

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**PERU**

**PROGRAM TO IMPROVE PRODUCTIVITY AND COMPETITIVENESS II**

**(PE-L1276)**

**LOAN PROPOSAL**

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## ABBREVIATIONS

BIM	Building Information Modeling
CITE	Centro de Innovación Productiva y Transferencia Tecnológica [Productive Innovation and Technology Transfer Center]
CNCF	Consejo Nacional de Competitividad y Formalización [National Competitiveness and Formalization Council]
COFIDE	Corporación Financiera de Desarrollo [Development Finance Corporation]
CONCYTEC	Consejo Nacional de Ciencia, Tecnología e Innovación Tecnológica [National Council for Science, Technology, and Technological Innovation]
CPC	Consejo Privado de Competitividad [Private Competitiveness Council]
DGTP	Dirección General de Tesoro Público [Directorate General of the Public Treasury]
EEME	Equipo Especializado de Mesas Ejecutivas [Specialized Executive Board Team]
EESI	Equipo Especializado de Seguimiento de Inversiones [Specialized Investment Monitoring Team]
GCI	Global Competitiveness Index
INACAL	Instituto Nacional de la Calidad [National Quality Institute]
INDECOPI	Instituto Nacional de Defensa de la Competencia y de la Protección de la Propiedad Intelectual [National Institute for Competition Advocacy and Intellectual Property Protection]
INEI	Instituto Nacional de Estadística e Informática [National Statistics and Information Technology Institute]
ITP	Instituto Tecnológico de la Producción [Technology Institute for Production]
MAC	Modelo de Atención Ciudadana [Public Service Model]
MEF	Ministry of Economy and Finance
MSME	Micro, small, and medium-sized enterprise
OECD	Organisation for Economic Co-operation and Development
PBP	Programmatic policy-based loan
PCM	Presidency of the Council of Ministers
PNCP	Política Nacional de Competitividad y Productividad [National Competitiveness and Productivity Policy]
PROCIENCIA	Programa Nacional de Investigación Científica y Estudios Avanzados [National Program for Scientific Research and Advanced Studies]
PROINNOVATE	Programa Nacional de Innovación para la Competitividad y Productividad [National Innovation Program for Competitiveness and Productivity]
R&D	Research and development
RENACYT	Registro Nacional Científico, Tecnológico y de Innovación Tecnológica [National Registry for Science, Technology, and Technological Innovation]
RICYT	Ibero-American Network of Science and Technology Indicators
SNC	Sistema Nacional de Calidad [National Quality System]
SOFR	Secured overnight financing rate
TFP	Total factor productivity

## PROJECT SUMMARY

### PERU PROGRAM TO IMPROVE PRODUCTIVITY AND COMPETITIVENESS II (PE-L1276)

Financial Terms and Conditions				
Borrower:			Flexible Financing Facility <sup>(a)</sup>	
Republic of Peru			Amortization period:	20 years
Executing agency:			Drawdown period:	3 years
Ministry of Economy and Finance (MEF), acting through the Directorate General of the Public Treasury (DGTP)			Grace period:	5.5 years <sup>(b)</sup>
			Interest rate:	SOFR-based
Source	Amount (US\$)	%	Initial fee:	50 basis points
IDB (Ordinary Capital):	300 million	100	Standby fee:	(c)
Total:	300 million	100	Inspection and supervision fee:	(c)
			Weighted average life:	12.75 years
			Approval currency:	U.S. dollars
Project at a Glance				
<p><b>Program objective/description:</b> The general development objective of the programmatic series and this second operation is to support the Government of Peru in improving the economy's productivity and competitiveness. The specific development objectives are to: (i) improve competitiveness by strengthening public institutions devoted to this purpose; (ii) expand private investment through policy commitments aimed at improving the environment for investment; and (iii) redouble the effort in innovation through policy commitments aimed at improving the environment for innovation.</p> <p>This is the second of two consecutive operations that are technically connected but financed independently, under the programmatic policy-based loan modality and with a deferred drawdown option for this second operation, pursuant to Policy-Based Loans: Guidelines for Preparation and Implementation (document CS-3633-2).</p>				
<p><b>Special contractual conditions precedent to the first and only disbursement of the loan:</b> The first and only disbursement is contingent upon fulfillment of the policy reform conditions as set out in the Policy Matrix (Annex II), the <a href="#">policy letter</a>, and the other terms established in the loan contract (paragraph 3.3).</p>				
<p><b>Exceptions to Bank policies:</b> None.</p>				
Strategic Alignment				
<b>Challenges:</b> <sup>(d)</sup>	SI <input checked="" type="checkbox"/>	PI <input checked="" type="checkbox"/>	EI <input type="checkbox"/>	
<b>Crosscutting themes:</b> <sup>(e)</sup>	GE <input checked="" type="checkbox"/> and DI <input type="checkbox"/>	CC <input checked="" type="checkbox"/> and ES <input 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, commodity, and catastrophe protection 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 formalized 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 the applicable policies.

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

(e) GE (Gender Equity) and DI (Diversity); CC (Climate Change) and ES (Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

## I. DESCRIPTION AND RESULTS MONITORING

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

- 1.1 **Introduction.** This is the second of two operations under the programmatic policy-based loan (PBP) modality. The first program (loan [4957/OC-PE](#) for US\$50 million) was approved in 2019 and fully disbursed in 2020, to support the Government of Peru in improving the economy's productivity and competitiveness. This programmatic series focuses on the following areas: (i) strengthening the public institutions dedicated to competitiveness and productivity policies; (ii) improving the business environment for private investment; and (iii) improving the business environment for innovation. This second operation expands the implementation of the reforms promoted under the first operation.
- 1.2 **Macroeconomic context.** Peru had been experiencing economic growth for 20 years before the pandemic emerged. Between 2000 and 2019, per capita income grew by 3.7% per year [\[1\]](#).<sup>1</sup> Between 2000 and 2013, growth in per capita income was 4.5% per year due to the impetus of the structural reforms implemented in the 1990s and favorable external conditions. Less favorable external conditions since 2013 led to a slowdown in growth (between 2014 and 2019, annual per capita income growth was 1.6%).
- 1.3 In 2020, the COVID-19 pandemic caused a decline of 12.2% in per capita income, which was followed by a 12% recovery in 2021 and a projected increase of 3% for 2022.<sup>2</sup> The labor market supported post-pandemic recovery: in the second quarter of 2022, year-on-year employment growth was 5.9%, strongly driven by informal jobs. However, pre-pandemic data indicated that Peru needed to develop new sources of dynamism to achieve sustainable growth.
- 1.4 **The factors behind the pre-pandemic slowdown.** Economic growth comes from two sources: (i) productive factor accumulation (capital and labor), demographic growth, labor force participation, and human capital; and (ii) the efficiency with which these factors of productivity relate to one another.<sup>3</sup> Productivity depends on the technological improvements of companies, the reallocation of resources toward productive units, and external factors. In Peru, two endogenous factors underlie the slowdown: productivity trends and investment dynamism. While productivity expanded 1.8% per year until 2012, trends have been negative (-0.4%) since then [\[2\]](#), and while investment grew by 8.6% per year from 2000 to 2012, it has remained stagnant since 2013 [\[3\]](#). The slowdown in productivity and investment manifests itself in trade linkages, with undifferentiated products accounting for 90%

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<sup>1</sup> See [optional link 11](#).

<sup>2</sup> According to the Central Bank, the country's growth in 2022 is mainly attributable to progress in the service sector (+3.7%), given the job market's recovery, cash transfers from the government, and the Time of Service Compensation funds. The Central Bank also predicts that the economy will grow by 3% in 2023. To complement this, year-on-year inflation in September was 8.5%, surpassing the target range of 1% to 3% set by the Central Bank. In the external sector, the balance of payments current account showed a deficit of 4.6% of GDP for the second quarter of 2022, driven by a lower trade balance surplus as a result of the growth in imports of food, fuel, and industrial supplies.

<sup>3</sup> Total factor productivity (TFP).

- of exports. Peru ranks 89th out of 127 countries in the Economic Complexity Ranking, behind the other countries in the Pacific Alliance[\[4\]](#).
- 1.5 This second operation maintains the focus on the two endogenous factors underlying the slowdown in growth (waning productivity and stagnant investment) and adds the crosscutting problem of incipient institutional capacities to implement policies that support productivity and competitiveness[\[5\]](#).
- 1.6 **Company decisions.**<sup>4</sup> Investment and innovation depend on economic decisions made by companies; a determining factor in these decisions is the business environment[\[6\]](#). The downturn in the business environment affected investment and innovation. The country ranks 65th out of 141 on the 2019 Global Competitiveness Index (GCI), down from 61st out of 135 in 2012.<sup>5</sup> An adverse business environment affects companies, since it: (i) reduces the return on investment projects due to a lack of public goods such as infrastructure or skills, or hampers the related gains due to externalities or the incidence of informality[\[7\]](#); and (ii) increases the cost of financing and creates barriers to market entry and operations as a result of economic concentration and/or excessive bureaucracy.
- 1.7 **The environment for investment.** The lack of complementary public goods affects the return on investment. These public goods can be crosscutting or specific to an economic sector. Two crosscutting public goods that affect investment are the National Quality System (SNC)<sup>6</sup> and productive infrastructure. The SNC reduces transaction costs, lowers information costs for an economy, and impacts the effectiveness of market regulation and international linkages. The SNC is still incipient, despite the establishment of the National Quality Institute (INACAL) in 2015. The supply of trial, testing, and conformity assessment services is limited. There are gaps in metrology<sup>7</sup> infrastructure that make the supply of measurement and calibration services insufficient and excessively concentrated in Lima (61% of trial laboratories), since there is growing demand for these services in other regions.<sup>8</sup> Few accredited laboratories provide conformity assessment services.<sup>9</sup> In addition, corporate access to information on technical standards is low, and the State does not use these standards for public procurement. Peru is also behind with respect to the number of ISO standards (Valqui, 2021).<sup>10</sup> Since 2019, progress has been made

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<sup>4</sup> See [optional link 2](#).

<sup>5</sup> The World Economic Forum uses the GCI to rank the competitiveness of countries annually, measuring the determining factors for TFP. The GCI encompasses 12 pillars organized into four overarching components—enabling environment for economic growth, human capital, markets, and innovation ecosystem—rating countries from 0 to 100 for each category. The GCI with a ranking of countries has been paused since 2020.

<sup>6</sup> Includes all the aspects of metrology, standardization, trial, and quality management, among them certification and accreditation, as well as public and private institutions (Sanetra, 2007).

<sup>7</sup> Metrology is the science of accurate, reliable measurements and is important for foreign trade because it guarantees that traded products have uniform measurements.

<sup>8</sup> The International Bureau of Weights and Measures has validated 63% of INACAL's measurement and calibration capabilities, compared to 93% for Mexico, 85% for Argentina, and 71% for Chile (Valqui, 2021).

<sup>9</sup> As a proportion of GDP, while Chile has 1,028 accredited conformity assessment organizations and Colombia has 900, Peru has 243 (Valqui, 2021).

