

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**PERU**

**PROGRAM SUPPORTING REFORMS TO INCREASE PRODUCTIVITY IN PERU**

**(PE-L1223)**

**LOAN PROPOSAL**

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## ABBREVIATIONS

CDE	Centro de Desarrollo Empresarial [Enterprise Development Center]
CNC	Consejo Nacional de Competitividad [National Competitiveness Council]
CNCF	Consejo Nacional de Competitividad y Formalización [National Competitiveness and Formalization Council]
CPE	Comprobante de Pago Electrónico [Electronic Payment Confirmation]
CSC	Consejos Sectoriales de Competencias [Sector Skills Councils]
ENE	Encuesta Nacional de Empresas [National Enterprise Survey]
IDEX	Institución de Educación Técnica de Excelencia [Technical Schools of Excellence]
INNOVATE	Programa Nacional de Innovación para la Competitividad y Productividad [National Innovation Program for Competitiveness and Productivity]
MEF	Ministry of Economy and Finance
MINEDU	Ministry of Education
MNC	Marco Nacional de Cualificaciones [National Qualifications Framework]
MSEs	Micro and small enterprises
MTPE	Ministry for Labor and Employment Promotion
N/A	Not applicable
NEC	Núcleo Ejecutor de Compra [Procurement Execution Unit]
NRUS	Nuevo Régimen Único Simplificado [New Single Simplified Regime]
PBP	Programmatic policy-based loan
PEC	Ponte en Carrera [Put Yourself in the Running]
PNC	Política Nacional de Competitividad y Productividad [National Competitiveness and Productivity Policy]
RER	Régimen Especial de Impuesto a la Renta [Special Income Tax Regime]
SUNAFIL	Superintendencia Nacional de Fiscalización Laboral [National Superintendency of Labor Inspection]
SUNAT	Superintendencia Nacional de Aduanas y Administración Tributaria [National Superintendency of Customs and Tax Administration]
UCCTF	Unidad de Coordinación de Cooperación Técnica y Financiera [Technical and Financial Cooperation Coordination Unit]

## PROGRAM SUMMARY

### PERU PROGRAM SUPPORTING REFORMS TO INCREASE PRODUCTIVITY IN PERU (PE-L1223)

Financial Terms and Conditions				
Borrower: Republic of Peru			Flexible Financing Facility <sup>(a)</sup>	
			Amortization period:	7 years
Executing agency: Ministry of Economy and Finance, through the Department for Public Debt and the Treasury			Disbursement period:	1 year
			Grace period:	3.5 years <sup>(b)</sup>
Source	Amount (US\$)	%	Interest rate:	LIBOR-based
IDB (Ordinary Capital):	100 million	100	Credit fee:	(c)
			Inspection and supervision fee:	(c)
Total:	100 million	100	Weighted average life:	5.01 years
			Approval currency:	United States dollar
Program at a Glance				
Program objective/description: The objective of the programmatic series is to support the Peruvian government's efforts to increase the productivity of the economy. The specific objectives are to: (i) improve the quality of the labor factor of production, and (ii) improve labor, production, and tax policies to foster greater efficiency in the allocation of factors of production.				
Special contractual conditions precedent to the first and only disbursement of the loan: The first and only disbursement is contingent on compliance with the policy reform conditions included in the policy matrix (Annex II), the policy letter, and the other conditions set out in the loan contract (paragraph 3.3).				
Exceptions to Bank policy: None				
Strategic Alignment				
Challenges: <sup>(e)</sup>	SI	<input checked="" type="checkbox"/>	PI	<input checked="" type="checkbox"/>
			EI	<input type="checkbox"/>
Crosscutting Themes: <sup>(f)</sup>	GD	<input checked="" type="checkbox"/>	CC	<input type="checkbox"/>
			IC	<input checked="" type="checkbox"/>

<sup>(a)</sup> 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 and interest rate conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

<sup>(b)</sup> 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.

<sup>(c)</sup> 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 relevant policies.

<sup>(d)</sup> The weighted average life could be less, depending on the actual signature date of the loan contract.

<sup>(e)</sup> SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

<sup>(f)</sup> GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

## I. DESCRIPTION AND RESULTS MONITORING

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

- 1.1 **Recent macroeconomic performance.** Since the 2000s, Peru's economy has been one of the most dynamic in Latin America and the Caribbean, with an average annual growth rate of over 5%. This buoyancy is due in large part to the structural reforms of the 1990s and favorable external conditions (high commodity prices and an ample availability of external financing) (1).
- 1.2 As a result of this economic expansion, Peru became an upper middle-income country in 2008 (based on the World Bank classification). Monetary poverty and inequality also dropped (although the latter remains relatively high): between 2009 and 2016, they fell from 33.5% of the population and 0.48 (Gini coefficient), respectively, to 20.7% and 0.44.
- 1.3 Less favorable external conditions since 2013 have reduced economic buoyancy, and GDP growth rates in 2015 and 2016 were 3.3% and 3.9%, respectively. In 2017, the economy expanded by just 2.5% as a result of the coastal El Niño phenomenon and the domestic context in the country, which paralyzed major infrastructure projects. This pushed poverty up to 21.7%.
- 1.4 The economy is expected to attain a growth rate of 4% in 2018 and 2019, based on improved terms of trade and a recovery in public and private investment (2). However, estimates indicate that potential GDP growth has fallen from a peak of 7.1% in 2007 to 3.5% currently, and the contribution of productivity to this is virtually nil. Accordingly, Peru faces the challenge of creating new sources of economic growth—particularly by boosting productivity levels in the economy—with a view to achieving sustainable growth and continuing to advance along the path of economic and social development (3) (1) (4).
- 1.5 **The problem of low productivity.** Productivity concerns the efficient use or allocation of factors of production in an economy. It is key to economic growth, which is based on either factor accumulation or efficiency gains in factor allocation. In Peru, efficient allocation is hindered by market and government failures.<sup>1</sup> As a result, aggregate productivity measures—total factor productivity (TFP) and productivity per worker—have been growing at a relatively low rate, currently standing at only 49% and 23% of U.S. levels, respectively (5) (6).
- 1.6 As in other Andean countries, the main symptoms of low aggregate productivity in Peru include high levels of informality<sup>2</sup> and the small scale of businesses (4). Labor informality affects productivity in two ways. Firstly, informal employment is more unstable, and this limits investment in human capital by companies and workers (7). Secondly, the ability to hire informal workers creates an implicit subsidy to companies that evade social security (usually the least productive ones), encouraging their growth and affecting aggregate productivity. The small scale of businesses, meanwhile, prevents them from operating with the economies of scale

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<sup>1</sup> For further details, see the [conceptual framework](#).

<sup>2</sup> Refers to business informality and labor informality. The former concerns whether or not a company is registered and paying taxes. The second relates to a worker's social insurance status (in terms of health services, pensions, or other contingencies).

enjoyed by larger enterprises. Informality affects 59% of companies and 73% of workers (8). Micro and small enterprises (MSEs) account for 92% and 6.5% of all formal companies, respectively, and their productivity levels are equivalent to 3% and 49.1% of those seen in large companies (9).

- 1.7 This operation focuses on some of the key problems (1) (4) (10) affecting the quality of factors of production in Peru and the efficiency with which these are allocated.<sup>3</sup> These problems can be divided into two groups. Firstly, the scarcity of quality factors of production, in terms of workers' skills specifically. Secondly, the existence of public policies that impede the efficient allocation of those factors. These policies concern the labor market, productive development, and taxation. In addition to this, there is the crosscutting issue of limited interagency coordination in the area of productivity.

### **1. The scarcity of quality factors of production**

- 1.8 **A labor force that lacks the skills required by the productive sector.** Peru, 46% of companies experience difficulties in filling vacancies (Enterprise Skills Survey, 2018). This is due to the absence of the abilities required by companies in the labor force, a factor that is in turn related to weaknesses in the education for work system.<sup>4</sup> This system does not allow individuals to eliminate the skills gap resulting from basic education<sup>5</sup> or to continue developing their skills (11). The main causes are:

- a. **The low quality and relevance of education for work (12) (13):** This is related to: (i) the supply of post-secondary education (both technical and university-based), which expanded from the second half of the 1990s onwards<sup>6</sup> in a context of weak quality assurance<sup>7</sup> (for example, 79% of universities created between 1995 and 2010 were of low quality) (14); and (ii) a lack of mechanisms to identify skills requirements in the productive sector at the sector and regional levels, and to promote the productive sector's involvement in education for work. This is reflected in the fact that, for example, only 30% of the 383 technical courses are linked to the five main economic activities in their regions (15).

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<sup>3</sup> Other such factors may include, for example, public infrastructure, trade liberalization, and stabilization policies. See Céspedes, et al. (2016) (10).

<sup>4</sup> Comprises the post-secondary education and vocational training systems.

<sup>5</sup> The government has prioritized improvements in education, as reflected in an increase in the annual sector budget from 2.8% of GDP in 2013 to 3.8% in 2017.

<sup>6</sup> The number of vocational schools rose from 421 in 1990 to 977 in 2014.

<sup>7</sup> Refers to the process of licensing institutions and accrediting courses.

