



Donors Committee

For consideration

On or after: 10 December 2003

MIF/AT-568
25 November 2003
Original: Spanish

To: The Donors Committee
From: The Secretary
Subject: Peru. Nonreimbursable technical-cooperation funding for promotion of youth entrepreneurship

Basic Executing agencyColectivo Integral de Desarrollo (CID)
Information: AmountUp to US\$690,000
SourceHuman Resources Facility

Inquiries to: Mr. Dieter Wittkowski (extension 2410)

Other
distribution: IDB Representative in Peru

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND
NOT FOR PUBLIC USE

PERU

PROMOTION OF YOUTH ENTREPRENEURSHIP

(PE-M1002)

DONORS MEMORANDUM

This document was prepared by the project team consisting of: Carlos Guaipatín (SDS/MSM); Bibiana Vásquez (MIF); Juan Pablo Severi (COF/CPE); Bernadete Buchsbaum (LEG/OPR); Cecilia Parra (LEG/OPR); and Dieter Wittkowski (SDS/MSM), Project Team Leader.

CONTENTS

EXECUTIVE SUMMARY

I.	BACKGROUND AND RATIONALE.....	1
A.	The creation and sustainability of startups in Peru.....	1
B.	Main obstacles to the creation of dynamic businesses	2
C.	The MIF's and the Bank's strategy.....	3
II.	PROGRAM DESCRIPTION.....	4
A.	Objectives	4
B.	Description and components	4
III.	COST AND FINANCING.....	7
IV.	EXECUTING AGENCY AND EXECUTION MECHANISM.....	8
A.	Executing agency.....	8
B.	Execution mechanism	9
V.	MONITORING AND EVALUATION.....	10
VI.	PROGRAM BENEFITS AND RISKS.....	11
VII.	ENVIRONMENTAL AND SOCIAL ANALYSIS	12
VIII.	SPECIAL CONTRACTUAL CONDITIONS.....	13

ANNEXES

Annex I	Logical framework
Annex II	Itemized budget

APPENDICES

Proposed resolution

INFORMATION AVAILABLE IN THE SDS/MSM TECHNICAL FILES

PREPARATION:

- ? Approved project outline
- ? MIF country eligibility memorandum
- ? CID statutes
- ? Audited CID financial statements
- ? CID annual work plan - 2003
- ? “Lineamientos para la promoción de la Empresarialidad” [Guidelines for the Promotion of Entrepreneurship]. MIF and SDS/MSM, Inter-American Development Bank, April 2003.
- ? Entrepreneurship in Emerging Economies: The Creation and Development of New Firms in Latin America and East Asia. Hugo Kantis, *et al.* Inter-American Development Bank, March 2002.
- ? “El BID y la Promoción de la Empresarialidad: Lecciones Aprendidas y Recomendaciones para Nuevos Programas” [The IDB and the promotion of entrepreneurship: Lessons learned and recommendations for new programs] Work report of the Micro, Small, and Medium Enterprise Division, Inter-American Development Bank, March 2003, Washington, D.C.

ABBREVIATIONS

CID	Colectivo Integral de Desarrollo [Integral Development Cooperative]
GDP	Gross domestic product
MFI	Microfinance institutions
MSBs	Microenterprises and small businesses
NGO	Nongovernmental organization
SUNAT	Superintendencia Nacional de Administración Tributaria [The Office of the National Superintendent of the Tax Administration]

PROMOTING ENTREPRENEURSHIP AMONG PERUVIAN YOUTH

(PE-M1002)

EXECUTIVE SUMMARY

Executing agency:	Colectivo Integral de Desarrollo [Integrated Development Cooperative] (CID)		
Beneficiaries:	Approximately 12,000 young people living in northern Peru who have either a new business project to propose, or an infant business that has been underway for less than one year, resulting in the creation of 200 business startups and the consolidation of 500 existing businesses in their first year of operation.		
Financing:	Modality:	Nonreimbursable	
	MIF Window II	US\$ 690,000	(60%)
	Local counterpart:	<u>US\$ 450,700</u>	(40%)
	Total:	US\$ 1,140,700	
Objectives:	<p>The general objective of the program is to improve incomes and employment opportunities for the youth of northern Peru. Its specific objective is to place in operation a system for increasing the number of sustainable businesses run by Peruvian youth in the cities of Tumbes, Piura, Chiclayo and Cajamarca. Under the first component a series of activities will be carried out aimed at improving the skills, experience and ability of the beneficiaries to establish or consolidate their new businesses. The second component will establish a network of services to be offered to the beneficiaries by private entities and public agencies. In addition, it will seek to promote a favorable environment for the creation of businesses through local government agencies with the power to promote entrepreneurship. The third component will organize and monitor the experience gained and lessons learned under the program.</p>		
Execution timetable:	Execution period:	36 months	
	Disbursement period:	42 months	
Special contractual conditions:	<p>As a condition precedent to the first disbursement, CID must submit to the Bank's satisfaction: (i) the annual work plan for the first year of the program in accordance with paragraph 4.6 of the present document; (ii) evidence of selection of the program director and tutors for the sites; (iii) evidence that the program's Operating Regulations</p>		

have been placed in effect and contain the text approved in advance by the Bank; and (iv) evidence that the program's Executive Committee has been created (see paragraph 8.1).

**Exceptions to
Bank policy:**

None.

**Environmental
and social
review:**

At meeting 39-03 of 24 October 2003, the Committee on Environment and Social Impact (CESI) reviewed and approved the program abstract, and its recommendations have been incorporated in the present document (paragraph 7.1).

**Coordination
with other
official
development
agencies:**

The program has been prepared with full knowledge of the various initiatives and programs being carried out by multilateral organizations and bilateral donors working to support entrepreneurship in Peru. The executing agency is coordinating its activities with those of the International Information Exchange Network Focusing on Youth, of the United Nations Educational, Scientific and Cultural Organization (INFOJUVE-UNESCO), and implementing activities financed by the European Union. During its implementation, the executing agency will endeavor to maintain complementarity with the programs of these organizations for the purpose of coordinating efforts and promoting synergies and alliances to ensure greater impact.