<sup>10</sup> Peru has a catalog of 4,949 standards. Adjusted for GDP, it has more than Argentina (4,231), Chile (3,528), and Colombia (4,342).

in strengthening the metrology capacities of INACAL, improving the dissemination of technical standards, and including Peruvian standards in the technical datasheets for public procurement. However, advances are still needed in the regional deconcentration of metrology services and accreditation of State trial laboratories, particularly those of the Technology Institute for Production (ITP).

- 1.8 Productive infrastructure supports productivity because it reduces transaction costs, mitigates the effects of distance, and integrates domestic markets into global value chains. The country ranks 88th out of 141 in the infrastructure pillar of the GCI (GCI, 2019)—behind other Pacific Alliance countries such as Chile (42nd of 141) and Mexico (54th of 141)—with delays in roads, ports, and airports, and disparity across Peru's regions. Inadequate planning translates into an underutilization of multimodal transport, delays,<sup>11</sup> cost overruns,<sup>12</sup> poor maintenance,<sup>13</sup> and poor natural disaster risk management.<sup>14</sup> The National Infrastructure Plan has improved the prioritization of investment projects based on their productive impact, but institutional arrangements need to be strengthened.<sup>15</sup> There has also been progress in adopting digital solutions in execution processes for infrastructure works.<sup>16</sup>
- 1.9 **Lack of public goods in priority sectors.** The country has prioritized three productive sectors based on either their potential (forestry and aquaculture) or demonstrated (mining) comparative advantages. In the forestry sector, difficulties demonstrating the legality of logging have an impact on exports, since the timber that Peru exports comes mainly from forests under concession and development is incipient. Progress has been made in combating illegal timber sales through measures to protect and promote the forestry sector. The aquaculture sector's importance is marginal, with an export share of 0.62% and low regional impact. More international markets have been opened up, but international certification capabilities and mechanisms for research and technology transfer still need strengthening. The mining sector has comparative advantages, accounting for 9.9% of GDP. However, its regulations should be updated to adapt the sector to growing demand for socioenvironmental sustainability.
- 1.10 **The environment for investment.** Investment costs are impacted by the financial system's degree of development and by barriers to entry arising from competition and bureaucracy issues. In financial development, Peru ranks 67th out of 141 (GCI, 2019), below other countries in the Pacific Alliance.<sup>17</sup> The depth of the financial

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<sup>11</sup> Nearly 70% of works experience delays (Investment Bank of the Ministry of Economy and Finance (MEF), 2021); annual budget execution is 70.5%. There are also delays in the contract award stage (186% in the granting of the award) (Private Competitiveness Council (CPC), 2022).

<sup>12</sup> Estimated at 18% between the final cost and the cost included in the technical dossier (CPC, 2022).

<sup>13</sup> Maintenance expenditures were 0.5% of GDP in 2021 but should have been 2% (CPC, 2022).

<sup>14</sup> Damages caused by the three latest El Niño phenomena account for between 2% and 3% of GDP (CPC, 2019).

<sup>15</sup> There are three organizations that could conduct the planning for infrastructure investments: (i) the Multiyear Investment Programming Bureau (INVIERTE.PE), public investment; (ii) the Private Investment Promotion Agency (PROINVERSION), both attached to the Office of the Deputy Minister of Economy; and (iii) the Specialized Investment Monitoring Team (EESI), attached to the MEF.

<sup>16</sup> For example, Building Information Modeling (BIM).

<sup>17</sup> Chile (21st of 140), Colombia (54th of 140), and Mexico (64th of 140).



system is less than expected on the basis of per capita income<sup>[9]</sup>, while the rate spread is among the highest in the region. These results are attributable to informality, low competition, and administrative costs. Only 5% of formal microenterprises have access to financing, compared to 70% of large enterprises, while the cost of financing for smaller companies is four times higher than for large companies.<sup>18</sup> In 2019, the government consolidated four funds<sup>19</sup> focusing on micro, small, and medium-sized enterprises (MSMEs) into a single fund that provides lines of financing and guarantees, capitalizes investment funds, and includes gender-based and climate change operational guidelines.<sup>20</sup>

- 1.11 **Competition problems.** Free competition stimulates the allocation of resources to more productive companies, leads to the departure of low-productivity companies, increases consumer surplus, and encourages innovation. Peru has one of the most open economies to international competition, but there are still problems with domestic competition. The country ranks 104 out of 141 on the 2019 GCI in market dominance by large enterprises, while the indicator on the effectiveness of antitrust policy has declined since 2014.<sup>21</sup> In 2018, the Organisation for Economic Co-operation and Development (OECD) and the IDB conducted a peer review of Peru's competition policy<sup>[10]</sup>, finding that there was room for improvement. In 2019, the regulatory framework for free competition advocacy was modified to incorporate prior control of mergers and acquisitions; establish a model for a single body for free competition;<sup>22</sup> enhance free competition advocacy in public procurement; and incorporate a rewards program into the framework of antitrust policy. In 2020, the recommendations from the peer review continued to be implemented: (i) a draft law was submitted to Congress, which strengthens the constitutional autonomy of the National Institute for Competition Advocacy and Intellectual Property Protection (INDECOPI); (ii) the implementing regulations for the law on the prior control of mergers and acquisitions and the rewards program were approved; and (iii) progress was achieved in strengthening the competition advocacy commission. In addition, INDECOPI began the process of preparing a National Competition Policy.
- 1.12 **Government bureaucracy impacts investment cost.** Peru ranks 128th out of 141 for the GCI indicator related to the burden of government regulation (2019)—which captures companies' perceptions of how burdensome it is to comply with government requirements (e.g., permits, authorizations, and licenses). The country has taken steps to promote administrative simplification, applying regulatory quality

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<sup>18</sup> MEF (2019). In the informal sector, effective rates reach 400% (Asociación de Bancos del Perú, 2013).

<sup>19</sup> The MIPYME, *Respaldo para la Pequeña y Mediana Empresa*, FOGEM, and FORPRO funds. Development Finance Corporation (COFIDE) and Banco de la Nación.

<sup>20</sup> During the crisis caused by the COVID-19 pandemic, MSME guarantee programs were implemented, providing liquidity to businesses so they could suspend operations. Nevertheless, structural issues for long-term financing still remain.

<sup>21</sup> GCI, 2019.

<sup>22</sup> There was a first-instance administrative body and a review body. Although this two-fold review was necessary during implementation of the free competition advocacy framework, today there are no objections being made by the review body.

analysis to both new and existing regulations.<sup>23</sup> Starting a business in Peru requires 7 procedures, 25 days, and a cost of 10% of per capita income, which is above the OECD average (5%, 9%, and 3%, respectively). In 2019, the “Sociedad por Acciones Cerrada Simplificada” business structure was approved, enabling companies to incorporate digitally without the need for a notary. As a result of its enactment, more than 430 new businesses were created. Lastly, to improve the fragmented delivery of in-person public services, Public Service Model (MAC)<sup>24</sup> centers were deployed, nine outside Lima.

- 1.13 **The environment for innovation.** Business innovation is contingent upon market failures, the public programs designed to offset them, and the institutions in charge of implementing them. In Peru, the contribution of innovation to TFP growth has been practically nil. Accounting for 0.16% of GDP, investment in research and development (R&D) is among the lowest in the region.<sup>25</sup> The main obstacles to innovation reported by companies are: a shortage of qualified personnel (29% of companies), financing (24%), imitation (22%), and difficulties in cooperating with other actors (19%)<sup>[11]</sup>. The country ranks 106th out of 141 in company spending on R&D (GCI, 2019).
- 1.14 The government has deployed tax incentive programs to address these failures, with some results but a limited scope. Only 4% of innovative companies received public support,<sup>26</sup> while 60% of them consider the programs to be inadequate. During the first operation, the issues related to the tax incentive for R&D were addressed, and there is a draft law extending it to 2025. There is still a lack of incentives for the development of venture capital to enable the scaling up of prototypes financed by tax incentives. Moreover, researchers’ careers were regulated, and guidelines were prepared to finance the technological infrastructure of regional universities with royalty tax funds (partly executed). Lastly, with respect to intellectual property protection, Peru ranks 124th out of 141 on the GCI (2019). There has been progress in modernizing policies in this particular area by incorporating and regulating new rights suited to the needs of local businesses and adopting a strategy to better combat piracy.
- 1.15 **The effectiveness of public policies depends on the institutional framework.** The governance of the National Science, Technology, and Technological Innovation System is complex due to the need to coordinate with several actors. Under the Presidency of the Council of Ministers (PCM), the National Council for Science, Technology, and Technological Innovation (CONCYTEC) oversees the National Science, Technology, and Technological Innovation System.<sup>27</sup> To fulfill this role, this institution needs to strengthen planning, coordination, and evaluation functions. The Peruvian Congress approved Law 30806 for these purposes, but its regulations are pending. In addition, support initiatives focused on the National Program for

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<sup>23</sup> INDECOPI reviewed 10,716 unlawful or unreasonable bureaucratic barriers in 2017 and 2018 costing US\$100 million (INDECOPI, 2018).

<sup>24</sup> MACs are public service centers intended to reduce waiting times and travel costs.

<sup>25</sup> The regional average is 0.66%. (Ibero-American Network of Science and Technology Indicators (RICYT), 2019).

<sup>26</sup> Below Chile (7%), Uruguay (10%), and Brazil (14%) (IDB, 2019).

<sup>27</sup> Since CONCYTEC is a policy, consultation, and implementation body, this generates agency conflicts. The institutional framework should be redefined, clarifying these functions at separate entities.

Scientific Research and Advanced Studies (PROCIENCIA), improving efficiency and effectiveness. The governance and management of the network of Productive Innovation and Technology Transfer Centers (CITEs)—with 49 centers that disseminate technologies to MSMEs—was strengthened with sector-based arrangements (networks of sector centers) and the preparation of strategic and investment plans.

- 1.16 **The new institutions for competitiveness.** Policies to improve productivity are complex, requiring public-private and public-public coordination. The entity in charge of designing and implementing competitiveness policy is the National Competitiveness and Formalization Council (CNCF), attached to the Ministry of Economy and Finance (MEF).<sup>28</sup> To fulfill its role, it needed stronger policy planning and increased capacities for implementation, evaluation, and coordination with other ministries. In 2019, the CNCF was strengthened through private participation in its governance and the establishment of a specialized Technical Secretariat. The CNCF coexists with specialized public-private cooperation units—called Sector Executive Boards—in the three priority sectors and has a coordination unit. However, progress is still needed for sector reforms. Bureaucratic burdens also delay the execution of productive investment projects. Peru has the Specialized Investment Monitoring Team (EESI),<sup>29</sup> which was strengthened with resources, methodology, and a clearer functional relationship.
- 1.17 **Gender gaps.** Peru has a significant gender gap in the business development and innovation areas. Women-led businesses are a majority, but on average are smaller and concentrated in sectors with low productivity.<sup>30</sup> This is due to the presence of barriers to growth, such as access to financing and market conditions (IDB-World Bank, 2010). Moreover, there are significant gaps between men and women in activities related to science, technology, and innovation, with evidence of horizontal and vertical segregation. Women account for only 31.1% of active researchers (RICYT, 2020), and only 19.8% of engineering and technology researchers.<sup>31</sup> In addition, only 7.5% of university rectors and presidents are women, with that figure increasing to 26% for vice rectors and vice presidents.<sup>32</sup> Among the factors<sup>33</sup> that impact women's participation are difficulties balancing their careers with motherhood and family responsibilities.
- 1.18 **Progress and challenges in implementing policy reforms.** The economic slowdown created the need for policies that stimulate investment and innovation. The 2019-2030 National Competitiveness and Productivity Policy (PNCP) was

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<sup>28</sup> Created by Supreme Decree 024-2002-PCM.