- b. **A lack of information to support education decision making.** Peruvians lack sufficient, timely, and gender-differentiated information for making decisions about their education for work (for example, which course to take and in which institution) (11). This limitation can lead many students to make suboptimal decisions (16),<sup>8</sup> and also contributes to low student satisfaction,<sup>9</sup> poor academic performance, and high dropout rates.<sup>10</sup> It also perpetuates gender-based differences in the labor market.<sup>11</sup>
  - c. **An absence of instruments to allow both knowledge validation in the education system and skills portability.** Peruvians are unable to plan out their education based on pathways to learning and equivalence between the different types and levels of learning that can be acquired by individuals. Skills obtained outside the formal education for work system are not recognized, and there are no horizontal routes between technical and university-based post-secondary education. This limits lifetime learning.
2. **The existence of public policies that impede the efficient allocation of factors of production**
- 1.9 **Labor market policies face limitations, and enforcement capacity is weak.** In addition to dealing with scarcity in their search for quality labor production factors, companies are subject to labor legislation that provides little incentive for formal hiring. In addition, the enforcement capacity of the National Superintendency of Labor Inspection (SUNAFIL) is low.
- a. **Labor legislation acts as a disincentive to formal hiring.** Nonwage costs are relatively high,<sup>12</sup> both in absolute terms (representing 70% of the average formal sector wage) and in relative terms (Peru ranks among the three countries with the highest nonwage costs in Latin America and the Caribbean) (7). This creates an incentive for temporary (17)<sup>13</sup> or informal hiring (18).
  - b. **SUNAFIL's enforcement capacity is weak.** The agency is only capable of reactive inspection (in response to complaints), and its actions are largely punitive in nature, rather than informative. It focuses on companies that have already been inspected, thus reinforcing companies' incentives to remain in the informal sector. Its main problems are as follows: (i) a lack of inspectors: 0.2 inspectors per 10,000 workers, compared to 1.7 in Chile; (ii) a lack of access to essential data for enforcement activities: SUNAFIL did not have

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<sup>8</sup> This explains why 64% of young people prefer university studies to technical education, despite the fact that companies experience difficulties in recruiting technical staff.

<sup>9</sup> The 2010 National Labor Skills Survey shows that 45% of graduates between 22 and 30 years of age would not change any aspect of their decision concerning where and what to study at the post-secondary level.

<sup>10</sup> According to the National Household Survey (ENAHU), an average of 250,000 young people abandoned their studies each year between 2004 and 2015.

<sup>11</sup> See footnote on page 36.

<sup>12</sup> Nonwage costs consist of payments that employers are required to make in addition to wages for items such as health, pensions, vacations, bonuses, severance, etc.

<sup>13</sup> In 2015, 64% of formal sector wage earners were on temporary contracts.



direct access to the “planilla electrónica” (electronic payroll datasheet)<sup>14</sup> until mid-2017, with enforcement work relying on secondary data (household surveys); and (iii) a lack of the physical and human capital needed to exploit data flows by developing risk models and prevention policies.

- 1.10 **Productive development policies suffer from limitations in terms of access and quality.** Production units lack efficiency in their management and transformation of factors of production. From the time they are created, companies’ activities are guided by intuition, with limitations in access to management training (e.g. administration and accounting), and this translates into deficient management in production units. For example, 60% of MSEs do not have business plans when they are launched (National Enterprise Survey (ENE), 2017). Additionally, MSEs’ technologies for transforming factors are of low sophistication, and they need technology extension services either to complete their production processes (e.g. to access machinery that is prohibitively costly given the size of their operations) or to try out new ones (e.g. securing access to laboratories to trial new processes at an affordable cost). At the same time, MSEs face difficulties in accessing large buyers that would spur them to grow and adopt good management and production practices in order to meet the standards required by the high-volume purchases made by these institutional clients.<sup>15</sup> This situation is aggravated by the following limitations in productive development policies:
- a. **Management extension policies are offered in a dispersed, nonstandardized manner.** There are public services supporting business growth (extension), such as Enterprise Development Centers (CDEs). However, there is a lack of knowledge regarding them: only 5% of MSEs are aware of them and 1% say they have used them (Innovation Survey, 2014). Moreover, they are split across various uncoordinated windows belonging to different public sector agencies. They coexist with a number of services provided by private associations (trade associations, universities, etc.) and are of varying quality.<sup>16</sup>
  - b. **Technology extension policies are offered in centers that suffer from infrastructure, sustainability, and coordination problems.** The country’s Productive Innovation and Technology Transfer Centers (CITEs) are not well known and use of them is low: 16% of MSEs are aware of them and 0.6% have used them (Innovation Survey, 2014). In addition, some CITEs lack adequate infrastructure for providing their services, and they do not effectively work as a network as there is little interaction between its members or with other actors in the innovation ecosystem. Lastly, the CITEs are not financially self-sustaining as their funding arrangements are based predominantly on public sector transfers through the Institute of Production.<sup>17</sup>

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<sup>14</sup> This records both tax information and information declared by formal sector employers regarding work performed by themselves, their employees, service providers, staff in training, and third-party employees.

<sup>15</sup> Given the risks inherent to their age, experience, scale, and traditional practices.

<sup>16</sup> There is a lack of standardization and assessment of the quality of the different services on offer.

<sup>17</sup> A specialized technical agency attached to the Ministry of Production.

This means that qualified, experienced staff are difficult to retain, and it also complicates long-term investment plans aimed at improving the centers (19).

- c. **Policies to improve access to institutional buyers are limited in scope and execution processes are slow:** To support MSEs during times of economic slowdown, a government purchasing tool (Compras MyPerú)<sup>18</sup> was developed; this seeks to enhance market access opportunities through large-scale purchases from MSEs. Despite its potential, this instrument has not been further exploited to encourage participating MSEs to gradually formalize and adopt good practices. At the same time, it has faced limitations of scope on the supplier side: one in four MSEs are aware of the law that allows government procurement from MSEs, but only 12% have taken advantage of it (ENE, 2017). There are also limitations on the side of the procurement entities. Lastly, the tool has experienced operational challenges with regard to the “Núcleos Ejecutores de Compra [Procurement Execution Units]” (NECs)<sup>19</sup> due to the heterogeneity and multiplicity of their administrative procedures.
- 1.11 **Tax policies face limitations, and enforcement capacity is weak.** The tax system is complex and there are discontinuous increases in tax rates. This acts as a disincentive to growth for companies and is a hurdle to tax enforcement. In addition, the enforcement capacity of the National Superintendency of Customs and Tax Administration (SUNAT) is low:
- a. The existence of different tax regimes: these exist to ensure that smaller-scale companies pay a lower effective tax rate, thus encouraging them to join the formal sector and dedicate part of their revenues to investments aimed at increasing their productivity. The main regimes are the New Single Simplified Regime (NRUS), the Special Income Tax Regime (RER), and the MSE Tax Regime.<sup>20</sup> Some 74% of formal businesses benefit from these regimes. However, their results have fallen short of expectations, as they have created (i) growth disincentives for companies,<sup>21</sup> given the discontinuous increases in effective tax rates that companies face when they decide to expand capacity (20); (ii) implicit subsidies to the least productive economic sector, to the detriment of overall productivity (21); and (iii) a higher propensity to evade taxes (22),<sup>22</sup> as companies that are not eligible for these benefits have an incentive to underreport the scale of their production in order to benefit from lower effective tax rates.

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<sup>18</sup> Emergency Order 058-2011.

<sup>19</sup> The NECs have an administrative team that is responsible for inviting, evaluating, and selecting bids from MSEs. They also have technical teams that are responsible for verifying the installed capacity of the participating MSEs before the contracts are signed. These professionals monitor and inspect the production processes of the goods concerned so as to ensure their quality, timeliness, and standardization.

<sup>20</sup> NRUS: individual taxpayers with annual earnings of less than US\$29,360 (approximate). RER: individual taxpayers and companies with net annual earnings of less than US\$160,550 (approximate). MSE Tax Regime: individual taxpayers and companies with net annual earnings of less than US\$888,380 (approximate).

<sup>21</sup> Forty-nine percent of NRUS and RER taxpayers have been in existence for over five years.

<sup>22</sup> In the case of the NRUS, evasion stands at 80%.

- b. The coexistence of multiple special regimes also militates against the principle of simplicity that should characterize all tax systems. Firstly, it makes it more difficult for taxpayers to fulfill their tax obligations. Secondly, it is more difficult for SUNAT to verify compliance with these obligations. In particular, it limits the authorities' ability to roll out the Comprobante de Pago Electrónico [Electronic Payment Confirmation] (CPE),<sup>23</sup> which facilitates MSE transactions and provides the tax authorities with taxpayer data (23).<sup>24</sup>
- c. SUNAT's inspection and collection capacity is weak and the level of tax evasion is high. In the case of the general sales tax (IGV),<sup>25</sup> evasion stood at 36% in 2016 (24). This problem has a detrimental impact on productivity. Firstly, evasion facilitates the emergence of low-productivity businesses that manage to remain financially profitable due to their nonpayment of tax obligations. These companies absorb resources that could be used more efficiently by more productive businesses. Secondly, high evasion levels reduce the resources available to the government for investments to improve aggregate productivity. These evasion levels are, to a large extent, due to the fact that SUNAT lacks the data science predictive analytics tools that would allow identification of the economic sectors in which evasion is most prevalent. SUNAT also lacks the data security protocols required to support the exchange of tax information (mainly relating to taxpayers operating at an international level) with administrations in other countries for control purposes (25).<sup>26, 27</sup>

1.12 **The crosscutting issue of weak interagency coordination.** In addition to the specific problems described above, there is a lack of a productivity agenda that would coordinate multisector strategies. This has not always been the case: between 2002 and 2016, the National Competitiveness Plan (PNC 2005) and the Competitiveness Agenda 2012-2013 were formulated at the initiative of the National Competitiveness Council (CNC).<sup>28</sup> Six multisector strategic lines of activity and 60 targets with implications for productivity were identified and reported on twice each year (26).<sup>29</sup> Positive results facilitated expansion of the Agenda to encompass the 2014-2018 period. In 2016, however, the CNC was renamed, becoming the National Competitiveness and Formalization Council (CNCF), to reflect the fact that formalization was one of the priorities of the new government.<sup>30</sup>

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<sup>23</sup> Use of the CPE instead of paper invoices costs 8.6 times less in the case of a microenterprise, and 2.7 times less for small and medium-sized enterprises.

<sup>24</sup> CPEs facilitate the detection of omissions or inconsistencies and allow corrective enforcement action to be taken.

