$50,000 and up to 18 months); and (iv) projects to support the management costs of entities specializing in the early financing of new innovative enterprises, including seed capital and venture funds and networks of private angel investors (nonreimbursable contribution of up to US\$50,000, renewable annually for up to four years, provided that the entities demonstrate they have committed private investments of at least US\$300,000 each year). If any of the administrators fails to commit this amount, it will not be eligible for the benefit the following year.

1.32 **Subcomponent 2.2. Entrepreneurial ecosystem (US\$4,870,000).** Through competitive calls, partial financing will be provided for the following projects to support the entrepreneurial ecosystem:

- (i) Projects to strengthen incubation and acceleration services that support the development of innovative enterprises. The financing (nonreimbursable contribution of up to 80% of the cost, for a maximum of US\$450,000 and up to 4 years) will be disbursed against the fulfillment of sales, employment, and/or investment targets by the incubated or accelerated business. Operation of this line will be supported by implementation of a certification system for the incubators and accelerators.
- (ii) Projects by the Network of Innovative Women Entrepreneurs. This network will be comprised of organizations in the entrepreneurial ecosystem that wish to develop and implement a gender approach in



their innovative entrepreneurial process. In the framework of the network, financing will be provided for training, marketing, mentoring, and other projects (nonreimbursable contribution of up to 80% of the cost, for a maximum of US\$20,000 and up to 12 months). These projects must target the population of women entrepreneurs who are planning to start or have already started an innovative business.

- 1.33 **Component 3. Technological modernization for MSMEs (US\$51,868,600).** This component will close technology divides for MSMEs through supply and demand actions in three areas:
- 1.34 **Subcomponent 3.1. Development of digitalization services market for MSMEs (US\$17,950,000).** Through competitive calls, partial financing will be provided for the following types of project. The first type will support the creation of digital services centers to improve the offering of digitalization solutions for MSMEs. Centers are understood to be platforms that help match the available technology with businesses in a sector. The financing will be structured into two phases. In the first phase, financing will be provided for an analysis of technology gaps and a strategic plan. In the second phase, financing will be provided for implementation of the strategic plan (nonreimbursable contribution of up to 70% of the cost, for a maximum of US\$1,400,000 and up to 4 years). The second type of project will consist of scholarships to train human resources specialized in digitalization for courses lasting up to 12 months in bootcamp or similar programs (nonreimbursable contribution for a maximum of US\$7,500 for enrollment expenses). PROINNOVATE will hold a call for bootcamps willing to offer the programs. The scholarships will be awarded to the accepted candidates on a gender-equal basis. For the third type of project, financing will be provided for proposals submitted by Peruvian MSMEs for technical assistance on business digitalization. The projects will be implemented in two phases: the first will finance a diagnostic assessment to identify the digital gap, and the second will finance the action plan for digital service providers to close it (nonreimbursable contribution of up to 70% of the cost, for a maximum of US\$18,000 and up to 12 months).
- 1.35 **Subcomponent 3.2. Development of the compliance assessment services market for MSMEs (US\$19,070,000).** Through competitive calls, partial financing will be provided for the following projects: (i) accreditation projects for organizations that offer compliance assessment services (nonreimbursable contribution of up to 75% of the cost for a maximum of US\$50,000 and up to 24 months); (ii) scholarships to train human resources on compliance assessment (nonreimbursable contribution of up to US\$600 per participant for up to 12 months); and (iii) technical assistance projects for business quality submitted by Peruvian MSMEs. These projects will be implemented in two phases: the first will finance a diagnostic assessment to identify the quality gap, and the second will finance the project in which certified compliance assessment service providers will work to close it (nonreimbursable contribution of up to 70% of the cost for a maximum of US\$18,000 and up to 12 months).
- 1.36 In addition, these projects will receive support for the development of standards to facilitate certification in global markets and public procurement of new innovative products (nonreimbursable contribution for a maximum of US\$30,000 and up to 12 months) and the deployment of mobile calibration and test laboratories in regions

(nonreimbursable contribution for a maximum of US\$400,000 and up to 8 months). Lastly, the information system on certification at INACAL will be strengthened.

1.37 **Subcomponent 3.3. Development of the technology extension services market (US\$14,848,600).** Through competitive calls, partial financing will be provided for the following projects:

- (i) Technology extension projects. Support will be provided for projects presented by public CITEs to expand the offering of advisory services for innovation and technology development for MSMEs. CITEs will be eligible if they have a strategic plan with the minimum content established by PROINNOVATE (nonreimbursable contribution of up to 75% of the cost, for a maximum of US\$1,114,000 and up to 36 months).
- (ii) Technology modernization guarantees. Letters of guarantee will be issued so the MSMEs can finance implementation of the technology modernization plans suggested by the CITEs. The letters of guarantee ensure bank financing for technology modernization projects for up to 80% of the cost, for a maximum of US\$240,000 and up to 48 months.
- (iii) Additional support will be provided for these projects through implementation of a results-based management model at the ITP and the CITE network. A center for optimizing CITE network coordination will be implemented at the ITP for executing the new management model, for which financing will be provided for consulting services, missions for sharing experiences, and the design, development, and implementation of the results-based management model and the technology platforms for monitoring results at the businesses receiving support.

1.38 **Component 4. Institutional capacity (US\$8,450,000).** This component will improve institutional capacity for innovation policies by strengthening:

- (i) PROINNOVATE, including (i) update of institutional policies; (ii) modernization of computer systems; (iii) capacity for impact evaluation and socioenvironmental monitoring of projects; and (iv) ecosystem coordination actions.
- (ii) The sector councils for improving the targeting of innovation policies, including strengthening the specialized team and preparing specific studies for designing and implementing strategic projects. Consulting services will be engaged.
- (iii) Regional innovation ecosystems, through financing of projects for the coordination of these ecosystems. Through competitive calls, organizations with experience in innovation, leadership, local development, etc. will submit proposals. The projects will be submitted in partnership with regional governments (nonreimbursable contribution of up to 70% of the cost, for a maximum of US\$750,000 and up to 36 months).

1.39 **General considerations for competitive calls.** PROINNOVATE will execute the competitive selection processes for the program by issuing an open call for

proposals. The eligibility criteria will be expressly set forth in the conditions for each competition and will be subject to the Bank's no objection ([optional link 11](#)). The candidate projects will be evaluated by evaluation committees comprised of evaluators external to PROINNOVATE. These evaluators will be selected based on their technical and professional qualifications, reflecting experience with a broad array of productive activities and problems. All projects selected by the committees will be approved by the program steering committee (paragraph 3.4). Although they may vary by type of competition, the projects will be selected based on the following criteria: (i) relevance; (ii) human resource capacity; (iii) innovative merit; (iv) business plan; (v) externalities; and (vi) contribution to environmental sustainability and climate change mitigation and adaptation. Expenditures eligible for financing will include the following: (i) human resources; (ii) technical assistance and training services; (iii) consulting services; (iv) procurement of supplies and inputs; (v) procurement of testing equipment (up to 25% of the total of each project); (vi) software licenses; (vii) intellectual property protection services; and (viii) technology missions. For all program components, specific calls will be issued for projects oriented to environmental sustainability and climate change mitigation and adaptation in accordance with the [multiyear execution plan](#) for the program.<sup>48</sup>

- 1.40 **Program administration (US\$5,026,400).** Funding will cover the midterm and final evaluations, specific studies, innovation surveys, human resources, administrative expenses, audits, and the beneficiary monitoring system.
- 1.41 **Beneficiaries.** The final beneficiaries are three types of formal productive enterprises:<sup>49</sup> at least 300 established businesses (mostly SMEs), a number of which had already been investing and are looking to increase their innovation investments and results; at least 500 ventures seeking financial support and incubation, acceleration, and investment services to start or scale up businesses with high innovative content; and at least 2,000 traditional MSMEs, which despite not having innovated yet, do invest in technological modernization, quality, and digitalization. Other beneficiaries will be: the specialized team of the sector councils and the actors in the regional innovation ecosystems, as well as PROINNOVATE, the CITE network, institutions that provide incubation and acceleration services, and the participants in the various program training events.

