

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

PERU

CLUSTER PROMOTION PROGRAM

(PE-M1005)

DONORS MEMORANDUM

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CONTENTS

I.	EXECUTIVE SUMMARY	1
II.	BACKGROUND.....	2
	A. The competitiveness of small and medium-sized enterprises in Peru: Opportunities and limitations	2
	B. Bank and MIF strategy	4
	C. Project rationale and focus.....	4
III.	OBJECTIVES AND DESCRIPTION.....	5
	A. Objectives	5
	B. Description and components	5
	1. Component 1. Awareness, promotion, and implementation of the competitive funding mechanism.....	5
	2. Component 2. Cofinancing of initiatives and implementation of the production integration subprojects.....	6
	3. Component 3. Monitoring, impact measurement, and dissemination of the results	7
IV.	COST AND FINANCING	8
V.	EXECUTING AGENCY AND MECHANISM	9
	A. Executing agency	9
	B. Project implementation	10
VI.	MONITORING AND EVALUATION.....	12
	A. Monitoring.....	12
	B. Evaluation and audits.....	12
VII.	PROGRAM BENEFITS AND RISKS	13
	A. Outcomes and expected impact.....	13
	B. Beneficiaries	13
	C. Risks	13
VIII.	SOCIAL AND ENVIRONMENTAL IMPACT.....	14
IX.	SPECIAL CONTRACTUAL CONDITIONS	14

ANNEXES

Annex I	Logical framework
Annex II	Detailed budget
Annex III	Related projects
Annex IV	Program execution mechanism

APPENDICES

Proposed resolution

INFORMATION AVAILABLE IN THE RE3/FI3 TECHNICAL FILES

- ARTICLES OF INCORPORATION OF INSTITUTO APOYO
- FINANCIAL STATEMENTS
- LETTER OF COMMITMENT FROM PERU'S MINISTRY OF ECONOMY AND FINANCE
- ABSTRACT AND MIF MEMORANDUM OF ELIGIBILITY
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=744375>
- APOYO CONSULTORÍA: ANÁLISIS DE DEMANDA PARA UN PROGRAMA DE PROMOCIÓN DE CONGLOMERADOS, INFORME 18 DE ENERO 2006 [ANALYSIS OF DEMAND FOR A CLUSTER PROMOTION PROGRAM, REPORT OF 18 JANUARY 2006]. [IDBDOCS-#743864-\(Pe-M1005\)](#)
[Análisis De Demanda](#)
- PROGRAM OPERATING REGULATIONS
[<HTTP://IDBDOCS.IADB.ORG/WSDOCS/GETDOCUMENT.ASPX?DOCNUM=745512>](http://IDBDOCS.IADB.ORG/WSDOCS/GETDOCUMENT.ASPX?DOCNUM=745512)
- BASIC SOCIOECONOMIC DATA
<http://www.iadb.org/res/index.cfm?fuseaction=externallinks.countrydata>

ABBREVIATIONS

AWP	Annual work plan
CC	Comité Consultivo de la Entidad Ejecutora [Executing Agency Consultative Committee]
CEII	Comité Ejecutivo Inter-Institucional [Interagency Executive Committee]
CESI	Committee on Environment and Social Impact
CNC	Consejo Nacional de Competitividad [National Competitiveness Council]
CONFIEP	Confederación Nacional de Instituciones Empresariales Privadas [National Association of Private Business Institutions]
CPIS	Collective production integration strategies
LSU	Linkage support unit
MEF	Ministry of Economy and Finance
MINCETUR	Ministry of Foreign Trade and Tourism
PEA	Program executing agency
PEU	Program executing unit
PPSC	Public-private steering committee
PRODUCE	Ministry of Production
PROMPEX	Comisión de Promoción de Exportaciones [Export Promotion Commission]
PROMPYME	Centro de Promoción de la Pequeña y Micro Empresa [Center for the Promotion of Small Business and Microenterprise]
SME	Small and medium-sized enterprise
SMU	Unidad de Seguimiento y Monitoreo de Sub-proyectos [Subproject monitoring unit]
USAID	United States Agency for International Development