I. BACKGROUND AND RATIONALE

A. The creation and sustainability of startups in Peru

- 1.1 Fully 99% of Peru's firms are microenterprises or small businesses (MSBs), a category which employs some three-quarters of the country's work force yet accounts for just 40% of gross domestic product (GDP). While these small firms have a high startup rate, their failure rate is also very high. In fact, roughly 60,000 new enterprises arise each year, with 40% of them disappearing before their first birthday. By the end of their third year, only 30% of new firms have survived. Failure rates are even higher in the informal sector where *only 15% of startups are still around at the end of the third year*. Their low contribution to GDP is explained by the fact that most of the new businesses that do survive show low growth rates in their very low levels of revenue.
- 1.2 This combination of high startup and failure rates for businesses is even more marked in the case of young entrepreneurs. A study of 1,000 Peruvian youths from lower-middle income urban areas conducted by Colectivo Integral de Desarrollo found that *one-half of them intended to start a business* of their own in the next year. As well, 30%-40% of the youths ages 15 to 24 are either self-employed or microentrepreneurs, and 40% of microenterprises were registered by individuals under 30. According to the studies' findings, the reason for creating these businesses is not only the lack of jobs, but also a desire to boost one's income and to be independent.
- 1.3 This would appear to auger well, given the well-known beneficial effects that generating new businesses has on employment, productivity, and economic growth. However, the problem is the *inability of young people to create dynamic businesses*, i.e. firms which are sustainable and have the potential for capital formation and growth. Specifically, in the northern region of Peru—the focus of this program¹—consisting of the municipalities of Piura, Cajamarca, Tumbes, and Chiclayo, there are almost 200,000 registered businesses, 99% of which are MSBs in the service, trade, agricultural production, or agribusiness sectors. During the period 1997-2000, startup businesses were being created at the rate of 25,000 per year in that region, while an average of 20,000 disappeared annually. In addition, the majority of firms that managed to sustain their operations were only able to

¹ This region was chosen as the site for a program to promote entrepreneurship for several reasons: (i) to promote business activities outside the capital region and thus support decentralization and regional development efforts; (ii) the region is an important center for economic development and regional trade in the northern part of the country, with both heavy commercial traffic and growing potential for investment in sectors such as agriculture and tourism; (iii) it possesses the institutional framework needed to carry out the program; (iv) it offers a chance to take advantage of the nearby Ecuadorian market which has become much more dynamic in the last few years; and (v) the institution that will execute the program has detailed knowledge of the current environment and an established presence in the region.

generate a subsistence-level income for their owners, equivalent to US\$100-130 per month, scarcely above the minimum living wage.

B. Main obstacles to the creation of dynamic businesses

- 1.4 The main obstacles that young people encounter in attempting to establish and grow a business are: (i) lack of experience and business skills during the startup stage; (ii) lack of adequate services needed to survive the first year of operation; and (iii) failure of public institutions to promote entrepreneurship.
- 1.5 **Business skills:** the high failure rate among startup enterprises is due in part to macroeconomic factors and weaknesses in the general business climate, but in the case of young people and new entrepreneurs it is also attributable to their *limited ability to manage the business*. In a sample of 300 young entrepreneurs whose businesses failed,² this lack of skills was seen specifically in the fact that they had *little prior work experience to draw on*; were *unfamiliar with planning methods* and the use of market information as a tool for managing a business; and lacked *marketing skills and the ability to position their products or services*. At the same time, there are few training opportunities available that would permit novice entrepreneurs to acquire these skills. Surprisingly, difficulties in obtaining credit appear to be less important for the process of creating a business in this segment.
- 1.6 **Support services:** in addition to business training, the creation of sustainable and dynamic enterprises requires the availability of readily accessible support services, particularly for the first year of operations, including specialized training and technical advising. In general, *new entrepreneurs have little information about or access to, and hence make little use of management support and other more technical services*, since these services are designed to meet the needs of established companies rather than fledgling businesses. In addition, new entrepreneurs need support services that help them solve specific problems, generate contacts with clients and suppliers, learn from businesses that have overcome similar problems, exchange experiences with other infant firms and obtain the financing necessary for their consolidation. This *requires the development of support networks for entrepreneurs*, which includes suppliers of private and public services, financial entities, individual mentors, universities, and other institutions that can offer services and products to meet the particular needs of new entrepreneurs.
- 1.7 This point is reinforced by current evidence that *young people supported by a sustained program of technical assistance achieve higher indicators of progress*. An evaluation³ of 500 youth startup businesses found that those involved in a

² “Jóvenes Empresarios: Entre la Realidad y el Sueño del Negocio Propio” [Youth entrepreneurs: from dream to reality in owning a business], Dino Linares - CID, 1997.

³ Jaramillo, M. and Sandro Parodi (2003): “Jóvenes Emprendedores: Evaluación de Programas de Promoción.” [Youth entrepreneurs: evaluation of promotion programs], Instituto Apoyo, Lima.

technical assistance program organized by the Colectivo Integral de Desarrollo achieved higher indicators than a control group: 1.5 times the number of employees and a similar rise in the number of entrepreneurs joining the formal economy, three times as many in the first group gained access to financing, average income was 60% higher, and twice as many survived their first three years of business.