## C. Key results indicators

- 1.42 **Expected impacts and results.** The general development objective will be evaluated using two indicators: (i) growth of investment in innovation with respect to sales at the beneficiary businesses; and (ii) growth of labor productivity at the beneficiary businesses. Strategic objective 1 (paragraph 1.24) will be evaluated on the basis of investment in innovation with respect to sales, the percentage of sales of new products introduced by the enterprises, and the percentage of private investment leveraged in innovation in Component 1 projects oriented to environmental sustainability and climate change. Strategic objective 2 will be

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<sup>48</sup> Potential topics include: green hydrogen, cleaner production, and energy transition.

<sup>49</sup> Effective demand represents at most 0.2% of potential demand and 0.3% of historic reference demand ([optional link 9](#)).

evaluated on the basis of the average private investment of innovative entrepreneurs, the average sales of beneficiary innovative entrepreneurs, and the percentage of private venture capital financing leveraged in Component 2 projects oriented to environmental sustainability and climate change. Strategic objective 3 will be evaluated on the basis of the labor productivity of beneficiary MSMEs relative to large companies and the percentage of financing from Component 3 MSMEs certified in environmental and climate change standards. Strategic objective 4 will be evaluated on the basis of the percentage of financing for national, regional, and public productive challenges and the financing of innovation projects aligned with environmental sustainability and climate change challenges.

- 1.43 **Economic analysis.** A [cost/benefit evaluation](#) was performed of the program, both at an aggregate level and by component, with a horizon of 10 years. This evaluation shows that the program has a positive social net present value of US\$154.9 million and a social internal rate of return of 25.2% (above the Bank threshold of 12%). These results are robust to a sensitivity analysis for the program's main parameters.

## II. FINANCING STRUCTURE AND MAIN RISKS

### A. Financing instruments

- 2.1 **CCLIP.** The Bank will contribute to the general objective of increasing the productivity of enterprises through a CCLIP with the following characteristics:
- a. **Modality.** Due to the nature of the program, the CCLIP will be sector-based, in accordance with Bank policies on the CCLIP instrument (document GN-2246-13).
  - b. **Sector.** The CCLIP will encompass interventions in areas related to the promotion of individual and collaborative private investment in innovation; advancement of mission-oriented business innovation; incentives for the creation and development of new innovative enterprises; strengthening of public goods for the innovation system; interventions to close productive gaps in MSMEs; and capacity-building for designing, steering, and implementing innovation policies at the national, sector, and regional levels.
  - c. **Institutional arrangements.** The CCLIP will have two possible allocation channels depending on the program type: (i) through a trust, whether new or existing, aligned with the CCLIP objectives; or (ii) through the financing of a public investment project in the framework of the national system for multiyear programming and management of investments.
  - d. **Amount and term.** The CCLIP will be for US\$300 million, which reflects the funds needed to help close part of the demand gap affecting investment in innovation. It will provide financing for three individual specific investment or results-based operations over a 10-year period<sup>50</sup> pursuant to the policy set forth in document GN-2246-13. Future operations will focus on deploying

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<sup>50</sup> [Optional link 9.](#)

reimbursable instruments (second operation) and supporting regional innovation systems (third operation).

- 2.2 **First individual operation:** The first individual operation under the CCLIP will be a specific investment loan with a five-year disbursement period. The program will cost US\$140,000,000, of which US\$100,000,000 will come from the IDB (Ordinary Capital) and US\$40,000,000 will correspond to the local counterpart contribution. The local counterpart will be made up of resources from the entrepreneurial MSME fund equity (US\$10,000,000) and fresh resources from the public treasury (US\$30,000,000). The counterpart resources will be used to finance management as well as the specific counterpart contribution for the components.

**Table 1. Estimated program costs (US\$)<sup>51</sup>**

Component	IDB	Local	Total	%
<b>Component 1. Incentives for private investment in innovation</b>	<b>38,886,250</b>	<b>14,438,750</b>	<b>53,325,000</b>	<b>38.1</b>
Subcomponent 1.1. Individual business innovation	24,300,000	8,200,000	32,500,000	23.2
Subcomponent 1.2. Collaborative business innovation for challenges	14,586,250	6,238,750	20,825,000	14.9
<b>Component 2. Early financing for venture capital</b>	<b>14,931,000</b>	<b>6,399,000</b>	<b>21,330,000</b>	<b>15.2</b>
Subcomponent 2.1. Venture capital	11,522,000	4,938,000	16,460,000	11.8
Subcomponent 2.2. Entrepreneurial ecosystem	3,409,000	1,461,000	4,870,000	3.5
<b>Component 3. Technological modernization for MSMEs</b>	<b>39,432,750</b>	<b>12,435,850</b>	<b>51,868,600</b>	<b>37.0</b>
Subcomponent 3.1. Development of the digitalization services market for MSMEs	12,565,000	5,385,000	17,950,000	12.8
Subcomponent 3.2. Development of the compliance assessment services market for MSMEs	13,968,650	5,101,350	19,070,000	13.6
Subcomponent 3.3. Development of the technology extension services market	12,899,100	1,949,500	14,848,600	10.6
<b>Component 4. Institutional capacity</b>	<b>5,820,000</b>	<b>2,630,000</b>	<b>8,450,000</b>	<b>6.0</b>
<b>Program administration</b>	<b>930,000</b>	<b>4,096,400</b>	<b>5,026,400</b>	<b>3.7</b>
<b>Total</b>	<b>100,000,000</b>	<b>40,000,000</b>	<b>140,000,000</b>	<b>100.0</b>

- 2.3 The funds will be disbursed over five years (Table 2). The execution period takes into account the average amount of time needed to implement the proposed activities.

<sup>51</sup> The initial amounts at the subcomponent level are indicative.

**Table 2. Tentative disbursement schedule (US\$000)**

Source	2022	2023	2024	2025	2026	Total
IDB	20,051	33,374	28,360	14,083	4,132	100,000
Local	8,002	12,585	12,193	5,279	1,941	40,000
Total	28,053	45,959	40,553	19,362	6,073	140,000
% per year	20	32.8	29	13.8	4.4	100

## **B. Environmental and social risks**

- 2.4 In accordance with the guidelines of the Bank's Environment and Safeguards Compliance Policy (OP-703), the program has been classified as a category "C" operation. No negative environmental or social impacts are expected since the financing corresponds to financial transfers for the execution of innovation projects.<sup>52</sup> The operation envisages only the procurement of minor laboratory equipment (up to 25% of the total for each project) and does not involve civil works. To execute the program, PROINNOVATE will hold calls for proposals targeting innovations that contribute to climate change mitigation and adaptation and will prioritize, through additional points, projects in regular calls for proposals that contribute climate change mitigation and adaptation. The program will adhere to the eligibility criteria set forth in the IDB exclusion list and environmental licensing requirements where necessary. Projects with heightened environmental impact (categories "A" and "B") will not be financed. The program will also promote specific actions to promote a gender balance in innovative ventures and digitalization. Virtual means of communication will be used to disseminate program actions, and all participants will be required to comply with COVID-19 biosecurity protocols.