CLUSTER PROMOTION PROGRAM

(PE-M1005)

I. EXECUTIVE SUMMARY

Beneficiary country:	Peru								
Executing agency:	Instituto Apoyo								
Beneficiaries:	At least 240 small and medium-sized enterprises (SMEs) in at least 12 production clusters in different industries, with potential for higher production, exports, and job creation.								
Financing:	<table><tr><td>Modality:</td><td>Nonreimbursable</td></tr><tr><td>MIF Facility III A:</td><td>US\$2,730,000</td></tr><tr><td>Local counterpart:</td><td>US\$1,900,000</td></tr><tr><td>Total:</td><td>US\$4,630,000</td></tr></table>	Modality:	Nonreimbursable	MIF Facility III A:	US\$2,730,000	Local counterpart:	US\$1,900,000	Total:	US\$4,630,000
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MIF Facility III A:	US\$2,730,000								
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Total:	US\$4,630,000								
Execution timetable:	<table><tr><td>Execution period:</td><td>48 months</td></tr><tr><td>Disbursement period:</td><td>54 months</td></tr></table>	Execution period:	48 months	Disbursement period:	54 months				
Execution period:	48 months								
Disbursement period:	54 months								
Objectives:	The goal of the program is to contribute to the competitive development of SMEs in Peru through the promotion of clusters. The purpose is to support the establishment of a joint public-private working mechanism with national coverage: (i) to foster more competitive SME performance through interfirm linkages and cooperation between firms and supporting institutions; and (ii) to promote public-private cooperation in the field of production development policies.								
Description:	The program seeks to establish a transparent demand-side mechanism, which is privately managed and has public-private decision-making bodies, to identify and support groups of SMEs whose internal conditions favor the establishment of clusters. The program is organized into three components: the first will finance the establishment and dissemination of a competitive mechanism to evaluate and select proposals for cofinancing collective business development strategies and actions; the second will include cofinancing and support for carrying out the selected subprojects; and the third will include program monitoring and								

evaluation, coupled with actions to systematize and transfer learning experiences.

Special contractual conditions:

As a condition precedent to the first disbursement, evidence of the following must be presented to the Bank's satisfaction: (i) establishment of a program executing unit (PEU) and a public-private steering committee (PPSC); and (ii) appointment of the program's chief supervisor, the program director, and Grupo Apoyo's consultative committee. Within three months after the first disbursement, Instituto Apoyo must present, to the Bank's satisfaction, the Operating Regulations, a disbursement schedule, disbursement triggers, and a plan of activities for year one of the program. During program execution, the disbursement triggers, which will be set according to the corresponding annual work plans (AWPs), must be met for replenishment of the revolving fund and for disbursements to the program executing agency (PEA) and each subproject. Also, disbursements for the PEA will be conditional on the rate of advance of each subproject (paragraphs 9.1 and 9.2).

Exceptions to Bank policy:

None

Environmental and social review:

The Committee on Environment and Social Impact (CESI) reviewed and approved the project abstract on 22 October 2004 (meeting 41-04) and its recommendations have been included in the present document (paragraph 8.1). No changes have been made to the program since the abstract was approved that would warrant a new review by CESI.

Coordination with other donors:

The program will coordinate with other donors as part of the effort of building strategic partnerships to ensure the sustainability of the competitive funding mechanism.

II. BACKGROUND

A. The competitiveness of small and medium-sized enterprises in Peru: Opportunities and limitations

- 2.1 International experience indicates that in certain productive sectors small and medium-sized enterprises (SMEs) have greater flexibility and capacity to adapt to changing markets. Also, production association and integration between firms of different sizes is a suitable avenue for boosting the competitiveness of those firms, by linking them in production chains, thereby facilitating better access to markets and the incorporation of new technologies.