<sup>29</sup> The role of the EESI is to support the management of the portfolio of large public investments, incorporating methodologies, conducting studies, and providing specialized technical assistance to public institutions that approve investment projects.

<sup>30</sup> Women-led businesses account for 51.8% of all companies but only 38.1% of small businesses and 37.5% of medium-sized and large businesses.

<sup>31</sup> Conversely, the areas with the highest labor force participation for women are medical sciences (39.15%), humanities, and social sciences (RICYT, 2020).

<sup>32</sup> [\*Brechas de género en la gobernanza universitaria y la carrera docente en el Perú.\*](#)

<sup>33</sup> The literature identifies the following factors: cultural stereotypes, absence of adequate role models, work-life balance issues, and social biases that discourage women's participation (Castillo, Grazzi, and Tacsir, 2014).

approved in 2019 and includes nine priority areas.<sup>34</sup> Despite the pandemic and the political changes that have taken place since 2019, there has been progress in implementing 40% of the activities (CNCF, 2022). Several of the activities completed were promoted through the program's first operation ([4957/OC-PE](#)). The CNCF is currently updating the nine priority areas.

- 1.19 **First operation and program progress.** The first operation ([4957/OC-PE](#)) focused on reforms that improved the country's investment and innovation environment, strengthening related institutional capacities through four components: (i) macroeconomic stability; (ii) institutional framework for competitiveness; (iii) business environment for investment; and (iv) business environment for innovation. The programmatic series balances policy formulation actions in the first operation (76% of measures) and implementation actions in the triggers for the second operation (92% of measures). The 24 legislative and administrative measures supported under the first operation were achieved completely ([optional link 9](#)). The first operation's outputs were also achieved. Although since this is a programmatic series the program impact evaluation will not be prepared until after the second operation closes, the data shows important progress has been achieved in outcome indicators (see paragraphs 3.22 and 3.25 of the [monitoring and evaluation plan](#)).
- 1.20 **The institutional framework for competitiveness.** To address Peru's competitiveness and productivity challenges and move ahead with an ambitious reform program such as the 2019-2030 PNCP, a strengthened institutional framework is needed. Component 1 under the first operation focused on this, to achieve progress with the PNCP. Therefore, the CNCF model was implemented, including a new Management Board, public-private technical committees, and the Technical Secretariat. Moreover, the Specialized Executive Board Team (EEME)<sup>35</sup> was created, as well as sector boards for the forestry, aquaculture, and mining sectors with their respective roadmaps. The EESI, which was strengthened, developed a bank of investment projects.
- 1.21 **The business environment for investment.** The first operation supported the improvement of sector regulations through the sector boards for the forestry, aquaculture, and mining sectors. Forest and wildlife regulations were prepared, prioritizing the penalization of actions that lead to deforestation. The official list of controlled forest species was updated, and two forest management agencies were established in regional governments in the Amazon.
- 1.22 In the aquaculture sector, the first operation aligned the health standard for bivalve mollusks with EU law; opened the markets of Australia and China to shrimp exports; improved aquaculture labor inspections; and obtained approval of the aquaculture and fisheries environmental management regulations. In the mining sector, the first operation supported the mine closure regulation, the updating of closure plans, and the improved management of environmental guarantees.

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<sup>34</sup> Infrastructure, human capital, innovation, financing, job market, business environment, foreign trade, institutional framework, and environmental sustainability.

<sup>35</sup> The role of the EEME is to coordinate work with the sector boards, ensuring consistent methodology and monitoring activities.

- 1.23 With respect to improving crosscutting regulatory quality for investment by fostering free competition and more efficient markets, the following was achieved: (i) regulation of the Crecer Fund to provide long-term financing to MSMEs; (ii) approval of a new business structure, the “Sociedad por Acciones Cerrada Simplificada,” to incorporate companies digitally without the need for a notary; (iii) development of simplified administrative procedures for businesses; and (iv) preparation of draft laws to promote competition and control mergers and acquisitions, and guidelines to improve competition in public procurement. In addition, the regional deconcentration of metrology services from INACAL began, technical standards were digitalized, and Peruvian technical standards were included in the technical datasheets for public procurement. Lastly, with respect to public infrastructure investments, the National Infrastructure Plan was prepared; the adoption of BIM tools was included in the Public Procurement Law; and methodologies were developed to implement these tools in public investment processes.
- 1.24 **The business environment for innovation.** The first operation supported the Innovation Executive Board, and the strengthening of the capacities of CONCYTEC and the competencies of the ITP. Moreover, improvements were made to the tax benefit for the R&D+innovation expenditure; the legislative framework for scientific research was established, including approving the technical guidelines to finance R&D+innovation projects executed by public universities; and business innovation finance was expanded through a competitive bidding process to support the demand for technological services and financing for a private venture capital investment fund. With respect to intellectual property, the first operation achieved progress in strengthening intellectual property rights through regulations for protected geographical indications and traditional specialties guaranteed; and a new draft of the Law on the Observance of Intellectual Property Rights was prepared.
- 1.25 **Pending challenges.** This second operation provides continuity for measures that address the challenges originally identified, with a focus on implementing and adapting interventions. The programmatic series will help close gaps in the institutional framework that supports competitiveness and improve the business environments for investment and innovation. Despite the progress achieved, Peru needs to continue implementing reforms for competitiveness in areas and sectors included in the PNCP. Of note among the first reforms is the labor market, where employment is spread out among small businesses and there are high informality rates, no economies of scale, and poor access to financing. In addition, the tax system does not create the right incentives: the fiscal, employment, and social security burdens increase with business size, subsidizing businesses with low productivity (Levy, 2022). Lastly, the regulatory policies for financial markets, products, and services need to be simplified, prioritizing productivity and innovation. Some of the pending challenges are strengthening the justice system and improving the business environment at the subnational level. Some of these reforms are included in the 2022 update of the PNCP.
- 1.26 Between 2010 and 2014, the Bank supported a first generation of reforms<sup>36</sup> that helped improve the business environment by facilitating the starting of new

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<sup>36</sup> Loans [2325/OC-PE](#), [2849/OC-PE](#), and [3299/OC-PE](#).



businesses, foreign trade, improved property registries, access to financing through secured transactions, etc. The institutional framework for productive development policies was also strengthened, through the creation of INACAL, for instance. To approximate the impact of these reforms, during this period the country moved up from 56th to 35th place in the World Bank's Doing Business rankings, while TFP contribution to growth increased by 10 percentage points. The main lessons from these interventions are:<sup>37</sup> (i) focus not only on relatively high-impact crosscutting reforms but also on reforms that are key to strategic sectors; (ii) ensure technical monitoring units have adequate competencies; (iii) support reforms with technical cooperation funding; and (iv) ensure a high-level commitment from the MEF. These lessons were taken into consideration in the design of this programmatic series, particularly to narrow gaps in strategic sectors and for the innovation policy framework.

- 1.27 Within the framework of the Bank's country strategy, the IDB has supported the Government of Peru in defining and developing various policy measures in terms of productivity and competitiveness, through both policy-based loans and technical cooperation funding. With this support, various investment programs in the operation's targeted sectors were implemented under the framework of the productivity and competitiveness improvement policy, and resources were considered to facilitate implementation of the measures promoted by this operation.
- 1.28 With funds for the preparation of this programmatic series, actions were financed to strengthen the knowledge on which this operation is based, particularly: (i) external review of the PNCP; (ii) exchange of experiences between the CNC and the Uruguayan National System for Productive Transformation and Competitiveness; and (iii) exchange of knowledge between the EESI and the Sustainable Projects Management Office in Chile.
- 1.29 **The Bank's experience in the sector and lessons learned.** The Bank has implemented various reform programs to promote competitiveness, including: Boosting Resilient and Inclusive Growth in The Bahamas ([5091/OC-BH](#)); the Productive Development and Creative Economy Support Program ([5053/OC-CO](#)); the Formalization and Productivity Improvement Program in the Dominican Republic I and II ([3326/OC-DR](#); [4375/OC-DR](#)); the Competitiveness Enhancement Program I, II, and II ([1972/OC-JA](#); [2297/OC-JA](#); [3147/OC-JA](#)); and the Program Supporting Reforms to Increase Productivity in Peru ([4714/OC-PE](#)),<sup>38</sup> focused on human capital, labor markets, and efficiency in the allocation of factors of production. In addition, technical cooperation operation Strengthening the Public Policy of Sector Executive Boards in Peru ([ATN/OC-16693-PE](#)) was implemented. Some of the noteworthy lessons learned from the Bank's operations in the sector are the need to prioritize reforms for inclusion in competitiveness programs, to ensure the effectiveness and relevance of interventions; and the importance of combining reforms to support the business climate with others to support business development, innovation, and productive diversification. These experiences were included to identify the policy conditions that directly address the gaps identified.

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<sup>37</sup> Project completion report for loan [2325/OC-PE](#).

<sup>38</sup> That operation is the first in a programmatic series to improve productivity and competitiveness.