## **C. Fiduciary risks**

- 2.5 The following risks were identified: (i) systems (high): by jeopardizing the availability of information, PROINNOVATE's technological obsolescence could negatively impact program management, a risk that will be mitigated through the digitalization of PROINNOVATE's technology platform; (ii) internal processes (medium-high): high staff turnover in support areas (accounting, procurement, etc.) could delay planning and the submittal of reports, jeopardizing program targets, a risk that will be mitigated through staff reinforcements and improved distribution of the workload; and (iii) internal processes (medium-high): the lack of a clear mechanism for processing account reports and transfers could delay disbursements, a risk that will be mitigated through consensus-based design of the program's fiduciary flow.

## **D. Other key risks and issues**

- 2.6 **Risks.** Other risks were identified: (i) internal processes (high): weak capacity will make it difficult to perform evaluations needed to make timely adjustments to instruments affecting program efficacy, a risk that will be mitigated through expert

<sup>52</sup> Research and development, laboratory equipment, training, know-how, software, and hardware. OECD (2005).

- support for impact evaluation; (ii) economic-financial (medium-high): if the economic crisis persists, it could affect businesses' liquidity for financing innovation projects, jeopardizing program targets, a risk that will be mitigated by adjusting the cofinancing requirement to the business cycle; (iii) economic-financial (medium-high): if the recession continues, it could affect the program's fiscal space, jeopardizing the programmed targets, a risk that will be mitigated through management for greater fiscal space and by agreeing, with the MEF, to flexibility in allocating the local counterpart contribution; and (iv) internal processes (medium-high); the regional governments' weak management capacity could delay execution of Component 4, a risk that will be mitigated by designing interventions that encourage collaboration between the regional governments and other subnational actors with capacity for innovation.
- 2.7 **Sustainability.** In recent years, PRODUCE's resource flows have allowed for successful execution. Reimbursable business support mechanisms will be gradually introduced during the CCLIP. PROINNOVATE's Information Technology Unit is implementing Peruvian Technical Standard NTP-ISO/IEC 17799 2007, which regulates the maintenance of all goods and services procured through the program. Likewise, impact evaluations will be performed with a view to using national resources to scale up the instruments that are shown to be effective.
- 2.8 The extent to which the upcoming change in administration, scheduled for July 2021, might impact the program is unclear, but the Bank's experience in the sector indicates that past programs have been quite resilient to political transitions, suggesting that the institutional capacity built with Bank support by these projects has lent continuity to State policy on issues associated with innovation. Moreover, the Bank will brief the new authorities on the progress achieved by the country in the area of innovation policy, especially the main features of the new program, such as its focus on MSMEs, a flexible design for addressing challenges in the sectors identified as priorities, the promotion of regional development, and the Bank's technical support for execution.

### III. IMPLEMENTATION AND MANAGEMENT PLAN

#### A. Summary of implementation arrangements

- 3.1 **Borrower and executing agencies.** The borrower will be the Republic of Peru, and the executing agency will be the Ministry of Production (PRODUCE). The loan proceeds will be administered by a trust created for that purpose. The trustor will be PRODUCE, which will provide strategic guidance and submit disbursement requests to the IDB. The trustee will be the Development Finance Corporation (COFIDE), which will be responsible for financial management of the trust; and the beneficiary will be the National Program for Technological Development and Innovation (PROINNOVATE),<sup>53</sup> which will implement the strategic guidance.

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<sup>53</sup> PROINNOVATE is the PRODUCE execution unit and has economic, administrative, financial, and technical autonomy (Supreme Decree 009-2021-PRODUCE).

- 3.2 **Program execution mechanism.**<sup>54</sup> For program financing, the proposed loan operation will be established, and the corresponding resources will be channeled through a trust. A trust is a contract under which one entity (the trustor) cedes resources to another entity (the trustee), in order for the latter to administer and manage the resources and transfer them to a beneficiary. All program resources (Ordinary Capital and the local counterpart contribution) will be channeled through the trust, which will be structured pursuant to the regulations in force in Peru as established by the Superintendency of Banking and Insurance (Law 26702). The advantage of using a trust is that it allows for more agile execution and the implementation of a results-based management model.
- 3.3 **Institutional capacity.** PRODUCE and PROINNOVATE have satisfactory experience implementing Bank-financed loans. The institutional capacity analysis concluded that PROINNOVATE has the legal and governance powers and technical capacity to manage the program. Its technology infrastructure and high staff turnover in support areas (accounting, procurement, etc.) were identified as weaknesses. The following areas of low capacity were identified as opportunities for improvement: (i) impact evaluation; (ii) planning and procurement (related to staff turnover); and (iii) monitoring of the socioenvironmental management of the projects. The operation has incorporated strategies to address these recommendations (paragraphs 2.5 and 2.6). Notably, COFIDE has satisfactory experience administering trusts similar to the one planned for this operation, as confirmed by the respective institutional capacity analysis.
- 3.4 **Strategic coordination.** The program steering committee will be in charge of strategic coordination. It will be chaired by PRODUCE and made up of representatives of the public sector, academia, and the private sector.<sup>55</sup> The program steering committee may be the same as the PROINNOVATE program steering committee. The sector councils will advise the program steering committee (paragraph 1.12). The program will have an executive coordinator appointed by PRODUCE with the Bank's no objection. This could be the same person as the PROINNOVATE executive director. PRODUCE will be responsible for managing the fiscal space for program execution in the annual government budget. Lastly, coordination with the regional governments will take place through the Multisector Science, Technology, and Innovation Committee and in the governance of each supported regional innovation ecosystem project (paragraph 1.37).
- 3.5 **Program Operating Regulations.** [This document](#) contains the objectives, conditions, characteristics, and eligibility requirements, among other aspects, of the instruments (competitive calls) financed by the program. It also covers the organizational framework of the program and describes the functions, obligations, and procedures of PRODUCE, COFIDE, and PROINNOVATE, including the

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<sup>54</sup> [Optional link 7.](#)

<sup>55</sup> The program steering committee will be chaired by a representative of the Ministry of Production, and will also include the executive director of PROINNOVATE; the executive director of PROCENCIA; a representative of the MEF; two representatives of the private sector; and a representative of academia. COFIDE will participate as an observer.



fiduciary processes corresponding to each one, and the preparation and updating of project management tools, among other aspects. The Operating Regulations will also include the necessary conditions for execution of the operation, including the following: (i) the executive coordinator has been appointed with the Bank's no objection; (ii) the program steering committee has been created; and (iii) the conditions of the competitive calls planned as part of the program have the Bank's no objection ([optional link 11](#)).