- 2.2 Although the entrepreneurial fabric in Peru has territorial and sector concentrations of small firms, they involve a large number of productive units that generally operate haphazardly. This limits their capacity to build the relationships typically found in clusters and to tap the advantages that flow from collective actions. A recent survey identified some 30 production clusters with the presence of SMEs, the vast majority of which are in the initial or embryonic stages of productive linkage, and another 187 local groupings of SMEs that are regular suppliers of larger national firms across the country.¹ Some of the elements that limit SME competitiveness and growth as a result of problems in generating linkages are described below.
- 2.3 **Limited technical and management capacity.** SMEs contribute about 20% of national production and employ about 27% of the country's workforce. Large firms account for 60% of national economic activity but only about 32% of employment. The potential for SME growth is generally limited because of internal technical and managerial weaknesses. This translates into a considerable gap in productivity and technological dynamism between the smaller productive units and the medium-sized and large firms, which makes linkage between them difficult.
- 2.4 **Limited tradition of public-private dialogue and fragmentation of support for productive development.** Today, the country has initiatives and projects for business networks and the formation of clusters, mainly financed with international technical-cooperation funding. However, until now, these efforts have only constituted a collection of fragmented experiences, without any corresponding build-up of knowledge, systemization of lessons learned, or policy support to ensure sustainability and/or replicability. In this context and as a continuation of the process of strengthening public-private dialogue supported by the Bank under the competitiveness reform program (PE-0239), in November 2003 the Peruvian government established an interagency executive committee (CEII) to implement an action plan for promoting cluster development strategies in Peru.² Although these efforts for cooperation and dialogue were an important step towards closer coordination of policy based on the needs of the production sector, there has been no progress, as yet, to implement tangible initiatives to support production.

¹ Apoyo Consultoría: Análisis de Demanda para un Programa de Promoción de Conglomerados, Informe 18 de enero 2006 [Analysis of demand for a cluster promotion program, report of 18 January 2006]. The study may be consulted at: [IDBDOCS-#743864-\(PE-M1005\) Análisis de Demanda](#).

² The CEII is composed of representatives of the Ministry of Production (PRODUCE), the Ministry of Foreign Trade and Tourism (MINCETUR), the Center for the Promotion of Small Business and Microenterprise (PROMPYME), which reports to the Ministry of Labor, the Export Promotion Commission (PROMPEX), and the National Competitiveness Council (CNC), which is composed of public and private agencies.

B. Bank and MIF strategy

- 2.5 The project is consistent with the Bank's strategy with the country approved in 2002 (GN-2205-1), insofar as it supports the strategic area of boosting the competitiveness and productivity of the private sector through SMEs. Here, the formation of collective firm ventures is key. Also, the project incorporates the recommendations of the competitiveness reform program (PE-0239) on the promotion of business clusters. If approved, it will provide continuity for the MIF's SME-related actions in the country, particularly the project for development of business networks in garment-making (Gamarra) and tourism (Cusco) clusters, which served as the foundation for deepening and adapting the design and methodology to be implemented in the program proposed here.
- 2.6 The project belongs to the MIF's Small Business Networks and Supply Chains cluster and its design takes account of the lessons learned and best practices compiled by the MIF in the design of production chain projects.

C. Project rationale and focus

- 2.7 In the context described above, the Peruvian government asked the MIF for support to develop a program to help form business clusters and promote business linkages through joint actions. The design of the operation drew on international experience and the lessons learned in MIF operations: (a) the selection of the clusters to be supported through a competitive process; (b) active participation by entrepreneurs in the clusters; (c) private sector leadership; and (d) strategic coordination on the territorial level among the different actors.
- 2.8 The proposed program will serve to launch a process that promotes opportunities for dialogue as the basis for designing productive development policies. It will also use competitive funding to support initiatives to develop clusters and promote efficient and transparent business linkages, with a view to strengthening the institutions that offer support, thereby facilitating the sustainability of the initiatives. As to project governance and implementation, there will be: (i) a public-private steering committee (PPSC), with the private sector holding a majority interest, to establish strategic guidelines for the program, decide on the subprojects to be selected, and offer a setting for policy dialogue; and (ii) a private company, Instituto Apoyo, selected through a competitive process as program executing agency (PEA). Instituto Apoyo has taken responsibility for designing and carrying out the program, through an internal executing unit.
- 2.9 **MIF additionality.** In addition to the impact on boosting the competitiveness of a significant number of firms and on the value added of the clusters to which they belong, the program seeks to establish a transparent privately-managed, demand-side mechanism, with public-private decision-making bodies that can sustain over time the capacity to help develop and improve production in different regions.