- 1.30 **International evidence.** Public policy instruments were developed based on international experience implementing policies to promote the business environment, innovation, and quality. These were built into this programmatic series, including: (i) to foster collaboration between academia and businesses, the design of tax incentives for R&D+innovation should direct tax credits toward partnership-based innovation projects, maximizing knowledge externalities; (ii) to foster innovation, there should be geographic targeting to boost and strengthen groups of businesses and institutions in the territory, promoting technology transfers and local capacity-building, with a regional systems approach to innovation; and (iii) to strengthen national quality systems, the metrology system should be seen as a support for measurements and equivalencies to promote quality.
- 1.31 **Coordination with other international development organizations.** Work has been coordinated with: (i) the Swiss Agency for Development and Cooperation, which supports the CNC on business climate and entrepreneurial financing; (ii) the United Kingdom to develop the BIM plan; and (iii) the OECD to conduct the peer review of competition policy, with recommendations included in the reforms under this programmatic series.
- 1.32 **Value added by the Bank.** The Bank has extensive experience holding open, effective dialogues with the government and private sector institutions connected to the matters that this operation addresses. In this regard, the IDB has been supporting institutional growth since 2006, from financing the first Science and Technology Program ([1663/OC-PE](#)) to working with the current network of organizations that foster growth through innovation, research and development, technology transfer, and quality and metrology policies, both horizontally and at sector levels. To complement this, the interventions mentioned in paragraphs 1.33 and 1.34 demonstrate the value added by the Bank through its ongoing support to the institutions responsible for Peru's competitiveness policies. As an example, the Bank supported: (i) the EESI in developing methodologies to monitor investments and exchanging experiences with the Sustainable Projects Management Office in Chile, which the IDB also supports; and (ii) the preparation of roadmaps for sector reforms by the EEME, using flexible methodologies for execution, feedback, and adjustment. Therefore, the following has taken place for this operation: (i) designed a matrix that encompasses the issues and institutions targeted under the operation's objectives; (ii) enabled fulfillment of the conditions precedent with resources from operations (loan and technical cooperation projects), which financed studies and consulting assignments; (iii) facilitated access to regional experiences, particularly in connection with large investment projects and the functioning of public-private organizations to support competitiveness; and (iv) supported institutions with the execution and verification of the conditions.
- 1.33 **Complementarity with other IDB Group operations.** This operation complements five investment loans focused on: (i) business innovation (Improved Levels of Productive Innovation at the National Level, [3700/OC-PE](#), approved in 2016 for US\$100 million, 84% disbursed); (ii) innovation, technological modernization, and entrepreneurship (First Individual Operation: Innovation, Technological Modernization, and Entrepreneurship Program, [5287/OC-PE](#), approved in 2021 for US\$140 million, 1% disbursed); (iii) improvement of public services (Project to Improve and Expand Support Services for National Service Delivery to Citizens and Enterprises, [4399/OC-PE](#), approved in 2018 for US\$60,927,984, 65% disbursed) for regulatory simplification and MAC centers; (iv) forest management (Forest Investment

- Projects in Peru, [4604/SX-PE](#), approved in 2019, 17% disbursed); and (v) expansion of financing for productive investment for women-run MSMEs (Financing Program for Women Entrepreneurs in Peru, [5596/OC-PE](#), approved in 2022 for US\$100 million, in the eligibility process).
- 1.34 The program also incorporates strengthening actions for the EESI and the CNCF (Support for the Preparation of the PBL for Productivity and Competitiveness Reforms, [ATN/OC-17669-PE](#), for operational support, approved in 2019 for US\$200,000, 64% disbursed). In addition, it incorporates actions from the following client support technical cooperation projects: Strengthening Peru's National Quality System ([ATN/KR-17948-PE](#), approved in 2020 for US\$500,000, 34% disbursed); Applying Artificial Intelligence and Machine Learning to Upgrade the Intellectual Property Administration System in Peru ([ATN/KK-18542-PE](#), approved in 2021 for US\$500,000, 15% disbursed); and Mainstreaming Climate Change in Peru's Innovation Policy for Economic Recovery ([ATN/SX-18950-PE](#), approved in 2021, pending disbursement), aimed at supporting the National Innovation Program for Competitiveness and Productivity (PROINNOVATE) and the ITP to include sustainability and climate change criteria in the financial and technical assistance programs that they offer to MSMEs. This is coupled with the peer review of competition policy<sup>[12]</sup> and the support provided to the MEF to prepare the National Infrastructure Plan.
- 1.35 **Strategic alignment.** The operation is consistent with the second Update to the Institutional Strategy (document AB-3190-2) and is strategically aligned with the challenge of increasing productivity and innovation, by promoting improvements in the business environment for innovation and investment. The program is also aligned with the crosscutting themes of: (i) institutional capacity and rule of law, by strengthening the institutional framework associated with the investment and innovation environments, through organizations such as the MEF (CNCF, EEME, EESI, and Sector Executive Boards), CONCYTEC, ITP (CITE), the Development Finance Corporation (COFIDE), INDECOPI, INACAL, and regional governments; (ii) gender equity, by helping to close gaps in access to financing and scientific careers; and (iii) climate change, by promoting sustainable, resilient, and low-carbon infrastructure and fostering the inclusion of climate change considerations in public investment and the country's innovation ecosystem. According to the [multilateral development banks' joint methodology](#),<sup>39</sup> 20.49% of the operation's resources support policies fostering climate change mitigation and adaptation, for the sustainable management of forest resources and the sustainability of infrastructure and construction in Peru; and (iv) environmental sustainability, by sustainably improving competitiveness in the forestry and aquaculture sectors. Likewise, the operation is consistent with the Climate Change Sector Framework Document (document GN-2835-8), by promoting the growing integration of climate considerations in various sectors. The program also contributes to the Corporate Results Framework 2020-2023 (document GN-2727-12) through the following indicators: (i) agencies with strengthened digital technology and managerial capacity; (ii) micro, small, and medium-sized enterprises financed; and (iii) enterprises provided with technical assistance. It is also consistent with the

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<sup>39</sup> Based on the Bank's method for estimating climate finance for PBPs, the policy conditions that help address climate change are 3.1, 3.4, 3.9, 3.10, 3.11, 3.12, and 4.7. These are reflected in the Policy Matrix along with their means of verification, and were adjusted in the [climate change annex](#).



guidelines of the Innovation, Science, and Technology Sector Framework (document GN-2791-13), through the lines of action “boost investment in key public goods for innovation” and “foster an enabling environment for private investment in innovation.” The program is aligned with the priority area of the Sector Strategy on Institutions for Growth and Social Welfare (document GN-2587-2) relating to strengthening institutional capacities for innovation policies. Moreover, the program is consistent with the Gender and Diversity Sector Framework (document GN-2800-8), by expanding opportunities for women-run enterprises, in line with the priority thematic area “improving economic opportunities” of the IDB Group Gender and Diversity Action Plan 2022-2025 (document GN-3116). In addition, it is aligned with the IDB Group Country Strategy with Peru 2022-2026 (document GN-3110-1), under the strategic objectives: (i) improve the supply of infrastructure; and (ii) strengthen the business environment and business climate.

- 1.36 **Gender considerations.** The program helps close gender gaps in two areas: (i) the environment for investment, by improving access to financing through the Crecer Fund with a gender approach, in line with the equity policy of COFIDE; and (ii) the environment for innovation, by closing gender gaps in researchers’ careers with measures to facilitate balancing a scientific career with family choices. The new National Registry for Science, Technology, and Technological Innovation (RENACYT) recognizes maternity and post-maternity periods, so that female researchers are not disadvantaged compared to their male colleagues. In addition, the rules for the PROCENCIA competition to fund research projects were modified to promote women’s participation—giving additional points to proposals from teams with at least one woman and extending deadlines in cases of maternity or post-maternity.

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

- 1.37 The general development objective of the programmatic series and this second operation is to support the Government of Peru in improving the economy’s productivity and competitiveness. The specific development objectives are to: (i) improve competitiveness by strengthening public institutions devoted to this purpose; (ii) expand private investment through policy commitments aimed at improving the environment for investment; and (iii) redouble the effort in innovation through policy commitments aimed at improving the environment for innovation.
- 1.38 **Component 1. Macroeconomic stability.** The objective of this component is to maintain a stable macroeconomic framework conducive to achieving program objectives and consistent with the guidelines set forth in the [policy letter](#).
- 1.39 **Component 2. Institutional framework for competitiveness.** The general objective of the component is to strengthen the institutional framework for implementing the PNCP. This will be achieved by implementing the following policy measures: (i) prepare a proposal for a National Quality System (SNC) that strengthens public-public and public-private coordination to implement the PNCP, including a framework to evaluate its impacts, and begin the periodic update process of the PNCP (2.1); (ii) strengthen the EEME to consolidate its coordination team and have the resources needed to conduct studies and access specialized technical assistance, in order to address reform priorities and institution-strengthening based on the needs of the Sector Executive Boards (2.2); and (iii) strengthen the EESI to have the necessary resources to: (a) strengthen team management and have the

methodology necessary to measure the intervention's impact; (b) conduct studies of approval processes and monitor investment projects; and (c) provide specialized technical assistance to the public institutions that approve investment projects (2.3).

- 1.40 **Component 3. Business environment for investment.** The overall objective of the component is to improve sector, crosscutting, and planning regulatory quality to drive investment in Peru. This will be achieved by implementing the following policy measures: (i) coordinate measures to sustainably improve the competitiveness of the forestry sector: (a) implementation of the compulsory use of the Operations Book in forest operations;<sup>40</sup> (b) creation of one forest management agency and progress in the implementation of another, in two regional governments with forest regions; (c) preparation of the draft law to promote the forestry sector, with measures focused on value chains, financing, innovation, and zoning for sector development; (d) implementation of the Forest-Timber CITE network in Ucayali, Loreto, and Madre de Dios; (ii) continue the sustainable expansion of markets for the aquaculture sector, through the: (a) start of the implementation of the single window for aquaculture; (b) recognition from the World Organisation for Animal Health that Peruvian shrimp meets sanitary standards, and increase of exports to China; (c) start of the implementation of the National Fisheries Health Agency's process-based inspection and certification system; and (d) strengthening of the network of aquaculture and fisheries CITEs; (iii) amend the regulatory framework for prior consultation to streamline the application of regulations during the prospecting phase of mining operations, while maintaining relations with communities and safeguarding the social license; (iv) ensure that: (a) the trust fund of COFIDE has been set up to make the Crecer Fund operational; and (b) the fund is in operation, following the guidelines of the gender equity and climate change policy; (v) approve the regulations for the new "Sociedad por Acciones Cerrada Simplificada" business structure to incorporate companies digitally without the need for a notary, and implement this structure; (vi) establish nine MAC centers as a one-stop venue for formalities for people and companies outside Lima; (vii) continue to improve the competition advocacy and promotion framework with the following measures: (a) starting the preparation process for the National Competition Policy, with INDECOPI preparing a report on the policy's relevance; (b) submitting to Congress a draft law strengthening the constitutional autonomy of INDECOPI; (c) strengthening the competition advocacy commission by establishing the national office for free competition investigation; and (d) regulating the rewards program; (viii) approve the regulations to implement the law on the prior control of mergers and acquisitions; (ix) achieve the: (a) expansion of the regional deconcentration process for metrology services through the accreditation of new calibration laboratories in other regions; (b) obtaining of resources and planning of pre-investment studies for the implementation of new metrology laboratories that meet sustainable building criteria and have energy-efficient equipment; (c) in cooperation with Perú Compras, inclusion of at least 200 Peruvian technical standards in public procurement technical datasheets; and (d) in collaboration with the ITP, at least one testing or calibration procedure has been implemented in at least seven public or private CITE centers and accredited under ISO/IEC-17025; (x) provide an adequate

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<sup>40</sup> The Operations Book of qualifying titles records information collected during various forest timber exploitation processes for the purposes of traceability of timber specimens, products, and byproducts.

institutional arrangement to implement, monitor, and evaluate the National Sustainable Infrastructure Plan, and have the plan in execution, following climate change and sustainability guidelines; (xi) implement the BIM Peru Plan, defining the national strategy for its deployment in public investment management practices that address climate change, with the participation of leading public, private, and academic actors; and (xii) begin test projects to implement the BIM Peru Plan that help address climate change.

