

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PERU

**REFORM PROGRAM TO SUPPORT
ECONOMIC RECOVERY AND COMPETITIVENESS**

(PE-L1261)

LOAN PROPOSAL

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ABBREVIATIONS

BIM	Building information modeling
CITE	Center for productive innovation and technology transfer
CNCF	National Council for Competitiveness and Entry into the Formal Sector
DGAEICYP	International Economy, Competition, and Productivity Division
DGTP	Office of the Public Treasury
EEME	Specialized Team of Sector Executive Councils
EESI	Specialized Team for Investment Monitoring
FAE-MYPE	Microenterprise and Small Business Support Fund
GDP	Gross domestic product
INEI	National Statistics and Information Technology Institute
MEF	Ministry of Economy and Finance
OECD	Organisation for Economic Co-operation and Development
PECAP	Peruvian Association for Startup and Seed Capital
PNCP	National Competitiveness and Productivity Plan
PRODUCE	Ministry of Production
R&D	Research and development

PROJECT SUMMARY

PERU REFORM PROGRAM TO SUPPORT ECONOMIC RECOVERY AND COMPETITIVENESS (PE-L1261)

Financial Terms and Conditions					
Borrower:			Flexible Financing Facility ^(a)		
Republic of Peru			Amortization period:		20 years
Executing agency			Drawdown period:		3 years
Ministry of Economy and Finance, acting through the Office of the Public Treasury			Grace period:		(b)
Source	Amount (US\$)	%	Interest rate:		LIBOR-based
IDB (Ordinary Capital):	400,000,000	100	Front-end fee:		50 basis points
			Standby fee:		(c)
			Inspection and supervision fee:		(c)
Total:	400,000,000	100	Weighted average life:		12.75 years
			Approval currency:		United States dollars
Project at a Glance					
Project objective/description: The general objective of the programmatic series is to support the Government of Peru in reviving the economy and accelerating growth. The specific objectives are to: (i) revive private investment and public investment in infrastructure; (ii) expand access to financing for continuity in production and private investment; (iii) promote the alignment of public programs for innovation with domestic production challenges; (iv) promote the development of a private industry of startup capital; and (v) help microenterprises and small businesses enter the formal sector and digitalize their operations.					
This is the first of two operations under a programmatic policy-based loan consisting of two contractually independent but technically linked loans using the deferred drawdown option.					
Special contractual conditions precedent to the first and only disbursement of the loan: Disbursement of the proceeds of the Bank's loan at the borrower's request will be subject to fulfillment of the policy reform commitments described under the program components, in accordance with the Policy Matrix (Annex II) and the Policy Letter , as well as the fulfillment of all other provisions of the loan contract (see paragraph 3.3).					
Exceptions to Bank policies: None.					
Strategic Alignment					
Challenges: ^(d)	SI	<input type="checkbox"/>	PI	<input checked="" type="checkbox"/>	EI <input type="checkbox"/>
Crosscutting themes: ^(e)	GD	<input checked="" type="checkbox"/>	CC	<input checked="" type="checkbox"/>	IC <input checked="" type="checkbox"/>

^(a) Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency, interest rate, and commodity conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

^(b) The grace period will depend on the amortization schedule agreed upon by the borrower and the Bank when the disbursement request is formally submitted during the drawdown period.

^(c) The standby 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 applicable policies.

^(d) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

^(e) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. PROJECT DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

- 1.1 **Macroeconomic context.** Peru's gross domestic product (GDP) averaged 4.8% annual growth from 2000 to 2019.¹ Signs of a slowdown, however, had already emerged by the end of this period. The crisis caused by the COVID-19 pandemic ended two decades of growth, with GDP projected to decline 12.0% in 2020.² The health emergency brought the economy to a standstill and took a toll on investment and innovation. The terms of trade are projected to grow by 3.0% of GDP,³ but this is not thought to be enough to reverse the current situation. Peru needs to reactivate its economy and enhance its business environment for investment and innovation if it is to restore and accelerate growth.
- 1.2 **Factors behind the slowdown.** Potential GDP growth was already on a long-term decline, from 7.1% in 2007 to 3.1% in 2019.⁴ Economic growth hinges on the accumulation of factors (capital and labor) initiated through investment flows to increase physical and human capital, as well as the efficiency with which these factors are related or productivity.⁵ Productivity, in turn, stems from the allocation of productive resources among businesses and the innovation capacity of these businesses.⁶ Two factors underlie the decline in potential growth: productivity and investment. Productivity, after growing 0.5% per year until 2012, has fallen at an annual rate of -0.1% since then.⁷ Investment, meanwhile, grew 8.8% per year from 2000 to 2012 but only 1% since then.⁸ The slowdown in productivity is associated with the stagnation of innovation efforts since 2015.⁹
- 1.3 **Business environment.** The business environment¹⁰ influences business decisions and has an impact on investment and innovation. Peru ranks 65th out of 141 countries on the Global Competitiveness Index.¹¹ The weak business environment undermines growth in two ways: (i) it decreases returns on initiatives due to a lack of public assets (infrastructure, regulation) or incomplete appropriability (externalities, informality); and (ii) it increases the cost of investing, whether by making it more costly to obtain financing or by increasing costs.¹² The ways in which the business environment took a toll on investment and innovation are discussed below, in view of the impacts of the pandemic.

¹ Economic Commission for Latin America and the Caribbean (ECLAC) (2020).

² [Optional link 4.](#)

³ [Optional link 4.](#)

⁴ International Monetary Fund (2020).

⁵ Total factor productivity.

⁶ Prescott (1998).

⁷ IDB (2020a).

⁸ ECLAC (2020).

⁹ IDB (2020a).

¹⁰ The set of market, institutional, and regulatory factors that shape incentives to invest. Dollar et al. (2005).

¹¹ The set of institutions, policies, and factors that determine the level of productivity. World Economic Forum (2020).

¹² Hausmann, Rodrik, and Velasco (2004).

- 1.4 **Business environment for investment.** Multiple factors make up the business environment that influences investment. This operation targets factors that exhibit significant deficiencies and have been hard hit by the pandemic. In response to the health crisis, the government declared a state of emergency with mandatory lockdown measures after the first case of COVID-19 was reported in Peru, and this brought more than half of the country's economy to a standstill.¹³ The resulting disruption hurt business expectations, which fell to historic lows.¹⁴ Private investment—which accounts for two thirds of total investment and had grown 4% in 2019—plummeted and is projected to decline by 34.2% in 2020.¹⁵ While private investment is expected to recover in 2021, this is not expected to be enough to offset the projected decline in 2020.¹⁶ Measures to increase private returns and/or reduce the cost of investing are needed in order for investment to recover.
- 1.5 **Private returns on investment.** The post-pandemic period will reshape the profile of public assets needed for investment. One key public input is a strategy for gradual reopening that reduces uncertainty and includes an approval process for biosafety protocols to minimize the risk of further outbreaks. This strategy should include triggers to make the transition from one phase to the next contingent upon controlling the pandemic. Sector-specific considerations and business size should also be taken into account in weighing the ability to adopt these protocols and social distancing measures during the reopening.¹⁷
- 1.6 **Productive infrastructure.** A complementary public asset for private investment is productive infrastructure, as it reduces transaction costs and integrates the economy into global value chains. Peru ranks 88th out of 141 countries in the infrastructure pillar of the Global Competitiveness Index (2019),¹⁸ trailing other Pacific Alliance countries such as Chile (42nd), Mexico (54th), and Colombia (81st), with significant deficiencies in areas such as roadways, energy, telecommunications, and water and sanitation services. These deficiencies stem from weak planning and execution and are tied to a lack of technical capacities and human resources for managing infrastructure investment projects at the various levels of government.¹⁹ This lack of capacities is reflected in the limited adoption of digital tools such as building information modeling (BIM) for managing public works. In managing public works, Peru has not yet adopted modalities that would allow companies specializing in project management to provide technical assistance, nor has it developed a comprehensive framework for the gradual adoption of BIM on public investment projects.²⁰ Regulatory vacuums (lack of guidelines and model contracts) are present in execution modalities that involve collaboration with the private sector, such as the public works tax deduction and

¹³ Economic activity fell 40.5% in April. The hardest-hit sectors were construction, tourism, and manufacturing. Microenterprises and small businesses in Peru were four times more vulnerable than large companies. IDB (2020b).

¹⁴ Business expectations over the next 12 months declined from 61 points in January 2020 to 30 points in April. IDB (2020b).

¹⁵ [Optional link 4](#).

¹⁶ A 22% growth rate is projected for 2021 ([optional link 4](#)).

¹⁷ It is more feasible to control the spread of the virus in open-pit mining and agriculture than in commerce and tourism. IDB (2020b).

¹⁸ World Economic Forum (2020).

¹⁹ Execution of public works declined 13% in 2019 compared to 2015 ([optional link 4](#)).

²⁰ This would require protocols and standards ([optional link 2](#)).

public-private partnerships, and are partly to blame for the limited use of these modalities. These problems were exacerbated during the health crisis as works had to be put on hold. While execution problems in 2019 caused a 1.4% decline in public investment, a 15.5% decline is projected for 2020.²¹ The pandemic took a toll on public works not only through the lockdown but also through a decline in contracts and permits, and this toll has been greater on local governments with less execution capacity. Measures are needed in the short term to accelerate the revival of infrastructure works and, over the medium term, to strengthen capacities to execute such works.

- 1.7 **Coordination problems in public infrastructure.** Infrastructure investment projects call for the interaction of government units with limited coordination capacity, which results in delays. Differing procedures for municipal licenses, environmental permits, or eminent domain constitute one of the main bottlenecks in investment projects.²² In accordance with international best practices, Peru formed a Specialized Team for Investment Monitoring (EESI) to facilitate the execution of strategic projects,²³ but this team works on a very limited portfolio of projects. If infrastructure is to have an impact on the economic recovery, the EESI needs to be strengthened so that it can monitor more projects²⁴ and assume a more active role in redesigning permit and licensing procedures.
- 1.8 **New investment opportunities.** The economic disruption has opened up opportunities to accelerate the transition of the productive matrix toward greater environmental sustainability, as the adjustment costs are lower than under normal conditions. The disruption has opened up space to guide private investments toward capitalizing on natural resources²⁵ and developing new biobusiness markets.²⁶ While Peru is one of the world's megadiverse countries,²⁷ creating a huge opportunity for biobusiness development, it is also among those most vulnerable to climate change. Realizing this potential in a sustainable manner will require deploying tools to attract greater private investment toward business models that have positive impacts on the environment. Meanwhile, due to its vulnerability to climate change, Peru has set a target of a 30% reduction in greenhouse gas emissions by 2030. Limited progress has been made, however, in securing Peru's access to international programs that finance investments and technical assistance for adaptation to climate change.
- 1.9 **Taxation framework for investment.** Temporary tax incentives for private investment can be a useful tool for the recovery of investment in Peru, as long as the increase in private returns prompts enterprises to accelerate or move forward with their investment projects. Specifically, the accelerated depreciation of fixed investments has proven particularly effective to this end.²⁸ Another advantage of

²¹ A growth rate of 21.7% is projected for 2021 ([optional link 4](#)).