- 3.6 **Special contractual conditions precedent to the first disbursement of the loan proceeds.** As special contractual conditions precedent to the first disbursement, the borrower, acting through the executing agency, will submit evidence of: (i) approval of the program Operating Regulations, in accordance with the terms previously agreed upon by the Bank; and (ii) the trust agreement contract signed by PRODUCE and COFIDE, in accordance with the terms previously agreed upon by the Bank. Condition (i) is essential because the [Operating Regulations](#) ensure that the program is executed pursuant to the terms agreed upon with the Bank. Condition (ii) is essential because it ensures that the mechanism for administering the program funds is in place.
- 3.7 For the Subcomponent 3.3 projects, associated with strengthening the public CITEs, since the CITEs are deconcentrated entities of the ITP without their own legal status, the ITP will sign the agreement with PROINNOVATE for the transfer and use of resources to strengthen the public CITEs that are selected for support. This agreement will have the Bank's no objection. For the Subcomponent 3.3 projects involving the design and implementation of the results-based management system for the CITE network, the ITP will sign an agreement with PROINNOVATE for the transfer and use of funds, establishing the respective actions, budgets, and milestones for this activity. This agreement will have the Bank's no objection. For both agreements, the ITP will be responsible for selecting the firms, service providers, and consultants hired. The ITP will also be responsible for verifying the technical compliance of all products delivered and will report to PROINNOVATE on execution thereof. PROINNOVATE will verify execution of the amounts transferred and the relevance of expenditures in both agreements.
- 3.8 **Fiduciary agreements and requirements.** These establish the fiduciary framework for the operation (Annex III). The loan proceeds may be disbursed through the modalities of advance of funds, reimbursement of expenditures, or direct payment to supplier. For the advance of funds modality, PRODUCE (executing agency and trustor of the trust) will request that the Bank disburse funds to the trust bank account set up for administration of the loan proceeds, based on a financial plan that covers the program's real liquidity needs for up to 180 days. The executing agency, acting through PROINNOVATE, will substantiate at least 80% of the cumulative balance pending justification, using Bank forms. The trustee and PROINNOVATE will each maintain one specific bank account in dollars and another in soles (monetization) for managing the funds. The executing agency, acting through PROINNOVATE, will submit annual and final audited financial statements for the program in accordance with the terms and schedule set by the Bank. The executing agency, acting through PROINNOVATE, will select and contract a Bank-eligible independent audit firm for the duration of the program.

- 3.9 Procurements partially or fully financed with loan proceeds will be carried out in conformity with Bank policies (document GN-2349-15, Policies for the Procurement of Works and Goods Financed by the Inter-American Development Bank, and document GN-2350-15, Policies for the Selection and Contracting of Consultants Financed by the IDB). However, considering that advanced use of Peru's country system for procurement has been approved by the Bank's Board of Executive Directors (document GN-2538-22 of 2017), this system may be used once the implementation and monitoring actions included in the approved report for acceptance of use of Peru's country procurement system have been completed, and subject to modification of the procurement plan. The electronic reverse auction and framework agreement e-catalogs subsystems may be used once the recommendations have been implemented.
- 3.10 Pursuant to the institutional capacity analysis of PROINNOVATE, Bank-financed procurement processes will be reviewed ex post, except in cases in which ex ante supervision is justified and indicated in the [procurement plan](#). When procurements are executed through the country system, supervision will be performed in the framework of that system. The procurement plan will be managed through the Procurement Plan Execution System (SEPA) or other system selected by the Bank. The procurement processes will include sustainability criteria (environmental, social, or economic) in the various phases, including: planning; preparation of the bidding documents; definition of technical specifications; evaluation criteria and selection of bidders; evaluation and awarding of bids.
- 3.11 **Direct contracting.** The National Institute of Statistics and Computing (INEI), as the specialized national agency, will be contracted directly to carry out surveys, through an interagency agreement for US\$700,000, in accordance with paragraph 3.7(e) of document GN-2349-15.
- 3.12 **Recognition of expenditures.** The Bank may recognize, as chargeable against the local counterpart contribution, eligible expenditures for up to US\$10,000,000 (7% of the proposed amount of the program) in the categories of financing for innovation, entrepreneurship, technical assistance for MSMEs, institutional strengthening, and program management projects, incurred prior to the loan approval date, provided that requirements substantially similar to those established in the loan contract, including the IDB safeguards policies, have been met. These expenditures must have been incurred on or after the project profile approval date (2 March 2021), but under no circumstances may they include expenditures incurred more than 18 months prior to the loan approval date.

**B. Summary of arrangements for monitoring results**

- 3.13 **Monitoring by the executing agency.** The executing agency will monitor the program in coordination with PROINNOVATE. Every six months, the borrower, acting through the executing agency, will submit to the Bank, within the 60 days following the end of each six-month period, reports that describe the progress achieved with regard to the outcome and output indicators set forth in the results matrix and the [monitoring and evaluation plan](#). The reports corresponding to the second half of the year will be accompanied by an annual work plan and review of targets for the remainder of the program.

- 3.14 **Evaluation.** Achievement of the results targets contained in the results matrix will be verified through a midterm evaluation to be submitted within 120 days following disbursement of 50% of the loan proceeds, or 30 months into program execution, whichever occurs first. A final evaluation will also be prepared and will be submitted within 90 days after the final program disbursement. This final evaluation will be coordinated with preparation of the project completion report. The borrower, acting through the executing agency, will submit both evaluations. The final evaluation will include a quasi-experimental impact evaluation designed to measure the program's effectiveness in terms of private investment in innovation of enterprises, the results of the innovation projects, MSME productivity gaps, etc. The final evaluation will also include an ex post economic evaluation of the intervention, which will use the same methodology as used for the cost/benefit analysis of the ex ante economic analysis.

#### IV. ELIGIBILITY CRITERIA

- 4.1 The CCLIP complies with the eligibility requirements applicable under the Bank's respective policy (document GN-2246-13) and operational guidelines (OP-1622-3), inasmuch as its objectives are in line with the priorities set forth in the IDB Group Country Strategy with Peru for 2017-2021 (document GN-2889) under the strategic objectives of: (i) strengthen the business climate; and (ii) support business development.
- 4.2 The first individual operation complies with the applicable requirements set forth in documents GN-2246-13 and OP-1622-3, inasmuch as: (i) a complete institutional capacity assessment was performed for COFIDE and PROINNOVATE as the PRODUCE execution unit, and the institutions were found to have execution capacity as well as areas for improvement (paragraph **Error! Reference source not found.** and potential risks in paragraph 2.5); (ii) its objective contributes to achievement of the CCLIP objectives (paragraph 1.25); (iii) the operation has the same areas of intervention and sector as the CCLIP (paragraph 1.25); and (iv) the operation includes the actions that should be taken in the areas for improvement identified in the COFIDE and PROINNOVATE institutional capacity assessments, mainly associated with the technology platform, human resources management, planning and procurement; and the socioenvironmental monitoring of the projects (paragraph **Error! Reference source not found.**).