Innovation is thus expected to be introduced into the working dynamic between the public and private sectors to improve their coordination and effectiveness in SME development and competitiveness policies. Also, this mechanism will generate lessons and information on the needs of firms and clusters and ways of making them more competitive. This, in turn, will provide valuable guidance in helping the CEII to formulate public policies that promote business competitiveness.

III. OBJECTIVES AND DESCRIPTION

A. Objectives

- 3.1 The **goal** of the program is to contribute to the competitive development of SMEs in Peru through the promotion of clusters.
- 3.2 The **purpose** is to support the establishment of a joint public-private working mechanism with national coverage which: (i) fosters more competitive SME performance through interfirm linkages and cooperation between firms and supporting institutions; and (ii) promotes public-private cooperation in the field of productive development policies.

B. Description and components

- 3.3 The program will identify and support groups of SMEs that comply with given eligibility criteria and present internal conditions that favor the establishment of clusters.³ The program is organized into three components: the first will finance the creation and dissemination of a competitive mechanism to evaluate and select proposals; the second will include cofinancing and support for implementing the selected subprojects; and the third will include program monitoring and evaluation, coupled with actions to systematize and transfer learning experiences.

1. Component 1. Awareness, promotion, and implementation of the competitive selective mechanism (MIF: US\$34,600, counterpart: US\$117,500)

- 3.4 This component will include calls for proposals followed by the evaluation and selection of the subprojects to be supported by the program. The groups of activities that will be financed under this component are described below.
- 3.5 **Awareness-building and promotion.** The following activities will be financed: (i) an initial awareness-building workshop to provide information on the potential benefits of collective strategies and the competitive advantages that can be derived from production clusters; (ii) five workshops to launch the program—one in Lima

³ For the purposes of this program, the MIF defines SMEs as firms with fewer than 100 employees and less than US\$5 million in sales.

and four in the provinces—at the start of each of the two calls for subproject proposals; (iii) a direct marketing campaign and production of information materials, including brochures containing information on how to apply for the program, press notices, and the creation of a program website; and (iv) launch of a campaign to attract strategic partners, such as foundations, regional governments, and large firms, to support the program and its future sustainability. All these activities will be carried out nation-wide with a view to obtaining a representative sample of subprojects from the country's different regions.

- 3.6 The main outcomes expected from this subcomponent are: (i) 60 public and private institutions (at least 30 of which are located in the provinces) will have attended the workshops to publicize and launch the program; (ii) 400 entrepreneurs will have been made aware of collective development processes and the benefits of clusters; and (iii) at least three strategic partners will have formally joined the program and offered support (see Annex I [logical framework]).
- 3.7 **Evaluation and selection of subprojects.** Two competitions will be held to select subprojects. At least 30 eligible proposals are expected to be identified in the two calls, and 12 of these will be supported by the program.⁴ This process will be carried out by Instituto Apoyo through the program executing unit (PEU), with support from: (i) a team of three technical evaluators, who will examine the proposals; (ii) two consultants who will work with each linkage support unit (LSU) to develop eligible proposals; and (iii) legal consultants, who will expedite the process of formalizing the implementation agreements for the subprojects selected (see paragraph 5.7 for a detailed description of the stages in the process).

2. Component 2. Cofinancing of initiatives and implementation of the production integration subprojects (MIF: US\$1,892,600, counterpart: US\$1,428,000)

- 3.8 The purpose of this component is to help carry out the subprojects selected in component 1. The support for the groups of firms should enable them to surmount their internal weaknesses and facilitate the emergence and development of collective actions. The activities included are described below.