- 1.8 **Failure of public institutions to promote entrepreneurship:** *With the exception of Piura,⁴ the municipalities in the program region do not have a business development strategy and are indifferent to the impact that the creation of new businesses can have by increasing municipal revenue and creating jobs. As a result, their officials lack the means, abilities, and proactive attitude required to support the process of creating new businesses, and do not tend to coordinate efforts with the private sector to improve the services offered. This explains in part the complex procedures required for incorporating companies into the formal economy, the insufficient attention to users' needs, and the lack of public policies and municipal support structures for promoting entrepreneurship.*

C. The MIF's and the Bank's strategy

- 1.9 The program is consistent with the Bank's country strategy with Peru as set out in document GN-2205-1 for the period 2002-2006 in that it helps boost the productivity and competitiveness of the economy by strengthening the human capital of new MSBs in northern Peru.
- 1.10 This program also takes into account the lessons learned in the Promotion of Youth Startups in Peru project (ATN/ME-7138-PE) carried out at the national level by the Asociación Pro-Bienestar y Desarrollo [Association for Welfare and Development] (PROBIDE). While this project has succeeded in establishing businesses made up of groups of young people with the financial help of local entrepreneurs, the executing entities have recognized that the startups need technical assistance as a fundamental part of the program's activities. Another of the limitations recognized was that access to project resources was restricted to only young entrepreneurs selected in annual competitions. Consequently, the present program: (i) admits young entrepreneurs with ideas for a business or with an enterprise operating for less than a year to the program through selection in an ongoing call for submissions; and (ii) supports young entrepreneurs in the form of technical assistance, especially during the first year following creation of their businesses. Another initiative for developing entrepreneurship supported by the MIF in Peru is the Entra 21 project with the International Youth Foundation (ATN/MH-7513-RG), which is being executed by the NGO "Alternativa" to provide job training and computer skills to at-risk youth in Lima.

⁴ The municipality of Piura is completing a project to simplify the procedures and requirements for formal registration of companies, reducing the number of steps for obtaining an operating license from 147 to 15. This is expected to reduce the municipality's related expenses by 40%, at the same time cutting the number of informal enterprises by 50%.

II. PROGRAM DESCRIPTION

A. Objectives

- 2.1 The **general objective** of the program is to improve income and employment opportunities for the youth of northern Peru. Its **specific objective** is to establish a system for increasing the number of dynamic⁵ businesses run by Peruvian youth in the cities of Tumbes, Piura, Chiclayo, and Cajamarca.

B. Description and components

- 2.2 The planned activities will promote participation by chambers of commerce, universities, nongovernmental organizations (NGOs), financial entities, private firms, entrepreneurs and officials from the municipal and local governments in the program's areas of influence. Their coordinated participation will help publicize program activities, and in the medium term will form a support network for young entrepreneurs.
- 2.3 **Component 1: Development of business skills in young entrepreneurs (MIF: US\$505,000; Counterpart: US\$227,000).** The purpose of this component is to carry out a comprehensive set of activities in support of potential new entrepreneurs or those with startup businesses having less than one year in operation, to help them establish or consolidate dynamic businesses. Under CID coordination and supervision, specialized consultants will be hired to assist entrepreneurs in acquiring the skills, practical experience, and ability needed to develop dynamic businesses during the startup period and in their first year of operation.
- 2.4 To achieve these objectives, CID will hire consultants to provide technical assistance in carrying out the following activities: (i) conduct a baseline study; (ii) arrange speaking engagements and awareness events in schools, technical institutes, and universities to motivate approximately 12,000 young people to create their own businesses; (iii) provide 135 courses of 18 hours each to help nearly 3,375 entrepreneurs prepare their business plans; (iv) hold three business plan competitions each year,⁶ the winners of which will receive financing (from counterpart funding—see paragraph 6.3) to cover 50% of the investment required for their venture; (v) supply personalized, on-site advisory services in business management for around 700 entrepreneurs during their first year in operation; (vi) give specialized assistance to approximately 280 entrepreneurs who request

⁵ Dynamic businesses are those that: (i) have the potential for capital formation and growth, generating income above subsistence levels to allow for investment in the operation; (ii) create jobs outside the entrepreneur's family; and (iii) achieve sustainability in the market place.

⁶ Using the methods and instruments developed by CID under its program entitled "Haz Realidad Tu Negocio" [Make your business a reality].

- additional support in specific technical areas; (vii) pair some 700 entrepreneurs with business mentors for a period of one year; (viii) organize annual meetings at which young entrepreneurs can exchange experiences and learn about successes achieved by other fledgling businesses; (ix) arrange commercial exhibitions as training events to help entrepreneurs expand contacts with their clients, suppliers, and other businesses; (x) organize apprenticeships in existing companies to provide experience and know-how; and (xi) take steps to put some 150 entrepreneurs in contact with sources of financing⁷ where they may obtain loans to cover up to 50% of their needs for investment and working capital (up to a maximum of US\$1,500).
- 2.5 Youths who participate in the business plan competitions and training, technical assistance, and advisory activities must have a startup business that has been in operation for less than a year, or a business proposal yet to be implemented. Under the Operating Regulations, program beneficiaries will be selected through open competitions followed by personal interviews, on the basis of their willingness to participate in the program's activities and to invest their own resources in the business, among other criteria.
- 2.6 In each case, this chain of activities will be designed to motivate young entrepreneurs to start their own business, and to help those who are ready to acquire the basic skills, financing, and experience needed to put their plans into action, providing them with support to overcome the problems that startup companies usually encounter in their first year of operation, and connecting them with other entrepreneurs, clients, and support service providers so they can turn their ventures into dynamic businesses. Experience shows that this type of comprehensive and multifaceted support produces businesses that are more likely to achieve medium- to long-term success (see paragraph 1.7).
- 2.7 The final results of this component will include: (i) creation of around 200 new, dynamic businesses; (ii) consolidation of some 500 dynamic businesses in their first year of operation; and (iii) creation of approximately 1,600 new jobs in the 700 startup businesses aided by the program. In its eight years of experience promoting entrepreneurship, CID has found that, compared to a control group, new businesses supported by a program of this sort will have: (i) half the failure rate; (ii) 1.5 times the average number of employees per startup; (iii) 40% more firms graduating to the formal sector; and (iv) four times greater access to financial services.
- 2.8 **Component 2: Strengthening the network of support services for young entrepreneurs (MIF: US\$52,600; Counterpart: US\$48,900):** The objectives of this component are: (i) to improve the quality and quantity of both public and

⁷ These sources will include: (a) a guarantee fund under CID; (b) existing and future agreements to be signed with financial entities (municipal savings and loan institutions, microenterprise and small business development firms, etc.); and (iii) various NGOs dedicated to promoting entrepreneurship.

private services to assist entrepreneurs and new businesses, along with the information available on them; and (ii) to provide training for local government entities on promoting a favorable environment for the creation of businesses. This component will assist new entrepreneurs by establishing a network of public and private service providers to give them access to both financial credit and technical resources. Suppliers of training programs and advisory, mentoring, and financial services will be strengthened, and public agencies will receive training to improve their capacity to serve entrepreneurs. The executing agency's tested method of identifying and monitoring entrepreneurs will be improved and transferred to other entities in the program's area of influence. The public agencies and private entities strengthened under the program will be the principal providers of entrepreneur support services under Component 1.