- 1.41 **Component 4. Business environment for innovation.** The general objective of the component is to improve the regulatory quality for innovation support. This will be done by implementing the following policy measures: (i) achieve the: (a) integration of PROINNOVATE operations with the National Fisheries and Aquaculture Innovation Program; (b) definition of the institutional arrangement necessary to consolidate existing programs into a national innovation agency; and (c) creation of the necessary commissions to improve public-public and public-private coordination in the national science, technology, and innovation system; (ii) implement in CONCYTEC the organizational reforms necessary to enact Law 30806, which amends several articles of Law 28303 (Framework Science, Technology, and Technological Innovation Law) and of Law 28613 (CONCYTEC Law), and consolidate the National Fund for Scientific, Technological, and Technological Innovation Development into a new science support program known as PROCENCIA; (iii) approve the strategy and regulatory framework for the strategic development and strengthening of the management model and the CITE network; (iv) send to Congress the draft law extending the validity of the tax incentive for R&D+innovation expenditure established temporarily by Law 30309, which promotes scientific research, technological development, and technological innovation; (v) ensure the: (a) preparation of the proposed regulations for Law 30948, the Law to Promote Scientific Research, defining the parameters necessary to implement the law and connecting it to RENACYT; and (b) development of rules for the credentialing, classification, and registration of researchers in RENACYT, with measures promoting female researchers;<sup>41</sup> (vi) develop technical inputs and work teams to prepare the guidelines to formulate and evaluate investment projects in science, technology, and technological innovation, including: (a) the baseline for public expenditure in science, technology, and innovation in Peru; and (b) the establishment of a work team in CONCYTEC to propose updated indicators for gaps in infrastructure and access to services involving science, technology, and innovation, as well as service levels and quality standards; (vii) through PROINNOVATE, achieve the: (a) execution of three competitive bidding processes for the instrument to support the demand for technological services, with rules that include climate change considerations; and (b) capitalization of at least one private venture capital investment fund; (viii) approve the regulations governing the rights arising from protected geographical indications and traditional specialties guaranteed; and (ix) strengthen the observance of intellectual property rights as follows: (a) development of an econometric methodology to calculate the range of fines; and (b) establishment of at least three precedents for mandatory compliance by the Tribunal for Competition Advocacy and Intellectual Property Protection of INDECOPI, regarding recurrent violations of intellectual property rights.

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<sup>41</sup> The same applies to the rules for the PROCENCIA competition to fund research projects.

- 1.42 **Changes in policy measures.** This operation retains the 24 measures identified originally: 6 did not change; 6 were adjusted to reflect that the progress for a condition or item was different from the plan or replace it with a similar condition; and 12 where the scope of the original conditions was expanded to consider new developments in the related public policy. With respect to the conditions that were adjusted: (i) creation of two forest management agencies (3.1(b)): the location was modified because of institutional difficulties with one of the regional governments, and the new forest management agency is being created in the San Martín region; (ii) opening of the Brazilian market to Peruvian shrimp: since Peru was unable to move forward with a trade agreement with Brazil that includes shrimp exports, the sector policy was shifted to implement a crosscutting sanitary measure as a signal to the global market (3.2(b)); (iii) preparation of the National Competition Policy: two factors delayed the consideration and approval of the competition policy: (a) the authorities at INDECOPI changed during 2020 and 2021, and (b) the policy validation process required comments from the National Strategic Planning Center (CEPLAN), the strategic planning entity, and the MEF (3.7(a)); (iv) regulations for the scientific research law: the enacting regulations for the law are undergoing review. The PCM made remarks about the draft, which were incorporated and sent back to the PCM. Several changes in the authorities at CONCYTEC in 2020 and 2021 caused the initial delays. To strengthen this condition, the rules for the credentialing, classification, and registration of researchers in RENACYT were added as a complement that contributes to the condition's objective and promotes female researchers (4.5); (v) development of methodology guidelines for public investment in science, technology, and innovation: it was first necessary to develop technical inputs to formulate and evaluate investment projects, and therefore it has taken longer than expected to strengthen the methodology guidelines (4.6); and (vi) submit to Congress the Antipiracy Law: the submission of the law to Congress has been delayed and complicated because of the political situation, and the essential elements of the law have been addressed through regulations (4.9). See [\(optional link 1\)](#). Moreover, the scope of some conditions was expanded, including: (i) regulations issued for the Crecer Fund of COFIDE, which became operational with gender equity and climate change criteria (3.4); (ii) the regulations for the "Sociedad por Acciones Cerrada Simplificada" to incorporate companies digitally without the need for a notary were approved and implemented, and 430 businesses were incorporated under this structure (3.5); and (iii) the National Sustainable Infrastructure Plan was approved, is being executed, and includes climate change and sustainability guidelines (3.10).
- 1.43 **Beneficiaries.** The beneficiaries are the formal productive companies of Peru in general<sup>42</sup> and, in particular, those operating in the forestry, aquaculture, and mining sectors. Formal innovative companies (those investing in innovation) and innovative entrepreneurs are also beneficiaries, as these groups will benefit from the improvements in public policies described in the program components.

### C. Key results indicators

- 1.44 The impact of the reforms based on the program's general development objective will be measured using three indicators: (i) percentage of annual GDP growth

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<sup>42</sup> Peru has 2.8 million registered formal companies (National Statistics and Information Technology Institute (INEI), 2021).

- attributable to changes in TFP; (ii) value added per employee of companies in the aquaculture and industrial sectors associated with forestry and mining operations; and (iii) World Competitiveness Ranking. The indicators used to measure achievement of the program's specific development objectives are: (i) investment in private-public partnerships relating to EESI-supported road projects as a percentage of the investment committed; (ii) investments by companies in the aquaculture and industrial sectors associated with forestry and mining operations as a ratio to net revenue; and (iii) private investment in innovation by manufacturing companies that receive public support for investment in innovation as a percentage of sales.
- 1.45 **Results Matrix changes.** For the second programmatic operation, adjustments were made to the Results Matrix in order to follow the new guidelines for the preparation of project completion reports, reorganizing indicators under general and specific objectives. Second, the Global Competitiveness Index indicator was replaced because the World Economic Forum discontinued it in 2019. Lastly, the target for one indicator was adjusted to reflect the impacts of the COVID-19 crisis on Peru's economic growth.
- 1.46 **Economic analysis.** Based on the recommendations of the Office of Evaluation and Oversight in its 2011 Evaluability Review of Bank Projects<sup>43</sup> and on the findings of the review of evaluation practices and standards for policy-based loans conducted by the Evaluation Cooperation Group (comprised of the Independent Evaluation Offices of the Multilateral Development Banks),<sup>44</sup> pursuant to paragraph 1.3 of document GN-2489-5 (Review of the Development Effectiveness Matrix for Sovereign Guaranteed and Non-Sovereign Guaranteed Operations), which indicates that an analysis of efficiency in the use of financial resources is unnecessary,<sup>45</sup> it was determined that an economic analysis would not be performed for this type of loan, as reported to the Board of Executive Directors. Accordingly, this loan operation does not include an economic analysis and no such analysis is considered for purposes of measuring the evaluability score in the program's Development Effectiveness Matrix.

## II. FINANCING STRUCTURE AND MAIN RISKS

### A. Financing instruments

- 2.1 This operation is structured as a programmatic policy-based loan (PBP). This is the second of two operations that are technically connected but financed independently, pursuant to Policy-Based Loans: Guidelines for Preparation and Implementation (document CS-3633-2). The program follows the Proposal to Establish a Set of

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<sup>43</sup> Document RE-397-1: Currently, the economic analysis section is computed as the maximum between the cost-benefit analysis (CBA) and the cost-effectiveness analysis (CEA). Yet neither a CBA nor a CEA is applicable to policy-based loans.

<sup>44</sup> Good Practice Standards for the Evaluation of Public Sector Operations. Evaluation Cooperation Group, Working Group on Public Sector Evaluation, 2012 Revised Edition. February 2012.

<sup>45</sup> 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.

Contingent Lending Instruments of the IDB (document GN-2667-2). The rationale underlying this structure and instrument is that it: (i) promotes ongoing policy dialogue with the country as regards productivity and competitiveness, which is multisectoral by nature; (ii) facilitates the monitoring of reform implementation, since certain reforms require complex implementation, take time, and require horizontal and vertical coordination; and (iii) is flexible to adapt to new knowledge acquired as a result of the agreed measures. This second PBP operation will use the deferred drawdown option<sup>46</sup> to address the post-pandemic recovery situation more effectively, which might create unexpected financing needs for the Treasury.

- 2.2 **Dimensioning.** This second operation is for US\$300 million, financed with resources from the Ordinary Capital. This amount will be paid out in a single disbursement and is justified by the country's need for fiscal resources in the broad sense, although it is not directly related to the costs of reforms under paragraph 3.27(b) of document CS-3633-2. The operation represents 5.2% of public sector financing requirements for 2022 and 3.4% of multilateral financing.

**B. Environmental and social risks**

- 2.3 This PBP operation is not expected to have significant and direct adverse effects on the country's environment or its natural resources and is therefore excluded from the scope of the Bank's Environmental and Social Policy Framework, pursuant to the provisions of paragraph 4.7 of that Framework (document GN-2965-23).

**C. Fiduciary risks**

- 2.4 No fiduciary risks were identified. Loan proceeds will go directly to the Treasury account to cover the national government's financing needs, for which the executing agency has adequate financial management instruments and control systems.

**D. Other risks and key issues**

- 2.5 **Internal processes.** A high-level risk was identified that the lack of evaluation systems and methodologies, or their shortcomings, might prevent verification of the impacts of Results Matrix measures. This risk will be mitigated by conducting an impact evaluation study of these measures, financed with resources from technical cooperation funding [ATN/OC-17669-PE](#) (paragraph 1.36).
- 2.6 **Economic and financial environment.** A medium-high risk was identified that if negative macroeconomic shocks were to materialize, they might cause public accounts to deteriorate, impacting the financing of reforms and resulting in the first policy condition not being met. This risk will be mitigated by monitoring the evolution of macroeconomic risks.
- 2.7 **Political environment.** A medium-high risk was identified in the context of institutional instability, which might shift sector priorities and result in the policy conditions of the second phase not being met. To mitigate this risk, an agreement was reached with the authorities that all the reforms for this second operation will be fulfilled by the time the second operation is approved. The program includes measures to strengthen the CNCF, the EEME, and the EESI to ensure the continuity of the reforms. Moreover, the Bank is contributing through two operational support

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<sup>46</sup> With a three-year drawdown period (document GN-2667-2).

- technical cooperation projects and one investment loan under a conditional credit line for investment projects ([5287/OC-PE](#)), which has expanded technical dialogue and supported the implementation of the proposed reforms. The Bank is also engaged in dialogue with the private sector organizations represented in the CNCF, to support the continuity of the reforms.
- 2.8 **Sustainability.** The government's commitment to the reforms is reflected in the fact that most of the reforms have been included in the 2019-2030 PNCP. In addition, to ensure that there is adequate financing for the continuity of the reforms, the government will work to include this second operation in the financing strategies of the 2023-2026 Multiyear Macroeconomic Framework of the MEF, which, if necessary, will use financial assets or the contingent credit lines it holds with international organizations.

