

## TC Document

### I. Basic Information for TC

▪ Country/Region:	Perú
▪ TC Name:	Strengthening Peru's National Quality System
▪ TC Number:	PE-T1417
▪ Team Leader/Members:	Crespi, Gustavo Atilio (IFD/CTI) Team Leader; Suaznabar, Claudia (IFD/CTI) Alternate Team Leader; Castillo Manrique, Rafael (IFD/CTI); Gonzalez Alzualde, Yohana Beatriz (IFD/CTI); Greco, Maria Sofia (LEG/SGO); Miranda Guevara, Lorena Violeta (CAN/CPE); Navarro, Juan Carlos (IFD/CTI); Okuma Agüena, Alexis Ricardo (CAN/CPE); Saldana Galvez, Jorge Hernan (CAN/CPE); Sun, Juyoon (IFD/CTI)
▪ Taxonomy:	Client Support
▪ Operation Supported by the TC:	.
▪ Date of TC Abstract authorization:	02 Dec 2019.
▪ Beneficiary:	
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	Public Capacity Building Korea Fund for Economic Development(KPC)
▪ IDB Funding Requested:	Total: US\$500,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	30 months of disbursement
▪ Required start date:	05/01/2020
▪ Types of consultants:	Firms and Individual Consultants
▪ Prepared by Unit:	IFD/CTI-Competitiveness, Technology and Innovation Division
▪ Unit of Disbursement Responsibility:	CAN/CPE-Country Office Peru
▪ TC included in Country Strategy (y/n):	Yes
▪ TC included in CPD (y/n):	Yes
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Productivity and innovation; Institutional capacity and rule of law

### II. Objectives and Justification of the TC

- 2.1 The objective of this TC is to strengthen the National Quality System<sup>1</sup> of Peru through providing support to its leading institution, the National Quality Institute (INACAL, Instituto Nacional de Calidad). INACAL is the main government institution responsible for the implementation of the National Policy for Quality. Since its establishment in July 2015, INACAL has made key achievements in promoting the culture of quality and important advancements with matters related to standardization, accreditation, legal metrology which are the basic pillars of the national quality infrastructure. Its mission is to protect people and environment, improve the efficiency of Peru, and to enhance business competitiveness.

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<sup>1</sup> The set of organizations in charge of the design of standards, provision of accreditation and certification services, inspections and metrology services (BID, 2017).

- 2.2 In terms of the policy framework, the National Plan for Productive Diversification was developed in 2014 to generate new motors of economic development through increasing economic diversification and sophistication, reducing dependency on raw materials, enhancing productivity, and increasing the number of high-quality formal jobs. According to this policy, under the pillar of promotion of productive development, the key action identified is to generate favorable conditions to increase productivity and competitiveness by developing technical standards, laboratory accreditations, and financing instruments for product certification under the leadership of the INACAL.
- 2.3 The Government of Peru has approved the National Policy on Competitiveness and Productivity (NPCP)<sup>2</sup>. The business fabric of the country is characterized by a high concentration of micro, small and medium enterprises (MSME) with low levels of productivity. Very few firms so far have adopted modern business practices regarding quality systems, and this directly affects firms' performances in terms of international competitiveness and productivity<sup>3</sup>. The enhancement of the productivity of MSMEs requires a strategy that coordinate various government bodies on issues such as normalization, accreditation, certification, food innocuity, health and job safety and technology adoption. In addition, a broader regional focus is needed to identify solutions that are suitable for Peru's geographical complexity with different value chains spread across the Pacific coast, the Andean highlands and the Amazonian regions. Based on this, the NPCP, under its priority objective<sup>6</sup> – to generate conditions for a productive business environment –, has established the goal of facilitating the application of quality standards and evaluation of conformity of traded goods and services.
- 2.4 The National Competitiveness and Productivity<sup>4</sup> Plan contains a set of policy measures organized according to each primary objective and in line with policy guidelines. INACAL contributes to the improvement of the country's competitiveness by participating directly with actions aimed at increasing the use of quality infrastructure services in public procurement<sup>5</sup>, improving the effectiveness of compliance with regulations through the use of IC services in the control and surveillance functions of regulatory and supervisory bodies<sup>6</sup>, and strengthening capacities for the internationalization of companies through the use of IC services that allow them to meet the technical requirements of the countries of destination<sup>7</sup>.
- 2.5 The degree of adoption of modern quality practices is low not only by the private sector but also by public institutions to conduct their role of control and surveillance. For example, very few public procurement tenders include within its requirement the fulfillment of Peruvian technical standards. The National Quality System suffers from

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<sup>2</sup> Supreme Decree 345-2018-EF.