- 2.9 CID will commission training and technical assistance activities to: (i) develop a database of service providers and institutions; (ii) design and install an Internet portal for entrepreneurs seeking information on available services and for helping disseminate the program; (iii) provide courses on entrepreneurship aimed at the personnel of financial and nonfinancial service providers (promoters, teachers, consultants, NGOs, mentors, representatives of financial institutions, etc.) in order to expand their knowledge of the needs of entrepreneurs and improve their capacity to adapt their services to serve this segment; (iv) conduct workshops to promote awareness, exchange of information, and training for municipal and local government officials to help them better focus and tailor their services to the needs of entrepreneurs; (v) recruit a consultant to analyze, develop, and disseminate financial products for entrepreneurs; (vi) establish and sign cooperation agreements between CID and public and private entities for the transfer of methods; and (vii) promote closer ties between entrepreneurs, existing businesses and the service providers identified and given training, in order to coordinate the supply of and demand for services.
- 2.10 These activities are expected to produce: (i) a registry of institutions and other providers of services for startup companies; (ii) an Internet portal through which entrepreneurs can obtain information on these services, and information on program activities can be posted; (iii) a network of private and public support institutions trained in providing assistance for the entrepreneurial sector; and (iv) improved information flow between supply and demand for services to the entrepreneurial sector. The links established between entrepreneurs, on the one hand, and other businesses and service providers, on the other, will help young entrepreneurs develop a network of contacts, clients, and suppliers of both the inputs and the specialized technical services they will need to grow and achieve sustainability.
- 2.11 **Component 3: Organization, monitoring and dissemination of the program (MIF: US\$83,000; Counterpart: US\$48,800).** The objectives of this component are to: (i) organize and monitor the experience gained and the lessons learned under the program; (ii) disseminate program activities and results, as well as other successful entrepreneurship experiences; and (iii) transfer the lessons learned from

the municipality of Piura (see footnote 4) for use in simplifying the procedures and requirements for formal registration of companies in the other three municipalities.

- 2.12 CID will commission technical assistance services to carry out the following activities: (i) strengthen the information and monitoring system used by CID to measure the results and effects of its work and the program; (ii) analyze the development process of youth startup businesses in the region and identify factors leading to success; (iii) implement a strategy for publicizing and promoting the program among its beneficiaries, bringing entrepreneurship to the attention of the media, and disseminating information on the progress and results of the program; (iv) promote the exchange of trainers in international entrepreneurship events; (v) cofinance (with Ecuador) a binational event on youth entrepreneurs; (vi) create and maintain a Regional Council on Youth Entrepreneurship with the participation of private and public entities; and (vii) transfer Piura's experience in simplifying formalization procedures to the other three municipalities.
- 2.13 The results of this component will include: (i) an information system and monitoring of clients and results under the program; (ii) dissemination of a study on factors leading to the success of youth startups in the region and lessons learned concerning methodology; (iii) wide distribution of program results at the national and international levels; (iv) a Regional Council that is operating on a sustainable basis and promoting youth entrepreneurship in northern Peru; and (v) three municipalities that have begun a similar process for simplifying business formalization procedures after learning from the experience of Piura.

III. COST AND FINANCING

- 3.1 The total budget for the program is US\$1,140,700, of which the MIF will contribute US\$690,000 in nonreimbursable funds from Window II. Colectivo Integral de Desarrollo will contribute US\$450,700 in local counterpart funding, in accordance with the following budget. CID will be responsible for ensuring provision of 100% of this counterpart: 55% of the counterpart contribution will be provided in cash and will come from CID's own resources, from SwissContact Perú and from Secours Catholique (France) under existing agreements; the remaining 45% will be provided in kind.

Summary of Financing (US\$)

Description	MIF	CID	TOTAL
I. Development of business skills	505,000	227,000	732,000
II. Strengthening the network of support services	52,600	48,900	101,500
III. Organization, monitoring, and disseminating the program	83,000	48,800	131,800
IV. General program coordination	0	126,000	126,000
V. Evaluation and auditing	40,000	0	40,000
VI. Contingencies	9,400		9,400
Total	690,000	450,700	1,140,700
%	60%	40%	100%

- 3.2 **Sustainability of the program:** The sustainability of the program must be considered in various contexts: (i) **in the creation of businesses:** the assistance provided by the program's activities and the support network will increase the likelihood of new businesses achieving sustainability and long-term growth; (ii) **in the availability of know-how and support services:** the program seeks to transfer methods developed and validated by CID to service providers and supporting agencies, so that they will be able to continue assisting new entrepreneurs in the future with improved products and services; and (iii) **in the business environment:** the program will involve the municipalities, chambers of commerce, financial entities, universities, service providers, etc., as mentors, members of consultation groups, speakers, trainers, etc. By the end of the program this will have created an array of entities more committed to policies and initiatives promoting entrepreneurship, thus establishing an environment more favorable to the development of startup enterprises.