⁴ The groups of participating firms must: (i) consist of a minimum universe of 15 to 20 production units involved in the same activity, service, and/or value chain; (ii) demonstrate that potential exists for their interlinkage and present an economically viable business plan; and (iii) comply with the MIF's eligibility criteria on business size, ineligible sectors, and environmental and social conditions. The following will be eligible to act as LSUs: (i) trade associations that work with groups of firms; (ii) nongovernmental organizations; (iii) entities established by entrepreneurs representing a collective development action (e.g. producer associations); and (iv) larger firms that are leaders and have an interest in strengthening integration in their production chain. The LSUs will be required to demonstrate, among other things: (i) the capacity to mobilize firms and represent the interests of a group of firms; (ii) commitment to the subproject, in the form of a counterpart contribution or through some other type of guarantee; and (iii) an organization and history that evidences their transparency and respect for a code of ethics (see Operating Regulations for further details).

- 3.9 **Cofinancing for the subprojects.** An LSU will be in charge of implementing each subproject, and will appoint a full-time subproject coordinator. During implementation of the subproject, the LSU may subcontract consultants and service providers to promote the development of collective activities.
- 3.10 Despite the many different structures of the subprojects, the program will cofinance the following activities: (i) design of collective production integration strategies (CPIS) for each cluster and help in implementing them; (ii) assistance in coordinating collective demands for the CPIS; (iii) consulting services, specialized technical assistance, technical training, and promotion of good production and business management practices; (iv) facilitation of the processes of certification and organization and/or formalization of the cluster; (v) technical services related to quality, market intelligence, market access; (vi) shipment of samples to target markets identified in the CPIS; and (vii) collective participation in business meetings, technology missions, and trade fairs.
- 3.11 The program will finance up to 70% of the total cost of each subproject (40% in MIF financing and 30% in local counterpart funding). The remaining 30% will be contributed by the beneficiary firms as co-payments for services financed under the program. The total cost of each subproject, which will be carried out in periods of up to 36 months, is expected to be as much as US\$360,000.
- 3.12 **Support for implementing the subprojects.** To facilitate the start-up of each subproject, the PEU will hold special workshops for subproject coordinators and the LSUs, to deal with at least the following items: (i) operational and financial management of the subprojects; (ii) creation of technical capacity for the promotion of collective activities; and (iii) strategic definition of the LSUs and their capacity to attract new players and develop partnerships. The need for specialized assistance to help launch each subproject will be studied jointly with the corresponding LSUs.

3. Component 3. Monitoring, impact measurement, and dissemination of the results (MIF: US\$261,400, counterpart: US\$58,500)

- 3.13 The PEU will monitor the subprojects and the program through the subproject monitoring unit (SMU) and will assure that the information and lessons learned from the program are systematized, since they will provide valuable guidance for passing on the experience and for developing public policies on business competitiveness.
- 3.14 **Baseline and monitoring system.** The activities envisaged in this subcomponent include: (i) the design, installation, and updating of a program-level monitoring and evaluation system operated by the SMU, based on the MIF's cluster monitoring system; (ii) the establishment of a baseline and critical indicators for each subproject for monitoring and evaluation; (iii) training for PEU, SMU, and LSU teams in the use of the monitoring system and the inputting of data.

- 3.15 **Evaluation of program outcomes and impact.** The PEU will commission the following studies: (i) a midterm program evaluation at the end of the second year and a final evaluation of the program as a whole and of each subproject at the end of the fourth year; and (ii) at least three analytical studies starting in the second year, to extract lessons and learn about conditions for the future replication of the mechanism and its impact on variables such as innovation, access to financing, sustainability of the improvements, etc.
- 3.16 **Systemization and dissemination of the experience.** Based on the information in the monitoring system, the analytical studies, the evaluations, and consultations with the parties involved, the PEU will identify lessons and the critical success factors in implementing the mechanism for subproject identification, selection, and support and in executing them. The PEU will also promote the exchange of experiences and lessons learned between the subprojects and relevant outside initiatives, in three workshops (one per year) during the life of the project.
- 3.17 The results of the program, lessons learned, and conditions for the future sustainability of the mechanism will be disseminated through publications, bimonthly electronic bulletins, the program's website, talks and workshops organized on the national level, and an international seminar held in the final year of the program. Last, an exposition of the work done will be given at an international event on experiences with collective business development, in order to present the overall achievements of the program and of the clusters that were supported.