<sup>3</sup> Only 8/10.000 Peruvian firms have ISO 9001 certifications. This figure is very low even for the Latin-American standards in comparison with Chile (53/10.000) or Colombia (112/10.000) (NPCP, 2019)

<sup>4</sup> Supreme Decree No. 237-2019-EF del 28 de julio de 2019.

<sup>5</sup> Policy Measure 6.7: "Quality standards and environmental sustainability in public procurement"

<sup>6</sup> Policy Measure 6.8: "Application of quality standards in regulatory and supervisory entities"

<sup>7</sup> Policy Measure 7.1: "Service platform for the development of the exportable offer and internationalization of companies".

three critical barriers that hinder a wider adoption of quality best practices: (i) insufficient development of the national metrological infrastructure; (ii) low supply of accredited conformity assessment bodies; and (iii) lack of development of a culture of quality among the vast majority of MSMEs managers and workers.

- 2.6 With regards to the first barrier, there is a lack of enough metrological infrastructure at INACAL where a mismatch exists between demand and supply in some metrology areas such as chemistry and electronics. Moreover, most of the available metrological infrastructure and associated services is highly concentrated in Lima, despite an important private sector demand in the regions where most of the country's production value chains are located. The "Study of Industrial and Scientific Metrological Needs at the National Level" (MEF, 2014), concluded that 20% of critical metrological services are not provided nationally, which calls for the need to develop new metrological laboratories with high accuracy measurements for a wide range of metrological magnitudes. Likewise, productive development and technological advancement need the support of measurement and calibration of equipment with high levels of accuracy and precision, to provide traceability of the measuring instruments, and of accredited calibration laboratories and authorized metrological verification units to provide support to the public auditing entities for legal metrology. Metrology with high level of precision and safety has strong economic impact in terms of productive development as measurement and measurement-related operations are estimated to account for between 3% and 6% of the GDP in industrialized countries (Quinn, 1994).
- 2.7 The second barrier relates with the low supply of accredited conformity assessment bodies. Indeed, INACAL, so far, has accredited 221 conformity assessment bodies comprised of testing, calibration, certification, inspection and evaluation bodies, which is equivalent to one assessment body for every 12,000 active companies. The number of accredited conformity assessment bodies in Peru is significantly lower in comparison to other countries in Latin America<sup>8</sup>. In order to know the number and location of non-accredited conformity assessment bodies that provide services to companies and the public sector; INACAL has carried out a Census of Conformity Assessment Bodies with the support of the National Institute of Statistics and Informatics (INEI).
- 2.8 In this context, it is considered of vital importance to strengthen the Accreditation Directorate of INACAL and other National Quality System (NQS) entities for the timely and efficient attention to the conformity assessment services required by regulatory and supervisory bodies. It is necessary to update the information on these non-accredited conformity assessment organisms that provide services for productive

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<sup>8</sup> There are about 1200 public and private conformity assessment bodies that provide calibration, measurement, testing and evaluation services of which 217 are accredited by the INACAL's Accreditation Directorate. That means just 1 conformity assessment bodies per 12.000 firms, against 7 in Colombia and 12 in Chile (INACAL, 2018). For example, the Ministry of Production, under which INACAL is located, runs a network of 46 Productive Innovation and Technology Transfer Centers (CITES) just 3 of them with laboratory services accredited by INACAL.

activities in order to control as well as to define a strategy for promotion and technical assistance that allows the gradual accreditation of the non-accredited bodies at the national level.