Development Effectiveness Matrix		
Summary		PE-L1263
I. Corporate and Country Priorities		
Section 1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Issues	-Productivity and Innovation -Gender Equality and Diversity -Climate Change -Institutional Capacity and the Rule of Law	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	-Micro / small / medium enterprises financed (#) -Enterprises provided with technical assistance (#) -Women beneficiaries of economic empowerment initiatives (#) -Agencies with strengthened digital technology and managerial capacity (#)	
2. Country Development Objectives		
Country Strategy Results Matrix	GN-2889	(i) strengthen the business climate; and (ii) support business development
Country Program Results Matrix	GN-3034	The intervention in included in the 2021 Operational Program
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		9.6
3.1 Program Diagnosis		2.5
3.2 Proposed Interventions or Solutions		3.5
3.3 Results Matrix Quality		3.6
4. Ex ante Economic Analysis		10.0
4.1 Program has an ERR/NPV, or key outcomes identified for CEA		1.5
4.2 Identified and Quantified Benefits and Costs		3.0
4.3 Reasonable Assumptions		2.5
4.4 Sensitivity Analysis		2.0
4.5 Consistency with results matrix		1.0
5. Monitoring and Evaluation		10.0
5.1 Monitoring Mechanisms		4.0
5.2 Evaluation Plan		6.0
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Medium High
Environmental & social risk classification		C
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, External Control, Internal Audit.  Procurement: Information System, Price Comparison, Contracting Individual Consultant, National Public Bidding.
Non-Fiduciary	Yes	Strategic Planning National System, Monitoring and Evaluation National System, Statistics National System, Environmental Assessment National System.
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	Demand studies were carried out together with calibration of the private sector innovation investment gaps in order to help with the dimensioning of the CCLIP.

In Peru, there was a decline in the rate of private investment innovation growth that went from 6.8% annually between 2010-2013 to just 1.1% annually between 2014-2017. This has a negative impact in productivity which in turn affects the long-term steady state growth rate of the country which regressed from 7.1% in 2007 to 3.1% in 2019. Adding to this, the crisis caused by the COVID-19 pandemic meant an 11% fall in GDP in 2020. MSMEs were particularly affected because only 6.6% sold their products online, providing evidence also to the lack of innovation in digitalization. Peruvian firms, mostly imitators, scarcely invest in innovation, below the regional average. Different market failures like for example a lack of interest, financing, knowledge of technologies or certification processes all lead to low investment in innovation. In this context, the program; first under a CCLIP, has the following specific objectives: (i) to increase investment in innovation and the development of innovation in established beneficiary firms, incorporating environmental sustainability and climate change (ES&CC) considerations for some of the supported companies; (ii) increase seed financing to promote the growth of new innovative beneficiary firms, incorporating ES&CC considerations for some of the new firms supported; (iii) reducing the productivity gaps of beneficiary MSMEs, incorporating ES&CC considerations for some of the MSMEs supported; (iv) improve the sectorial and regional orientation of innovation policies, incorporating ES&CC considerations. The achievement of these objectives will contribute to the general objective of increasing firm productivity via a greater private investment in innovation activities. The program will channel US\$140MM mostly under competitive contests to assign partial non-reimbursable contributions in each of the targeted populations – established MSMEs that seek to scale innovation; new firms that seek incubation services for innovative products; and traditional MSMEs that need modernization, digitalization, or quality certifications. Furthermore, support will be given to the government entity PROINNOVATE specifically in aiming that its innovation policies be better focused; including its Sectorial Round Tables which conduct a public-private dialogue to identify ecosystem priorities. The Results Matrix is coherent with the program's vertical logic. The results indicators are appropriately defined to measure the achievement of each specific objective (SO). Amongst others, some of the main results indicators include the increase in innovation investment as a percent of sales in beneficiary firms (SO#1); the increase in average sales of innovative entrepreneurs (SO#2); the reduction in the labor productivity gap of MSMEs vis-à-vis their larger counterparts (SO#3). Moreover, each SO has an indicator which monitors support to ES&CC considerations. The economic analysis demonstrates the program is of net benefit to society with an ERR of 25%. The Monitoring and Evaluation Plan proposes a reflexive comparison por the Results Matrix indicators further substantiated by a quasi-experimental evaluation that combines differences-in-differences with propensity score matching for some of the results indicators.

## RESULTS MATRIX

<b>Project objective:</b>	The specific objectives of this operation are: (i) to increase investment in innovation and the development of innovations in established beneficiary enterprises, incorporating environmental sustainability and climate change considerations for some of the enterprises receiving support; (ii) to increase early financing to promote the growth of new beneficiary innovative enterprises, incorporating environmental sustainability and climate change considerations for some of the new enterprises receiving support; (iii) to reduce productivity gaps among the beneficiary MSMEs, incorporating environmental sustainability and climate change considerations for some of the MSMEs receiving support; and (iv) to improve the sector and regional orientation of innovation policies, incorporating environmental sustainability and climate change considerations. Achievement of these objectives will contribute to the general objective of increasing business productivity through greater private investment in innovation activities.
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### General development objective

Indicators	Unit of measure	Baseline value	Baseline year	Expected year of achievement	Target	Means of verification	Comments
<b>General development objective: To increase business productivity through greater private investment in innovation activities</b>							
1 Investment in innovation to sales in beneficiary businesses	%	2.0	2017	2027	3.5	Registration record PROINNOVATE and ENIIMSEC	<a href="#">Monitoring and evaluation plan</a>
2 Labor productivity in beneficiary businesses	US\$	51,746	2017	2027	56,920	Registration record PROINNOVATE and ENIIMSEC	<a href="#">Monitoring and evaluation plan</a>

### Specific development objectives

Indicators	Unit of measure	Baseline value	Baseline year	End of project	Means of verification	Comments
<b>Specific development objective 1: To increase investment in innovation and the development of innovations in established beneficiary enterprises, incorporating environmental sustainability and climate change considerations for some of the enterprises receiving support</b>						
1 Investment in innovation to sales in Component 1 beneficiary businesses	%	2.8	2017	4.3	Registration record PROINNOVATE and ENIIMSEC	<a href="#">Monitoring and evaluation plan</a>
2 Sales of products that are new to the market to total sales in Component 1 beneficiary businesses	%	12.5	2017	17.5	Registration record PROINNOVATE and ENIIMSEC	<a href="#">Monitoring and evaluation plan</a>
3 Private investment leveraged in innovation in Component 1 projects oriented to environmental sustainability and climate change	%	2.0	2020	23.0	PROINNOVATE report	<a href="#">Monitoring and evaluation plan</a>
<b>Specific development objective 2: To increase early financing to promote the growth of new beneficiary innovative enterprises, incorporating environmental sustainability and climate change considerations for some of the new enterprises receiving support</b>						
1 Average private investment of innovative entrepreneurs executed under Component 2	US\$	142,226	2015-2020	251,588	Registration record PROINNOVATE and ENIIMSEC	<a href="#">Monitoring and evaluation plan</a>
2 Average sales of beneficiary innovative entrepreneurs under Component 2	US\$	53,264	2018	111,735	Registration record PROINNOVATE and ENIIMSEC	<a href="#">Monitoring and evaluation plan</a>
3 Private venture capital financing leveraged in Component 2 projects oriented to environmental sustainability and climate change	%	1.0	2020	8.0	PROINNOVATE report	<a href="#">Monitoring and evaluation plan</a>

Indicators	Unit of measure	Baseline value	Baseline year	End of project	Means of verification	Comments
<b>Specific development objective 3: To reduce productivity gaps among the beneficiary MSMEs, incorporating environmental sustainability and climate change considerations for some of the MSMEs receiving support</b>						
1 Labor productivity of Component 3 beneficiary businesses relative to large companies	%	16.0	2020	18.0	Registration record PROINNOVATE and ENIIMSEC	<a href="#">Monitoring and evaluation plan</a>
2 Percentage <sup>1</sup> of financing from Component 3 MSMEs certified in environmental and climate change standards	%	0.0	2020	5.0	PROINNOVATE report	<a href="#">Monitoring and evaluation plan</a>
<b>Specific development objective 4: To improve the sector and regional orientation of innovation policies, incorporating environmental sustainability and climate change considerations</b>						
1 Financing for national, regional, and public productive challenges	%	4.7	2019	15.0	PROINNOVATE report	<a href="#">Monitoring and evaluation plan</a>
2 Financing of innovation projects aligned with environmental sustainability and climate change challenges <sup>2</sup>	%	7.0	2020	30.0	PROINNOVATE report	<a href="#">Monitoring and evaluation plan</a>

<sup>1</sup> Over the Component 3 financing total.