IV. COST AND FINANCING

- 4.1 **Cost.** The program will cost a total of US\$4.6 million, with 58.7% provided by the MIF (US\$2.7 million) and 41.3% by the local counterpart (US\$1.9 million). The bulk of both the MIF and the local counterpart resources will be used for implementing the selected cluster subprojects. The MIF will also finance most of the component for monitoring, evaluation, and dissemination of results (81.7%) and a smaller percentage of the component on awareness-building, promotion, and implementation of the selection mechanism (22.7%). Contributions in cash will account for 74% of the counterpart funding, and contributions in kind for 26%, with financing being provided by the MEF, Instituto Apoyo, and each subproject.

Table 1
Program budget
(in US\$000s, details in Annex II)

	MIF	COUNTERPART			TOTAL	MIF %	COUNTERPART %
		KIND	CASH	SUBTOTAL			
1. Program executing unit	443.4	264.0	32.0	296.0	739.4	60.0	40.0

2. Awareness-building and promotion mechanism	34.6	24.5	93.0	117.5	152.1	22.7	77.3
3. Cofinancing and execution of subprojects	1.892.6	648.0	780.0	1.428.0	3.320.6	57.0	43.0
4. Monitoring, evaluation and dissemination, sustainability	261.4	0.5	58.0	58.5	319.9	81.7	18.3
5. External audits	20.0	0	0	0	20.0	100	0
6. Contingencies	48.0	0	0	0	48.0	100	0
Total	2.700.0	705.0	1.195.0	1.900.0	4.600.0	58.7	41.3
Monitoring of the MIF cluster	30				30	100	0

- 4.2 **Sustainability.** The program will work with groups of firms that show favorable internal conditions for the sustainable formation of clusters. It will also contribute to the sustainability of the program outcomes on the cluster level in two ways: (i) the demonstration effect of the firms that experience an improvement in their sales compared to other firms in the same or other sectors will increase their willingness to undertake joint actions and pay for the joint services they receive; and (ii) the institutional strengthening provided by the LSUs will facilitate the transmission of methodologies to support collective business development by the remaining affiliates and clients, thus ensuring support for the creation of new clusters.⁵

V. EXECUTING AGENCY AND MECHANISM

A. Executing agency

- 5.1 The program executing agency will be Instituto Apoyo, a private non-profit agency that will act as the MIF's counterpart. Instituto Apoyo was established in 1989 at the initiative of Grupo Apoyo, to which it belongs. With annual earnings of nearly US\$13 million, Grupo Apoyo is widely recognized in the market for its economic advisory and market analysis services. Apoyo Consultoría works with some 135 businesses, with total sales equivalent to more than 15% of GDP.
- 5.2 With annual earnings of around US\$550,000⁶, Instituto Apoyo provides a number of different business advisory services. At this time, two of its projects stand out. The first is "Mathematics for all", a privately-cofinanced project that has raised approximately US\$1 million annually in nearly five years. The other is the CRECER project carried out in conjunction with Nathan Associates and financed by USAID/Peru. This project, which seeks to improve conditions for business development, has mobilized approximately US\$4 million over three years.

⁵ The sustainability of the program as a whole is analyzed in paragraph 7.4

⁶ This figure includes income from donations and from services.