²² [Optional link 2](#).

²³ [Optional link 6](#).

²⁴ It is currently monitoring 18 projects (Executive Resolution 002-2019-EF/10.08).

²⁵ Despite Peru's natural resources, the largest transactions involve primary resources with little added value ([optional link 1](#)).

²⁶ Businesses based on the sustainable use of biodiversity in view of economic, social, and environmental sustainability (Ministerial Resolution 046-2020-MINAM).

²⁷ Ministry of the Environment (2020).

²⁸ Organisation for Economic Co-operation and Development (OECD) (2008).

accelerated depreciation vis-à-vis other tax incentives is that it is only a financial cost that does not entail forgoing tax receipts (tax expenditure). Lower income tax receipts in the early years (with higher-than-usual depreciation rates) are offset by greater income tax receipts in later years (after depreciation runs its course). This tool, however, is not part of Peru's current tax system, which uses the traditional linear 5% and 10% depreciation rates for buildings and machinery, respectively.

- 1.10 **Cost of, and access to, productive financing.** The inability to operate has caused widespread liquidity problems, and many businesses that were viable before the shock may fail as a result. Businesses' liquidity reserves are not enough to withstand prolonged mandatory lockdowns. The average number of days that Peruvian businesses can use their financial reserves to cover regular expenses with no revenues is 38 days.²⁹ Large and medium-sized enterprises have vastly different liquidity ratios, at more than 40 days, than microenterprises and small businesses, at only about 20 days.³⁰ These figures underscore the importance of mechanisms to provide liquidity to businesses, and particularly to microenterprises and small businesses. Providing liquidity through alternative financing instruments such as discounted billing can be important in order to reach this business segment. Imminent changes in many markets will force businesses to restructure and modernize over the medium term, but no financial market is developed enough to finance business technology projects, particularly for microenterprises and small businesses.
- 1.11 **Procedures for business insolvency.** The imbalance between financial needs and revenues will force many businesses to restructure their business debts. Unfortunately, renegotiating contracts is a complex matter in Peru. One indicator along these lines is the business insolvency recovery rate, with Peru ranking 90th out of 141 countries at 29 cents on the dollar,³¹ well behind the other Pacific Alliance countries.³² Some countries have used the crisis to reform their frameworks for dealing with insolvent businesses by streamlining processes for microenterprises and small businesses with debt levels below a certain threshold to restructure their debt.³³ Peru would be well advised to reform its bankruptcy system to establish a streamlined online mechanism to refinance business debts.
- 1.12 **Business environment for innovation, entrepreneurship, entry of microenterprises and small businesses into the formal sector, and digitalization of these enterprises.** Innovation is key to helping businesses navigate the crisis and adapt to imminent structural changes. Peru's investment in research and development (R&D), however, has historically been low compared to the rest of the region (0.12% of GDP).³⁴ Peruvian enterprises invest 2.2% of their sales in innovation, less than half the rate of a typical OECD enterprise.³⁵ This low investment rate reflects market failures and coordination lapses that the government has failed to rectify. The instruments that have been deployed in the

²⁹ IDB (2020b).

³⁰ IDB (2020b).

³¹ World Economic Forum (2020).

³² Chile (55th out of 141 countries), Colombia (29th), and Mexico (35th). World Economic Forum (2020).

³³ For example, Subchapter 5 of the United States Bankruptcy Code was recently amended.

³⁴ The regional average is 0.68% (Network for Science and Technology Indicators (RICYT), 2020), and the OECD average is 2.68% (OECD, 2020).

³⁵ National Statistics and Information Technology Institute (INEI) (2019).

past decade to support business innovation have flaws in targeting, coverage, and scope. Regulatory barriers, moreover, make it difficult for innovative solutions to be brought to market and hinder the scaling of innovation prototypes.

- 1.13 **Limited targeting of public programs for innovation.** While some public programs support business innovation, most are crosscutting with limited targeting of production priorities. Crosscutting programs promote innovation activity per se, regardless of the sector in which they are implemented. This type of innovation-related policymaking is warranted when information on production challenges is scarce and implementation capacities are at an incipient stage. After 15 years of public-sector support in this area, however, the policy matrix for supporting innovation in Peru can be expected to transition toward greater targeting. More-targeted programs increase returns on private investment in innovation, as a portfolio approach helps to capitalize on synergies between projects and prioritize interventions with greater externalities. Only 4.7% of innovation support funds in Peru can currently be deemed mission-oriented,³⁶ far below the averages in Latin America (42%) and the OECD (74%).³⁷ Better targeting of public programs for innovation to domestic production challenges calls for developing a body of regulations that can make it possible to identify an agenda of challenges or missions. This agenda, over the short term, can be aligned with pandemic-related demands for productive restructuring and health care. Over the medium and long terms, however, innovation should be aimed at preserving and capitalizing on natural resources by ensuring that major productive activity is economically, socially, and environmentally sustainable (this could be addressed by developing technological solutions aimed at mining, forestry, and the aquaculture-fishing complex by reissuing calls for proposals to address challenges to Peru's biodiversity, on a project known as Reto Bio).³⁸
- 1.14 **Public procurement for innovation.** To better align public programs with domestic production challenges, a policy instrument that has proven effective is the use of innovation-related public procurement.³⁹ Peru's public sector procures goods and services equivalent to 5.6% of GDP, and purchasers are often of above average sophistication due to the complexity of their needs. In this regard, public demand has the potential to promote innovation and make the government the leading customer for innovative products. Progress along these lines, however, will require reforms for nimble processes to identify challenges and create space for testing and interaction between public demand and private innovators. This is a central issue since regular procurement processes in Peru typically inhibit this necessary level of collaboration. Incorporating innovation and sustainability⁴⁰ into the general procurement framework and conducting pilot projects in innovation-related public procurement is an effective strategy for incorporating innovation into the public procurement framework.

³⁶ IDB (2020c).

³⁷ IDB (2020d).

³⁸ [Peru's most competitive sectors.](#)

³⁹ IDB (2017a).

⁴⁰ The incorporation of sustainability criteria is aimed at allowing government entities to make procurement decisions that reduce their ecological footprint. Examples include energy efficiency labeling and the use of new biodegradable materials. Public procurement for innovation is closely related to sustainable public procurement.

- 1.15 **Regulatory framework for innovation.** The crisis showed that the regulatory framework does not effectively promote innovations that would help address the challenges of the pandemic. Many of these innovations involve biological and therapeutic products and medical devices, which saw greatly increased demand during the pandemic. Peru's innovation ecosystem did react to this market signal by designing prototype diagnostic and assisted-breathing devices, but approval and registration by the authorities has been a significant bottleneck in the effort to bring these devices to market, as registration and inspection processes have been severely delayed. It can take up to three years for a new biotechnology product or medical device to be approved.⁴¹ Updated products must be registered as new items, and this leads to stock shortages. Good practices need to be implemented, such as locally validating registration processes completed in countries with greater capacity. Peru's regulatory body for medical products, the General Office of Medicines, Supplies, and Drugs (DIGEMID), is the only entity of its kind in the Pacific Alliance that lacks Level IV authority as designated by the Pan-American Health Organization (PAHO).
- 1.16 **Access to startup capital.** Financing for innovative entrepreneurship varies by phase of development: (i) seed capital to structure the business plan; (ii) early investment funding to develop the product; and (iii) investment funds and banks for expansion. These three phases are interconnected insofar as the development of each phase depends on an adequate flow of quality projects from the previous phase. Startup financing for new innovative businesses has problems associated with information asymmetries, uncertainty, and limited collateralizability of assets, and therefore few investors and actors in the financial system are interested in these businesses. This is not only a problem of financing, but entrepreneurs often lack an appropriate combination of skills to develop their businesses.⁴² Peru has made strides in strengthening the seed capital phase through public policies and the incipient emergence of angel investors.⁴³ This process, however, is far from complete and needs ongoing support from the government.
- 1.17 Funds for early investment in innovative startups are not yet well developed, with only 54 businesses receiving a total of US\$22 million nationwide in investment in 2016-2018. Early financing for innovative startups calls for funds to have access to capital from individual, institutional, or foreign investors. These investors, however, are quite demanding when it comes to early-phase initiatives, and they only finance them if there is a successful track record of sales. Such experience in Peru is limited, and funds have difficulty gaining access to capital,⁴⁴ which in turn makes it harder to generate capacities. This created a financing gap estimated at US\$70 million for 2016-2018,⁴⁵ and a US\$145 million gap is projected for 2018-2022.⁴⁶ The small operating scale of current funds limits the ability to finance second rounds of investment in high-potential startups and makes it difficult to offset management costs, which takes a toll on returns and sustainability,

⁴¹ Ministry of Economy and Finance (MEF) (2020b).

⁴² IDB (2014).

⁴³ Angel investors provide not only financing, but also experience and contacts for businesses. At least 52% of early investment comes from angel investors as opposed to funds.

⁴⁴ There are seven funds operated locally in full or in part.

⁴⁵ Peruvian Association for Seed and Startup Capital (PECAP) (2019).