<sup>25</sup> The IGV accounts for 52% of total collections.

<sup>26</sup> Within the framework of the standards established by the Organization for Economic Cooperation and Development, through its Global Forum on Transparency and Exchange of Information for Tax Purposes.

<sup>27</sup> Productivity is also adversely affected by the existence of large companies with international operations that evade and avoid regulations.

<sup>28</sup> A 2014 evaluation of this agenda showed that 89% of the targets were achieved.

<sup>29</sup> Competitiveness relates to the conditions that foster productivity gains, thus reducing transaction costs in the marketing of products and in the creation, absorption, or displacement of factors and inputs.

<sup>30</sup> Supreme Decree 063-2016-PCM.

- 1.13 Concomitant with the shift in priorities, changes were made to the composition of the CNCF's advisory board, with the incorporation of public agencies that are more involved in formalization policies (e.g. the Ministry of Health). In addition, the CNCF departments responsible for strategic management and the monitoring of strategy implementation were relegated to a secondary role.
- 1.14 The weakening of coordination between competitiveness and productivity policies led to the reemergence of fragmentation between the different sector strategies and between public and private sector initiatives. Furthermore, no public entity has adopted an effective oversight role in the areas covered by these policies, in terms of assuming responsibility for building a new agenda and monitoring its results.
- 1.15 **The Peruvian government's strategy for increasing productivity.** The government has been working to resolve problems that limit productivity:
- 1. To improve labor force skills:**
- a. Improving the quality and relevance of the labor force: the Ministry of Education (MINEDU) has been engaged in reforms to post-secondary education,<sup>31, 32</sup> and progress has been made in implementing these, particularly in the case of university education. In 2014, the National Superintendency of University Education (SUNEDU) was created to manage the licensing process for universities, and 48 such institutions have already received licenses. However, no similar progress has been achieved in the area of technical post-secondary education. MINEDU has established basic criteria for licensing post-secondary technical education institutions, and has issued licenses to 17 private institutions out of a total of 840.<sup>33</sup> The main problem, however, concerns public entities, as none of these meet the minimum quality criteria for obtaining a license. As a result, the authorities have introduced a model of Technical Schools of Excellence (IDEXs), with the objective of converting 26 public post-secondary vocational schools into IDEXs (one in each region and one in Metropolitan Lima). The IDEXs are expected to meet the identified needs, offering qualified teaching staff, relevant study programs, and adequate infrastructure and equipment, among other things. With the Bank's support (ATN/OC-16162-PE), MINEDU established the model of technological education services of excellence in 2017. In collaboration with the regional governments, it has also already selected the 26 schools to be converted into IDEXs. The next step is to launch the process of transforming these schools.
- b. With the Bank's support (operations ATN/OC-14539-PE and ATN/CN-16432-PE), and to improve the relevance of education for work, MINEDU and the Ministry for Labor and Employment Promotion (MTPE) have been developing

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<sup>31</sup> The reform is enshrined in the University Act (Law 30220) of 2014 and the Post-Secondary Education Institutions and Schools Act (Law 30512) of 2016.

<sup>32</sup> Supreme Decree 016-2015-MINEDU, which establishes the core elements of the Ministry's post-secondary education policy.

<sup>33</sup> MINEDU, General Secretariat Resolution 322-2017.

two pilot Sector Skills Councils (CSCs) (27)<sup>34</sup> for the mining sector and the agricultural export subsector.<sup>35</sup> These pilot initiatives represent the first version of a Peruvian model of CSCs, in which the public and private sectors interact under the leadership of the productive sector. Positive experience has led the government to adopt this model. Continued progress will require that the country: establish an institutional framework that provides mechanisms for interagency coordination between public and private stakeholders; create the corresponding governance model; and recognize—on the part of the public sector—the outputs produced by the CSCs and incorporate them into the courses offered. To ensure that the CSCs are sustainable, mechanisms also need to be identified for their financing.

- c. Improving information for decision-making in education: in 2015, MINEDU, the MTPE, and *Empresarios por un Perú Desarrollado* [Entrepreneurs for a Developed Peru] (IPAE) launched the website *Ponte en Carrera* [Put Yourself in the Running] (PEC), with information about 445 professional and technical career paths and average earnings for each of them. The PEC currently includes 1,071 post-secondary education institutions and 555 courses,<sup>36</sup> with additional material such as interactive vocational tests. However, there are limitations in terms of the quality and relevance of the information and its usability. Moreover, the indicators presented are basic and lack gender focus (28) (29).<sup>37</sup> For example, MINEDU has no direct information from the post-secondary education institutions on their graduates; such information would feed back into PEC and allow the graduates' (formal) work situation to be established (through the electronic payroll datasheet). Similarly, the information used to calculate the average monthly income of young people that graduated between 2011 and 2015 is incomplete,<sup>38</sup> and its quality has not been evaluated. In this context, decision-making based on inadequate information may be as damaging as making decisions without any information.
- d. Improving knowledge validation in the education system and skills portability: the Government of Peru has chosen to develop a National Qualifications Framework (MNC) (30). This is a sound decision, but it involves a long-term process and close coordination between public and private actors within the education for work system. The next step is for MINEDU and MTPE to begin joint development of the MNC.

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<sup>34</sup> These institutions exist in developed countries and help to align education curricula with the needs of companies.

<sup>35</sup> These sectors were selected based on criteria such as their weight in the economy and their level of labor absorption.

<sup>36</sup> This represents less than 40% of courses.

<sup>37</sup> A lack of information regarding the returns to different occupations in the labor market limits the ability of women to choose better-paid options. For example, 50% of university students are women, but only 30% of workers and 25% of managers in the private sector are women. There is evidence that information has a positive impact in terms of increasing the preference of young women for enrolling in male-dominated courses.

<sup>38</sup> The information on earnings relates to 57% of workers with post-secondary education.

## **2. To improve labor market policies and the ability to enforce them:**

- a. **Improving labor legislation.** At the end of 2016, the government convened a Social Protection Commission (CPS) that was expected to propose a reform of the social protection system, aimed at decoupling financing of the system from work status. In tandem, the MTPE sought to modify the labor legislation with a view to reducing nonwage costs and providing impetus to the labor market. However, the country context between late 2016 and the beginning of 2018—which led to a change of government—meant that it was impossible to reach a consensus on these reforms. Although the political feasibility of this type of modification is currently low, the government has acknowledged its importance and has indicated its intention to enter into dialogue and consultations with all stakeholders, with a view to moving towards a consensus-based reform proposal.
- b. **Improving SUNAFIL’s enforcement capacity.** The government has moved to strengthen enforcement capacity. SUNAFIL’s budget increased by 63% between 2017 and 2018, enabling it to double the number of inspectors—from 389 to 762. Moreover, an extensive coalition was built to formalize the workforce and protect basic rights, incorporating the inspection capacity of 14 additional agencies. As a result, more than 4,000 inspectors currently share information at the national level and perform joint activities. A law was also approved transferring the powers, functions, and resources (human and financial) of regional governments to SUNAFIL in the area of inspections. This will allow the agency to perform inspections of microenterprises as well, and may diminish the perception that only large companies are inspected, thus reducing the incentive to remain small. In addition, the Bank has been providing support to SUNAFIL for electronic payroll datasheet data processing (ATN/OC-16162-PE) and the development of two pilot initiatives (RG-E1492); these will help to boost labor formalization and the hiring of people with disabilities by improving data use.<sup>39</sup> SUNAFIL now needs to strengthen its inspection intelligence capacity—particularly its ability to handle databases from different sources.

## **3. To improve productive development policies:**

- a. **Improving enterprise extension policies.** In 2017, the Ministry of Production launched a campaign to promote business extension services by opening CDEs<sup>40</sup> and creating the national “Tu Empresa [Your Company]” program.<sup>41</sup> This program will gradually strengthen the CDEs, and its objectives are as follows: develop and standardize the basic services provided by the centers, expand these services, develop a window for

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<sup>39</sup> Public institutions are legally required to hire at least 5% of their total staff as persons with disabilities; in the case of private employers with more than 50 workers, the proportion is at least 3% (Law 29973 of 2012). Few companies comply with this law. According to the 2015 National Household Survey, 65% of workers with disabilities are either self-employed or contributing family workers (compared to 57% for the population as a whole)—informal occupations. Labor productivity is lower for these workers: their average monthly earnings represent 35% of those of workers without disabilities.

<sup>40</sup> There were 27 CDEs in that year.

<sup>41</sup> Supreme Decree 012-2017-Ministry of Production.

accessing Ministry of Production services and programs, and extend coverage to different regions. So far, only one CDE has been strengthened.

- b. **Improving technology extension policies.** Despite its limitations, the CITE network has become the main public-private partner for companies in the area of technology transfer. The network encompassed 15 centers in 2015 and was capable of providing extension services to 2,000 companies. Faced with growing demand and the steady appearance of new CITEs, the regulations governing the centers were modified in that same year to establish and improve the rules for their creation, implementation, development, operation, and management.<sup>42</sup> The network currently has a presence in 20 regions and 7 production chains, through 27 public CITES and 19 private ones. Nonetheless, challenges remain in terms of ensuring the proper operation of the public CITEs (e.g. the services offered and human capital) and achieving greater private sector participation with a view to improving efficiency and self-sustainability.
  - c. **Improving policies that enhance access to institutional buyers.** The Ministry of Production has been making efforts to improve these policies. Firstly, it has attempted to expand the number of procurement entities in the public sector: in 2017, other ministries were contacted to generate new demand for manufactured goods. Secondly, it has sought to improve the sustainability of the policy by proposing institutional arrangements for a mechanism aimed at transforming it into a national program to encourage MSEs to formalize, as well as improving their competitiveness by fostering linkages with other markets. Thirdly, it has implemented improvement plans in some NECs. Nonetheless, the following challenges remain: (i) expanding the number of procurement entities; (ii) including mechanisms to encourage the formalization of participating MSEs; (iii) improving and simplifying operational policies for procurement from MSEs through the NECs; and (iv) strengthening procurement quality control with the participation of the National Quality Institute (INACAL).
- 4. To improve tax policies and the ability to enforce them:**
- a. **Simplifying the tax regime.** Progress has been mixed. In 2017, three of the five NRUS categories were eliminated and the eligibility threshold was lowered. This facilitates tax compliance on the part of microenterprises and frees up resources that SUNAT can use to verify compliance in this productive segment. At the same time, the MSE tax regime for small and medium-sized companies was created to encourage informal businesses to register with the SUNAT and to facilitate their transition into the general regime. This new regime added complexity to the tax system. It has not succeeded in attracting many informal businesses, and companies have used it to pay less tax than they should (31). Lastly, progress has been made in rolling out the use of the Electronic Payment Confirmation. Starting in 2019, use of the CPE will be mandatory for taxpayers with earnings above 150 tax

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<sup>42</sup> Legislative Decree 1228.

units (UITs). This will facilitate the flow of information from this group of taxpayers and reduce the cost of tax obligations for them.