- 2.9 Peruvian MSMEs have not yet internalized the benefits of using the quality infrastructure to enhance their competitiveness and access to international markets. Just 27% of MSMEs has ever calibrated a tool for quality control (INACAL 2018). About 25% of MSMEs in the national surveys report having had product rejections due to measurement errors generating additional economic and reputational costs. The results of the National Quality Survey for Manufacturing MSEs (2018) show that more than 50% of the firms hire non-accredited informal technicians to calibrate their measuring equipment and 36% do so in their own workshops (INACAL, 2018). To promote such use, it would be necessary to assess the needs of the sector in terms of the type of quality infrastructure services they require as well as to identify any bottlenecks in using the quality infrastructure to define a strategy to increase the awareness and skills needed to implement modern quality management practices at the firm level<sup>9</sup>.
- 2.10 INACAL through Standardization Directorate proposed and implemented the Project APEC CTI 13 2015A, Supporting Micro, Small and Medium Enterprises (MSMEs) Trade Facilitation through Standardization Activities. One of the main deliverables of this Project was a guide which supports the quality infrastructure organizations about how to enhance MSMEs' competitiveness and integrate them in international trade. This guide serves as a reference material for any APEC economy, which needs to implement initiatives to help MSMEs to better understand the benefits of standards and conformity and encourage adoption of standards and services by accredited conformity assessment providers and initiatives to get MSMEs more involved in the development of standards, conformity assessment and metrology businesses, including guidelines on how to implement these strategies.
- 2.11 A policy strategy will have to be developed to increase the coordination between INACAL and other MSMEs technical support services in order to design and deploy programs that improve the degree of adoption by MSMEs of quality best practices. In order to do this, it will be important to have a demand-driven information system regarding the use of the quality infrastructure by the MSMEs enhanced with information on the quality regulations required for export.
- 2.12 In summary, fulfilling the mandates of the National Quality Policy, the National Plan for Productive Diversification and the National Policy and Plan for Competitiveness and Productivity requires tackling both supply and demand constraints that hinder a higher development of the National Quality System. On the supply side, it is necessary to revamp INACAL's current capacity of metrology laboratories strongly strengthening

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<sup>9</sup> There are more than 1.9 million MSMEs and they represent 99.5% of all companies (PRODUCE, 2017).

metrology laboratories and services as well as accreditation bodies, while on the demand side, it is important to work with companies to build their capacity in the area of quality management best practices. Finally, doing all of this requires strengthening INACAL policy coordination capacities needed to articulate with other organizations both in the public and private sectors to accelerate the implementation of the National Quality Policy in the country.

- 2.13 The Government of Korea, through the Korean Agency for Technology and Standards (KATS) under the Ministry of Trade, Industry and Energy (MOTIE) has been collaborating with the INACAL through the International Standards Infrastructure Cooperation Program (ISCP), coordinated by the Korean Standard Associations (KSA). Korean experience in strengthening and implementing the National Quality System is an excellent benchmark for Peru to promote the productive sector enhancing of competitiveness.
- 2.14 This technical cooperation is consistent with the Update to the Institutional Strategy 2010-2020 (AB-3008) under the pillars of productivity and innovation and strengthening the institutional capacity of the State. It is in alignment with the objectives of the Country Strategy 2017-2021 (GN-2889) to promote productivity, especially in terms of strengthening the business climate and business development as well as institutional strengthening and basic service delivery. Furthermore, it is consistent with the Innovation, Science and Technology Sector Framework Document (GN-2791-3), and it will contribute with the Sector Strategy Institutions for Growth and Social Welfare (GN-2587-2) and the Corporate Results Framework (CRF) 2026-2019 (GN-2727-6) as established in the indicator government agencies benefited by projects that strengthen technological and managerial tools to improve service delivery. This TC is eligible for financing by the KPC (Public Capacity Korea Fund for Economic Development) and is consistent with its aim to strengthen public policies for enhancing capacity building of public sector.

### **III. Description of activities/components and budget**

- 3.1 **Component 1. Support for strengthening accreditation in Peru.** The objective of this component is to contribute to increase the number of accredited conformity assessment bodies, to reduce transaction costs for the business sector and to enhance regulatory capacity. This component will finance the following activities: (i) demand study of conformity assessment services by regulatory and supervisory bodies with the strategy for strengthening the Accreditation Directorate and the NQS organizations; (ii) investment proposal to strengthen the conformity assessment system aimed at enhance accredited conformity assessment organizations at the national level as well as INACAL's own capacity as the accreditation body.; (iii) designing an information platform for the control and monitoring of the services provided by the Accreditation Directorate at INACAL in order to simplify its interaction with clients, optimize services time and monitor the quality of services by accredited

entities; and (iv) knowledge sharing experiences and benchmarking of international best practices of management, operation and provision of specialized accreditation services and advanced accreditation systems.