### III. IMPLEMENTATION AND MANAGEMENT PLAN

#### A. Summary of implementation arrangements

- 3.1 The borrower is the Republic of Peru and the program executing agency is the Ministry of Economy and Finance (MEF), acting through the Directorate General of the Public Treasury (DGTP). The DGTP is responsible for the operation's negotiations and the program's financial matters. It is also responsible for coordinating with the entities in charge of implementing the planned reforms to verify the policy conditions proposed, and for submitting monitoring reports and evidence that the program's policy conditions were met.
- 3.2 **Strategic coordination.** This coordination will be performed by the CNCF and its Technical Secretariat, which will coordinate and meet with the various government entities in charge of adopting measures; monitor the measures included in the PNCP and promote their achievement; participate in program evaluation; address risks; etc. For these functions, the CNCF Technical Secretariat will coordinate with the DGTP, the EEME, and the EESI, among other actors.
- 3.3 **Special contractual conditions precedent to the first and only disbursement of the loan. The first and only disbursement is contingent upon fulfillment of the policy reform conditions as set out in the Policy Matrix (Annex II), the [policy letter](#), and the other terms established in the loan contract.**

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

- 3.4 **Monitoring.** Given the nature of the operation, monitoring focuses on: (i) verifying compliance with the policy actions of the second operation, as detailed in the Policy Matrix (Annex II) and the [means of verification matrix](#).
- 3.5 **Evaluation.** Evaluation methodologies for program outcomes and impacts are nonexperimental and rely on the use of the difference-in-differences methodology with common support for most of the indicators. The identification will use company level information from the Encuesta Económica Anual [Annual Economic Survey] to simulate the counterfactual situation of the absence of the program in the sectors addressed by the policy commitments in three verticals: aquaculture, forestry, and mining. In certain cases, for indicators measured at the aggregate level, the evaluation will be reflexive by comparing the situation before and after (see

[monitoring and evaluation plan](#)). The project completion report will be prepared when the second operation in the programmatic series ends.

#### **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](#), which will be submitted by the MEF and describes the main components of the government's strategy for this program, reaffirming its commitment to implement the agreed-on activities.



Development Effectiveness Matrix		
Summary		PE-L1276
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 (#) -Agencies with strengthened digital technology and managerial capacity (#)	
2. Country Development Objectives		
Country Strategy Results Matrix	GN-3110-1	Improve the supply of infrastructure and strengthen the business environment and business climate.
Country Program Results Matrix		The intervention is not included in the 2022 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		9.8
3.1 Program Diagnosis		2.5
3.2 Proposed Interventions or Solutions		3.5
3.3 Results Matrix Quality		3.8
4. Ex ante Economic Analysis		N/A
5. Monitoring and Evaluation		8.9
5.1 Monitoring Mechanisms		2.9
5.2 Evaluation Plan		6.0
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Medium High
Environmental & social risk classification		N.A.
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, Statistics 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/KR-17948-PE; ATN/KK-18542 and ATN/SX-18950-PE

**Evaluability Assessment Note:**

The Productivity and Competitiveness Improvement Program II has a total budget of US\$300 million and is the second operation in a programmatic series that seeks to support a broad set of policies to promote competitiveness in the Peruvian economy. The specific development objectives of this programmatic series and of this second project are: (i) to improve competitiveness through the strengthening of public institutions dedicated to that purpose; (ii) increase private investment through policy commitments aimed at improving the environment for investment; and (iii) increase the effort in innovation through policy commitments aimed at improving the environment for innovation. It is expected that the achievement of these specific objectives will contribute to the achievement of the general objective of this programmatic series, which is to support the Government of Peru to improve the productivity and competitiveness of the economy.

The diagnosis of the project is clear, and the connection between the policies supported in the Policy Matrix and the determinants of low competitiveness (low investment in fixed capital, low innovation rates and the necessity to institutional strengthening) is supported by economic theory. This second program remains with the 24 policy measures originally identified, but there was an expansion on their scope and/or adjustments in their conditions. Still, all these changes remain aligned with the overall vertical logic.

The Results Matrix (MdR) is similar to the MdR of the first operation, but it also required some adjustments. These adjustments were necessary to: (i) adapt the indicators to the new PCR preparation guidelines (reorganizing the indicators into general and specific objective levels); (ii) replace an originally planned competitiveness indicator that was discontinued; and (iii) incorporate the impacts of the COVID-19 crisis on economic growth in Peru.

Finally, this programmatic has an adequate evaluation plan, with a solid impact evaluation proposal that, if implemented, will support the attribution of causality between the supported policies and the indicators of specific objectives.

## POLICY MATRIX

<b>Objective:</b> The general development objective of the programmatic series and this second operation is to support the Government of Peru in improving the economy's productivity and competitiveness. The specific development objectives are to: (i) improve competitiveness by strengthening public institutions devoted to this purpose; (ii) expand private investment through policy commitments aimed at improving the environment for investment; and (iii) redouble the effort in innovation through policy commitments aimed at improving the environment for innovation.			
Components / Policy objectives	Policy conditions First programmatic operation	Policy conditions Second programmatic operation	Status of fulfillment of the second programmatic operation's conditions <sup>1</sup>
<b>Component 1. Macroeconomic stability</b>			
a. Maintenance of a stable macroeconomic framework conducive to achieving program objectives and consistent with the guidelines set forth in the policy letter.	1.1 Ensure the maintenance of a macroeconomic context consistent with the program objectives as set out in the Policy Matrix and the policy letter.	1.1 Ensure the maintenance of a macroeconomic context consistent with the program objectives as set out in the Policy Matrix and the policy letter.	1.1 Fulfilled
<b>Component 2. Institutional framework for competitiveness</b>			
a. Strengthen the institutional framework for the implementation of the PNCP.	2.1 The MEF has enacted regulations for the new CNCF model, forming a new Management Board, the public-private technical committees, and the Technical Secretariat.	2.1 A proposal has been prepared for a national competitiveness system that strengthens public-public and public-private coordination to implement the PNCP, including a framework to evaluate the related impacts. The periodic update process of the PNCP has begun.	2.1 Fulfilled (Q3 2022)
	2.2 The MEF, in order to improve the levels of public-private and public-public coordination, has created: (a) the EEME; and (b) three Executive Boards in sectors with high potential for competitiveness (forestry, aquaculture, and mining).	2.2 The EEME has been strengthened to consolidate its coordination team and have the resources in place to conduct studies and access specialized technical assistance, to address priorities for reform and institution-strengthening arising from the needs of the Sector Executive Boards.	2.2 Fulfilled (Q2 2022)
	2.3 In order to move forward in facilitating strategic investment projects within the framework of the PNCP: (a) the MEF has reactivated the EESI; and (b) the EESI has developed an initial bank of investment projects and the list of strategic projects has been prioritized.	2.3 The EESI has been strengthened in order to have the necessary resources to: (a) strengthen team management and have methodological tools to measure the impact of its intervention; (b) conduct studies of approval processes and monitor investment projects; and (c) provide specialized technical assistance to the public institutions involved in investment project approvals.	2.3 Fulfilled (Q2 2022)

<sup>1</sup> Pursuant to the provisions of document CS-3633-2 (Policy-Based Loans: Guidelines for Preparation and Implementation), the fulfillment of all specified conditions for disbursement, including the maintenance of an appropriate macroeconomic policy framework, will be verified by the Bank when the borrower requests the corresponding disbursement and will be duly reflected in the disbursement eligibility memorandum.

Components / Policy objectives	Policy conditions First programmatic operation	Policy conditions Second programmatic operation	Status of fulfillment of the second programmatic operation's conditions <sup>1</sup>
<b>Component 3. Business environment for investment</b>			
a. Improve sector regulatory quality for investment in strategic productive sectors.	3.1 The Forestry Executive Board has coordinated the following measures to improve the competitiveness of the forestry sector: (a) preparation of draft forest and wildlife regulations, prioritizing the penalization of actions that cause greater deforestation; (b) update of the official list of forest species to improve the effectiveness of strategic control posts; and (c) creation of a forest management agency in at least two regional governments with forest regions.	3.1 The following measures have been coordinated to sustainably improve the competitiveness of the forestry sector: (a) implementation of the compulsory use of the Operations Book <sup>2</sup> in forest operations; (b) creation of a forest management agency and progress in the implementation of another, in two regional governments with forest regions; (c) preparation of the draft law to promote the forestry sector, with measures focused on value chains, financing, innovation, and zoning for sector development; (d) implementation of the Forest-Timber CITE network in Ucayali, Loreto, and Madre de Dios.	3.1 Fulfilled (Q4 2022)
	3.2 The Aquaculture Executive Board has coordinated the following measures to improve the competitiveness of the aquaculture sector: (a) alignment of the health standard for bivalve mollusks with EU law, updating zoning criteria in line with EU law; (b) opening of the markets of Australia and the People's Republic of China to shrimp exports; (c) preparation of the draft aquaculture labor inspection protocol; and (d) approval of the aquaculture and fisheries environmental management regulations, regulating the certification of environmental requirements in aquaculture.	3.2 There has been continued sustainable expansion of markets for the aquaculture sector through the: (a) start of the implementation of the single window for aquaculture; (b) recognition from the World Organisation for Animal Health that Peruvian shrimp meets sanitary standards, and increase of exports to China; (c) start of the implementation of the National Fisheries Health Agency's process-based inspection and certification system; and (d) strengthening of the network of aquaculture and fisheries CITEs.	3.2 Fulfilled (Q4 2022)
	3.3 The Mining Executive Board has coordinated the amendment of the Mine Closure Regulation to streamline the updating of closure plans and the management of environmental guarantees.	3.3 The regulatory framework for prior consultation has been amended to streamline its application during the prospecting phase of mining operations, maintaining the relationship with communities and safeguarding the social license.	3.3 Fulfilled (Q3 2021)

<sup>2</sup> The Operations Book of qualifying titles records information collected during various forest timber exploitation processes for the purposes of traceability of timber specimens, products, and byproducts.