<sup>2</sup> Over the PROINNOVATE financing total.

### Outputs

Indicators	Unit of measure	Base-line value	Base-line year	Year 1	Year 2	Year3	Year 4	Year 5	End of project	Means of verification	Comments / Responsible party
<b>Component 1: Incentives for private investment in innovation</b>											
<b>Subcomponent 1.1: Individual business innovation</b>											
1. Individual business innovation projects, financed	#	397	2015-2020	30	45	25	0	0	100	Signed contract	PROINNOVATE
2. Individual business innovation projects oriented to environmental sustainability and climate change, financed	#	28	2015-2020	30	45	25	0	0	100	Signed contract	PROINNOVATE
3. Individual business innovation validation projects, financed	#	116	2015-2020	11	18	11	0	0	40	Signed contract	PROINNOVATE
4. Individual business innovation validation projects oriented to environmental sustainability and climate change, financed	#	8	2015-2020	9	12	9	0	0	30	Signed contract	PROINNOVATE
5. Technology innovation guarantees, issued	#	0	2020	0	10	10	10	0	30	Issued guarantee	PROINNOVATE
<b>Subcomponent 1.2: Collaborative business innovation for challenges</b>											
1. Sector innovation projects for national and regional productive challenges, financed	#	1	2015-2020	2	2	1	0	0	5	Signed contract	PROINNOVATE
2. Innovation and technology projects applied to environmental sustainability and climate change, financed	#	0	2015-2020	2	1	0	0	0	3	Signed contract	PROINNOVATE



Indicators	Unit of measure	Base-line value	Base-line year	Year 1	Year 2	Year3	Year 4	Year 5	End of project	Means of verification	Comments / Responsible party
3. Innovation projects for the competitiveness of subnational value chains, financed	#	0	2015-2020	4	6	5	0	0	15	Signed contract	PROINNOVATE ITP
4. Innovation projects for the competitiveness of subnational value chains oriented to environmental sustainability and climate change, financed	#	0	2015-2020	4	6	5	0	0	15	Signed contract	PROINNOVATE ITP
5. High-impact open innovation projects for private productive challenges, financed	#	8	2015-2020	3	3	4	0	0	10	Signed contract	PROINNOVATE
6. High-impact open innovation projects for private production challenges oriented to environmental sustainability and climate change, financed	#	0	2015-2020	5	5	5	0	0	15	Signed contract	PROINNOVATE
7. Sector innovation projects for national public challenges, financed	#	0	2015-2020	2	1	1	0	0	4	Signed contract	PROINNOVATE
<b>Component 2: Early financing for venture capital</b>											
<b>Subcomponent 2.1: Venture capital</b>											
1. Innovative business projects, financed	#	376	2015-2020	50	50	60	0	0	160	Signed contract	PROINNOVATE

Indicators	Unit of measure	Base-line value	Base-line year	Year 1	Year 2	Year3	Year 4	Year 5	End of project	Means of verification	Comments / Responsible party
2. Innovative business projects oriented to environmental sustainability and climate change, financed	#	26	2015-2020	50	50	60	0	0	160	Signed contract	PROINNOVATE
3. Dynamic business projects, financed	#	79	2015-2020	14	23	23	0	0	60	Signed contract	PROINNOVATE
4. Dynamic business projects oriented to environmental sustainability and climate change, financed	#	6	2015-2020	16	27	27	0	0	70	Signed contract	PROINNOVATE
5. Projects to attract entrepreneurs and ventures, financed	#	12	2015-2020	4	9	13	14	0	40	Signed contract	PROINNOVATE
6. Projects to attract entrepreneurs and ventures oriented to environmental sustainability and climate change, financed	#	0	2015-2020	6	11	17	16	0	50	Signed contract	PROINNOVATE
7. Business projects coordinated by venture capital financial intermediation entities, financed	#	7	2020	2	2	1	0	0	5	Signed contract	PROINNOVATE
<b>Subcomponent 2.2: Entrepreneurial ecosystem</b>											
1. Network of Innovative Women Entrepreneurs, implemented	#	0	2015-2020	0	1	0	0	0	1	Signed contract	PROINNOVATE Pro-gender indicator
2. Incubators/accelerators 2.0, financed	#	6	2015-2020	2	2	3	0	0	7	Signed contract	PROINNOVATE

Indicators	Unit of measure	Base-line value	Base-line year	Year 1	Year 2	Year3	Year 4	Year 5	End of project	Means of verification	Comments / Responsible party
3. Incubators/accelerators 2.0 specialized in biodiversity and climate change, financed	#	0	2015-2020	0	0	1	0	0	1	Signed contract	PROINNOVATE
4. Accreditation system for incubators and accelerators, implemented	#	0	2015-2020	0	1	0	0	0	1	Report	PROINNOVATE
<b>Component 3: Technological modernization for MSMEs</b>											
<b>Subcomponent 3.1: Development of digitalization services market for MSMEs</b>											
1. Digital services center projects, financed (phase 1: diagnostic assessment)	#	0	2020	0	2	0	0	0	2	Signed contract	PROINNOVATE
2. Digital services center projects, financed (phase 2: implementation)	#	0	2020	0	0	1	1	0	2	Signed contract	PROINNOVATE
3. Technical assistance and digitalization vouchers, financed	#	76	2015-2020	300	300	200	0	0	800	Signed contract	PROINNOVATE
4. Gender-equal scholarships in digital skills and programming, financed	#	2	2015-2020	50	50	0	0	0	100	Signed contract	PROINNOVATE Pro-gender indicator
<b>Subcomponent 3.2: Development of the compliance assessment services market for MSMEs</b>											
1. Vouchers for technical assistance and quality certifications	#	788	2015-2020	250	250	250	0	0	750	Signed contract	PROINNOVATE
2. Vouchers for technical assistance and environmental standards certifications	#	9	2015-2020	0	50	50	0	0	100	Signed contract	PROINNOVATE

Indicators	Unit of measure	Base-line value	Base-line year	Year 1	Year 2	Year3	Year 4	Year 5	End of project	Means of verification	Comments / Responsible party
3. Regulations on the development of standards for innovative processes, approved	#	0	2020	0	10	5	5	0	20	Signed contract	PROINNOVATE INACAL
4. Projects for the accreditation of compliance assessment organizations, financed	#	0	2015-2020	10	10	10	10	0	40	Signed contract	PROINNOVATE INACAL
5. Mobile calibration unit projects, financed	#	2	2015-2020	2	1	0	0	0	3	Signed contract	PROINNOVATE IINACAL
6. Information system on quality infrastructure services, implemented	#	0	2020	0	1	0	0	0	1	Report	PROINNOVATE IINACAL
7. Scholarships for skills strengthening in standardization and compliance assessment, financed	#	0	2020	120	120	120	120	120	600	Signed contract	PROINNOVATE INACAL
<b>Subcomponent 3.3: Development of the technology extension services market</b>											
1. Projects of public CITEs with strategic plans, financed	#	0	2020	0	4	3	0	0	7	Signed contract	PROINNOVATE ITP
2. Results-based management system for the CITE network, implemented	#	0	2020	0	0	0	1	0	1	Report	PROINNOVATE ITP
3. Technology modernization guarantees, issued	#	0	2020	10	20	20	0	0	50	Issued guarantee	PROINNOVATE ITP