⁴⁶ PECAP (2019).

respectively. Countries that have overcome this dilemma have used hybrid public-private coinvestment funds to bolster early financing. The economic crisis has exacerbated problems in the entrepreneurial ecosystem by concentrating investments in second rounds. This likely reflects the fact that investors are more risk-averse.⁴⁷

- 1.18 **Vulnerabilities of microenterprises and small businesses.** An analysis of productivity in Peru's economy reveals a polarized landscape. Microenterprises are only 3% as productive as large companies, and small businesses are 59.1% as productive as medium-sized enterprises.⁴⁸ These gaps are reflected in the greater vulnerability of microenterprises and small businesses during the pandemic.⁴⁹ Productivity gaps stem from multiple factors⁵⁰ that call for improved mechanisms for public-private coordination. While various mechanisms have been deployed in recent years to promote public-private dialogue in order to stimulate investment and innovation, these mechanisms are still at an incipient stage and do not address the sizable segment of microenterprises and small businesses.⁵¹ Two key elements of these enterprises' greater vulnerability are high rates of informality and low rates of digitalization.
- 1.19 **High rates of informality.** Peru has high rates of business informality: 1.5 million enterprises, or 40% of all businesses, are in the informal sector, accounting for 18% of GDP.⁵² This high rate of informality makes it difficult for microenterprises and small businesses to access markets and public inputs for development. Peru's strategy for bringing businesses into the formal sector has had limited success in the past, as it has been unable to counter the perception that entering the formal sector is costly and yields few tangible benefits. Now, however, many enterprises can only survive with the assistance provided by the government, and this opens a window of opportunity to alter business owners' perceptions of the benefits of entering the formal sector. The authorities could take measures to facilitate procedures, such as providing assistance for business formation and incorporation in the formal sector. Efforts could go even further, however, to make support (for access to specific markets, such as public procurement and e-commerce, and technical assistance) contingent upon steps toward entering the formal sector: e.g., registration of businesses with Peru's customs and tax authority (SUNAT) and securing formal status for these businesses' employees.
- 1.20 **Business digitalization.** Peruvian enterprises have lagged behind in adoption of digital technologies. Digital tools have been very helpful to businesses around the world in minimizing the impact of pandemic-related disruptions to their operating capacity and access to customers. A recent survey,⁵³ however, found significant gaps in Peruvian businesses' adoption of these technologies. For example: (i) only 29.7% of surveyed enterprises have a website for selling their products; (ii) only 2.4% distribute their products online; and (iii) more than 35% do not engage in

⁴⁷ PECAP (2019).

⁴⁸ IDB (2016).

⁴⁹ IDB (2020b).

⁵⁰ For a summary, see [optional link 5](#).

⁵¹ Peru has nearly 4 million microenterprises and small businesses (MEF, 2020a).

⁵² INEI (2018a).

⁵³ INEI (2018b).

online banking. This survey found that adoption of digital technologies is most limited among the smallest businesses.

- 1.21 The use of digital tools takes on even greater importance amid current social-distancing measures and changing consumer habits.⁵⁴ While some instruments have been designed to boost the digital transformation of microenterprises and small businesses, this has been done in piecemeal fashion with no coherent vision. This calls for a strategy for digitalization of these businesses that combines financial and nonfinancial instruments to promote the adoption of software and hardware, the use of digital platforms, and the provision of technical assistance for enterprises in the digitalization process. This strategy should promote partnerships with technology providers, e-commerce platforms, and means of payment, including to accelerate access to tools and facilitate the provision of support services to businesses. The government should also promote the acquisition of digital skills to facilitate businesses' adoption of digital technologies and generate new technological solutions. For example, business owners could take online courses or programming bootcamps to make rapid progress in closing gaps in employees' digital skills. This effort should take into account Peru's gender-based digital divide, as women are 5.7% less likely to access digital technologies.⁵⁵
- 1.22 **Peru's legal, institutional, and strategic framework.** The economic slowdown creates a need for policies to stimulate investment and innovation. The Ministry of Economy and Finance (MEF), acting through the National Council for Competitiveness and Entry into the Formal Sector (CNCF), approved the National Competitiveness and Productivity Policy (2019-2030). This policy lays a foundation for aligning public-sector efforts for productivity and competitiveness.⁵⁶ More recently, the National Competitiveness and Productivity Plan (2019-2030) was approved.⁵⁷ The MEF has also strengthened the CNCF by increasing private-sector participation and deploying units that specialize in public-private coordination in priority sectors.⁵⁸ The sector executive councils have identified priority reforms to make strategic sectors more competitive. COFIDE, as Peru's development bank, manages the Fondo Crecer fund, the Reactiva Perú program and the Microenterprise and Small Business Support Fund (FAE-MYPE). COFIDE is also working with the MEF and the Ministry of Production (PRODUCE) to design Peru's first startup capital fund. The National Institute for Competition and Intellectual Property is revamping bankruptcy procedures for businesses, and PRODUCE is working with the Innóvate Perú program, the Technological Institute for Production, and the national Tu Empresa program to design new tools to help microenterprises and small businesses enter the formal sector and digitalize their operations.
- 1.23 **Rationale for, and summary of, planned reforms.** This program is part of the Bank's ongoing work with the Peruvian government, and specifically the MEF, in competitiveness and productivity. The Bank's support in these areas is focused on re-creating the conditions to restore greater potential economic growth. Regaining business confidence for investment and innovation entails a dual process: on one

⁵⁴ E-commerce grew by 400% during the lockdown ([optional link 4](#)).

⁵⁵ INEI (2017).

⁵⁶ [Optional link 1](#).

⁵⁷ [Optional link 2](#).

⁵⁸ Specialized Team of Sector Executive Councils (EEME).

hand, increasing private returns on initiatives through the provision of public assets such as regulations, infrastructure, and technology; and on the other, reducing investment costs through financing or promoting competition. This medium- and long-term agenda needs to be strengthened with short-term measures to revive the economy. The pandemic has had a significant economic impact (see paragraphs 1.1 and 1.4). This program addresses this shock by introducing measures to revive the economy. It also follows up on the medium- and long-term agenda of the National Competitiveness and Productivity Plan (2019-2030). The programmatic series strikes a balance between policymaking actions in the first operation (87% of measures) and policy implementation in the triggers for the second operation (83% of measures). The operation targets reforms that will enhance the investment and innovation environment at the national level. Some challenges remain, however, such as the need to strengthen the justice system and enhance the business climate at the subnational level, in order to ensure legal certainty for investments and ensure competitiveness at the subnational level.

- 1.24 **The Bank's experience and lessons learned.** This operation is fueled by the collaboration between the Bank and Peru for competitiveness. Noteworthy factors include: (i) experience in executing loans and technical cooperation operations related to the operation's objectives; (ii) exchange of good practices related to productivity; and (iii) completion of studies to support operation design and analyze key factors related to productivity.
- 1.25 From 2010 to 2014, the Bank supported a first generation of reforms⁵⁹ that helped enhance the business climate by facilitating areas such as business formation, foreign trade, and access to financing through collateral in the form of movable assets. The institutional framework for productive development policies was also strengthened. The impact of these reforms is evidenced in Peru's climb from 56th to 35th in the World Bank's Doing Business index, and the contribution of total factor productivity to growth increased by 10 percentage points. The main lessons learned from these interventions are:⁶⁰ (a) to focus on crosscutting reforms with the greatest relative impact; (b) to ensure that technical monitoring units have appropriate competencies; (c) to support reforms with technical cooperation resources; and (d) to secure the high-level commitment of the MEF. These lessons are incorporated in the design of this program, particularly as it pertains to targeting the reforms under Components 2 and 3, having monitoring units with appropriate competencies (see paragraph 1.27), and securing the high-level commitment of the MEF (see paragraph 3.3).
- 1.26 In the framework of its country strategy with Peru, the Bank has provided support to the Peruvian government through policy-based loans and technical cooperation operations to develop policy measures for competitiveness and innovation. This assistance has allowed investment initiatives in sectors covered by this program to be pursued in line with the productivity and competitiveness policy, thereby helping to implement measures promoted by this operation.
- 1.27 Funds for the preparation of this loan have been used to finance actions that have: (a) bolstered the technical counterpart in the MEF for this operation; (b) fostered the exchange of experiences between the MEF, COFIDE, PRODUCE, and other

⁵⁹ Loans 2325/OC-PE, 2489/OC-PE, and 3299/OC-PE.

⁶⁰ Program completion reports for loans 2325/OC-PE, 2489/OC-PE, and 3299/OC-PE.

countries in the region in terms of designing a “fund of funds” of startup capital; and (c) helped to support the EEME to prepare a preliminary agenda for the Executive Council for Microenterprise and Small Business Development.

- 1.28 Lastly, a Bank evaluation of outcomes of policy-based loans for competitiveness in eight countries in the region suggests that this type of program has brought specific benefits, but that more research is needed to assess long-term impacts on indicators of economic growth and productivity.⁶¹ This program places special emphasis on identifying measurable impact indicators and having a detailed monitoring and evaluation plan (see Results Matrix (Annex III) and [monitoring and evaluation plan](#)).
- 1.29 **Complementarity with other IDB Group operations in Peru.** This program complements the objectives of the Program to Improve Productivity and Competitiveness (loan 4957/OC-PE), approved in 2019, through additional measures that reflect the new normal. This program will institute a new regulatory framework for deploying biosafety protocols in the workplace, including: (i) regulatory and tax changes to improve execution of private and public investment, which is key to economic revival (loan 4957/OC-PE focuses on improved planning of public works); (ii) strengthening of mechanisms for public-private dialogue to remove obstacles to investment (loan 4957/OC-PE called for developing such mechanisms); and (iii) deployment of new financial tools to buffer liquidity problems of microenterprises and small businesses and the redesign of the Fondo Crecer fund so it can finance projects to modernize business technology. This program also aims to support changes in the design of public instruments for innovation to better align them with domestic production challenges, particularly those related to economic, social, and environmental sustainability (loan 4957/OC-PE supported improved governance of the innovation system). It also calls for creating a “fund of funds” to cover the financing gap for startup capital, and it supports the design of strategies and deployment of instruments to help microenterprises and small businesses enter the formal sector and digitalize their operations. The ongoing technical cooperation operations “Strengthening Public Policy for Sector Executive Councils in Peru” (ATN/OC-16693-PE), “Support for Preparation of the Policy-based Loan for Productivity and Competitiveness Reforms” (ATN/OC-17669-PE), and “Promoting Innovation in Latin America through Best Practices in Public Procurement Policy” (ATN/FG-17371-RG) will support this operation by strengthening the MEF’s coordination capacity through the EEME, the EESI, and the CNCF, as well as the design of pilot initiatives for innovation-related public procurement. An additional technical cooperation operation is now being prepared to pursue policy measures for redesigning financial instruments, streamlining investment evaluation processes, and designing instruments for microenterprise and small business development as part of this operation. The program will also coordinate with IDB Lab operation ATN/ME-17695-RG to design tools for digitalization of small businesses and microenterprises.
- 1.30 **Coordination with other donors.** The Bank is coordinating closely with various donors to ensure that their actions are complementary to this operation. Efforts are being coordinated with the Swiss cooperation agency (SECO) to design the “fund of funds.” Joint BIM training workshops have been coordinated with the

⁶¹ IDB (2017b).

Government of the United Kingdom. Coordination with the Government of Israel has been in the form of mentors for entrepreneurs financed by loan 3700-OC-PE. Cooperation entities from the United States (USAID and Forest) are collaborating in the design of the Forestry and Wildlife Research Plan within the framework of the Bank-supported Forestry Sector Council.