Components / Policy objectives	Policy conditions First programmatic operation	Policy conditions Second programmatic operation	Status of fulfillment of the second programmatic operation's conditions <sup>1</sup>
b. Improve crosscutting regulatory quality for investment by fostering free competition and more efficient markets.	3.4 The MEF has regulated the Crecer Fund to implement guarantees, lines of credit, and investment for MSME growth.	3.4 The trust fund of COFIDE (Peru's Development Finance Corporation): (a) has been set up to make the Crecer Fund operational; and (b) is in operation, following gender equity and climate change guidelines.	3.4 Fulfilled (Q4 2021)
	3.5 The new business structure, "Sociedad por Acciones Cerrada Simplificada," has been approved to incorporate companies digitally without the need for a notary.	3.5 The regulations for the new business structure, "Sociedad por Acciones Cerrada Simplificada," have been approved to incorporate companies digitally without the need for a notary; the structure has been implemented.	3.5 Fulfilled (Q4 2021)
	3.6 The PCM has ratified the new administrative procedures of the executive branch based on the regulatory quality analysis of corporate formalities.	3.6 Nine MAC centers have been set up as a one-stop venue for formalities for people and companies outside Lima.	3.6 Fulfilled (Q2 2021)
	3.7 To improve the competition advocacy and promotion framework: (a) the draft law on the single body for free competition advocacy has been prepared; (b) INDECOPI has approved the Guide to Free Competition in Public Procurement; and (c) the rewards program has been included in the framework of the free competition advocacy law.	3.7 To continue to improve the competition advocacy and promotion framework: (a) the preparation process for the PNC has started, with INDECOPI preparing the report on its relevance; (b) a draft law for the constitutional autonomy of INDECOPI has been submitted to Congress; (c) the competition advocacy commission has been strengthened by establishing the national office for free competition investigation; and (d) the rewards program has been regulated.	3.7 Fulfilled (Q4 2021)
	3.8 The draft law establishing the prior control of mergers and acquisitions has been prepared to improve the functioning of the free competition advocacy framework.	3.8 The regulations to implement the law on the prior control of mergers and acquisitions have been approved.	3.8 Fulfilled (Q2 2021)
	3.9 INACAL has: (a) initiated the process of regional deconcentration of metrology services for the country's productive sectors; (b) implemented the system of online sales to facilitate access to Peruvian technical standards; and (c) included at least 100 Peruvian technical standards in the technical datasheets for public procurement in collaboration with the central procurement body, Perú Compras.	3.9 (a) The process of regional deconcentration of metrology services has been expanded through the accreditation of new calibration laboratories in other regions; (b) resources have been obtained and pre-investment studies have been planned to implement new metrology laboratories that meet sustainable building criteria and have energy-efficient equipment; (c) in cooperation with Perú Compras, at least 200 Peruvian technical standards have been included in the public procurement technical datasheets; and (d) in collaboration with the ITP, at least one testing or calibration procedure has been implemented in at least seven public or private CITE centers, accredited under ISO/IEC-17025.	3.9 Fulfilled (Q3 2021)

Components / Policy objectives	Policy conditions First programmatic operation	Policy conditions Second programmatic operation	Status of fulfillment of the second programmatic operation's conditions <sup>1</sup>
c. Improve the planning, execution, and operation of public infrastructure investment at the national level.	3.10 The MEF, in coordination with the competent sectors, has a proposed National Infrastructure Plan to steer public and private investment for competitiveness purposes.	3.10 An adequate institutional arrangement is in place to implement, monitor, and evaluate the National Sustainable Infrastructure Plan. The plan is being executed, following climate change and sustainability guidelines.	3.10 Fulfilled (Q4 2022)
	3.11 A provision has been included in the Public Procurement Law that promotes the compulsory and progressive adoption of digital information modeling tools throughout the project cycle in State-contracted public works.	3.11 A BIM Peru Plan is in place that defines the national strategy for its deployment in public investment management practices that address climate change, with the participation of the relevant public, private, and academic actors.	3.11 Fulfilled (Q2 2021)
	3.12 The Directorate General for Multiyear Investment Programming has been ordered to develop methodologies for the adoption and use of BIM in public investment processes.	3.12 Test projects to implement the BIM Peru Plan have started and help address climate change.	3.12 Fulfilled (Q2 2021)
<b>Component 4. Business environment for innovation</b>			
a. Manage the governance of the national innovation system and improve coordination among its members.	4.1 The MEF has created the Innovation Executive Board in order to improve public-public and public-private coordination among members of the innovation system.	4.1 (a) PROINNOVATE operations have been integrated with the National Fisheries and Aquaculture Innovation Program; (b) the institutional arrangements necessary to consolidate the existing programs into a national innovation agency have been defined; and (c) the necessary commissions to improve public-public and public-private coordination in the national science, technology, and innovation system have been established.	4.1 Fulfilled (Q1 2021)
	4.2 CONCYTEC has prepared the draft regulations of Law 30806 (the Framework Science, Technology, and Technological Innovation Law), strengthening CONCYTEC's capacities as the system's lead agency.	4.2 CONCYTEC's organizational reforms necessary to enact Law 30806, which amends several articles of Law 28303 (Framework Science, Technology, and Technological Innovation Law) and of Law 28613 (CONCYTEC Law), have been implemented. The National Fund for Scientific, Technological, and Technological Innovation Development has been consolidated into a new science support program known as PROCENCIA.	4.2 Fulfilled (Q1 2021)
	4.3 The ITP's competencies have been specified by establishing the functions relating to the management and operation of the CITE network.	4.3 The strategy and regulatory framework for the strategic development and strengthening of the management model for the CITE network have been approved.	4.3 Fulfilled (Q3 2021)

Components / Policy objectives	Policy conditions First programmatic operation	Policy conditions Second programmatic operation	Status of fulfillment of the second programmatic operation's conditions <sup>1</sup>
b. Improve the quality and broaden the scope of public policies supporting innovation.	4.4 CONCYTEC, together with the MEF, has proposed improvements to the tax benefit on expenditures relating to scientific research, technological development, and technological innovation (R&D+innovation) of Law 30309 through: (a) the preparation of the draft law extending its validity; (b) the clarification of eligibility for the R&D+innovation tax benefit for companies that have already gained access to sector tax benefits; and (c) the issuance of the directive making the procedures to make use of the incentive through R&D+innovation centers more flexible.	4.4 The draft law extending the validity of the tax incentive for R&D+innovation expenditure established temporarily by Law 30309, which promotes scientific research, technological development, and technological innovation, has been submitted to Congress.	4.4 Fulfilled (Q3 2021)
	4.5 The legislative framework to promote scientific research in Peru has been established.	4.5 (a) The proposed regulations for Law 30948 (Law to Promote Scientific Research), defining the parameters to enact the law and connecting it to RENACYT, have been prepared; and (b) the regulations for the credentialing, classification, and registration of researchers in RENACYT, with measures promoting female researchers, have been prepared.	4.5 Fulfilled (Q3 2021)
	4.6 The technical guidelines for the execution of science, technology, and technological innovation projects financed with royalties at public universities have been approved.	4.6 The technical inputs have been created and the work teams have been established to prepare the guidelines to formulate and evaluate investment projects focused on science, technology, and technological innovation, including: (a) the baseline for public expenditure in science, technology, and innovation in Peru; and (b) the establishment of a work team in CONCYTEC to propose updated indicators for gaps in infrastructure and access to services involving science, technology, and innovation, as well as service levels and quality standards.	4.6 Fulfilled (Q1 2021)

Components / Policy objectives	Policy conditions First programmatic operation	Policy conditions Second programmatic operation	Status of fulfillment of the second programmatic operation's conditions <sup>1</sup>
	4.7 To improve financing for investment in business innovation, acting through the National Innovation Program for Competitiveness and Productivity, the Ministry of Production has: (a) completed a competitive bidding process for the instrument to support the demand for technological services; and (b) approved financing for a private venture capital investment fund.	4.7 Through PROINNOVATE: (a) three competitive bidding processes for the instrument to support the demand for technological services, with rules that include climate change considerations, have been completed; and (b) at least one private venture capital investment fund has been capitalized.	4.7 Fulfilled (Q4 2021)
a. Facilitate access to and the strengthening of the protection of intellectual property rights.	4.8 The law establishing new intellectual property rights appropriate to the country's potential that facilitate companies' access to the intellectual property system has been enacted (protected geographical indications and traditional specialties guaranteed).	4.8 The regulations governing the rights arising from protected geographical indications and traditional specialties guaranteed have been approved.	4.8 Fulfilled (Q4 2021)
	4.9 The draft of the Law on the Observance of Intellectual Property Rights (Antipiracy Law) has been prepared.	4.9 The observance of intellectual property rights has been strengthened through: (a) the development of econometric methods to calculate the range of fines; and (b) the establishment of at least three precedents for mandatory compliance by the Tribunal for Competition Advocacy and Intellectual Property Protection of INDECOPI, regarding recurrent violations of intellectual property rights.	4.9 Fulfilled (Q2 2021)

## RESULTS MATRIX

<b>Program objectives</b>	The specific development objectives are to: (i) improve competitiveness by strengthening public institutions devoted to this purpose; (ii) expand private investment through policy commitments aimed at improving the environment for investment; and (iii) redouble the effort in innovation through policy commitments aimed at improving the environment for innovation. The general development objective of the programmatic series and this second operation is to support the Government of Peru in improving the economy's productivity and competitiveness.
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### GENERAL DEVELOPMENT OBJECTIVES

Indicators	Unit of measure	Baseline	Baseline year	Progress follow-up	Progress follow-up year	Target (2023)	Means of verification	Comments
<b>General development objective:</b> Support the Government of Peru in improving the economy's productivity and competitiveness.								
Percentage of annual GDP growth attributable to changes in TFP	%	19	2017	14	2019	20	Penn World Table	See the <a href="#">monitoring and evaluation plan</a> .
Value added per employee in aquaculture companies and in the industrial sectors associated with forestry and mining operations	Ratio (thousands of US\$ per employee)	34	2016	42	2019	45	Annual Economic Survey from INEI	
World Competitiveness Ranking. <sup>1</sup>	Ranking	54	2018	54	2022	52	IMD World Competitiveness Booklet	

### SPECIFIC DEVELOPMENT OBJECTIVES

Indicators	Unit of measure	Baseline	Baseline year	Progress follow-up	Progress follow-up year	Target (2023)	Means of verification	Comments
<b>Specific development objective 1:</b> Improve competitiveness by strengthening public institutions devoted to economic productivity and competitiveness.								
Investment made in EESI public-private partnership road projects (% of investment committed)	%	44.6	2017	80.3	2021	81	Annual performance reports on road concessions from the entity supervising investment in transportation infrastructure for public use	See the <a href="#">monitoring and evaluation plan</a> .

<sup>1</sup> This indicator replaces the original, the Global Competitiveness Index from the World Economic Forum, which was discontinued in 2019.



Indicators	Unit of measure	Baseline	Baseline year	Progress follow-up	Progress follow-up year	Target (2023)	Means of verification	Comments
<b>Specific development objective 2:</b> Expand private investment through policy commitments aimed at improving the environment for investment.								
Investment by companies in the aquaculture sector and industrial sectors associated with forestry and mining operations (ratio to net revenue)	Ratio	0.51	2016	0.57	2019	0.65	Annual Economic Survey from INEI	See the <a href="#">monitoring and evaluation plan</a> .
<b>Specific development objective 3:</b> Redouble the effort in innovation through policy commitments aimed at improving the environment for innovation.								
Private investment in innovation by manufacturing companies receiving public support for investment in innovation (% of sales)	Percentage	6.4 <sup>2</sup>	2017	N/A	N/A	9	Innovation Survey from INEI	See the <a href="#">monitoring and evaluation plan</a> .

## OUTPUTS

Outputs	Unit of measure	Baseline	Baseline year	Target 2023	Means of verification	Responsible party
<b>Component 2. Institutional framework for competitiveness</b>						
2.1 Proposal for the SNC prepared, strengthening public-public and public-private coordination to implement the PNCP, including a framework to evaluate its impacts, with the periodic updating of the PNCP having started	Proposal prepared	0	2021	1	See the <a href="#">means of verification matrix</a>	MEF
2.2 The EEME was strengthened to consolidate its coordination team and have the resources to conduct studies and access specialized technical assistance, to address priorities for reform and institution-strengthening arising from the needs of the Sector Executive Boards	Team reinforced	0	2021	1		
2.3.1 Decree approved to strengthen team management in the EESI and have methodological tools to measure the impact of its intervention	Decree approved	0	2021	1		

<sup>2</sup> The baseline (originally measured in 2014) was updated with the most recent data available from the 2018 Innovation Survey from INEI.