Indicators	Unit of measure	Base-line value	Base-line year	Year 1	Year 2	Year3	Year 4	Year 5	End of project	Means of verification	Comments / Responsible party
<b>Component 4: Institutional capacity</b>											
1. Projects for adapting strategies, plans, manuals, and procedural guidelines, financed	#	0	2020	2	2	2	1	1	8	Report	PROINNOVATE
2. Teams specialized in impact evaluation and innovation monitoring with a focus on environmental sustainability and climate change, financed	#	0	2020	4	0	0	0	0	4	Report	PROINNOVATE
3. Actions to coordinate and organize the innovation and entrepreneurial ecosystem, financed	#	0	2020	2	2	2	2	2	10	Report	PROINNOVATE
4. PROINNOVATE technology platform, implemented	#	0	2020	1	1	0	0	0	2	Report	PROINNOVATE
5. Specialized teams of sector executive boards, financed	#	2	2015-2020	3	0	0	0	0	3	Report	PROINNOVATE
6. Studies on strengthening the sector executive boards, financed	#	0	2015-2020	5	4	4	4	4	21	Report	PROINNOVATE
7. Projects to strengthen regional innovation ecosystems, financed	#	7	2015-2020	2	2	2	0	0	6	Report	PROINNOVATE

Milestone for monitoring

Monitoring variable	Unit of measurement	Baseline year	Baseline value	Means of verification	Observations
1. Percentage of founders of new innovative beneficiary businesses who are women	%	2020	17.0	PROINNOVATE administrative records	This indicator will be monitored based on the administrative records of the beneficiaries of the competitions under Subcomponent 2.1.

Country: Peru

Division: IFD/CTI

Operation No.: PE-L1263

Year: 2021

## FIDUCIARY AGREEMENTS AND REQUIREMENTS

**Executing agency:** Ministry of Production (PRODUCE)

**Name:** Innovation, Technological Modernization, and Entrepreneurship Program (PE-L1263) - First Individual Operation under the Conditional Credit Line for Investment Projects (CCLIP) - Sector Innovation Program (PE-O0006)

### I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

1. Use of country system in the operation (Any system or subsystem approved subsequently may be used for the operation, under the terms of the Bank's approval.)

<input checked="" type="checkbox"/> Budget	<input checked="" type="checkbox"/> Reports	<input checked="" type="checkbox"/> Information system	<input checked="" type="checkbox"/> National competitive bidding (NCB)
<input checked="" type="checkbox"/> Treasury	<input type="checkbox"/> Internal audit	<input checked="" type="checkbox"/> Shopping	<input checked="" type="checkbox"/> Other
<input checked="" type="checkbox"/> Accounting	<input checked="" type="checkbox"/> External control	<input checked="" type="checkbox"/> Individual consultants	

2. Fiduciary execution mechanism

<input checked="" type="checkbox"/>	Special features of fiduciary execution	The loan proceeds will be administered by a trust created for that purpose. The trustor will be the Ministry of Production (PRODUCE), which will submit disbursement requests to the Bank; the trustee will be the Development Finance Corporation (COFIDE), which will be responsible for financial management of the trust; and the beneficiary will be the National Program for Technological Development and Innovation (PROINNOVATE).
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3. Fiduciary capacity

Fiduciary capacity of the executing agency	An institutional capacity analysis was conducted to assess the fiduciary capacity of COFIDE and PROINNOVATE. The analysis identified weaknesses and opportunities for improvement at both institutions, as well as measures in line with the operation risk matrix.
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#### 4. Fiduciary risks and risk response

Area(s)	Risk	Risk level	Risk response
Internal processes	Weak interagency coordination may complicate the agreements necessary for the timely availability of funds, jeopardizing program targets.	Medium - low	Accept
Internal processes	Weak coordination between the beneficiary and trustee may complicate program monitoring, jeopardizing program targets.	Medium - low	Accept
Internal processes	High staff turnover in support areas (accounting, procurement, etc.) may delay planning and submittal of reports, jeopardizing program targets.	Medium - high	(i) Improve the distribution of work (ii) Staffing reinforcement
Internal processes	The lack of a clear mechanism for processing account reports and transfers could delay disbursements.	Medium - high	Consensus-based design of the program's fiduciary flow
Systems	PROINNOVATE's technological obsolescence, by jeopardizing the availability of information, could negatively impact program management.	High	Digitalization of PROINNOVATE's technology platform

5. Policies and guidelines applicable to the operation: OP-273-12, GN-2349-15, and GN-2350-15.
6. Exceptions to policies and guidelines: Exception to the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-15) for direct contracting of the INEI (see Agreements and Requirements for Procurement Execution).

## II. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE LOAN CONTRACT

**Exchange rate:** For the purposes of accountability and justification of eligible expenditures, the exchange rate used to determine the equivalent value, in either the currency of disbursement or currency of approval, of an eligible expenditure made in the local currency of the borrower will be the exchange rate in force on the date on which the approval currency or disbursement currency is converted into the local currency of the borrower's country (Article 4.10, subparagraph (b)(i), of the Loan Contract General Conditions). The agreed-upon exchange rate to be used for determining the equivalence of expenditures incurred in local currency as charges against the local counterpart or as reimbursements chargeable to the loan proceeds will be the exchange rate in effect on the date on which the borrower, the executing agency, or any other person or legal entity that has been delegated the power to incur expenditures makes the respective payments to the beneficiary.



**Audit:** The program financial statements will be audited by a Bank-eligible external audit firm under specific terms of reference acceptable to the Bank. The program's annual audited financial statements will be presented within 120 days after the close of each of the borrower's financial periods, for the duration of the original disbursement period or as extended. The final audited financial statements will be submitted within 120 days after the end of the original disbursement period or as extended.

### III. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

<input checked="" type="checkbox"/>	Bidding documents	The Bank's standard bidding documents or other documents agreed upon by the executing agency and the Bank will be used for the procurement of works, goods, and nonconsulting services subject to international competitive bidding and executed in accordance with the procurement policies (document GN-2349-15). Consulting services will be selected and contracted according to the Policies for the Selection and Contracting of Consultants (document GN-2350-15) using the standard request for proposals issued by the Bank or a different request for proposals agreed upon by the executing agency and the Bank. The project's sector specialist will be responsible for reviewing the technical specifications and terms of reference for procurement during the preparation of selection processes. This technical review may be conducted ex ante and is independent of the procurement review method.
<input checked="" type="checkbox"/>	Use of country systems	Considering that advanced use of Peru's country system for procurement has been approved by the Bank's Board of Executive Directors, this system may be used once implementation of the actions included in the approved report for acceptance of use of Peru's country procurement system have been completed, and subject to modification of the procurement plan. The electronic reverse auction and framework agreement e-catalogs subsystems may be used once the recommendations have been implemented.
<input checked="" type="checkbox"/>	Direct contracting and selection	The National Institute of Statistics and Computing (INEI), as the specialized national agency, will be contracted directly to carry out surveys, in accordance with paragraph 3.7(e) of document GN-2349-15.