IV. EXECUTING AGENCY AND EXECUTION MECHANISM

A. Executing agency

- 4.1 The program will be executed by Colectivo Integral de Desarrollo, an NGO that was founded in 1990 and, since 1992, has had as its main focus of interest to promote new businesses created by young people. Since 1996, the organization has carried out a series of projects aimed at developing the ability of young entrepreneurs to create and manage sustainable businesses, and to help create a climate favorable to entrepreneurs in general.
- 4.2 Colectivo Integral de Desarrollo has offices in Lima, Huancavelica, Cajamarca, and Piura, staffed by a total of 48 persons. It also has representatives in Tumbes and Huancayo, as well as an office in Asuncion (Paraguay). The organization is supported by UNESCO, the Ministry of Labor, Secours Catholique, and CESAL (Spain), and will form strategic alliances with other local entities in order to widen

and deepen the impact and scope of activities planned under the program. CID has the technical and operating capacity to execute the program and enjoys credibility in the eyes of both entrepreneurs and supporting institutions.

B. Execution mechanism

- 4.3 For execution of the program, an **Executive Committee** will be created within CID, to be made up of one private sector entrepreneur, one CID representative, one representative of SwissContact Perú, and the program director. The Executive Committee will be responsible for the proper operation and administration of the program and will appoint a program director, who will be hired with counterpart resources and will be responsible for program implementation and serve as the primary liaison with the Bank. The duties of the Executive Committee and the program director are described in the project's Operating Regulations. The director will have the operational support of an accounting assistant, an administrative assistant, and one area coordinator each in the Chiclayo, Cajamarca, and Piura centers.⁸ Each center will have an office designated as its base of operations, and a team of advisers, promoters, and trainers to carry out program activities.
- 4.4 **Program readiness:** The program is at an advanced stage of preparation in that: (i) the availability of local counterpart resources has been verified; (ii) the public and private entities, as well as young participants in CID programs, have been involved in its design; and (iii) the executing agency already has cooperation agreements with the other parties that will participate in the program, including SwissContact Perú, the municipalities, microfinance institutions, universities, and several chambers of commerce.
- 4.5 **Execution and disbursement periods:** The execution period for the program will be 36 months, and disbursements will take place over 42 months. Since various activities will have to begin at the same time in the first few months of the execution period, the Bank will have to establish a revolving fund with up to 20% of the amount approved.
- 4.6 Beginning with the second disbursement request, release of program resources will be contingent upon fulfillment of targets (triggers) to be set out in the disbursement schedule and established in advance as part of the work plan included under conditions precedent to disbursement. Evidence of fulfillment of targets will be submitted to the Bank in the form of summary reports attached to requests for disbursement. In addition, CID must prepare an annual work plan for the second and third years of project execution, to be submitted together with the second semiannual report in each year of the execution period.

⁸ The coordinator in Piura will also supervise activities in Tumbes.

- 4.7 **Procurement of goods and services:** CID will procure goods and services and hire consulting services to carry out the program in accordance with the pertinent Bank and MIF policies and procedures.

V. MONITORING AND EVALUATION

- 5.1 **CID monitoring activities:** CID will be responsible for compiling and analyzing the necessary information to ensure continuous monitoring of the principal indicators established in the Logical Framework (Annex I). To facilitate this task, resources are included for hiring consultants at the start of the program to: (i) prepare a baseline study within the first four months of execution; and (ii) assist CID in refining its system for monitoring the program's activities and indicators. CID and the Bank will use the baseline data and monitoring system to supervise the program and evaluate its progress, as well as for purposes of preparing the semiannual reports and midterm and final evaluations.
- 5.2 **Basic and technical responsibility:** The Bank's Country Office in Peru will be responsible for monitoring and technical supervision of the program, and will have support from the MIF and the Micro, Small, and Medium Enterprise Division of the Sustainable Development Department (SDS/MSM) for the evaluations and exchange of information and lessons learned from other similar projects.
- 5.3 **Progress reports:** CID will submit to the Bank semiannual progress reports on the program. These reports must be submitted in each year of program execution and at least 30 days prior to the close of each six-month period, with information updated to the end of the preceding month in each case. In addition, CID will submit a final report 60 days after the date of the final disbursement. The first report will include information on the baseline study (see paragraph 2.4) which will provide the basic values for the performance indicators used to measure the program's progress. These reports will document the activities carried out during the preceding six-month period and present a work plan and disbursement schedule for the subsequent period, in accordance with the indicators set out in the Logical Framework. These progress reports will pay particular attention to: (i) quality and fulfillment of the program's objectives (Logical Framework); (ii) progress in executing the program's work plan and budget; (iii) number and profile of participating entrepreneurs; (iv) staging of competitions, training programs, advisory services, and technical assistance provided; and (v) problems encountered and measures taken to correct them. The Bank will use this information to supervise progress in implementing the program and to prepare a project completion report during the three-month period following the last disbursement.
- 5.4 To ensure that the program is executed as planned, when 30% of the MIF resources have been disbursed the Bank will invite CID to a meeting to review the progress of its execution and the degree to which its targets are being met, and if warranted to make the necessary adjustments in the program. In the event of a significant

shortfall in meeting targets for key indicators, the Country Office may suspend disbursements under the program until the factors preventing fulfillment of those targets have been identified, and measures satisfactory to the Bank are taken to correct the situation.

- 5.5 To make certain that CID develops a clear strategy for ensuring the sustainability of the program, by the 34th month of the execution period, CID will submit to the Bank's satisfaction a plan describing how CID and the network of support services developed under the program will continue serving the region's entrepreneurs when the financing has ended.
- 5.6 **Evaluations:** When at least 50% of the MIF resources have been disbursed or 18 months have elapsed since the start of execution, whichever occurs first, the Bank will hire a consultant with program resources to carry out a midterm evaluation. This will include, *inter alia*, an analysis of: (i) the statistics on the number of entrepreneurs assisted, broken down by type of service received, number of jobs created, period of operation, growth in sales and revenue, and other indicators set out in the Logical Framework; (ii) entrepreneurs' satisfaction with the effectiveness and quality of the training, advising, and technical assistance received; and (iii) the results obtained by the program in strengthening the network of support services and improving the institutional environment. And when 95% of its contribution has been disbursed, the Bank will hire an independent consultant to carry out a final evaluation, which will consider: (i) the program's impact on beneficiaries and participants, bearing in mind the indicators listed in the Logical Framework; (ii) statistics on the survival and growth of the enterprises receiving support; and (iii) lessons learned and best practices.