- 1.31 **Strategic alignment.** The program is consistent with the second Update to the Institutional Strategy (document AB-3190-2) and is strategically aligned with the development challenge of productivity and innovation, as it promotes new mechanisms for stimulating investment in entrepreneurial innovation. The program is also aligned with the crosscutting areas of institutional capacity and rule of law, as it strengthens the institutional framework for competitiveness; gender equality and diversity, as it promotes the formation of human capital with the aim of addressing the gender-based digital divide; and climate change, as it promotes Peru's access to the Green Climate Fund. A total of 17.39% of the operation's resources will be invested in climate change mitigation and adaptation in accordance with the [joint methodologies of the multilateral development banks for tracking climate finance](#). These resources contribute to the IDB Group target of increasing financing for climate-change projects to 30% of all operation approvals by the end of 2020. The operation is aligned with the following indicators of the Corporate Results Framework 2020-2023 (document GN-2727-12): (i) micro, small, medium enterprises financed; (ii) enterprises provided with technical assistance; (iii) countries with strengthened gender equality and diversity policy frameworks; (iv) emissions avoided; and (v) agencies with strengthened digital technology and managerial capacity. It is also consistent with the Innovation, Science, and Technology Sector Framework Document (document GN-2791-8), as it promotes better policies for promoting business innovation, dynamic entrepreneurship, and business digitalization, and it is aligned with the priority area of the Sector Strategy on Institutions for Growth and Social Welfare (document GN-2587-2) related to strengthening institutional capacities for innovation policies. It is also consistent with the Climate Change Sector Framework Document (document GN-2835-8), as some of the priority policies will support Peru's nationally determined contribution. The operation is also consistent with the IDB Group Country Strategy with Peru (2017-2021) (document GN-2889) in three strategic objectives: (i) support formalization of the economy; (ii) support business development; and (iii) strengthen the business climate. Lastly, the operation is included in the Update of the Annex III of the 2020 Operational Program Report (document GN-2991-3).
- 1.32 **Gender considerations.** The program will focus on helping to close gaps in the use of digital technologies. As noted above, there is a gender-based digital gap that has been gradually narrowed over time. While this gap does not vary significantly across geographic regions or age groups, it is reduced through education and is particularly wide among informal-sector workers. As a result, accessible and flexible training strategies geared toward short-term results, such as bootcamps, can be effective along these lines. The Bank will support implementation of these instruments in Peru.⁶²

⁶² IDB (2018).

B. Objectives, components, and cost

- 1.33 The general objective of the programmatic series is to support the Government of Peru in reviving the economy and accelerating growth. The specific objectives are to: (i) revive private investment and public investment in infrastructure; (ii) expand access to financing for continuity in production and private investment; (iii) promote the alignment of public programs for innovation with domestic production challenges; (iv) promote the development of a private industry of startup capital; and (v) help microenterprises and small businesses enter the formal sector and digitalize their operations.
- 1.34 **Component 1. Macroeconomic stability.** This component aims to maintain an economic framework consistent with program objectives, as set forth in the Policy Matrix (Annex II) and the [sector policy letter](#).
- 1.35 **Component 2. Policies to revive production and investment.** Under this component, a comprehensive set of measures will be deployed to enhance the business climate for investment and support the operation's specific objectives: (i) to revive private investment and public investment in infrastructure; and (ii) to expand access to financing for continuity in production and private investment.
- 1.36 For the first specific objective of this component, the first operation in the programmatic series recognizes that policies⁶³ have been approved for planning the revival of economic activity considering biosafety protocols (policy condition 2.1.1). It also recognizes that the Specialized Team for Investment Monitoring (EESI) has approved an updated version of the specialized project database (policy condition 2.1.2). It also recognizes that policies establishing special measures to revive and optimize execution of public, private, and public-private investment projects amid the pandemic have been approved, including strengthening of the execution capacities of local governments (policy condition 2.1.3) and that the policy establishing the model for executing public investments through special public investment projects has been approved (policy condition 2.1.4). It also recognizes that a policy establishing provisions to optimize execution of public works by allowing the use of the collaborative BIM methodology has been approved and that minimum guidelines for its implementation have been approved (policy condition 2.1.5). It also recognizes that the necessary policies have been approved to promote private-sector execution of public infrastructure projects (public works tax deductions) (policy condition 2.1.6). For new opportunities for sustainable investment, it recognizes that the policy setting forth the procedure to gain access to the Green Climate Fund has been approved, and the roadmap of technical and legal requirements related to the issuance of green bonds has been prepared (policy condition 2.1.7). It also recognizes that the policy establishing special rules on depreciation of infrastructure and movable assets has been approved (policy condition 2.1.8).
- 1.37 The indicative policy actions for the second operation under this specific component objective are as follows: (i) the technical assistance to support the adoption of biosafety protocols in enterprises in productive sectors and related activities has been scaled⁶⁴ (trigger 2.1.1); (ii) the EESI has prepared the roadmap

⁶³ Policies here can be proposed laws, legislative decrees, executive decrees, emergency decrees, ministerial or executive resolutions, etc.

⁶⁴ This includes continuity of service and significantly expanded coverage.

- for fast-tracking strategic investment projects in at least two economic sectors (trigger 2.1.2); (iii) the policies establishing special measures to revive and optimize execution of investment projects amid the impact of the COVID-19 pandemic, including strengthening of execution capacities of local governments, have been implemented (trigger 2.1.3); (iv) at least one special public investment project has been implemented (trigger 2.1.4); (v) standards for implementing BIM on public investment projects have been approved (trigger 2.1.5); (vi) the standard contract and contractual guidelines for public-private partnership projects have been approved (trigger 2.1.6); (vii) the country program⁶⁵ has been approved within the framework of the Green Climate Fund (trigger 2.1.7); and (viii) the regulations for implementing the policy establishing special rules on depreciation of infrastructure and movable assets have been approved (trigger 2.1.8).
- 1.38 For the second specific objective of this component, the first operation of the programmatic series recognizes that policies implementing a guarantee program for continuity of the chain of business payments (Reactiva Perú program) have been approved, as has a line of financing and credit guarantees for the working capital of microenterprises and small businesses (FAE-MYPE program) (policy condition 2.2.1). It also recognizes that the policy expanding the scope of the Fondo Crecer fund to factoring enterprises has been approved (policy condition 2.2.2), as has the policy creating a fast-track procedure for competitive refinancing to help restructure business debt (policy condition 2.2.3).
- 1.39 The indicative policy actions for the second operation under this specific objective are as follows: (i) the impact evaluations for the Reactiva Perú and FAE-MYPE programs have been completed to generate lessons learned for their redesign (trigger 2.2.1); (ii) the Fondo Crecer fund has been redesigned in view of lessons learned from the Reactiva Perú and FAE-MYPE program evaluations, incorporating financing mechanisms for technological modernization of businesses (trigger 2.2.2); and (iii) complementary regulations have been approved to implement the fast-track procedure for bankruptcy refinancing to help restructure business debts (trigger 2.2.3).
- 1.40 **Component 3. Policies to accelerate growth through business innovation, dynamic entrepreneurship, entry of microenterprises and small business into the formal sector, and digitalization of these business.** This component will deploy a comprehensive set of measures to contribute to the following specific objectives: (i) to promote the alignment of public programs and competitive bidding processes for innovation with domestic production challenges; (ii) to promote the development of a private industry of startup capital; and (iii) to help microenterprises and small businesses enter the formal sector and digitalize their operations.
- 1.41 For the first specific objective of this component, the first operation of the programmatic series recognizes that competitive rules have been approved to establish a stimulus package for innovation aimed at economic revival and at least four competitions have been launched (Innovar para Reactivar program) (policy condition 3.1.1) and the proposed General Law on the Public Supply Chain, which upholds principles of innovation and sustainable procurement, has been published (policy condition 3.1.2). It also recognizes that a set of policies and proposals have

⁶⁵ The strategy of the Green Climate Fund with Peru, identifying financing priorities and activities to be financed, *inter alia*.

- been advanced to help steer public resources for R&D toward domestic production challenges related to environmental and social sustainability: (a) the policy approving the circular economy roadmap; (b) preparation of the proposed policy approving the Technological Roadmap for Mining Technology Providers; and (c) the policy approving the National Forestry and Wildlife Research Plan (policy condition 3.1.3).⁶⁶ Lastly, it recognizes that policies regulating research, innovation, approval, and registration of medical devices have been approved (policy condition 3.1.4).
- 1.42 The indicative policy actions for the second operation under this specific objective are as follows: (i) at least six additional competitions have been completed as part of the Innovar para Reactivar program, and the segment of biodiversity challenges has been incorporated into the program (trigger 3.1.1); (ii) at least two pilot initiatives for innovation-related public procurement have been implemented (trigger 3.1.2); and (iii) the following have been implemented: (a) at least one competition and one R&D project for reuse of waste in the fishing and aquaculture industry as part of the circular economy roadmap in the industrial sector; (b) approval of a policy and an R&D initiative as part of the Technological Roadmap for Mining Technology Providers; and (c) at least two R&D projects as part of the National Forestry and Wildlife Research Plan (trigger 3.1.3); and lastly, complementary policies regulating research, innovation, approval, and registration of pharmaceutical products, medical devices, and health care products have been approved (trigger 3.1.4).
- 1.43 For the second specific objective of this component, the first operation in the programmatic series recognizes that the policy regulating the operation of the Entrepreneurial Microenterprise and Small Business Fund and financing the Startup Peru Program has been approved (policy condition 3.2.1) and that the policy proposal regulating operation of a “fund of funds” of startup capital and the functioning of the steering committee has been prepared (policy condition 3.2.2).
- 1.44 The indicative policy actions for the second operation under this specific objective are as follows: (i) the 8G-plus and 9G bidding processes of the Startup Peru Program⁶⁷ have been opened (trigger 3.2.1); and (ii) the first contract for startup capital investment has been signed with a public or private fund administrator (trigger 3.2.2).
- 1.45 For the third specific objective of the third component, the first operation of the programmatic series recognizes: (i) that the policy establishing the Executive Council for Microenterprise and Small Business Development has been approved (policy condition 3.3.1); (ii) that a service package with incentives for businesses to enter the formal sector has been prepared, including business formation, technical assistance for businesses, and access to markets for enterprises entering the formal sector (policy condition 3.3.2); (iii) the proposed policy promoting the Microenterprise and Small Business Digitalization Strategy has been prepared (policy condition 3.3.3); (iv) rules including the design and execution mechanism for a bidding process for technical assistance for microenterprise and small business digitalization have been approved (policy condition 3.3.4); and (v) rules including the design and execution mechanism of a

⁶⁶ For more detailed information on the roadmaps and the national plan, see [optional link 8](#).

⁶⁷ Generations 8 and 9 of the startup seed capital program.

bidding process to support the formation of human capital for microenterprise and small business digitalization, and incorporating gender considerations,⁶⁸ have been approved (policy condition 3.3.5).