- b. **Improving SUNAFIL's inspection and collection capacity.** Related also to the previous point, the Government of Peru wishes to reduce the costs to small taxpayers of issuing CPEs. To this end, it is considering authorizing SUNAT to issue the required digital certificates free of charge. SUNAT itself is in the process of improving its technology infrastructure to store CPEs more securely. In addition, in 2017 SUNAT created a data science office to detect patterns of evasion based on available information. This office has been carrying out projects to detect evasion, but its work needs to be assimilated to a greater degree in the institution's inspections policy. At the same time, the government has taken initial steps to support the automatic exchange of tax information with administrations in other countries, with a view to controlling international tax evasion. To this end, it signed the Convention on Mutual Administrative Assistance in Tax Matters, which provides a legal framework for the international exchange of information. SUNAT now needs to improve the technological and data security capabilities required to exchange information.

## **5. To improve interagency coordination**

- a. The Government of Peru wishes to develop a shared agenda for improving competitiveness and productivity and for ensuring improved coordination between the different sectors. The Ministry of Economy and Finance (MEF), through the CNCF, wishes to develop a National Competitiveness and Productivity Policy (PoNC) and a PNC 2019-2022. These will identify key policy pillars and actions for improving competitiveness and productivity, while helping to align the efforts of public institutions in support of this objective. It also aims to strengthen the CNCF so that it can lead implementation of the PNC once more. If it is to be successful, the CNCF will need to strengthen both its oversight role and its coordination role with respect to other public and private sector entities. The first step toward this will be to strengthen its capacity for monitoring and evaluating the PNC.
- b. In a further effort to strengthen policy coordination between public and private institutions, Ministry of Production (through the National Innovation Program for Competitiveness and Productivity (INNOVATE)) has begun the design of "technology roadmaps" in sectors with high growth potential. These roadmaps consist of: (i) a diagnostic assessment of technology, skills, and capacity gaps; (ii) plans to eliminate these gaps; and (iii) the design of a public-private governance model for monitoring and evaluating their implementation. The first roadmaps will be developed for two production clusters: the food industry and mining-associated businesses.

- 1.16 **IDB program strategy and value added.** The Peruvian government has requested a programmatic policy-based loan (PBP) operation aimed at enhancing productivity. As mentioned above, the problem of productivity has multiple roots and cuts across multiple sectors. Resolving it requires a long-term, coordinated effort between the public and private sectors. Both these considerations have been incorporated. Firstly, the operation seeks to improve the quality of factors of production—specifically, the labor factor—and sector policies that hinder efficiency



- in the allocation of these factors. The choice of these policies is based on recent studies of productivity in Peru, and they form part of the priority pillars identified by the CNCF. Secondly, the operation promotes both the development of the PNC as a roadmap for allowing sector alignment and coordination in the area of competitiveness and productivity, and strengthening of the CNCF so that it can act as the lead agency for ensuring the satisfactory implementation of these policies.
- 1.17 Design of the operation began in 2017, but the country context delayed its approval. Since then, the Bank has been supporting the government—mainly by means of technical cooperation agreements—to determine and develop most of the policy measures. This support has helped to ensure that two investment operations in sectors included in the operation were also designed to fit within the productivity enhancement policy, and these include funding for the implementation of a number of measures promoted by the PBP. Specifically: (i) the Program for the Improvement of the Quality and Relevance of University and Technical Higher Education Services at the National Level (4555/OC-PE), which aims to ensure that post-secondary students attend institutions that provide satisfactory education services. This will finance, among other things, the implementation of two IDEXs, the operations of three CSCs, and the implementation of the MNC; and (ii) the Program for the Modernization of Tax and Customs Management (PE-L1239), which seeks to improve tax collection by strengthening SUNAT, and includes funding for the roll-out of the CPE and the introduction of technology.
- 1.18 **A summary of the reforms.** Policy actions under the first programmatic operation will prioritize the design of regulatory frameworks (plans, policies, models, approved by ministerial or interagency agreement) and the launch of programs and/or pilot initiatives aimed at improving: (i) labor force skills; (ii) labor policies and the ability to enforce these; (iii) productive development policies; (iv) tax policies and the ability to enforce these; and (v) interagency coordination. The indicative actions for a second operation seek to promote the initial implementation of these regulatory frameworks and consolidation of the programs and/or pilot initiatives. Together, the loans are aimed at improving the quality of the labor production factor and policies in the labor, productive, and tax spheres, with a view to achieving greater efficiency in the allocation of factors of production and the alignment of sector efforts. Accordingly, they will cover productivity gaps. Firstly, they will allow post-secondary students to decide which course to pursue based on a greater availability of better-quality information, and to access more relevant course offerings based on a quality model. They will also help to ensure that education for work is relevant in the case of three economic sectors. Secondly, they create the conditions for the country to improve its labor legislation in the future, and will allow SUNAFIL to begin building institutional architecture to facilitate effective labor enforcement by means of data processing. Thirdly, they improve the scope and quality of production and technology extension policies, as well as the execution processes that form part of the arrangements for public procurement from MSEs. Fourthly, they simplify the tax regime and introduce the use of technology and data science to improve tax enforcement. Lastly, they contribute to the development of the PNC and the monitoring of its implementation, allowing the coordination of actions to foster productivity and competitiveness.
- 1.19 If it is continue moving forward with the productivity agenda in future, the country will need to develop an education for work system that includes the CSCs and the

- MNC (information system) as complementary mechanisms. It will also need to extend the CSC model to other economic sectors, implement the reforms to labor legislation and the tax regime, fund physical and human capital investments in SUNAFIL, promote the interoperability and flow of data between public institutions with responsibilities in the areas of labor and tax enforcement, extend reforms to business and production extension policies to all regions and productive sectors, and strengthen the CNCF institutional framework so that it can properly implement the PNC.<sup>43</sup>
- 1.20 **Lessons learned.** The operation's design is based on the results of active collaboration between the Bank and the country in the area of productivity. Most notably: (i) accumulated experience in executing loans and technical cooperation operations relating to the objectives of the operation; (ii) the exchange of experiences and good practices in the area of productivity; and (iii) the preparation of studies to support design of the operation and analyze key success factors in the area of productivity.
- 1.21 **Education for work.** A study was prepared in collaboration with the International Labor Organization (11) that improved analysis of this system and developed a proposal for reform. The Bank also produced a study of education for work systems that work effectively, identifying the factors in their success (32). The lessons learned from these studies have been incorporated into Component 2 (paragraph 1.35). For example, the operation emphasizes the importance of developing publicly funded sector organizations led by the productive sector, such as the CSCs; subsystems for transferring credits, such as the MNC; and strengthening information tools such as the PEC.
- 1.22 **Labor market policies.** The Bank supported the work of the Social Protection Commission (CPS) under operation ATN/CN-16162-PE. One of the findings of this commission is that labor legislation has created a labor market in which "stable employment is for the privileged few, and rapid turnover is the reality of most formal sector workers" (33). The evidence indicates that the political economy of labor reform is complex and requires suitable conditions to be in place. These include agreements within the government, a broad nucleus of individuals that have the conviction and willingness to carry out the reforms, and consensus between key actors in the labor market (government, workers, and companies) and in the political system surrounding their implementation (34). Both lessons have been incorporated into the operation (Component 3 (paragraph 1.36)): the need for labor reforms has been identified, but the conditions for their approval do not currently exist; accordingly, the operation promotes the development of a proposal that will allow the government to carry out the reforms when conditions are suitable.
- 1.23 Another lesson learned is that to increase formal employment, the government's enforcement capacity needs to be improved. Weak enforcement capacity allows workers and companies to operate informally (35). A less permissive approach to informal work could lead to higher formal employment, but also potentially higher unemployment (36) (37). To mitigate this possible negative effect, it is important

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<sup>43</sup> It will also need to address other factors that limit production, such as the ones mentioned in footnote 3.