VI. PROGRAM BENEFITS AND RISKS

- 6.1 **Program benefits:** The program will use a local and integrated approach to overcome many of the obstacles to the creation of dynamic businesses in northern Peru. It will make available to young entrepreneurs a range of services (including training courses, financing, apprenticeship and mentoring programs, technical assistance, and development of business networks) to help them solve the specific problems that arise at each stage of the startup process: (a) developing the skills and abilities needed to get started; (b) launching the enterprise; and (c) surviving the first year of operation. Specifically, the program intends to produce the following results: (i) approximately 200 new, dynamic businesses created by young entrepreneurs in the program's area of influence; (ii) some 500 businesses with less than one year in operation consolidated; (iii) roughly 1,600 new jobs created; (iv) 30% increase in net income of entrepreneurs participating in the program; and (v) a network of institutional services created to support entrepreneurship.
- 6.2 **Beneficiaries:** Some 12,000 young people living in northern Peru and having a minimum of mid-level technical or university education will be the direct

beneficiaries of the program. It is hoped that at least 700 of these beneficiaries will either carry their ideas through to fruition or consolidate a startup business already in operation. In addition and by way of institutional strengthening, the program is expected to benefit a minimum of 270 representatives of local and regional institutions that directly promote entrepreneurship in their respective areas of activity (private companies, mentors, municipalities, regional governments, financial entities, training centers, etc.).

- 6.3 **Risks:** The program faces *two main risks*: (i) that a large number of would-be entrepreneurs cannot obtain the financing required to establish their enterprise; and (ii) that the institutions and entrepreneurs required to serve as the backbone of the new network of support services for entrepreneurs might fail to follow up on their professed interest in promoting entrepreneurship. To mitigate the *first risk*, the program will introduce the following: (i) a CID guarantee fund will be used to provide security for up to 150 loans to entrepreneurs from microfinance institutions (MFIs); (ii) the awards given to the 27⁹ winners of the business plan competitions; (iii) the agreements that CID will sign with municipal savings and loan institutions and other MFIs to provide loans for young entrepreneurs; and (iv) the consulting firm hired to analyze the credit risks represented by the entrepreneurs and design financial products suited to their circumstances. The *second risk* will be mitigated by: (i) the training workshops and exchanges between the young entrepreneurs, and the officials from established institutions and private-sector entrepreneurs to demonstrate the results of activities; (ii) the promotional activities and reports on the program and its successes in the local and national press; and (iii) the creation of the Regional Council on Youth Entrepreneurship, which will help to raise awareness of local participants and reinforce their commitment to the program.

VII. ENVIRONMENTAL AND SOCIAL ANALYSIS

- 7.1 The Committee on Environment and Social Impact (CESI) reviewed and approved the program abstract at meeting 39-03 of 24 October 2003, suggesting that the program take into account ethnic and gender equity considerations. To this end, all of the program activities will be open to men and women of any ethnicity in the region. The overall share of women taking part in CID activities at present is 36%, although for those under the age of 21 the proportion rises to 44%, and 70% of CID staff are female. The program does not entail any specific environmental or social risks. To the contrary, it may have a positive effect on the environment and the enforcement of national legislation related to the environment, social considerations, and health and occupational safety, by facilitating the creation of new enterprises and therefore the requirement that they comply with national environmental and social statutes. In addition, the training programs provided for

⁹ Business plan competitions: three per year x three offices x three awards. Awards of US\$1,000, US\$800 and US\$500 in each competition.

newly created enterprises will include topics related to the environment and occupational safety.

VIII. SPECIAL CONTRACTUAL CONDITIONS

- 8.1 As conditions precedent to the first disbursement, CID must submit to the Bank's satisfaction: (i) the annual work plan for the first year of the program per paragraph 4.6 of the present document; (ii) evidence of selection of the program director and the tutors for the regional offices; (iii) evidence that the program's Operating Regulations have been placed in effect and contain the text approved in advance by the Bank; and (iv) evidence that the program's Executive Committee has been created.

LOGICAL FRAMEWORK
PROMOTION OF YOUTH ENTREPRENEURSHIP (PE-M1002)

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
GOAL			
? Improve the income and employment opportunities for the youth of northern Peru.	? The unemployment rate among young people in northern Peru declines. ? Incomes of young people in the region rise.	? Ex post evaluation	? The macroeconomic situation does not undergo major changes.
PURPOSE			
? Develop a system to increase the number of dynamic enterprises started by young entrepreneurs in the cities of Tumbes, Cajamarca, Piura, and Chiclayo.	By the end of the third year: ? 200 new enterprises created (50, 75, and 75 in years 1, 2 and 3, respectively); ? 500 startups with less than one year in operation consolidated (125, 175, and 200 in years 1, 2 and 3, respectively); ? 1,600 jobs created; ? Net incomes of participating entrepreneurs rise by 30%. <i>When compared to a control group, enterprises created or consolidated under the project:</i> ? Halve their failure rate. ? Will have 1.5 times average number of employees per enterprise. ? Increase the number graduating to the formal sector by 40%.	? Report on baseline values ? Report on the control group ? CID database ? Quarterly program management reports ? Midterm and final evaluation of the program ? Registrations of enterprises in participating municipalities ? Tax records of SUNAT	? The existence of a critical mass of young entrepreneurs with ideas for starting their own business. ? Public and private institutions remain interested in promoting entrepreneurship among young people.