- 1.46 The indicative policy actions for the second operation under this specific component objective are as follows: (i) the EEME has prepared the reform roadmap for microenterprise and small business development (trigger 3.3.1); (ii) the service package has been scaled with incentives for businesses to enter the formal sector, including additional services⁶⁹ (trigger 3.3.2); (iii) (a) the policy promoting the Microenterprise and Small Business Digitalization Strategy has been approved; (b) at least three strategic projects, at least one of which has a gender focus, have been implemented under the Microenterprise and Small Business Digitalization Strategy; and (c) the policy approving the Technological Roadmap for Digital Transformation has been approved (trigger 3.3.3); (iv) another bidding process for technical assistance for microenterprise and small business digitalization has been implemented, using the lessons learned from the first bidding process (trigger 3.3.4). Lastly, (v) at least one bidding process to support the formation of human capital for microenterprise and small business digitalization has been implemented, incorporating gender considerations (trigger 3.3.5).
- 1.47 **Beneficiaries.** The direct beneficiaries of the reforms are, generally speaking, formal-sector enterprises in Peru.⁷⁰ The direct beneficiaries of the reforms include microenterprises and small businesses that will participate in the economic revival programs,⁷¹ the venture capital funds for early investment and entrepreneurs who secure investments from such funds, formal-sector enterprises benefiting from mission-oriented public R&D programs,⁷² microenterprises and small businesses participating in the business digitalization program,⁷³ and microenterprises and small businesses transitioning to services of medium to high complexity provided by the network of centers for productive innovation and technology transfer (CITE),⁷⁴ consistent with a more formal production model (strengthening and growth).

C. Key results indicators

- 1.48 Fulfillment of the general development objective will be evaluated using two indicators: (i) year-on-year percentage change in aggregate receipts from the general sales tax; and (ii) GDP growth rate. Fulfillment of the first specific objective (reviving private investment and public investment in infrastructure) will be evaluated by looking at priority projects for investment in competitive infrastructure that have entered the execution phase (as a percentage of all priority projects in

⁶⁸ These are large-scale training events in digitalization, such as learning pathways and bootcamps. Gender considerations entail, at a minimum, achieving gender parity in interventions and prioritizing women applicants.

⁶⁹ Microfinance, for example.

⁷⁰ At the close of the first quarter of 2020, Peru had 2.7 million registered formal enterprises. IDB (2020b).

⁷¹ As of 21 August 2020, more than 380,000 microenterprises and small businesses had benefited from the *Reactiva Perú* program and 303,000 from the FAE-MYPE program.

⁷² As of 31 December 2019, the mission-oriented innovation programs of *Innovate Perú* had 148 beneficiaries.

⁷³ A projected 70 startups will be supported in 2020, followed by an additional 70 per year in 2021 and 2022.

⁷⁴ Between May and July 2020, 1,045 clients (out of 12,649 total) received services of medium to high complexity from the public CITE network.

the National Infrastructure Plan for Competitiveness). Fulfillment of the second specific objective (expanding access to financing for continuity in production and private investment) will be evaluated using the quarterly survival rate of microenterprises and small businesses participating in the Reactiva Perú and FAE-MYPE programs and the sales index of these enterprises. Fulfillment of the third specific objective (promoting alignment of public programs for innovation with domestic production challenges) will be evaluated using the percentage of public financing for innovation devoted to domestic public-sector production challenges. For fulfillment of the fourth specific objective (promoting development of an industry of startup capital), the indicator is private investment leveraged through the “fund of funds.” The fifth specific objective (helping microenterprises and small businesses enter the formal sector and digitalize their operations) will be evaluated through the production units that transitioned to advanced technical assistance (for more formally established enterprises) or having previously received basic technical services (for less formally established enterprises), as well as through the percentage of microenterprises and small businesses participating in the business digitalization program that incorporate digital technologies into their processes after the program.

- 1.49 **Economic analysis.** Based on the recommendations of the Office of Evaluation and Oversight in its 2011 Evaluability Review of Bank Projects⁷⁵ and the findings of the review of evaluation practices and standards for policy-based loans prepared by the Evaluation Cooperation Group (made up of the independent evaluation offices of the multilateral development banks),⁷⁶ included in paragraph 1.3 of document GN-2489-5, “Review of the Development Effectiveness Matrix for Sovereign Guaranteed and Non-Sovereign Guaranteed Operations,” which state that it is not necessary to prepare an efficiency analysis of the use of financial resources,⁷⁷ the determination was made that no economic analysis is to be performed for this type of loan, and the Bank’s Board of Executive Directors was notified to that effect. Accordingly, this loan operation does not include an economic analysis, and, consequently, the economic analysis is not taken into account in measuring the evaluability score in the Development Effectiveness Matrix for this program.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 This operation is structured as a programmatic policy-based loan aimed at reviving the economy and accelerating growth. This loan is the first of two technically linked but independently financed operations in accordance with Policy-based Loans: Guidelines for Preparation and Implementation (document CS-3633-2). The

⁷⁵ 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 policy-based loans.

⁷⁶ Good Practice Standards for the Evaluation of Public Sector Operations. Evaluation Cooperation Group, Working Group on Public Sector Evaluation, 2012 revised edition. February 2012.

⁷⁷ According to the Evaluation Cooperation Group, policy-based loans should be evaluated based on relevance, effectiveness, and sustainability. Efficiency was not included as a criterion, since the dimensioning of policy-based loans is associated with a country’s financing gap, regardless of the benefits of the operation.

program, in turn, follows the guidelines and directives set forth in the New Lending Framework (document GN-2200-13) and the Proposal to Establish Contingent Lending Instruments of the IDB (document GN-2667-2). This structure and instrument is justified because: (i) it promotes ongoing policy dialogue with the country in terms of competitiveness, which is a multisector topic; and (ii) it facilitates monitoring of the reform implementation strategy, as some reforms are difficult to implement, are broad in scope, and require intensive coordination between government agencies. The instrument also provides flexibility in adapting to new knowledge gained in executing the agreed measures. This series of operations will use the deferred drawdown option⁷⁸ to more effectively address the uncertainty surrounding the post-pandemic economic recovery and the expected increase in volatility in access to capital markets for emerging countries, which may lead to unexpected financing needs falling to the treasury. This instrument acts as an insurance policy, and its use is fully consistent with the Peruvian government's debt management policy, which calls for diversification of financing sources as a precautionary measure. This will help it gain access to financing at sustainable costs, particularly in times of regional and international financial volatility.

- 2.2 **Dimensioning.** The cost of this first operation is US\$400 million, to be financed with resources from the Bank's Ordinary Capital.⁷⁹ This amount, to be disbursed in a single disbursement, is justified in view of the country's needs for fiscal resources in the broad sense, although it is not directly related to the costs of reforms described in paragraph 3.27(b) of document CS-3633-2. The operation accounts for 1.8% of the public sector's financing needs for 2020 and 6.2% of its financing with multilaterals.

B. Environmental and social risks

- 2.3 In accordance with Directive B.13 of the Environment and Safeguards Compliance Policy (Operational Policy OP-703), this program does not require an ex ante impact classification. The operation supports the development of policies, laws and regulations, management instruments, and other institution-strengthening actions, and therefore no direct significant social or environmental impacts are anticipated.

C. Fiduciary risks

- 2.4 No fiduciary risks have been identified. If the country so requires, the resources of this operation will go directly to the treasury account to cover the financing needs of the national government. To this end, the executing agency has appropriate financial management instruments and control systems.

D. Other risks

- 2.5 **Fiscal sustainability.** Two medium-level risks were identified. This first relates to a potential increase in COVID-19 cases as part of a second wave of infections, which could lead authorities to reorder targeted lockdowns, in which case the conditions in the Policy Matrix for the second phase may not be fulfilled. This risk will be mitigated through monitoring and ongoing dialogue with health and fiscal authorities. The second risk is that the macroeconomic shock may cause a deterioration of public accounts, which could hurt the availability of resources to finance reforms, thus compromising the measures of the second operation in the

⁷⁸ With a disbursement period of up to three years (document GN-2667-2).

⁷⁹ The second operation is tentatively scheduled for 2022 in an amount to be determined.

- programmatic series. This risk will be mitigated through ongoing dialogue with the authorities and inclusion of the MEF's Multiyear Macroeconomic Framework 2021-2024 in the financing strategy. If needed, financial assets and contingent credit lines with international organizations, including this operation, will be used, creating an incentive for the government to fulfill the targets set forth in the Policy Matrix.
- 2.6 **Sustainability.** A medium-level risk was identified in the changing political landscape in the run-up to the presidential elections, which may result in changing sector priorities, in which case the conditions in the Policy Matrix for the second phase may not be fulfilled. This risk will be mitigated by: (i) approving reforms for the first operation in the programmatic series before the change of administration; (ii) seeking opportunities for high-level technical dialogue to emphasize the importance of achieving key reform milestones, demonstrating progress, and agreeing on next steps; and (iii) including the measures for the second operation of the programmatic series in the PNPC (2019-2030).⁸⁰
- 2.7 **Public management and governance.** A medium-level risk was identified in the limited coordination among public-sector stakeholders and between public- and private-sector stakeholders in terms of policies for economic recovery. This could cause a delay in implementing measures, and the policy conditions for the second phase may not be fulfilled as a result. To mitigate this risk, the MEF's coordination capacity will be strengthened through the EEME and the EESI to promote public-private cooperation through a technical cooperation operation now in preparation (see paragraph 1.29).

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 The borrower is the Republic of Peru, and the executing agency is the MEF, acting through the Office of the Public Treasury (DGTP). The DGTP is responsible for operation-related negotiations as well as the financial aspects of the program. It is also tasked with coordinating with entities implementing reforms to verify the proposed policy conditions and deliver monitoring reports and evidence of fulfillment of the program's policy conditions.
- 3.2 **Strategic coordination.** The MEF's International Economy, Competition, and Productivity Division (DGAEICYP) will be responsible for coordination and will meet with government entities responsible for adopting measures, monitor measures included in the Policy Matrix and promote implementation of these measures, participate in program evaluation, and appropriately address risks, inter alia. To this end, the DGAEICYP will coordinate with the DGTP and the CNCF. The general director of the DGAEICYP is the executive director of the CNCF. The CNCF consists of nine public-private committees that meet to discuss and monitor program actions. The DGAEICYP will also coordinate with the EEME in relation to the sector council on microenterprise and small business.
- 3.3 **Special contractual conditions precedent to the first and only disbursement of the loan: Disbursement of the proceeds of the Bank's loan at the borrower's request will be subject to fulfillment of the policy reform**

⁸⁰ [Optional link 7.](#)

commitments described in the program components, in accordance with the Policy Matrix (Annex II) and the [Policy Letter](#), as well as the fulfillment of all other provisions of the loan contract.