- wherever possible to combine improvements in enforcement capacity with other pro-formalization measures, such as cost reductions. These lessons have been incorporated (Component 3 (paragraph 1.36): the operation supports the strengthening of SUNAFIL and the implementation of two pilot initiatives to study the impact of enforcement and provide inputs into the enforcement strategy.
- 1.24 **Productive development policies.** In 2016, the Bank provided support for a baseline survey of the CITE network (3700/OC-PE); this was aimed at contributing to decision-making processes in the Institute of Production Technology and Ministry of Production by providing them with updated information on the operational status and capacities of public and private entities belonging to the network. The evaluation was focused on determining the institutional and technological capacities of each CITE, as well as their market knowledge. This helped to establish some of the criteria for effective operation (infrastructure, funding, services, and human capital) included in Component 4 (paragraph 1.37).<sup>44</sup>
- 1.25 **Tax policies.** The Bank provides technical assistance for the simplification of tax regimes for small production units in the region. This experience has allowed it to confirm that tax simplification has a positive impact on formalization, thus enhancing productivity. In 2014, the Bank helped Mexico to replace the Small Taxpayer Regime (REPECOS) with the Fiscal Incorporation Regime (RIF)—which supports transition to the general tax regime—and to eliminate other preferential regimes. Almost 900,000 taxpayers entered the Fiscal Incorporation Regime in the first year of this reform.<sup>45</sup> Likewise, international experience shows that special tax regimes have only very limited, transitory effects on levels of formalization and growth among MSEs (38) (39). The evidence for countries such as Peru has been confirmed through RG-E1578, which has been funding a comparative analysis of these regimes in the region. As a result, the operation promotes the simplification of these regimes (Component 5 (paragraph 1.38)).
- 1.26 The OECD indicates that the incorporation of technology into tax administration (e.g. CPEs) and the use of data science to exploit and analyze big data is key to facilitating voluntary compliance among small and medium-sized enterprises, as well as for facilitating enforcement activities by tax administrations (40). Accordingly, the development of SUNAT's data science unit is supported under the same component.
- 1.27 **Interagency coordination.** The experience of the CNC in the period to 2016 was a successful example of the implementation of an institutional agenda. Evaluations showed that most of the targets in the PNC (2005) and the two subsequent Agendas were fulfilled to a satisfactory standard. In addition, the Bank has supported multisector competitiveness and/or productivity agendas aimed at determining strategies and coordinating interests. For example, in the case of Chile's National Productivity Commission, which is promoted by the public sector, the productive sector participates fully in the Commission's governance, as well as in determining its agenda. The Bank provided active support for the Commission in

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<sup>44</sup> Technical cooperation operation ATN/OC-16693-PE supports the development of executive roundtables aimed at solving the obstacles to productive development in priority sectors.

<sup>45</sup> See Public Finance Strengthening Program II (3676/OC-ME).

its design of a technical-professional education policy. This model of public-private coordination for determining policies was one of the benchmarks used in the design of Component 6 (paragraph 1.39).

- 1.28 **Coordination with other donors.** The Swiss cooperation agency, through the SeCompetitivo [Be Competitive] Program, has been assisting the Government of Peru in improving private sector competitiveness based on three pillars: business development and value chains, international trade facilitation, and human capital strengthening. The Bank has been coordinating with this donor to ensure that this support is complemented by the policy actions promoted under the operation.
- 1.29 **Strategic alignment.** The program is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008), and is aligned with the development challenges of: (i) social inclusion and equality, by fostering equal access to relevant, high-quality education for work; and (ii) productivity and innovation, by promoting policy measures to enhance productivity. It is also aligned with the following crosscutting themes: (i) gender equality and diversity, in that it includes two outputs aimed at bridging information gaps regarding work opportunities for women and supporting the integration of persons with disabilities into formal employment; and (ii) institutional capacity and the rule of law, through increased revenue collection with a view to improving public services, and improvements in public sector capacity based on reduced administration/transaction costs in taxation/customs. The program is also aligned with the Corporate Results Framework, 2016-2019 (document GN-2727-4), through its indicator relating to the number of government agencies benefiting from projects that strengthen management and technological tools to improve public services.
- 1.30 The program is consistent with the following sector priorities: in the Labor Sector Framework Document (document GN-2741-7), access to work (V.A), skills development (Section V.B), and social coverage (Section V.C); in the Education and Early Childhood Development Sector Framework Document (document GN-2708-5), dimension 5, which seeks to ensure that all students acquire the skills needed to be productive citizens; in the Innovation, Science and Technology Sector Framework Document (document GN-2791-8), public innovation and science and technology policies for improving productivity (Section V.A) and improving the business climate and competitiveness for private sector development (Section V.E); and in the Fiscal Policy And Management Sector Framework Document (document GN-2831-3), government revenue generation. It is also aligned with the country strategy (document GN-2889), as part of the strategic area of productivity and the following strategic objectives: “support formalization of the economy”, “support business development”, and “strengthen the business climate”. It is included in the Update to Annex III of the 2018 Operational Program (document GN-2915-2).

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

- 1.31 The objective is to support the Government of Peru in enhancing the productivity of the economy. The specific objectives are to (i) to improve the quality of the labor factor of production, and (ii) improve labor, production, and tax policies to foster greater efficiency in the allocation of factors of production.

- 1.32 **Beneficiaries.** The future labor force, made up of post-secondary students, the current labor force, and companies—particularly MSEs<sup>46</sup>—as these groups will benefit from improvements to the public policies described in the following program components:
- 1.33 **Component 1. Macroeconomic stability.** This seeks to promote a macroeconomic context that is consistent with the program objectives, as set out in the Policy Matrix (Annex II).
- 1.34 **Component 2. Improving labor force skills.** This promotes the implementation of policies to improve the education for work system. To this end, policy actions are included aimed at:
- a. **Improving the quality and relevance of education for work.** Promoting the development of IDEXs and CSCs. The first operation in the programmatic series recognizes the design by MINEDU of a model of excellence for public technical schools and its selection of one such school per region (Policy Condition 2.1.1). The model will specify the main characteristics of the schools and establish the mechanisms needed for them to adequately determine skills needs in the productive sector and offer quality, relevant technical education. It also recognizes MINEDU's specification of the source of financing for the main activities or outputs—such as (i) identification of the skills required by the private sector; and (ii) skills units—in at least three CSCs (Policy Condition 2.1.2).<sup>47</sup> Indicative policy actions for a second operation encompass the approval by MINEDU of seven public investment projects to develop and strengthen public vocational schools, and the launch of implementation of at least two of these (Policy Condition 2.1.1). MINEDU will also approve, in collaboration with the MTPE, a regulatory tool for monitoring the CSCs (Policy Condition 2.1.2).
  - b. **Improving information to support education decision-making.** Promoting the strengthening of PEC. The first operation recognizes the modification of the University Law to ensure that private and public universities provide timely and reliable information to MINEDU regarding their graduates (Policy Condition 2.2.1). It also envisages the development by MINEDU—in coordination with the MTPE and Entrepreneurs for a Developed Peru (IPAE)—of a proposed work plan for improving the quality and usability of the data on the PEC website. This plan will encompass (i) an analysis of the coverage and quality of the information provided on course offerings and employability; (ii) design of a roadmap for cross-referencing databases on post-secondary graduates with those of the electronic payroll datasheet; (iii) the inclusion of indicators with a gender perspective; and (iv) analysis of the clarity and usability of the information, and access thereto (Policy Condition 2.2.2). The indicative policy action for the second operation is the design and implementation of a reform of the website (Policy Condition 2.2.1).

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<sup>46</sup> See [monitoring and evaluation plan](#).

<sup>47</sup> Mining, agricultural exports, and tourism.

- c. **Improving knowledge validation in the education system and skills portability.** Promoting development of the MNC. The first operation acknowledges the following actions by MINEDU: specification of the source of financing for developing and implementing the MNC; the proposal, in coordination with the MTPE, of a workplan for developing the framework; and the appointment of a team responsible for its implementation. This plan will encompass (i) conceptual design of the MNC; (ii) the training process for public officials regarding the objectives and scope of the framework; and (iii) identification of a pilot for populating the MNC (Policy Condition 2.3). The indicative policy actions for the second operation are the approval of a conceptual design proposal for the MNC and a plan for its pilot implementation in at least two sectors with CSCs (Policy Condition 2.3.1). In addition, the approval of an interagency agreement with the MTPE and CNCF (at a minimum), for validation and implementation of the MNC (Policy Condition 2.3.2).
- 1.35 **Component 3. Improving labor market policies and the ability to enforce them.** This promotes the implementation of policies to improve labor legislation and strengthen SUNAFIL. It envisages:
- a. **Improving labor legislation:** promoting a reform proposal that will provide impetus to the labor market and address realignment of the labor regimes for hiring and the conditions for dismissal, among other things. No policy actions are included for the first operation. The second operation envisages the preparation by the MEF/CNCF of a proposal to stimulate the labor market (Policy Condition 3.1).
  - b. **Improving SUNAFIL's inspection capacity:** promoting improvements in its inspection intelligence capabilities. The first operation recognizes the increase in SUNAFIL's annual budget to improve its enforcement capacity (Policy Condition 3.2.1), as well as the agency's design and implementation of an Integrated Inspection Intelligence Archive that facilitates, among other things, the strategic analysis of the Labor Inspections Information System (SIIT), the registry of corporate taxpayers (Padrón RUC), and key variables in the electronic payroll datasheet (Policy Condition 3.2.2). It also recognizes the design and implementation of two pilot initiatives: one to send out letters encouraging companies with more than 50 workers to comply with the employment quota for persons with disabilities (Policy Condition 3.2.3), and another that helps to identify the most effective and efficient strategies for monitoring compliance with labor regulations and promoting labor formalization (Policy Condition 3.2.4). The indicative policy actions for a second operation involve the evaluation of both pilots by SUNAFIL (Policy Conditions 3.2.1 and 3.2.2) and the preparation by SUNAFIL of inspection and guidance plans in the area of worker formalization, based on the lessons learned through the pilot initiatives (Policy Condition 3.2.3).
- 1.36 **Component 4. Improving productive development policies.** This promotes the implementation of improvements to business and technology extension policies and policies that enhance access to institutional buyers. It envisages:
- a. **Improving business extension policies:** promoting the implementation of a new national program to enhance MSE productivity and sales. This program

will allow the authorities to offer coordinated, standardized, and centralized access to business support services. The first operation acknowledges Ministry of Production's design of a national program aimed at increasing MSE productivity and sales. To this end, the program will consolidate the different services offered by Ministry of Production and organize them into five lines of activity: (i) formalization; (ii) enterprise management; (iii) access to financing; (iv) support for productive development, and (v) digitization (Policy Condition 4.1.1). It also recognizes the launch of at least one CDE based on the approach in the new program (Policy Condition 4.1.2). The indicative policy actions for a second operation are as follows: the launch by Ministry of Production of centers in at least 10 regions under the program (Policy Condition 4.1.1), and, in terms of the package of services under the new program, the inclusion of at least two standardized business solutions for each of the five components of business service delivery in all centers at the national level (Policy Condition 4.1.2).