- 5.3 The process of selecting Instituto Apoyo as the executing agency was based on a call for proposals by institutions that had been prequalified by the CEII, with the approval of the IDB/MIF. Instituto Apoyo has broad technical expertise in applied research and the design of public-private policies and cooperation. In addition, it has a proven track record in managing the projects of international agencies, the administrative capacity to carry out a project of this magnitude, and the ability to drum up considerable support in the private sector and amongst international cooperation agencies through the Group's networks of contacts. In view of its limited experience with production integration projects, however, the program will provide resources to strengthen expertise in this area within the Instituto. Also, given the large number of subprojects, additional resources have been included to provide specific accounting support services for the coordinating units.

B. Project implementation

- 5.4 **Execution mechanism.** As PEA, Instituto Apoyo will be responsible to the Bank for general program administration. A program executing unit (PEU) will be established within the institution to concentrate on program execution and administration and to promote the creation of a public-private steering committee (PPSC) that serves as the program's senior decision-making body.
- 5.5 The PEU will be headed by the chief supervisor who will be a member of Grupo Apoyo. He will work part time for the program, and act as liaison between the executing agency and the PPSC.⁷ Program funds will be used to hire a program director, a technical assistant, and an administrative assistant who will work full time on program administration and execution. The PEU will have additional support for program implementation (see paragraphs 3.7 and 3.12). To ensure independence in the functions of program monitoring, the SMU, which will have one professional, will be supervised by the chief supervisor, and will report on program monitoring directly to the PPSC and the Bank.
- 5.6 The PPSC will be composed of 10 members, four from the private sector and six from public agencies.⁸ Its functions will be: (i) to provide strategic guidance for the program and supervise its progress; (ii) to approve the program's operating

⁷ Also, as a contribution to the program, Instituto Apoyo will establish a consultative committee composed of five senior directors from Grupo Apoyo who will act as technical advisors to the program.

⁸ The public sector members will include representatives from PROMPYME, PROMPEX, the International Economy, Competition, and Private Investment Division of the Ministry of Economy and Finance, and PRODUCE (Ministry of Production). The private sector representatives will include two entrepreneurs, one representative of the financial sector, one academic, one representative of business development service providers, and the chief supervisor from the program executing agency. The private sector members will be selected from a short list of potential members prepared by the National Association of Private Business Institutions (CONFIEP), which will be discussed with Instituto Apoyo, the Bank's Country Office in Peru, and a representative of PROMPYME.

mechanism and subproject selection; (iii) to offer a setting for discussion of business development policies.

- 5.7 **Evaluation, selection, and formalization of subprojects.** Proposals will be selected through two competitions to be held in the first 15 months of the program, as specified in the Operating Regulations. The process consists of three stages:
- a. **Receipt of applications and preselection of eligible subprojects.** The LSUs will deliver their applications with basic information on their own organization, the firms, the sector that forms the core of the cluster, and a project profile. The PEU and the evaluating team will validate the eligibility of the proposals and propose a list of eligible projects to the PPSC.
 - b. **Formulation and selection of subprojects.** The LSUs will develop the eligible subprojects with support from the PEU. In this stage selection will be based on the following factors: the extent to which the proposed objectives and actions are consistent with the diagnostic analysis of the sector, the context and the characteristics of the group of firms, the economic feasibility of the subproject and the expected outcomes, and the future sustainability of subproject outcomes. The selected subprojects must have the Bank's no objection and the PPSC's final approval.
 - c. **Formalization of the selected subprojects.** Each LSU will sign an execution agreement with Instituto Apoyo. The agreements will expressly include the mutual commitments and, in particular, the obligation to contribute funds to the program, setting out the amounts and a timetable for disbursement. Also required is the Bank's no objection.
- 5.8 **Execution period and disbursement schedule.** The estimated execution period is 48 months and the disbursement period is 54 months.
- 5.9 **Project readiness.** Instituto Apoyo has moved forward in preparing the program, maintaining an ongoing dialogue with the MEF and other entities in the PPSC. It has been conducting a market study and making visits to analyze potential subprojects that could be funded under the program with a view to perfecting the process design and obtaining learning experiences for the startup phase⁹. The Operating Regulations have now been prepared and will need to be ratified by the PPSC and presented to the Bank within three months after the first disbursement.
- 5.10 **Procurement and contracting.** The executing agency is responsible for establishing the program procurement procedures. To that end, the executing agency will present to the Bank a procurement procedures manual that conforms to