B. Summary of arrangements for monitoring results

- 3.4 **Monitoring.** Due to the nature of the operation, monitoring will focus on: (i) verifying fulfillment of policy actions in the first operation, in accordance with the Policy Matrix (Annex II) and the [means of verification matrix](#); and (ii) monitoring implementation of indicative policy actions for a second operation. Once the disbursement has been made, the executing agency will: (i) submit to the Bank a semiannual report on implementation of indicative policy actions for a second operation; and (ii) collect data on performance indicators to evaluate program results in accordance with the [monitoring and evaluation plan](#).
- 3.5 **Evaluation.** A program evaluation will be included in the project completion report, in accordance with the guidelines in document OP-1242-5, to be completed at the end of the programmatic series. Three methodologies will be used to evaluate program outcomes and impacts. To evaluate fulfillment of the second specific objective, the difference-in-differences method with common support will be used. The evaluation will use information from formal-sector enterprises in the administrative records of the customs and tax authority (SUNAT), as well as the National Business Survey. The evaluation of the fifth specific objective on microenterprise and small business digitalization will be based on discontinuous regression with randomized inference, using information on the scores used to select program participants. For other objectives, the evaluation will be reflexive by comparing selected indicators to measure fulfillment of each objective before and after the reforms promoted by this program (see [monitoring and evaluation plan](#)).

IV. POLICY LETTER

- 4.1 The Bank and the Government of Peru have agreed on the macroeconomic and sector policies included in the [Policy Letter](#) to be submitted by the MEF. This letter will outline the government's strategy for this program and reaffirm its commitment to implement the agreed activities.

Development Effectiveness Matrix		
Summary		PE-L1261
I. Corporate and Country Priorities		
Section 1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Issues	-Productivity and Innovation -Gender Equality and Diversity -Climate Change -Institutional Capacity and the Rule of Law	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	-Micro / small / medium enterprises financed (#) -Enterprises provided with technical assistance (#) -Countries with strengthened gender equality and diversity policy frameworks (#) -Emissions avoided (annual tons CO2 equivalent) -Agencies with strengthened digital technology and managerial capacity (#)	
2. Country Development Objectives		
Country Strategy Results Matrix	GN-2889	Support formalization of the economy; support business development; and strengthen the business climate
Country Program Results Matrix	GN-2991-3	The intervention is included in the 2020 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		9.4
3.1 Program Diagnosis		1.9
3.2 Proposed Interventions or Solutions		3.5
3.3 Results Matrix Quality		4.0
4. Ex ante Economic Analysis		N/A
5. Monitoring and Evaluation		10.0
5.1 Monitoring Mechanisms		4.0
5.2 Evaluation Plan		6.0
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Medium Low
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, 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-16693-PE; ATN / OC-17669-PE; ATN / FG-17371-RG, which will strengthen the coordinating capacity of the MEF as well as pilot design for public procurement in innovation; also a TC in preparation to promote the redesign of financial instruments, simplification of investment evaluation processes and design of MSE development instruments

The "Reform Program in Support of Economic Reactivation and Competitiveness (PE-L1261)" is the first operation in a programmatic policy-based loan series (PBP) which aims, as its general objective, to support the Government of Peru in reactivating the economy and accelerating growth. The specific objectives of the program are: (i) to reactivate private and public investment in infrastructure; (ii) improve access to financing for the continuity of production and private investment; (iii) promote the alignment of public programs for innovation with national production challenges; (iv) promote the development of a private entrepreneurial capital industry; and (v) promote the formalization and digitization of Micro and Small Businesses (MYPES).

The key issue the program will try to address is the business climate, which, while already challenging; has worsened considerably with the onset of the pandemic. The project identifies various channels through which this problem affects investment and innovation. The lack of public goods (e.g. infrastructure) limits the returns to investment and their appropriability, while high financing and other costs make investment costly. Various market failures and lack of government coordination have also limited investment in innovation and the adoption of digital technology, especially in the case of MSMEs. The project presents a clear description of the problems as well as of the proposed solution, though some determinants of the main problem are not fully quantified. The Results Matrix reflects the vertical logic of the program and has SMART indicators to measure the achievement of specific and general objectives listed above, as well as to monitor the implementation of the products to be generated during the program.

Given the lack of existing evidence regarding the effectiveness of this type of intervention, the project team is proposing an impact evaluation for some components of the program. This evaluation plan is based on two different quasi-experimental methods (propensity score matching and regression discontinuity), which are appropriate given the type of intervention and the data available.

POLICY MATRIX

Objective: The general objective of the programmatic series is to support the Government of Peru in reviving the economy and accelerating growth. The specific objectives are to: (i) revive private investment and public investment in infrastructure; (ii) expand access to financing for continuity in production and private investment; (iii) promote the alignment of public programs for innovation with domestic production challenges; (iv) promote the development of a private industry of startup capital; and (v) help microenterprises and small businesses enter the formal sector and digitalize their operations.

Components/ policy objectives	Policy conditions for programmatic operation I	Fulfillment status of conditions for programmatic operation ¹	Triggers for programmatic operation II
Component 1. Macroeconomic stability			
1.1. Maintain an economic framework consistent with program objectives and the sector policy letter	1.1.1. A macroeconomic environment consistent with program objectives is maintained in accordance with the Policy Matrix and the Policy Letter.	Fulfilled	1.1.1. Maintain a macroeconomic environment consistent with program objectives in accordance with the Policy Matrix and the Policy Letter.
Component 2. Policies to revive production and investment			
2.1. Revive private investment and public investment in infrastructure	2.1.1. Policies have been approved for planning the recovery of economic activity in view of biosafety protocols.	Fulfilled (Q2 2020)	2.1.1. The technical assistance for the adoption of biosafety protocols in enterprises in productive sectors and related activities has been scaled.
	2.1.2. The updated version of the specialized project database of the Specialized Team for Investment Monitoring (EESI) has been approved.	Fulfilled (Q2 2020)	2.1.2. The EESI has prepared the roadmap for fast-tracking strategic investment projects in at least two economic sectors.
	2.1.3. Policies establishing special measures to revive and optimize execution of public, private, and public-private investment projects amid the COVID-19 pandemic have been approved, including strengthening of the execution capacities of local governments.	Fulfilled (Q2 2020)	2.1.3. The policies establishing special measures to revive and optimize execution of investment projects amid the impact of the COVID-19 pandemic, including strengthening of execution capacities of local governments, have been implemented.
	2.1.4. The policy establishing the model for executing public investments through special public investment projects has been approved.	Fulfilled (Q1 2020)	2.1.4. At least one special public investment project has been implemented.

¹ This information is merely indicative in nature as of the preparation of this document. In accordance with document CS-3633-2 (Policy-based Loans: Guidelines for Preparation and Implementation), the fulfillment of all disbursement conditions, including maintenance of an appropriate macroeconomic policy framework, will be verified by the Bank at the time of the corresponding disbursement request by the borrower and reflected in the disbursement eligibility memorandum.

Components/ policy objectives	Policy conditions for programmatic operation I	Fulfillment status of conditions for programmatic operation ¹	Triggers for programmatic operation II
	2.1.5. The policy establishing provisions to optimize execution of public works by allowing the use of the collaborative BIM methodology has been approved, and minimum guidelines for its implementation have been approved.	Fulfilled (Q3 2020)	2.1.5. Standards for implementing BIM on public investment projects have been approved.
	2.1.6. The necessary policies have been approved to promote private-sector execution of public infrastructure works projects (public works tax deductions).	Fulfilled (Q1 2020)	2.1.6. The standard contract and contractual guidelines for public-private partnership projects have been approved.
	2.1.7. The policy setting forth the procedure to gain access to the Green Climate Fund has been approved, and the roadmap of technical and legal requirements related to the issuance of green bonds has been prepared.	Fulfilled (Q3 2020)	2.1.7. The country program has been approved within the framework of the Green Climate Fund.
	2.1.8. The policy establishing special rules on depreciation of infrastructure and movable assets has been approved.	Fulfilled (Q2 2020)	2.1.8. The regulations for implementing the policy establishing special rules on depreciation of infrastructure and movable assets have been approved.
2.2. Expand access to financing for continuity in production and private investment	2.2.1. Policies implementing a guarantee program for continuity of the chain of business payments (<i>Reactiva Perú</i> program) have been approved, as has a line of financing and credit guarantees for the working capital of microenterprises and small businesses (FAE-MYPE program).	Fulfilled (Q2 2020)	2.2.1. The impact evaluations for the <i>Reactiva Perú</i> and FAE-MYPE programs have been completed to generate lessons learned for their redesign.
	2.2.2. The policy expanding the scope of the <i>Fondo Crecer</i> fund to factoring enterprises has been approved.	Fulfilled (Q1 2020)	2.2.2. The <i>Fondo Crecer</i> fund has been redesigned in view of lessons learned from the <i>Reactiva Perú</i> and FAE-MYPE program evaluations, incorporating financing mechanisms for technological modernization of businesses.
	2.2.3. The policy creating a fast-track procedure for bankruptcy refinancing to help restructure business debt has been approved.	Fulfilled (Q1 2020)	2.2.3. Complementary regulations have been approved to implement the fast-track procedure for bankruptcy refinancing to help restructure business debts.

Components/ policy objectives	Policy conditions for programmatic operation I	Fulfillment status of conditions for programmatic operation ¹	Triggers for programmatic operation II
Component 3. Policies to accelerate growth through business innovation, dynamic entrepreneurship, the entry of microenterprises and small business into the formal sector, and digitalization of these businesses			
3.1. Promote the alignment of programs and public competitions for innovation with domestic production challenges	3.1.1. Bidding rules establishing a stimulus package for innovation aimed at economic recovery have been approved, and at least four competitions have been launched (<i>Innovar para Reactivar</i> program).	Fulfilled (Q3 2020)	3.1.1. At least six additional competitions have been completed as part of the <i>Innovar para Reactivar</i> program, and the segment of biodiversity challenges has been incorporated into the program.
	3.1.2. The proposed General Law on the Public Supply Chain, which upholds principles of innovation and sustainable procurement, has been published.	Fulfilled (Q4 2020)	3.1.2. At least two pilot initiatives for innovation-related public procurement have been implemented.
	3.1.3. A set of policies and proposals have been advanced to help steer public resources for research and development toward domestic production challenges related to environmental and social sustainability: (a) the policy approving the circular economy roadmap; (b) preparation of the proposed policy approving the Technological Roadmap for Mining Technology Providers; and (c) the policy approving the National Forestry and Wildlife Research Plan.	Fulfilled (Q4 2020)	3.1.3. The following have been implemented: (a) at least one competition and one R&D project for reuse of waste in the fishing and aquaculture industry as part of the circular economy roadmap in the industrial sector; (b) approval of a policy and an R&D initiative as part of the Technological Roadmap for Mining Technology Providers; and (c) at least two R&D projects as part of the National Forestry and Wildlife Research Plan.
	3.1.4. Policies regulating research, innovation, approval, and registration of medical devices have been approved.	Fulfilled (Q4 2020)	3.1.4. Complementary policies regulating research, innovation, approval, and registration of pharmaceutical products, medical devices, and health care products have been approved.
3.2. Promote development of a private industry of startup capital	3.2.1. The policy regulating the operation of the Entrepreneurial Microenterprise and Small Business Fund and financing the Startup Peru Program has been approved.	Fulfilled (Q3 2020)	3.2.1. The 8G-plus and 9G bidding processes of the Startup Perú Program have been opened.
	3.2.2. The policy proposal regulating operation of a "fund of funds" of startup capital and the functioning of the steering committee has been prepared.	Fulfilled (Q4 2020)	3.2.2. The first contract for startup capital investment has been signed with a public or private fund administrator.