- b. **Improving technology extension policies:** promoting the strengthening of the CITEs. The first operation recognizes the Institute of Production Technology's design of a methodology for measuring effective operation of the CITEs based on the following dimensions: (i) infrastructure; (ii) financing; (iii) services; and (iv) human capital (Policy Condition 4.2.1). It also recognizes the existence of at least five public CITEs that are operating effectively according to the aforementioned dimensions (Policy Condition 4.2.2). The indicative policy actions for a second operation are that the Institute of Production Technology should have at least 10 CITEs operating effectively (Policy Condition 4.2.1), and that it have a management, operating, and funding model for public CITEs that promotes private sector participation (Policy Condition 4.2.2).
- c. **Improving policies to enhance access to institutional buyers:** promoting the reformulation of *Compras MyPerú*. The first operation recognizes the modification of public procurement policies, with the inclusion of a requirement that MSEs demonstrate that they are contributing to labor formalization before participating in contracts through the Procurement Execution Units (NECs), as well as an extension of the list of potential buyers to include public agencies of the central and regional governments (Policy Condition 4.3.1). It also recognizes that rules have been prepared that allow Ministry of Production to use the NEC model; these include (i) the participation of the National Quality Institute (INACAL); (ii) productive development in MSEs; and (iii) the programming of demand from procurement entities (Policy Condition 4.3.2). The indicative action for the second operation envisages the preparation of the implementing regulations for these rules (Policy Condition 4.3.1).

1.37 **Component 5. Improving tax policies and the ability to enforce them.** This promotes the implementation of policies to simplify the tax regime and strengthen SUNAT. It envisages:

- a. **Simplifying the tax regime.** This promotes the reform of special regimes. The first operation recognizes the simplification of the New Single Simplified Regime (NRUS) for microenterprises, with a reduction in the number of

categories and the threshold for eligibility (Policy Condition 5.1.1). The indicative action for a second operation involves the submission to the MEF by SUNAT of a bill simplifying special tax regimes for small production units (Policy Condition 5.1.1).

- b. **Improving SUNAFIL's inspection and collection capacity.** This promotes the use of CPEs, the incorporation of data science into labor enforcement, and strengthened inspections of taxpayers operating internationally. The first operation recognizes the modification of the regulatory framework to allow SUNAT to act as a Registration or Verification Agent; this makes it easier for taxpayers to obtain the digital certificates required for the issuance of CPEs (Policy Condition 5.2.1). It also recognizes the following actions by SUNAT: defining the model for migrating CPE issuance systems to the cloud (Policy Condition 5.2.2); implementing equipment for using data science, as well as determining risk profiles and compliance patterns for taxpayer segments to allow the design of approaches that mitigate evasion risks (Policy Condition 5.2.3); and developing a diagnostic assessment of the information technology and data security gaps required to meet standards and begin the automatic exchange of information, as well as a work schedule for implementing the controls needed to eliminate these gaps (Policy Condition 5.2.4). Indicative policy actions for a second operation involve the following actions by SUNAT: the implementation of approaches based on risk profiles and compliance patterns developed through the use of data science (Policy Condition 5.2.1); implementation of the migration of CPE issuance systems to the cloud (Policy Condition 5.2.2); and launch of the implementation of actions to bridge information technology and data security gaps (Policy Condition 5.2.3).

1.38 **Component 6. Facilitating interagency coordination.** This promotes the implementation of policies to ensure the alignment and complementarity of sector efforts to enhance productivity. It envisages:

- a. **Developing a medium-term roadmap and creating institutional capacity for its satisfactory implementation.** This promotes development of the PNC 2019-2022 and strengthening of the CNCF. The first operation recognizes the CNCF's preparation of a proposal regarding the priority pillars for promoting competitiveness and productivity, for subsequent inclusion in the National Competitiveness and Productivity Policy and the PNC. It also recognizes the launch by INNOVATE of a process to develop technology roadmaps for at least two sectors. The indicative policy actions for a second operation are as follows: approval of the PNC by the CNCF; approval by INNOVATE of the technology roadmaps and the launch of their implementation; and the development and implementation of an indicators-based monitoring mechanism that will allow results under the PNC to be evaluated.

### C. Key results indicators

1.39 The indicators used to measure the impact of the reforms on the aforementioned objectives are the average annual remuneration of workers that have graduated from the IDEXs (improved relevance) and the average annual output per worker in companies that have participated in the different programs affected by the reforms



(improved efficiency). The outcome indicators are aimed at measuring the more immediate effects of the reforms, and are as follows: (i) the effect of the reforms on the adoption of best practices in IDEXs will be measured through the number of institutions that adopt the model of excellence. This will be the trigger for the second tranche of the operation related to this component. It is an adoption indicator (yet to be determined) that reflects a commitment (output) under the first tranche and would occur as a consequence of the PBP (outcome); (ii) the outcome of improvements in productive programs will be measured through the number of companies that design business plans after visiting a “Tu empresa” center (versus comparable companies that do not receive these business extension services) and the rate of sales growth observed among those participating in “Compras MyPerú” (versus the rate in comparable nonparticipating companies); and (iii) the outcome of the tax simplification reforms will be measured through the annual growth rate in firms close to the discontinuity point created by the tax system prior to the reform versus the rate in companies around that point after the reform. The last three indicators are expected to respond immediately once the reforms are implemented, and it should therefore be possible to measure the variation attributable to the reforms when evaluating the effectiveness of the PBP.

- 1.40 **Economic analysis.** An efficiency analysis of the use of financial resources is unnecessary, based on the recommendations of the 2011 Evaluability Review of Bank Projects, conducted by the Office of Evaluation and Oversight (OVE),<sup>48</sup> and on the findings of the review of evaluation practices and standards for policy-based loans conducted by the Evaluation Cooperation Group (composed of the independent evaluation offices of the multilateral development banks),<sup>49</sup> as envisaged in paragraph 1.3 of the Review of the Development Effectiveness Matrix for Sovereign Guaranteed and Non-Sovereign Guaranteed Operations (document GN-2489-5).<sup>50</sup> Accordingly, it has been determined and reported to the Bank’s Board of Executive Directors that no economic analysis will be performed for this type of loan. This loan operation does not therefore include an economic analysis, and economic analysis will thus not be a factor for consideration in measuring the evaluability score of the Development Effectiveness Matrix for this program.

## **II. FINANCING STRUCTURE AND MAIN RISKS**

### **A. Financing instruments**

- 2.1 This operation is structured using the PBP modality: it is the first operation in a programmatic series made up of two contractually separate but technically linked operations, consistent with the document “Policy-based Loans: Guidelines for Preparation and Implementation” (document CS-3633-2). This modality was

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<sup>48</sup> Document RE-397-1: “Currently, the economic analysis section is computed as the maximum between the cost-benefit analysis and the cost-effectiveness analysis. Yet neither a cost-benefit analysis nor a cost-effectiveness analysis is applicable to PBLs.”

<sup>49</sup> Good Practice Standards for the Evaluation of Public Sector Operations. Evaluation Cooperation Group, Working Group on Public Sector Evaluation, 2012 Revised Edition. February 2012.

<sup>50</sup> According to the Evaluation Cooperation Group, PBLs should be evaluated in terms of their relevance, effectiveness, and sustainability. Efficiency was not included as a criterion, as the size of a PBL is linked to a country’s financing gap and is independent of the project’s benefits.

selected as: (i) it promotes an ongoing policy dialogue with the country in the area of productivity, which is multisector in nature; and (ii) it helps to refine the strategy for implementing the policy lines, given that some of these require complex coordination between several agencies and levels of government (such as between MINEDU and the MTPE for skills enhancement or between the CNCF and Ministry of Production for aligning the technology roadmaps with the PNC).

- 2.2 **Operation size.** The operation will be in the amount of US\$100 million, financed from the Bank's Ordinary Capital. This amount will be disbursed in a single disbursement, and is justified by the country's broad need for fiscal resources. It is not directly related to the costs of the reforms, however, which are the responsibility of the borrower, as stipulated in paragraph 3.27(b) of document CS-3633-2. The amount of the subsequent operation will be established in consultation with the Government of Peru during the programming exercise, as set out in document CS-3633-1. The operation represents 1% of the public sector financing requirement in 2018 and 2.7% of multilateral financing.

**B. Environmental and social risks**

- 2.3 In accordance with directive B.13 of the Environment and Safeguards Compliance Policy (documents OP-703), this program does not require classification. The operation provides direct support for actions to enhance productivity, and it will not finance investment in infrastructure or works. Accordingly, no socioenvironmental risks are foreseen.

**C. Fiduciary risks**

- 2.4 No fiduciary risks have been identified. Funds under the operation will be channeled directly to the Treasury account to cover central government financing needs; the executing agency has suitable financial management tools and control systems for this purpose.

**D. Other risks**

- 2.5 **Public management and governance.** The current political and institutional context creates two medium-level risks. Firstly, it may lead to institutional instability and changes in sector leadership, creating the risk of delays or a failure to comply with the envisaged policy actions. This risk will be mitigated by the support provided to the MEF and the CNCF in developing the PNC. This will help to ensure that policy actions are consistent with the strategies included in the PNC, and that the time frames for the two initiatives are also consistent. The PNC will provide a medium-term roadmap for government actions to increase productivity and competitiveness. Implementation of the commitments in each sector will be subject to permanent monitoring to identify any possible delays resulting from changes in leadership or policy orientation. Based on this identification, spaces for high-level dialogue will be sought with a view to reinforcing the importance of attaining key reform benchmarks, demonstrating the progress achieved, and agreeing next steps. Secondly, there is a risk that coordination between the different public actors to improve productivity will be insufficient. To mitigate this risk, the operation includes strengthening of the CNCF's oversight role, particularly its capacity for monitoring and evaluating the PNC.