#### Main procurement items

Procurement description	Selection method	Estimated date	Estimated amount in US\$ millions
<b>Goods</b>			
Information technology goods	ICB	January 2022	800,000
<b>Nonconsulting services</b>			
Microdata survey	Direct contracting	January 2022	700,000

Procurement description	Selection method	Estimated date	Estimated amount in US\$ millions
<b>Firms</b>			
Preparation of technical and management documents	QCBS	January 2023	950,000
Accreditation of the incubators in the country	QCBS	January 2023	820,000
Modernization of the PROINNOVATE technology platform	QCBS	January 2022	700,000
<b>Individuals</b>			
Specialized individual consultants for the sector councils (21 consultants)	3CV - IC	January 2023	1,050,000

To access the 18-month [procurement plan](#).

#### IV. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

<input checked="" type="checkbox"/>	Programming and budget	Preparation of the annual programming and budget for both financing sources will be based on the provisions of the MEF's public budget division. The multiyear execution plan will be prepared based on the project's disbursement schedule and will serve as the basis for preparing the program's annual budget. The budget allocated to PRODUCE for the program will be approved by the MEF and the Peruvian Congress, and reported annually to the Bank. The budget will be operated under the Integrated Financial Management System (SIAF).
<input checked="" type="checkbox"/>	Treasury and disbursement management	<p>PRODUCE will use the country's treasury system, in compliance with the guidelines issued by the National Borrowing and Treasury Office. COFIDE will use the SAP system for the trust transactions. Expenditures will be subject to budgetary and financial execution processes, and PROINNOVATE will record them in the SIAF project execution module under the regulatory framework applicable to each phase (commitment, liquidation, authorization, and payment).</p> <p>The proceeds of the Bank's loan may be disbursed through the modalities of advance of funds, reimbursement of expenditures, or direct payment to supplier. The disbursement mechanism will be manual, and the currency used to manage the operation will be the United States dollar. The trustee and PROINNOVATE will each maintain one specific bank account in U.S. dollars and another in soles (monetization) to manage the loan proceeds. The possibility of using the treasury single account for the loan programs will be analyzed with the MEF; this option could be implemented in the short term. The trust agreement will establish that the use of loan proceeds is exempt in operations that generate profits. For the advance of funds modality, PRODUCE (executing agency and trustor of the trust) will request that the Bank disburse proceeds of the loan to the trust bank account. The request will be based on the program's annual financial planning and on a financial plan that covers the program's real liquidity needs for up to 180 days. For disbursements, at</p>

		least 80% of the total cumulative balance pending justification will be substantiated, using Bank forms.
<input checked="" type="checkbox"/>	Accounting, information systems, and reporting	<p>PRODUCE will use the SIAF, and COFIDE will use the SAP for the trust accounting. PROINNOVATE will use the SIAF project execution module.</p> <p>The systems provide transparency and specific controls for accounting and reports. Program accounts will be prepared on a cash basis in accordance with international accounting standards and the guidelines issued by the Public Accounting Office.</p> <p>All documents and records will be kept for at least three years from the date of the final disbursement. Any expenditures found to be ineligible for Bank funding will be reimbursed using local counterpart funding. The applicable policies and guidelines will be supplemented with the program Operating Regulations, with documented definition of workflows and internal controls.</p>
<input checked="" type="checkbox"/>	Recognition of expenditures	<p>The Bank may recognize, as chargeable against the local counterpart contribution, eligible expenditures for up to US\$10,000,000 (7% of the proposed amount of the program) in the categories of financing for innovation, entrepreneurship, technical assistance for MSMEs, institutional strengthening, and program management projects, incurred prior to the loan approval date, provided that requirements substantially similar to those established in the loan contract, including the IDB safeguards policies, have been met. These expenditures must have been incurred on or after the project profile approval date (2 March 2021), but under no circumstances may they include expenditures incurred more than 18 months prior to the loan approval date.</p>
<input checked="" type="checkbox"/>	Internal control and auditing	<p>The control environment, communication, reporting, and monitoring of the program activities are governed by the loan contract, program Operating Regulations, and local regulations (Law on the National Control System and regulations of the Office of the Comptroller General (CGR)). COFIDE is also governed by the General Law on the Financial System and Insurance System and the Law Establishing the Superintendency of Banking, Insurance, and Private Pension Fund Administrators.</p>
<input checked="" type="checkbox"/>	External control and financial reports	<p>The external auditors will conduct the ex post review of the records and supporting documentation for completed activities and transactions.</p> <p>The CGR, in its regulations and role as the lead agency for the National Control System, outsources the external auditing of projects to independent audit firms considered eligible by the Bank. These firms are periodically evaluated by the Bank. The CGR authorizes the selection and contracting of an independent audit firm in accordance with Bank policies, for the duration of the program execution period, including any extensions of the disbursement period. The program will require the selection of an eligible- or eligible-plus-tier independent audit firm.</p> <p>The program's financial statements include: cash flow statement, cumulative investment statement, and the notes to the financial statements. The audit report will include the evaluation of the internal control system. The cost of the external audits will be covered with loan proceeds and is estimated at US\$350,000 for the five-year execution period.</p>
<input checked="" type="checkbox"/>	Financial supervision of the operation	<p>The financial supervision plan may be adjusted based on program execution and the external audit reports. The following activities are planned: review of the portfolio twice per year, review of disbursement requests four times per year, and annual financial supervision visit.</p>

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

RESOLUTION DE-\_\_\_/21

Peru. Conditional Credit Line for Investment Projects (CCLIP)  
for the Sector Innovation Program (PE-O0006)

The Board of Executive Directors

RESOLVES:

1. To authorize the President of the Bank, or such representative as he shall designate, to enter into such agreement or agreements as may be necessary with the Republic of Peru to establish the Conditional Credit Line for Investment Projects (CCLIP) for the Sector Innovation Program PE-O0006 (the "Line"), for an amount of up to US\$300,000,000 chargeable to the resources of the Bank's Ordinary Capital.

2. To establish that the resources allocated to the Line shall be used to finance individual operations under the Line, in accordance with: (a) the objectives and regulations of the Conditional Credit Line for Investment Projects approved by Resolution DE-58/03, as amended by Resolutions DE-10/07, DE-164/07, DE-86/16, and DE-98/19; (b) the provisions set forth in documents GN-2564-3 and GN-2246-13; and (c) the terms and conditions included in the Loan Proposal for the corresponding individual operation.

(Adopted on \_\_\_\_\_ 2021)

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

RESOLUTION DE-\_\_\_/21

Peru. Loan [\_\_\_]/OC-PE to the Republic of Peru. Innovation, Technological Modernization, and Entrepreneurship Program. First Individual Operation under the Conditional Credit Line for Investment Projects (CCLIP) PE-O0006

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Peru, as borrower, for the purpose of granting it a financing aimed at cooperating in the execution of the Innovation, Technological Modernization, and Entrepreneurship Program, which constitutes the first individual operation under the Conditional Credit Line for Investment Projects (CCLIP) PE-O0006 approved on [\_\_\_] [\_\_\_] 2021 by Resolution DE-\_\_\_/21. Such financing will be in the amount of up to US\$100,000,000, from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on \_\_\_\_\_ 2021)