Components/ policy objectives	Policy conditions for programmatic operation I	Fulfillment status of conditions for programmatic operation ¹	Triggers for programmatic operation II
3.3. Help microenterprises and small businesses enter the formal sector and digitalize their operations	3.3.1. The policy establishing the Executive Council for Microenterprise and Small Business Development has been approved.	Fulfilled (Q3 2020)	3.3.1. The EEME has prepared the reform roadmap for microenterprise and small business development
	3.3.2. A service package with incentives for businesses to enter the formal sector has been prepared, including business formation, technical assistance for businesses, and access to markets for enterprises entering the formal sector.	Fulfilled (Q4 2020)	3.3.2. The service package has been scaled with incentives for businesses to enter the formal sector, including additional services.
	3.3.3. The proposed policy promoting the Microenterprise and Small Business Digitalization Strategy has been prepared.	Fulfilled (Q4 2020)	3.3.3. (a) The policy promoting the Microenterprise and Small Business Digitalization Strategy has been approved; (b) at least three strategic projects, at least one of which has a gender focus, have been implemented under the Microenterprise and Small Business Digitalization Strategy; and (c) the policy approving the Technological Roadmap for Digital Transformation has been approved.
	3.3.4. Rules including the design and execution mechanism for a bidding process for technical assistance for microenterprise and small business digitalization have been approved.	Fulfilled (Q3 2020)	3.3.4. Another bidding process for technical assistance for microenterprise and small business digitalization has been implemented, using the lessons learned from the first bidding process
	3.3.5 Rules including the design and execution mechanism of a bidding process to support the formation of human capital for microenterprise and small business digitalization, and incorporating gender considerations, have been approved.	Fulfilled (Q4 2020)	3.3.5. At least one bidding process to support the formation of human capital for microenterprise and small business digitalization has been implemented, incorporating gender considerations.

REFORM PROGRAM TO SUPPORT ECONOMIC RECOVERY AND COMPETITIVENESS

RESULTS MATRIX

Project objective:	The general objective of the programmatic series is to support the Government of Peru in reviving the economy and accelerating growth. The specific objectives are to: (i) revive private investment and public investment in infrastructure; (ii) expand access to financing for continuity in production and private investment; (iii) promote the alignment of public programs for innovation with domestic production challenges; (iv) promote the development of a private industry of startup capital; and (v) help microenterprises and small businesses enter the formal sector and digitalize their operations.
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GENERAL DEVELOPMENT OBJECTIVE

Indicators	Unit of measure	Baseline	Base year	Target (2023)	Means of verification	Observations ¹
General development objective: Support the Government of Peru in reviving the economy and accelerating growth						
Year-on-year percentage change in aggregate receipts from the general sales tax	%	-21.3	2020	4.7	BCRP weekly bulletin	This indicator measures the percentage change in total receipts from the general sales tax (including domestic receipts, imports, and the municipal promotion tax) as reported in Table 87, "Current revenue of the central government," of the weekly bulletin of the Central Bank of Peru (BCRP). This will be a reflexive evaluation using a before-and-after comparison.
GDP growth rate	%	-12.0	2020	4.5	Peru's Multiyear Macroeconomic Framework	This indicator measures the percentage annual change in GDP in real terms reported in the Annual Macroeconomic Framework. This will be a reflexive evaluation using a before-and-after comparison.

¹ The observations in Table 2 of the [monitoring and evaluation plan](#) should also be taken into account for all indicators.

SPECIFIC DEVELOPMENT OBJECTIVES

Indicators	Unit of measure	Base-line	Base year	Target (2023)	Means of verification	Observations ²
Specific development objective 1: Revive private investment and public investment in infrastructure						
Priority investment projects in competitive infrastructure starting execution (as a % of projects prioritized in the PNIC)	%	46.0	2019	69.0	PNIC	This indicator measures the number of priority investment projects in competitive infrastructure (including public works, public-private partnerships, and projects in assets in the transportation, communications, energy, agriculture, sanitation, and environmental sectors) under execution, as a percentage of all investment projects prioritized in the National Infrastructure and Competitiveness Plan (PNIC). This will be a reflexive evaluation using a before-and-after comparison.
Specific development objective 2: Expand access to financing for continuity in production and private investment						
Quarterly survival rate of microenterprises and small businesses participating in the <i>Reactiva Perú</i> and FAE-MYPE programs	%	87.4	2020	95.0	SUNAT	This indicator focuses on microenterprises and small businesses that are still active at the end of the measurement period according to the administrative records of Peru's customs and tax authority (SUNAT) (i.e., they are not listed as having no sales and no employees), as a percentage of all active microenterprises and small businesses at the start of the measurement period. This evaluation will use the difference-in-differences method and statistical matching.
Sales index of microenterprises and small businesses participating in the <i>Reactiva Perú</i> and FAE-MYPE programs	Index	1.0	2020	1.1	SUNAT	This index, calculated on a quarterly basis, measures total sales of taxpaying microenterprises and small businesses in the measurement period compared to total sales of taxpaying microenterprises and small businesses in the second quarter of 2020. This evaluation will use the difference-in-differences method and statistical matching.

² The observations in Table 2 of the [monitoring and evaluation plan](#) should also be taken into account for all indicators.

Indicators	Unit of measure	Base-line	Base year	Target (2023)	Means of verification	Observations ²
Specific development objective 3: Promote alignment of public programs for innovation with domestic production challenges ³						
Financing of public challenges in domestic production (as % of all financing for production-related innovation programs)	%	4.7	2019	10.0	<i>Innovate Perú</i> program	This indicator measures financing through nonreimbursable resources for mission-based bidding processes (social innovation, applied research and technological development in matters of public interest; <i>Reto Bio</i> ; <i>Perú Resiliente</i> ; <i>Mujer Emprende e Innova</i> ; and sector-specific projects for innovation in forestry, aquaculture, textiles, food service, and creative and cultural industries) as a share of all financing from the following innovation funds: FINCYT 2, FOMITEC, and FIDECOM. This will be a reflexive evaluation using a before-and-after comparison.
Specific development objective 4: Promote development of an industry of startup capital ⁴						
Private investment leveraged through the “fund of funds”	US\$ millions	0	2020	20	Development Finance Corporation (COFIDE)	This indicator measures the amount of capital financed by private sources of the “fund of funds.” This will be a reflexive evaluation based on a before-and-after comparison.
Specific development objective 5: Help bring microenterprises and small businesses into the formal sector and digitalize their operations						
Productive units that went from receiving services of low complexity to needing services of medium to high complexity in the public network of centers for productive innovation and technology transfer (CITE) (as a percentage of productive units receiving services of medium to high complexity in the public CITE network)	%	23	2020	25	Technological Institute for Production (ITP)	This indicator focuses on productive units transitioning toward formal productivity; ⁵ i.e., it measures the number of productive units initially receiving services of low complexity (specialized technological information and training) from the public CITE network and later seeking services of medium to high complexity (R&D and innovation services, technical assistance, product design and development, production support, laboratory testing, job skills certification), as a percentage of all productive units seeking services of medium to high complexity. This will be a reflexive evaluation using a before-and-after comparison.

³ Domestic production challenges are country-specific major challenges that need to be addressed in order to develop production in key sectors (i.e., sectors with comparative advantages, with high-growth potential, or deemed strategic). Some of these sectors in Peru are tied to the country’s natural resources, such as the forestry, mining, agroindustry, and aquaculture sectors. Meeting these challenges will require public policies and investments in innovation based on missions or geared toward specific sector targets.

⁴ Startup capital is capital used to finance venture-based investments in innovative startups.

⁵ This indicator uses the production-oriented definition of “formal,” rather than the definitions used in legal contexts (registered companies) or in labor law (employees lacking health insurance or pension coverage). Under this definition, an informal enterprise is subsistence-oriented, while formal enterprises are those that have surpassed a minimum threshold of productivity. Thus, enterprises that approach a CITE seeking services of greater complexity, after having first required basic services, are assumed to have surpassed the minimum threshold and, therefore, provide a useful way to measure the transition toward formal productivity.

Indicators	Unit of measure	Base-line	Base year	Target (2023)	Means of verification	Observations ²
Microenterprises and small businesses using digital technologies in most of their processes (as a percentage of participants in the microenterprise and small business digitalization program)	%	8.0	2017	10.0	<i>Innovate Perú</i> program	This indicator reflects all microenterprises and small businesses selecting option “(c) Most processes in our microenterprise or small business involve digital technology” in response to question 54 (“Generally speaking, have digital technologies been incorporated to support processes in your microenterprise or small business? Examples include web-based services, e-commerce, and digitalized quality control.”) of the application to the microenterprise and small business digitalization program, as a percentage of all participants. The evaluation will be based on discontinuous regression using a small sample size.