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	<ul style="list-style-type: none"> ? Show a 300% rise in their rate of access to financial services. ? See incomes grow by some 60%. 		
COMPONENTS			
1. Development of business skills in young entrepreneurs	<p>By the end of the project:</p> <ul style="list-style-type: none"> ? 12,000 youths made aware of opportunities for entrepreneurship. ? 3,375 youths receive training in drawing up business plans. ? 780 business plans submitted in three annual competitions. ? 700 youths given close support under the program for one year, including basic and specialized business management training. ? 280 young people receive specialized technical assistance. ? 150 young entrepreneurs receive financing for their startup enterprise. 	<ul style="list-style-type: none"> ? Consultants' reports and contracts ? Results from course and workshop evaluations ? Midterm and final evaluations of the program ? CID database ? Progress reports 	<ul style="list-style-type: none"> ? Young people remain interested in starting their own businesses. ? Youths are favorably impressed with the services they receive. ? Youths recognize training as a means for improving their chances of success. ? Financial institutions are willing to establish mechanisms to foster the creation of new businesses.
2. Strengthening the network of support services for young entrepreneurs	<ul style="list-style-type: none"> ? Internet portal for entrepreneurs operating (end of year 1). ? Registry of institutions and service providers is operating (end of year 1). ? 90 officials from financial and nonfinancial service institutions trained to serve new entrepreneurs (end of year 2). ? 90 mentors trained to serve new entrepreneurs (end of year 2). 	<ul style="list-style-type: none"> ? CID database ? Consultants' reports and contracts ? Midterm and final evaluations of the program ? List of institutions and service providers available at CID ? Progress reports ? Agreements signed 	<ul style="list-style-type: none"> ? Financial and nonfinancial service institutions remain interested in promoting entrepreneurship among young people. ? Individual entrepreneurs are interested in serving as mentors. ? The financial products developed reconcile the needs of entrepreneurs with the financial institutions' requirements.

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	<ul style="list-style-type: none"> ? 90 local government officials trained to serve new entrepreneurs (end of year 2). ? Two financial products for startups developed (end of year 2). ? 15 cooperation agreements formalized between CID and public - and private-sector support institutions (end of year 2). 		
3. Organization, monitoring, and dissemination of the program	<p>By the end of the first year:</p> <ul style="list-style-type: none"> ? The entrepreneurship program's monitoring system has been improved. ? A youth entrepreneurship council has been formed. <p>By the end of the program:</p> <ul style="list-style-type: none"> ? A binational event for youth entrepreneurs has been held. ? Five trainers have participated in an international forum on entrepreneurship. ? Piura's experience simplifying procedures for registering companies has been transmitted to three other municipalities. 	<ul style="list-style-type: none"> ? Midterm and final evaluations of the program ? Information system ? Progress reports ? Inspection visits ? Event report 	<ul style="list-style-type: none"> ? Piura continues to simplify its procedures. ? Companies and institutions remain interested in promoting entrepreneurship. ? Other municipalities are interested in simplifying their procedures for registering companies.

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
ACTIVITIES			
COMPONENT 1 ? Consultant to conduct analysis and evaluation of pilot results obtained by CID to establish baseline. ? Activities to promote entrepreneurship among young people (events, preparation of materials, radio spots, etc.). ? 135 workshops for the preparation of business plans by 3,375 young people (readying plans for competitions). ? Conducting three Haz Realidad Tu Negocio [Make your business a reality] competitions, including materials and dissemination activities. ? Organization and implementation of ongoing series of competitions. ? 45 specialized training courses in business management for young people (18 hours each). ? An average of 12 management advisory sessions per entrepreneur during the first year the enterprise is in operation. ? Specialized technical assistance for 280 entrepreneurs. ? 18 trade exhibitions organized in the northern region. ? Organization of apprenticeship program.	MIF: US\$505,000 Local: US\$227,000	? Program annual work plan ? CID approved budgets ? Consultants' reports and contracts ? CID financial reports ? Progress reports ? Midterm and final evaluations of the program	? The earmarked resources are available, in accordance with the execution plan. ? The executing agency remains committed. ? The necessary technical staff are assigned, with no turnover. ? Consultants are hired in accordance with the entrepreneurs' needs.

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
? Three annual meetings organized for young entrepreneurs.			
COMPONENT 2 ? Design, installation, and maintenance of Internet portal for entrepreneurs. ? Design of database for registering institutions and service providers in the network. ? Nine training workshops for mentors. ? Nine training courses aimed at suppliers and officials of financial/nonfinancial service entities (promoters, teachers, consultants, NGOs, financial institutions, etc.). ? Six training workshops for officials of municipal and regional governments. ? Consultant to develop financial products for new enterprises. ? Signing of cooperation agreements between CID and public and private support agencies.	MIF: US\$52,600 Local: US\$48,900		
COMPONENT 3 ? System for monitoring of entrepreneurship program improved. ? Evaluations of business performance of new enterprises and identification of factors producing success.	MIF: US\$83,000 Local: US\$48,800		

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<ul style="list-style-type: none"> ? Information activities and exchange of experiences with similar projects. ? Exchange of experiences for participation in entrepreneurship events. ? Organization of a binational event for young entrepreneurs. ? Creation of the Regional Council on Youth Entrepreneurship. ? Transfers of Piura's experience with the simplification of business registration procedures to remaining municipalities. 			