### III. IMPLEMENTATION AND MANAGEMENT PLAN

#### A. Summary of implementation arrangements

- 3.1 The borrower is the Republic of Peru, and the program executing agency is the Ministry of Economy and Finance (MEF), through the Department for Public Debt and the Treasury (DGETP) and the Technical and Financial Cooperation Coordination Unit (UCCTF). The Department for Public Debt and the Treasury is responsible for negotiations surrounding the operation, as well as the financial aspects of the program. The UCCTF is responsible for coordinating with the entities in charge of implementing the planned reforms, as well as promoting the actions needed to attain the agreed policy objectives and submitting program reports and evidence of compliance with the policy conditions.
- 3.2 To this end, the UCCTF will carry out the following activities, among other things: coordinate and organize meetings with the different government entities responsible for the technical execution of activities or adoption of measures; monitor and promote compliance with these activities to ensure their successful execution; collect all information necessary to monitor and evaluate the program; and anticipate and resolve in a satisfactory manner the strategic, technical, and coordination risks and problems associated with their execution.
- 3.3 **Special contractual clauses precedent to the first and only loan disbursement:** The first and only disbursement is contingent on compliance with the policy reform conditions included in the Policy Matrix (Annex II), the policy letter and the other conditions set out in the loan contract.

#### B. Summary of results monitoring arrangements

- 3.4 Given the nature of the operation, monitoring will focus on: (i) verifying compliance with the policy actions agreed with the Government of Peru for disbursement under the first operation, as laid out in the policy matrix and [means of verification matrix](#); once the program has been disbursed; and (ii) monitor the development and implementation of the indicative policy actions for a second operation. Once the program has been disbursed, the executing agency will be responsible for submitting a semiannual report to the Bank covering the implementation of the indicative policy actions for a second operation.
- 3.5 The methodologies that will be used to evaluate the program's outcomes and impacts rely on the use of administrative data that have been gathered periodically since 2011 by SUNAT and the MTPE using the electronic payroll datasheet. The National Enterprise Survey (ENE) that has been conducted annually by Ministry of Production since 2015 will also be used. A combination of propensity score matching and differences in differences methods will be used to identify the control units, with the treatment unit defined by participation in the IDEX education program, in the case of Component 2 (paragraph 1.35), or specific programs ("Tu Empresa", "Compras MyPerú", CITE services), in the case of Component 4 (paragraph 1.37). Analysis of the effects of the tax simplification policies included in Component 5 (paragraph 1.38) will involve a before and after comparison of a group of companies affected by the reform (companies that are close in size to the discontinuity point created by tax incentives for small businesses in pretreatment) ([monitoring and evaluation plan](#)).

#### **IV. POLICY LETTER**

- 4.1 The Bank and the Government of Peru have agreed on the macroeconomic and sector policies to be included in the policy letter presented by the MEF, which describes the main components of the government's strategy for this program and reaffirms its commitment to implementing the agreed activities.

Development Effectiveness Matrix		
Summary		PE-L1223
I. Corporate and Country Priorities		
1. IDB Development Objectives	Yes	
Development Challenges & Cross-cutting Themes	-Social Inclusion and Equality -Productivity and Innovation -Gender Equality and Diversity -Institutional Capacity and the Rule of Law	
Country Development Results Indicators	-Formal employment of women (%) -Percent of GDP collected in taxes (%) -Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)*	
2. Country Development Objectives	Yes	
Country Strategy Results Matrix	GN-2889	Productivity: in the strategic objectives of "Support the formalization of the economy", "Support Business Development" and "Strengthen the Business Climate".
Country Program Results Matrix	GN-2915-2	The intervention is included in the 2018 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		9.0
3.1 Program Diagnosis		2.0
3.2 Proposed Interventions or Solutions		4.0
3.3 Results Matrix Quality		3.0
4. Ex ante Economic Analysis		N/A
5. Monitoring and Evaluation		10.0
5.1 Monitoring Mechanisms		2.5
5.2 Evaluation Plan		7.5
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Medium
Identified risks have been rated for magnitude and likelihood		Yes
Mitigation measures have been identified for major risks		Yes
Mitigation measures have indicators for tracking their implementation		
Environmental & social risk classification		B.13
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Accounting and Reporting  Procurement: Information System, Price Comparison, Contracting Individual Consultant, National Public Bidding.
Non-Fiduciary	Yes	Strategic Planning National System, Monitoring and Evaluation 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	ATN/OC-16325-PE; ATN/OC-14539-PE; ATN/OC-14819-PE; ATN/CN-16432-PE; y ATN/OC 16162-PE; RG-E1578

Note: (\*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

The program that supports reforms to increase productivity in Perú has as an objective to support the Government of Peru to increase the productivity of the economy. The specific objectives are: (i) to improve the quality of the labor productive factor; and (ii) improve labor market, production and tax policies to promote greater efficiency in the allocation of productive factors. This PBL seeks to support the improvement of productivity through six components: (i) Macroeconomic Stability, (ii) Improve the skills of the workforce by improving: (a) the quality and relevance of training for the work, (b) information for making decisions on education, and (c) validation of knowledge and skills in the education system and their transferability, (iii) Improve labor market policies and capacity to promote the implementation of policies aimed at improving labor legislation and strengthening of SUNAFIL, (iv) Improve productive development policies by promoting the implementation of policies aimed at improving business and technology extension policies, and access to institutional buyers. (v) Improving tax policies and its accountability by promoting the implementation of policies aimed at simplifying the tax regime and strengthening the SUNAT, (vi) Facilitating inter-institutional coordination, through the implementation of policies aimed at ensuring alignment and complementarity of sectoral efforts to increase productivity. The executing agency for this loan is the Ministry of Economy and Finance (MEF), through the Directorate General of Indebtedness and Public Treasury (DGTEP).

The diagnosis of the program is clear and identifies as the main problems of low productivity: the low quality of the productive factors and the low efficiency in its allocation. The main issues contributing to them are the scarcity of quality productive factors (mainly the lack of skills workers), and the existence of public policies that prevent the efficient allocation of productive factors. These policies are those of the labor market, productive development, and taxation. In addition, the cross-cutting problem of limited inter-institutional coordination in terms of productivity. Given the lack of information that the country has, it is difficult to quantify the magnitudes of the deficiencies of some of the determinants of the problems mentioned previously.

Given the lack of relevant evidence for the effectiveness of this type of programs, and the government's desire to conduct an evaluation with attribution, the project includes an impact evaluation for component II and IV based on a non-experimental methodology. Additionally, to evaluate the results of the other components, a before and after comparison will be made. It is worth noting that this impact evaluation relies on two previously approved investment loans (PE-L1227 and PE-L1162) since a large part of the policy measures recognized or promoted by this program have an effect on the results of these loans (the income of better qualified workers and the productivity of firms with better business practices and better access to productive technologies).

## POLICY MATRIX

Policy Objective	Policy Commitments I	Status of compliance with Tranche I release conditions <sup>1</sup>	Policy Commitments II
<b>Component I. Macroeconomic stability</b>			
1. Maintaining a macroeconomic environment conducive to fiscal sustainability	1.1 Promote a macroeconomic context that is consistent with the program objectives, as set out in the Policy Matrix.	Fulfilled	1.1 Promote a macroeconomic context that is consistent with the program objectives, as set out in the Policy Matrix.
<b>Component II. Improving labor force skills</b>			
2.1 Improving the quality and relevance of education for work	2.1.1 Design by the Ministry of Education (MINEDU) of a model of excellence for public technical colleges and the selection of one such college per region. The model will specify the main characteristics of these colleges. It will also establish the mechanisms needed for them to adequately determine skills needs in the productive sector and offer quality, relevant technical education.	Fulfilled	2.1.1 Approval by MINEDU of seven public investment projects to develop and strengthen public technical colleges based on the model of excellence, and the launch of implementation of at least two of these projects.
	2.1.2 Specification by MINEDU of the source of financing for the main activities or outputs in at least three Sector Skills Councils (CSCs) in strategic sectors, such as: (i) the identification of the skills required by the private sector; and (ii) skills units.	Fulfilled	2.1.2 Approval by MINEDU and the Ministry for Labor and Employment Promotion (MTPE) of a regulatory tool for monitoring the CSCs. This tool will specify: (i) the interagency coordination arrangements; and (ii) the governance model for these arrangements and the formula for participation of the productive sector through the CSCs.

<sup>1</sup> As of the date of this document, the information provided herein is purely indicative. According to document CS-3633-2, *Policy-based Loans: Guidelines for Preparation and Implementation*, the Bank will verify compliance with all disbursement conditions, including the maintenance of an adequate macroeconomic policy framework, at the time of the borrower's request and promptly note them in the disbursement eligibility memorandum.