OUTPUTS

Outputs	Unit of measure	Base year	Base -line	Target 2020	Means of verification	Responsible entity
Component 2. Policies to revive production and investment						
2.1.1.a. Policy for planning the recovery of economic activity in view of biosafety protocols, approved	Approved policy	2020	0	1	Publication of Executive Decree 080-2020-PCM in <i>Diario Oficial El Peruano</i>	Office of the Chair of the Council of Ministers (PCM)
2.1.1.b. Policy setting forth general guidelines for health surveillance, prevention, and control of workers at risk of exposure, approved	Approved policy	2020	0	1	2.1.1. (b) Publication of Ministerial Resolution 239-2020-MINSA in <i>Diario Oficial El Peruano</i>	Ministry of Health (MINSA)
2.1.2. Specialized database of projects of the Institute for Environmental and Energy Studies (EESI), updated	Updated specialized database of projects	2020	0	1	Publication of Executive Resolution 001-2020-EF/10.08 on the MEF website	Ministry of Economy and Finance (MEF)
2.1.3.a. Policies establishing special measures to revive and optimize execution of public, private, and public-private investment projects by helping to process, evaluate, approve, or renew credentials in completed or pending administrative procedures, as well as environmental certifications, approved	Approved policy	2020	0	1	Publication of Legislative Decree 1500 in <i>Diario Oficial El Peruano</i>	MEF

Outputs	Unit of measure	Base year	Base -line	Target 2020	Means of verification	Responsible entity
2.1.3.b. Policies establishing special measures to revive and optimize execution of public investment projects, approving procedures related to archaeological permits, monitoring of optimization, expansion, rehabilitation, and replacement (IOARR) works by executing units, and complementary procedures to resume works put on hold, etc., approved	Approved policy	2020	0	1	Publication of Legislative Decree 1486 in <i>Diario Oficial El Peruano</i>	MEF
2.1.3.c. Policies establishing special measures to revive and optimize execution of public investment projects, strengthening the execution capacities of local governments, approved	Approved policy	2020	0	1	Publication of Emergency Decree 070/2020 in <i>Diario Oficial El Peruano</i>	MEF
2.1.4. Policy establishing the public investment execution model through special public investment projects, approved	Approved policy	2020	0	1	Publication of Emergency Decree 021-2020 in <i>Diario Oficial El Peruano</i>	MEF
2.1.5.a. Policy establishing provisions to improve and optimize execution of public works by enabling the use of building information modeling (BIM), approved	Approved policy	2020	0	1	Publication of Legislative Decree 1486, Article 5, in <i>Diario Oficial El Peruano</i>	MEF
2.1.5.b. Policy establishing guidelines for use of the BIM methodology, approved	Approved policy	2020	0	1	Publication of Executive Resolution 007-2020-EF/63.01 In <i>Diario Oficial El Peruano</i>	MEF
2.1.6.a. Policy with methodological guidelines for the public works tax deduction mechanism to promote the use of this mechanism in investment projects, approved	Approved policy	2020	0	1	Publication of Executive Resolution 001-2020-EF/68.01 In <i>Diario Oficial El Peruano</i>	MEF
2.1.6.b Policy standardizing documents for promoting projects through the public works tax deduction mechanism, approved	Approved policy	2020	0	1	Publication of Executive Resolution 002-2020-EF/68.01 In <i>Diario Oficial El Peruano</i>	MEF
2.1.6.c Policy setting forth annual capacity ceilings for regional and local governments and public universities in executing projects using the public works tax deduction mechanism, approved	Approved policy	2020	0	1	Publication of Executive Decree 164-2020-EF in <i>Diario Oficial El Peruano</i>	MEF
2.1.7.a. Policy setting forth the procedure for accessing the Green Climate Fund, approved	Approved policy	2020	0	1	Publication of Executive Decree 219-2020-EF in <i>Diario Oficial El Peruano</i>	MEF
2.1.7.b. Policy setting forth the roadmap of technical and legal requirements for issuance of green bonds, approved	Approved policy	2020	0	1	Report 122-2020-MINAM	MEF

Outputs	Unit of measure	Base year	Base -line	Target 2020	Means of verification	Responsible entity
2.1.8. Policy establishing special rules for depreciation of infrastructure and movable assets, approved	Approved policy	2020	0	1	Publication of Legislative Decree 1488 in <i>Diario Oficial El Peruano</i>	MEF
2.2.1.a. Policy implementing a guarantee program for continuity of the business payment chain, approved	Approved policy	2020	0	1	Publication of Legislative Decree 1455 in <i>Diario Oficial El Peruano</i>	MEF
2.2.1.b. Policy implementing a line of financing and credit guarantees for working capital of microenterprises and small businesses, approved	Approved policy	2020	0	1	Publication of Emergency Decree 029-2020 in <i>Diario Oficial El Peruano</i>	MEF
2.2.2. Policy expanding the scope of the <i>Fondo Crecer</i> fund to factoring enterprises, approved	Approved policy	2020	0	1	Publication of Emergency Decree 040-2020 in <i>Diario Oficial El Peruano</i>	MEF
2.2.3. Policy creating a fast-track procedure for bankruptcy refinancing to facilitate the restructuring of business debt, approved	Approved policy	2020	0	1	Publication of Legislative Decree 1511 in <i>Diario Oficial El Peruano</i>	MEF
Component 3. Policies to accelerate growth through business innovation, dynamic entrepreneurship, entry of microenterprises and small businesses into the formal sector, and digitalization of their operations						
3.1.1. Guidelines for a stimulus package for innovation aimed at economic recovery, with the opening of at least four bidding processes, approved	Approved guidelines	2020	0	1	Copy of the online approval of the boards of directors of the National Innovation Program for Competitiveness and Productivity (<i>Innovate Perú</i>) approving guidelines for the <i>Innovar para Reactivar</i> competitions.	<i>Innovate Perú</i> program
3.1.2. Proposed Law on the Public Supply Chain, including principles of innovation and sustainable procurement, published	Published legislative proposal	2020	0	1	Publication of Ministerial Resolution 285-2020-EF/54 in <i>Diario Oficial El Peruano</i> , including the proposed Law on the Public Supply Chain	MEF
3.1.3.a. Policy setting forth the roadmap for the circular economy, approved	Approved policy	2020	0	1	Publication of Executive Decree 003-2020-PRODUCE in <i>Diario Oficial El Peruano</i>	Ministry of Production (PRODUCE)
3.1.3.b. Proposed policy approving the Technological Roadmap for Mining Technology Providers, prepared	Proposed policy developed	2020	0	1	Proposed executive decree approving the Technological Roadmap for Mining Technology Providers submitted to the Vice-ministerial Coordination Council	PRODUCE
3.1.3.c. Policy setting forth the National Plan for Forestry and Wildlife Research, approved	Approved policy	2020	0	1	Publication in <i>Diario Oficial El Peruano</i> of Executive Management Resolution (RDE) D000109-MINAGRI-SERFOR-DE approving the National Plan for Forestry and Wildlife Research	National Forestry and Wildlife Service (SERFOR)

Outputs	Unit of measure	Base year	Base -line	Target 2020	Means of verification	Responsible entity
3.1.4.a. Policy regulating research, innovation, approval, and registration of medical devices in the research phase, approved	Approved policy	2020	0	1	Publication in <i>Diario Oficial El Peruano</i> of Ministerial Resolution 817-2020-MINSA, approving Technical Document: Guidelines for Exceptional Authorization of Medical Devices in the Research Phase	MINSA
3.1.4.b. Policy regulating clinical trials for research, innovation, approval, and registration of medical devices, approved	Approved policy	2020	0	1	Publication in <i>Diario Oficial El Peruano</i> of Ministerial Resolution 909-2020/MINSA ordering the publication of draft regulations with specific provisions governing clinical trials for medical devices, as well as the grounds for approval and the Executive Decree ordering their approval	MINSA
3.2.1. Policy governing operation of the Micro, Small, and Medium-sized Enterprise Startup Fund, for financing of the Startup Peru Program, approved	Approved policy	2020	0	1	Publication of Executive Decree 225-2020-EF in <i>Diario Oficial El Peruano</i>	MEF
3.2.2. Policy proposal regulating operation of a "fund of funds" of startup capital and functioning of the steering committee, prepared	Approved policy	2020	0	1	Official letter 2339-2020-EF/13.01 with the proposed executive decree approving regulations for the Innovative Startup Capital Fund	MEF
3.3.1. Executive Council for Microenterprise and Small Business Development, approved	Executive council approved	2020	0	1	Publication of Ministerial Resolution 237-2020-EF/10 in <i>Diario Oficial El Peruano</i>	MEF
3.3.2. Official letter covering the service package with incentives for entry into the formal sector, encompassing business formation, technical assistance for businesses, and market access for enterprises joining the formal sector, prepared	Official letter prepared	2020	0	1	Official letter 464-2020-PRODUCE from the Vice Ministry of Microenterprise, Small Business, and Industry, with the reports of the <i>Tu Empresa</i> program and the Technological Institute for Production attached, with information on services provided	PRODUCE
3.3.3. Proposed policy with the microenterprise and small business digitalization strategy, prepared	Proposed policy approved	2020	0	1	Memorandum 00000419-2020-PRODUCE/DGITDF with the proposed ministerial resolution supporting the approval of the guidelines for implementation of the path to digitalization for MSMEs submitted to the Vice Ministry of Microenterprise, Small Business, and Industry	PRODUCE

Outputs	Unit of measure	Base year	Base -line	Target 2020	Means of verification	Responsible entity
3.3.4. Guideline setting forth the design and execution mechanism of a competitive process to support microenterprise and small business digitalization, approved	Guideline approved	2020	0	1	Copy of the online approval of the executive council of Loan Contract 3700 of the <i>Innovate Perú</i> program, approving the guidelines for the competitive process for microenterprise and small business digitalization	<i>Innovate Perú</i> program
3.3.5. Guideline setting forth the design and execution mechanism of a competitive process for human capital formation for microenterprise and small business digitalization, incorporating gender considerations, approved	Guideline approved	2020	0	1	Official letter 0496-2020-CE from the Office of Executive Coordination of the <i>Innovate Perú</i> program, with the guidelines for the competitive process for the coding school to support the formation of human capital for the digitalization of MSMEs, incorporating gender considerations.	<i>Innovate Perú</i> program

MONITORING MILESTONE

(related to output 3.3.5, Guideline setting forth the design and execution mechanism of a competitive process for human capital formation for microenterprise and small business digitalization)

Monitoring variable	Unit of measure	Base year	Base-line	Means of verification	Observations
Gender-based digital divide, defined as the likelihood that women will access digital technologies in the bidding process to support the formation of human capital for microenterprise and small business digitalization, which incorporates gender considerations	%	2017	5.7	Administrative records of the microenterprise and small business digitalization program of <i>Innovate Perú</i>	The baseline, measured in 2017, is taken from Chapter 7 of the report on gender gaps and digital divides by the National Statistics and Information Technology Institute (INEI). This indicator will be monitored using the administrative records on beneficiaries of the bidding process to support the formation of human capital for digitalization of the microenterprise and small business digitalization program of <i>Innovate Perú</i> , which includes as participants the employees and owners of beneficiary microenterprises and small businesses.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/___

Peru. Loan ____/OC-PE to the Republic of Peru
Reform Program to Support Economic
Recovery and Competitiveness

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Peru, as borrower, for the purpose of granting it a financing to cooperate in the execution of the Reform Program to Support Economic Recovery and Competitiveness. Such financing will be for the amount of up to US\$400,000,000 from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ____ 20__)