**PROMOTION OF YOUTH ENTREPRENEURSHIP (PE-M1002)
ITEMIZED BUDGET**

Item	Total	MIF	LOCAL
Component I: Development of business skills in young entrepreneurs			
Consultant to establish baseline data	9,000	9,000	0
Promotion of entrepreneurship	22,800	18,000	4,800
Awareness discussion groups, events	18,000	18,000	0
Materials for promotion	4,800	0	4,800
135, 18-hour courses on preparing business plans for 3,375 youths	60,750	60,750	0
Conducting 3 annual "Haz Realidad Tu Negocio" competitions in each of 3 sites	55,200	21,750	33,450
Inaugural and closing events	27,000	18,000	9,000
Awards for winners (9 competitions in all with awards as follows: 1 = \$1,000; 2 = \$800; 3 = \$500)	20,700	0	20,700
Promotional material (3 sites x \$2,500 each)	7,500	3,750	3,750
Organization and implementation of monitoring program	110,150	73,200	36,950
Tutors (3 site coordinators for a total of 36 months)	100,350	66,900	33,450
Test to determine entrepreneurial potential	3,500	0	3,500
Information materials	6,300	6,300	0
Training: 45 modules of 12-20 hours each in business management (700 youths)	157,500	157,500	0
An average of 12 individual management consultations during the 1st year (700 enterprises)	100,800	100,800	0
Participants and project monitoring and supervision	28,800	0	28,800
Specialized technical assistance/technical consultations for 280 entrepreneurs (40% of the 700)	22,400	22,400	0
Mentoring of entrepreneurs	56,000	0	56,000
18 trade exhibitions organized (locations, TA, preparation of products for display)	21,600	21,600	0
3 annual meetings for young entrepreneurs	30,000	20,000	10,000
Guarantees to assist 150 young entrepreneurs in obtaining credit	30,000	0	30,000
Physical premises for services to young entrepreneurs (3 sites)	27,000	0	27,000
SUBTOTAL COMPONENT 1	732,000	505,000	227,000
Component II: Strengthening the network of support services for young entrepreneurs			
Design, installation, and maintenance of Internet portal for young entrepreneurs	15,000	15,000	0
Design of database for registering institutions and service providers in the network	1,500	0	1,500
Training equipment	10,400	7,000	3,400
9 training courses for mentors	10,800	10,800	0
9 training courses for service providers and officials of entities in the network	10,800	10,800	0
6 training workshops for officials from municipalities and local governments	3,000	0	3,000
Consultants to develop new financial products for startup entrepreneurs	20,000	9,000	11,000
Formalizing cooperation agreements between CID and public and private support entities	15,000	0	15,000
Promoting links between entrepreneurs and established businesses	15,000	0	15,000
SUBTOTAL COMPONENT 2	101,500	52,600	48,900
Component III: Organization, monitoring, and dissemination of the program			
Computerized monitoring system for the entrepreneurship program improved	20,000	18,000	2,000
Software and maintenance	17,000	15,000	2,000
Consultant	3,000	3,000	0
Consultant: Fieldwork and surveys to determine how new businesses are developed and what factors lead to their success (analysis of lessons learned and impact)	20,000	20,000	0
Activities for promoting and publicizing the project, successful entrepreneurs, progress achieved	44,000	20,000	24,000
Exchanges with participation of youths in international events for young entrepreneurs	7,500	5,000	2,500
Binational event for young entrepreneurs	15,000	15,000	0
Exchange of trainers at an international forum	7,500	5,000	2,500
Regional Council on Youth Entrepreneurship	10,800	0	10,800
Transfer of Piura's experience in simplifying business registration to remaining municipalities	7,000	0	7,000
SUBTOTAL COMPONENT 3	131,800	83,000	48,800
4. GENERAL PROGRAM COORDINATION (36 months)			
4.1 Program director	61,200		61,200
4.2 Accounting assistant	14,400		14,400
4.3 Administrative assistant	18,000		18,000
4.4 Communications (\$166/month x 36 months x 3 offices + CID headquarters)	18,000		18,000
4.5 Travel and per diem	14,400		14,400
SUBTOTAL COORDINATION	126,000	0	126,000
OTHER			
Evaluations (2 x \$15,000)	30,000	30,000	0
Final audit	10,000	10,000	0
Contingencies	9,400	9,400	0
SUBTOTAL OTHER	49,400	49,400	0
TOTAL AMOUNT	1,140,700	690,000	450,700
%	100%	60%	40%
Source of funding		MIF	CID

PROJECTS IN PERU
PROMOTION OF YOUTH ENTREPRENEURSHIP (PE-M1002)

A. Similar or related MIF projects

Project number and approval date	Project name, sector, executing agency and amount	Date of signature and disbursement period in months	Amount disbursed	Comments: Satisfactory execution or problems, such as delays, extensions, reformulation, change in executing agency, etc.
ATN/ME-7138-PE 20 September 2000	Promotion of Youth Startups in Peru (Asociación Pro Bienestar y Desarrollo)	30 October 2000 54 months	84%	Satisfactory execution
ATN/MH-7406-PE 25 April 2001	Program to Train Young Entrepreneurs (Asociación Junior Achievement Internacional-Perú)	17 July 2001 40 months	50%	Satisfactory execution

B. Similar or related Bank projects

C. Projects related to the same sector or beneficiaries

Project number and approval date	Project name, sector, executing agency and amount	Date of signature and disbursement period in months	Amount disbursed	Comments: Satisfactory execution or problems, such as delays, extensions, reformulation, change in executing agency, etc.
ATN/ME-5052-PE 1 November 1995	Business service centers (Confederación Peruana de Cámaras de Comercio-CONFECAMARAS)	22 May 1996 54 months	100%	Completed, but with significant delays requiring a 22-month extension.
ATN/ME-6586-PE 21 July 1999	Investment promotion for small and medium-sized enterprises (Sociedad de Comercio Exterior del Perú-COMEXPERU)	27 August 1999 30 months	100%	Completed satisfactorily.
ATN/MH-7486-PE 20 June 2001	Training in small business management (Instituto Peruano de Administración de Empresas-IPAE)	28 August 2001 42 months	36%	Unsatisfactory execution. Classified as a yellow flag project, due to considerable delays in the activities programmed for the first 18 months of the project life, execution of which still has not begun.

PROPOSED RESOLUTION

Peru. Nonreimbursable Technical Cooperation for a Program for the
Promotion of Youth's Entrepreneurship

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, as Administrator of the Multilateral Investment Fund, to enter into such agreement or agreements as may be necessary with the Colectivo Integral de Desarrollo (CID), and to adopt such other measures as may be pertinent for the execution of the plan of operations incorporated in the Donors Memorandum referred to in Document MIF/AT-____, with respect to a nonreimbursable technical cooperation to support a Program for the Promotion of Youth's Entrepreneurship.
2. That up to the amount of six hundred and ninety thousand dollars (US\$690,000), or its equivalent in other convertible currencies, is authorized for the purpose of this resolution, chargeable to the Human Resources Facility of the Multilateral Investment Fund.
3. That the above-mentioned sum is to be provided on a nonreimbursable basis.