- 3.2 **Component 2. Support for strengthening the operational capacity of metrology laboratories.** The objective of this component is to increase the capacity to meet the service demand in terms of legal, industrial and scientific metrology. This component will finance the following activities: (i) diagnosis of gaps in specialized metrology services in Peru to estimates the current and future demand for these services by productive sectors; regulation, control and surveillance bodies; and academia.; (ii) benchmarking of international best practices of legal metrology services and metrology services for productive development in order to provide recommendations for the management, operability and provision of metrology service of Peru; (iii) proposal for public investment project to increase the operational capacity of INACAL's metrology services to close the projected gap of metrology services and identify resources required in infrastructure, equipment, human resources and any other intangible necessary to adequately provide these services.
- 3.3 **Component 3. Support for promoting the demand of quality infrastructure services by MSMEs.** The objective of this component is to increase the use of quality infrastructure services by the MSMEs to enhance their competitiveness in both national and international markets. This component will finance the following activities: (i) analysis of international strategies for strengthening competitiveness and productivity of MSMEs through quality infrastructure services in order to evaluate the potential application and adaptation of strategies in the Peruvian context, propose actions or projects to provide better services for MSMEs and suggest recommendations to improve technical, legal, governance and institutional framework; and (ii) proposal of an investment plan to promote the use of quality infrastructure by MSMEs to determine the inventory of interventions or strategies that are currently being developed and/or have recently been completed and identify intervention opportunities and propose an action plan that contains strategic activities aimed at increasing the use of quality infrastructure services in manufacturing MSMEs.
- 3.4 **Component 4. Institutional capacity building of INACAL for the implementation of the National Quality Policy.** The objective of this component is to enhance the institutional capacity of INACAL through the following activities: (i) benchmarking of international best practices of the National quality systems to evaluate the possibility of applying successful experiences considering the characteristics of the NQS in Peru and propose actions to strengthen the NQS by establishing the requirements, characteristics or necessary conditions for the national context; and (ii) organization of workshops and publications to diffuse quality culture and communicate the results of the TC.

- 3.5 **Coordination, Monitoring and Evaluation.** The objective of coordination, monitoring and evaluation is to support the coordination and monitoring of the activities by the Bank to ensure that this TC is conducted with utmost effectiveness and efficiency according to the Article 4 of the Agreement with the Donor. IDB will carry out missions every semester to evaluate the advancements made with the activities in the TC and to conduct discussion workshops with the INACAL. In addition, an external audit and evaluation of the TC will be conducted upon completion of all above activities.

**Indicative Budget**

Component	Description	IDB/Fund Funding	Counterpart Funding	Total Funding
Component 1	Support for strengthening accreditation in Peru	165,000		165,000
Component 2	Support for strengthening the operational capacity of the metrology laboratories	160,000		160,000
Component 3	Support for promoting the demand of quality infrastructure services by MSMEs.	60,000		60,000
Component 4	Institutional capacity building of INACAL for the implementation of the National Quality Policy	65,000		65,000
Coordination, monitoring and Evaluation		50,000		50,000
<b>Total</b>		<b>500,000</b>		<b>500,000</b>

**IV. Executing agency and execution structure**

- 4.1 This TC will be executed by the Bank as requested by the INACAL, as well as expressly stating compliance with section 4.5 of the Bank's TC Policy (GN-2470-2) which requires, in case of Bank-executed TCs in areas of Bank's expertise, that (a) the beneficiary country concurs; and (b) the proposed activities are consistent with the Bank's country strategy and program. Compliance to the requirement mentioned in (a) is evidenced by the non-objection letter attached. The Competitiveness, Technology and Innovation (CTI) Division of the Institutions for Development

Department (IFD) will be responsible for the technical supervision and administration of TC.

- 4.2 The Bank's execution, through IFD/CTI, will allow for a timely preparation and delivery of this project's activities and for an independent review of the reports generated by the different consultants. However, for the supervision of the consultant deliverables the Bank will work closely with INACAL professionals who will also participate in the design of terms of reference. Also, the Bank's team leader of this project will closely monitor each of the activities together with the professionals assigned by INACAL in order to achieve this project's outcome which is the strengthening of the National Quality System of Peru.
- 4.3 Reporting and Monitoring of the activities shall be carried out in accordance with the Article 4 of the Agreement with the Donor.

## **V. Major issues**

- 5.1 The execution of this TC depends on engagement of various actors in the national quality system across all regions of Peru including the private sector, conformity assessment bodies both accredited and unaccredited, National Public Procurement Institution, Peru Compras, among others to effectively deliver the planned activities, both in the collection of information and proposal of policies to strengthen the National Quality System. To mitigate this risk, workshops will be conducted to maximize the participation of all entities related to the National Quality System.

## **VI. Environmental and Social Strategy**

- 6.1 Given the nature of the program, there are no associated environmental or social risks. Based on the Environment and Safeguards Compliance Policy (OP-703) this operation is classified as "C" (See [Safeguards Policy Filter Report](#) and the [Screening Form](#)).

### **Required Annexes:**

[Request from the Client\\_71168.pdf](#)

[Results Matrix\\_75890.pdf](#)

[Terms of Reference\\_89993.pdf](#)

[Procurement Plan\\_28197.pdf](#)