Policy Objective	Policy Commitments I	Status of compliance with Tranche I release conditions <sup>1</sup>	Policy Commitments II
2.2 Improving information to support education decision-making	<p>2.2.1 Modification of the University Law to ensure that private and public universities provide timely and reliable information to MINEDU regarding their graduates.</p> <p>2.2.2 Development by MINEDU, in coordination with the MTPE and Entrepreneurs for a Developed Peru (IPAE), of a proposed work plan for improving the quality and usability of the data on the Ponte en Carrera [Put Yourself in the Running] (PEC) website. This plan will encompass the following: (i) analysis of the coverage and quality of the information provided on course offerings and employability; (ii) design of a roadmap for cross-referencing databases on graduates from both technical colleges and universities with those of the electronic payroll datasheet; (iii) inclusion of indicators with a gender perspective, with a view to mitigating occupational segregation; and (iv) analysis of the clarity and usability of the information, and access thereto.</p>	<p>Fulfilled</p> <p>Fulfilled</p>	<p>2.2.1 Design and implementation by MINEDU (in coordination with the MTPE and IPAE) of a reform of the PEC website, including improvements in platform usability and the quality of information provided on employability and course offerings, among other things.</p>
2.3 Improving knowledge validation in the education system and skills portability	<p>2.3 Specification by MINEDU of the source of financing for developing and implementing the National Qualifications Framework (MNC), and the proposal by MINEDU (in coordination with the MTPE) of a workplan for developing the framework, as well as the</p>	<p>Fulfilled</p>	<p>2.3.1 Approval by MINEDU (in coordination with the MTPE and the National Competitiveness and Formalization Council (CNCF)) of a conceptual design proposal for the MNC that specifies its objective, scope, and methodological guidelines (among other things), together with a plan for its pilot implementation in at least two sectors with CSCs.</p>

Policy Objective	Policy Commitments I	Status of compliance with Tranche I release conditions <sup>1</sup>	Policy Commitments II
	appointment of a team responsible for its implementation. This plan will encompass the following: (i) conceptual design of the MNC; (ii) a training process for public officials regarding the objectives and scope of the framework, based on international experiences; and (iii) identification of a pilot for populating the MNC.		2.3.2 Approval by MINEDU of an interagency agreement with the MTPE and CNCF (at a minimum), for validation and implementation of the MNC.
<b>Component III. Improving labor market policies and the ability to enforce them</b>			
3.1 Improving labor legislation	Not applicable (N/A)		3.1 Preparation by the MEF/CNCF of a proposal to stimulate the labor market.
3.2 Improving SUNAFIL's enforcement capacity	<p>3.2.1 Increase in SUNAFIL's annual budget to improve its enforcement capacity.</p> <p>3.2.2 Design and implementation by SUNAFIL of an Integrated Inspection Intelligence Archive that facilitates, among other things, the strategic analysis of the Labor Inspections Information System (SIIT), the registry of corporate taxpayers (Padrón RUC), and key variables in the electronic payroll datasheet.</p> <p>3.2.3 Design and implementation by SUNAFIL of a pilot initiative to send out letters encouraging companies with more than 50 workers to comply with the employment quota for persons with disabilities. This pilot initiative will have an experimental design that helps to identify the most effective</p>	<p>Fulfilled</p> <p>Fulfilled</p> <p>Fulfilled</p>	<p>3.2.1 Evaluation by SUNAFIL of a pilot initiative to send out letters encouraging companies with more than 50 workers to comply with the employment quota for persons with disabilities. This pilot initiative will have an experimental design that helps to identify the most effective message for improving compliance with the employment quota.</p> <p>3.2.2 Evaluation by SUNAFIL of a pilot initiative to help identify the most effective and efficient strategies for monitoring compliance with labor regulations and, accordingly, promote labor formalization. This pilot initiative will have an experimental design that allows an impact evaluation to be prepared.</p> <p>3.2.3 Preparation by SUNAFIL of inspection and guidance plans in the area of worker formalization, based on the lessons learned through implementation and evaluation of the pilot enforcement initiatives.</p>



Policy Objective	Policy Commitments I	Status of compliance with Tranche I release conditions <sup>1</sup>	Policy Commitments II
	<p>message for improving compliance with the employment quota.</p> <p>3.2.4 Design and implementation by SUNAFIL of a pilot initiative to help identify the most effective and efficient strategies for monitoring compliance with labor regulations and, accordingly, promote labor formalization. This pilot initiative will have an experimental design that allows an impact evaluation to be prepared.</p>	Fulfilled	
<b>Component IV. Improving productive development policies</b>			
4.1 Improving enterprise extension policies	<p>4.1.1 Design by the Ministry of Production (PRODUCE) of a national program aimed at increasing the productivity and sales of micro and small enterprises (MSEs). To this end, the program will consolidate the different services offered by PRODUCE and organize them into five lines of activity: (i) formalization; (ii) enterprise management; (iii) access to financing; (iii) support for productive development; and (v) digitization.</p>	Fulfilled	<p>4.1.1 Launch by PRODUCE of CDEs in at least 10 regions under the program.</p>
	<p>4.1.2 Launch by PRODUCE of at least one Business Development Center (CDE) using the approach in the new national program.</p>	Fulfilled	<p>4.1.2 In terms of the package of services under the new program, inclusion by PRODUCE of at least two standardized business solutions for each of the five components of business service delivery in all service centers at the national level.</p>

Policy Objective	Policy Commitments I	Status of compliance with Tranche I release conditions <sup>1</sup>	Policy Commitments II
4.2 Improving technology extension policies	<p>4.2.1 Design by the Production Technology Institute (ITP) of a methodology for measuring effective operation of the CITEs based on the following dimensions: (i) infrastructure; (ii) financing; (iii) services; and (iv) human capital.</p> <p>4.2.2 That the ITP have at least five public CITEs that are operating effectively according to the following dimensions: (i) infrastructure; (ii) financing; (iii) services; and (iv) human capital.</p>	<p>Fulfilled</p> <p>Fulfilled</p>	<p>4.2.1 That the ITP have at least ten public CITEs that are operating effectively according to the following dimensions: (i) infrastructure; (ii) financing; (iii) services; and (iv) human capital.</p> <p>4.2.2 That the ITP have a management, operating, and funding model for public CITEs that promotes private sector participation.</p>
4.3 Improving policies that enhance access to institutional buyers	<p>4.3.1 Modification of public procurement policies, with the inclusion of a requirement that MSEs demonstrate that they are contributing to labor formalization before participating in contracts through the Procurement Execution Units (NECs), as well as an extension of the list of possible purchasers to include public entities belonging to the central and regional governments.</p> <p>4.3.2 Preparation of rules that allow PRODUCE to use the NEC model, including: (i) the direct participation of the National Quality Institute (INACAL); (ii) productive development in MSEs; and (iii) the programming of demand from purchasing entities.</p>	<p>Fulfilled</p> <p>Fulfilled</p>	<p>4.3.1 Preparation of the implementing regulations that allow PRODUCE to use the NEC model.</p>

Policy Objective	Policy Commitments I	Status of compliance with Tranche I release conditions <sup>1</sup>	Policy Commitments II
<b>Component V. Improving tax policies and the ability to enforce them</b>			
5.1 Simplifying the tax regime	5.1.1 Simplification of the New Single Simplified Regime (NRUS) aimed at microenterprises. This simplification will entail: (i) reducing the number of regular categories under this regime from five to two; and (iii) reducing the maximum level of monthly sales required for regime eligibility from S/30,000 to S/8,000.	Fulfilled	5.1.1 Submission to the MEF by SUNAT of a bill simplifying special tax regimes for small production units.
5.2 Improving SUNAFIL's inspection and collection capacity	5.2.1 Modification of the regulatory framework to allow SUNAT to act as a Registration or Verification Agent, making it easier for taxpayers <sup>2</sup> to obtain the digital certificates required for the issuance of electronic payment confirmations (CPEs).	Fulfilled	5.2.1 Implementation by SUNAT of treatments based on risk profiles and compliance patterns for different taxpayer segments identified using data science; these may include facilitation, voluntary acknowledgment, and control actions.
	5.2.2 Definition by SUNAT of the model for migrating CPE issuance systems to the cloud.	Fulfilled	5.2.2 Implementation by SUNAT of the model for migrating CPE issuance systems to the cloud.
	5.2.3 Implementation by SUNAT of equipment for using data science, as well the determination of risk profiles and compliance patterns for taxpayer segments to allow the design of approaches that mitigate evasion risks.	Fulfilled	5.2.3 Launch by SUNAT of the implementation of actions to cover gaps in the information technology and data security required to exchange information with tax administrations in other countries (within the framework of the OECD's Common Reporting Standard and the Convention on Mutual Administrative Assistance in Tax Matters).
	5.2.4 That SUNAT obtain a diagnostic assessment of gaps in the information technology and data security required to exchange information with tax	Fulfilled	

<sup>2</sup> Natural or legal persons with net annual incomes of up to 300 tax units (UIT). One tax unit is equivalent to S/4,150 (approximately US\$1,269).

Policy Objective	Policy Commitments I	Status of compliance with Tranche I release conditions <sup>1</sup>	Policy Commitments II
	administrations in other countries (within the framework of the OECD's Common Reporting Standard and the Convention on Mutual Administrative Assistance in Tax Matters), and that it prepare a work plan for implementing the controls needed to eliminate gaps in information technology and data security.		
<b>Component VI. Facilitating interagency coordination</b>			
6.1 Develop a medium-term roadmap to improve productivity and competitiveness, and create institutional capacity for its satisfactory implementation.	6.1 Preparation by the CNCF of a proposal regarding the priority pillars for promoting productivity and competitiveness, for subsequent inclusion in the National Competitiveness and Productivity Policy 2019-2022 and the National Competitiveness Plan (PNC) 2019-2022. This identification will include a diagnostic assessment for each pillar, together with their specific objectives and the main actions to be implemented.	Fulfilled	6.1 Approval by the CNCF of a PNC that includes, among other things, measures to promote productive development and improvements in labor productivity.
	6.2 Launch by the National Innovation Program for Competitiveness and Productivity (INNOVATE) of the process of developing technology roadmaps for at least two sectors.	Fulfilled	6.2 Approval by INNOVATE of technology roadmaps to improve competitiveness in at least two sectors and launch of their implementation. 6.3 CNCF development and implementation of an indicators-based monitoring mechanism that will allow results under the PNC to be evaluated. This mechanism will include: (i) specification of the metrics for the indicators; (ii) identification of the partial and final targets; (iii) confirmation of the means of verification; and (iv) identification of the institutions responsible for their attainment.