Outputs	Unit of measure	Baseline	Baseline year	Target 2023	Means of verification	Responsible party
2.3.2 Report published about the studies of approval processes and monitoring of investment projects by the EESI	Report published	0	2021	1		
2.3.3 Management report for the EESI published, with evidence that specialized technical assistance is provided to the public institutions involved in investment project approvals	Report published	0	2021	1		
Component 3. Business environment for investment						
3.1.1 Resolution to implement the compulsory use of the Operations Book in forest operations adopted	Resolution adopted	0	2021	2	See the <a href="#">means of verification matrix</a>	Ministry of Agricultural Development and Irrigation (MIDAGRI)
3.1.2.1 Regional ordinance published, mandating the creation of a forest management agency	Ordinance published	0	2021	1		
3.1.2.2 Supreme Decree published, indicating progress in implementing another forest management agency, to have these agencies established in two regional governments with forest regions	Supreme Decree published	0	2021	1		
3.1.3 Draft laws to promote the forestry sector under consideration by Congress, with measures focused on value chains, financing, innovation, and zoning for sector development	Draft laws under consideration	0	2021	3		
3.1.4 Forest-Timber CITE network in Ucayali, Loreto, and Madre de Dios implemented	CITE implemented	0	2021	2		
3.2.1 Resolution adopted to start the implementation of the single window for aquaculture	Resolution adopted	0	2021	1		Ministry of Production (PRODUCE)
3.2.2 Report from the World Organisation for Animal Health published, verifying that Peruvian shrimp meets sanitary standards	Report published	0	2021	1		

Outputs	Unit of measure	Baseline	Baseline year	Target 2023	Means of verification	Responsible party
3.2.3 Supreme Decree approved to start the implementation of the National Fisheries Health Agency's process-based inspection and certification system	Supreme Decree approved	0	2021	1		
3.2.4.1 Resolution adopted to strengthen the network of aquaculture and fisheries CITEs	Resolution adopted	0	2021	1		
3.2.4.2 Report published, with evidence of the strategic strengthening of the network of aquaculture and fisheries CITEs	Report published	0	2021	1		
3.3.1 Decree approved amending the regulatory framework for prior consultation to streamline its application during the prospecting phase of mining operations, maintaining the relationship with communities and safeguarding the social license	Decree approved	0	2021	1	See the <a href="#">means of verification matrix</a>	Ministry of Energy and Mines (MINEM)
3.3.2 Decree approved for the identification of indigenous peoples, to streamline the application of prior consultations during the prospecting phase of mining operations, maintaining the relationship with communities and safeguarding the social license	Decree approved	0	2021	1		
3.3.3 Resolution adopted to facilitate the administrative procedures of the mining subsector, to streamline the application of prior consultations during the prospecting phase of mining operations, maintaining the relationship with communities and safeguarding the social license	Resolution adopted	0	2021	1		
3.4.1 Resolution adopted establishing the trust fund of COFIDE, making the Crecer Fund operational and including gender equity and climate change guidelines	Resolution adopted	0	2021	1		COFIDE
3.4.2 Report published on the progress made executing the Crecer Fund	Report published	0	2021	1		
3.5.1 Decree approved to implement a new business structure, "Sociedad por Acciones Cerrada Simplificada," to incorporate companies digitally without the need for a notary	Decree approved	0	2021	1	See the <a href="#">means of verification matrix</a>	MEF
3.5.2 Report published on the companies incorporated as a "Sociedad por Acciones Cerrada Simplificada"	Report published	0	2021	1		

Outputs	Unit of measure	Baseline	Baseline year	Target 2023	Means of verification	Responsible party
3.6.1 MAC centers established as a one-stop venue for formalities for people and companies outside Lima	Centers established	0	2021	9		PCM
3.7.1 First version of the relevance report prepared by INDECOPI, indicating that the preparation process for the PNC has started	Report prepared	0	2021	1		
3.7.2 Draft law for the constitutional reform to recognize the constitutional autonomy of INDECOPI submitted	Draft law submitted	0	2021	1		
3.7.3 Decree approved strengthening INDECOPI by establishing the national office for free competition investigation	Decree prepared	0	2021	1		
3.7.4 Resolution adopted with the guidelines for the rewards program	Resolution adopted	0	2021	1		
3.8.1 Decree approved establishing the regulations to implement the law on the prior control of mergers and acquisitions	Decree approved	0	2021	1	See the <a href="#">means of verification matrix</a>	INACAL
3.9.1 INACAL strengthened with four accredited calibration laboratories in Arequipa and Lambayeque, expanding the regional deconcentration of metrology services	Institute strengthened	0	2021	1		
3.9.2 INACAL strengthened with resources programmed to conduct preinvestment studies for new metrology laboratories with sustainable building criteria and energy-efficient equipment	Institute strengthened	0	2021	1		
3.9.3 INACAL strengthened with at least 200 Peruvian technical standards included in the public procurement technical datasheets, in cooperation with Perú Compras	Institute strengthened	0	2021	1		
3.9.4 ITP accredited at least one testing or calibration procedure in at least seven public or private CITE centers under ISO/IEC-17025	Report published	0	2021	1		
3.10.1.1 Decree approved establishing an adequate institutional arrangement to implement, monitor, and evaluate the National Sustainable Infrastructure Plan; the plan is being executed, following climate change and sustainability guidelines	Decree approved	0	2021	1		MEF

Outputs	Unit of measure	Baseline	Baseline year	Target 2023	Means of verification	Responsible party
3.10.1.2 Report published about the adequate institutional arrangement to implement, monitor, and evaluate the National Sustainable Infrastructure Plan, which is being executed with its guidelines	Report published	0	2021	1		
3.11.1.1 Resolution adopted for a BIM Peru Plan that defines the national strategy for its deployment in public investment management practices that address climate change, with the participation of leading public, private, and academic actors	Resolution adopted	0	2021	1		
3.11.1.2 Roadmap published for a BIM Peru Plan that defines its deployment in public investment management practices that address climate change, with the participation of leading public, private, and academic actors	Roadmap published	0	2021	1	See the <a href="#">means of verification matrix</a>	MEF
3.12.1 Report published with details about the test projects being executed to implement the BIM Peru Plan and help address climate change	Report published	0	2021	1		
Component 4. Business environment for innovation						
4.1.1 Decree approved with details about the integrated operation of PROINNOVATE and the National Fisheries and Aquaculture Innovation Program	Decree approved	0	2021	1	See the <a href="#">means of verification matrix</a>	PCM
4.1.2 Decree approved defining the institutional arrangements necessary to consolidate the existing programs into a national innovation agency	Decree approved	0	2021	1		
4.1.3 Decree approved establishing the necessary commissions to improve public-public and public-private coordination in the national science, technology, and innovation system	Decree approved	0	2021	1		
4.2.1.1 Law approved implementing in CONCYTEC the organizational reforms needed to enact Law 30806, which amends several articles of Law 28303 (Framework Science, Technology, and Technological Innovation Law) and of Law 28613 (CONCYTEC Law)	Law approved	0	2021	1		
4.2.1.2 Decree approved to begin the consolidation of the National Fund for Scientific, Technological, and Technological Innovation Development into a new science support program known as PROCENCIA	Decree approved	0	2021	1		

Outputs	Unit of measure	Baseline	Baseline year	Target 2023	Means of verification	Responsible party
4.3.1 Institutional strategic plan approved for the strategic development and strengthening of the management and coordination model for the CITE network's operations	Plan approved	0	2021	1	See the <a href="#">means of verification matrix</a>	ITP
4.3.2 Resolution adopted with details to strengthen the management and coordination model for the CITE network's operations	Resolution adopted	0	2021	1		
4.4.1 Draft law submitted, extending the validity of the tax incentive for R&D+innovation expenditure established temporarily by Law 30309, which promotes scientific research, technological development, and technological innovation	Draft law submitted	0	2021	1		PCM
4.5 Preparation of: (a) the proposed regulations for Law 30948 (Law to Promote Scientific Research), defining the parameters to enact the law and connecting it to RENACYT; and (b) the regulations for the credentialing, classification, and registration of researchers in RENACYT, with measures promoting female researchers	Proposed regulations prepared	0	2021	1		CONCYTEC
4.5.2 Regulations approved for the credentialing, classification, and registration of researchers in RENACYT	Regulations approved	0	2021	1		
4.6.1 Report published with the baseline study for public expenditure in science, technology, and innovation, enabling the preparation of guidelines to formulate and evaluate investment projects focused on science, technology, and technological innovation	Report published	0	2021	1		
4.6.2 Resolution adopted establishing a work team in CONCYTEC to propose updated indicators for gaps in infrastructure and access to services involving science, technology, and innovation, as well as service levels and quality standards	Resolution adopted	0	2021	1	See the <a href="#">means of verification matrix</a>	
4.7.1 Resolution adopted reporting the execution of three competitive bidding processes for the instrument to support the demand for technological services at PROINNOVATE, with rules that include climate change considerations	Resolution adopted	0	2021	1		PROINNOVATE
4.7.2 Report approved about the capitalization of at least one private venture capital investment fund	Report approved	0	2021	1		

Outputs	Unit of measure	Baseline	Baseline year	Target 2023	Means of verification	Responsible party
4.8 Decree approved establishing the regulations governing the rights arising from protected geographical indications and traditional specialties guaranteed	Decree approved	0	2021	1		INDECOPI
4.9.1 Decree approved establishing the econometric methods to calculate the range of fines, introducing predictable values to determine illegal benefits, probability of detection, and aggravating factors	Decree approved	0	2021	1		
4.9.2.1 Resolution adopted based on precedents from the Tribunal for Competition Advocacy and Intellectual Property Protection of INDECOPI, about violations of the right to compensation for the public performance of audiovisual works for commercial purposes	Resolution adopted	0	2021	1		
4.9.2.2 Resolution adopted based on precedents from the Tribunal for Competition Advocacy and Intellectual Property Protection of INDECOPI, about the maximum period to implement the procedures regulated under Legislative Decree 1075	Resolution adopted	0	2021	1	See the <a href="#">means of verification matrix</a> .	
4.9.2.3 Resolution adopted based on precedents from the Tribunal for Competition Advocacy and Intellectual Property Protection of INDECOPI, about the period to exercise the right to a trade name, whether or not it has been registered	Resolution adopted	0	2021	1		

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/22

Peru. Loan \_\_\_\_/OC-PE to the Republic of Peru. Program to Improve  
Productivity and Competitiveness II

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Peru, as borrower, for the purpose of granting it a financing aimed at cooperating in the execution of the Program to Improve Productivity and Competitiveness II. Such financing will be for the amount of up to US\$300,000,000 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 \_\_\_\_ 2022)