⁹ Also, the MEF has issued a letter, expressing its commitment to the program, with an undertaking to make the counterpart contribution. This information is available in the project technical files.

the Bank's new procurement policies. Procurement for each subproject, once approved by the Bank, will be carried out in accordance with the executing agency's procedures. The program procurement plan will be updated semiannually and will include the procurement for each subproject as it is approved.

- 5.11 For contracts under US\$30,000, procurement will be subject to post review unless otherwise specified by the Bank, following a review of the procedures used for procurement of goods, services, and consulting services. This threshold may be adjusted depending on performance and risk. The Bank reserves the right to decide in advance on the appropriate procedures.
- 5.12 **Disbursement mechanism.** The program funds will be administered by the program executing agency using a revolving fund arrangement. The amount of the fund will be sufficient to finance its activities for at least six months, but may be as much as 20% of the total contract amount.¹⁰ The replenishment of the fund will be conditional on: (i) compliance with the disbursement triggers by the executing agency, which will be established in the annual work plan; and (ii) the rate of advance of the subprojects. Also, the executing agency will administer disbursements to the LSUs as the triggers agreed on in the annual work plan for each subproject are reached.

VI. MONITORING AND EVALUATION

A. Monitoring

- 6.1 The executing agency will prepare and present to the Bank's Country Office in Peru semiannual progress reports on program activities, particularly execution of the different subprojects, and a final report 30 days after the last disbursement, in a format agreed on with the Bank. The LSUs will undertake to present management reports semiannually to the PEU. Upon completion of a subproject, a report will be prepared to examine the success factors. This report will include considerations for systematizing the experience of collaborative effort, based on the findings of the evaluation.

B. Evaluation and audits

- 6.2 **Evaluations.** There will be two evaluations. The first, to be performed 24 months into the program or when 50% of the MIF funds have been disbursed, whichever occurs first, will make recommendations to correct problems in design and execution. The second evaluation, to be performed 46 months into the project or when 90% of the MIF funds have been disbursed, whichever occurs first, will

¹⁰ This ceiling was set to streamline the project since it has a two-tier structure where the activities of Instituto Apoyo and those of the 12 subprojects are expected to start up virtually at the same time.

consolidate outcomes of the subprojects and the lessons learned, and set out a plan for the mechanism's future sustainability. The PEU will also commission analytical studies starting in year two to systematize the success indicators of a set of subprojects, in order to evaluate their performance. It will also make forecasts and recommendations in areas including program impact on competitive factors, such as innovation, access to financing, and future self-sustainability. Upon completion of the program, an analytical study will be conducted to examine indicators and information on all the subprojects.

- 6.3 **Audits.** In addition to the annual external financial audits of the program, there will be an annual external financial audit of each subproject and a final audit upon completion. The cost of these audits, which will be performed according to the PEU's specifications, will be defrayed out of the subproject execution budget. This condition will be contained in the subproject execution agreements.

VII. PROGRAM BENEFITS AND RISKS

A. Outcomes and expected impact

- 7.1 The competitive capacity of the SMEs in at least 12 clusters is expected to increase as a direct result of the program. The following impact indicators will be used to verify the amelioration at the level of the firm: (i) higher average productivity; and (ii) verifiable improvement in managerial quality; and at the level of the cluster: (i) higher aggregate sales; (ii) incorporation of new end markets; and (iii) growth in formal employment.

B. Beneficiaries

- 7.2 The program beneficiaries will be 240 SMEs in different industries, with potential for higher production, exports, and job creation and, through their participation in collective development activities, they will be able to generate competitive advantages. At least 12 linkage support units will also be strengthened, and will be able to replicate the lessons learned from the program in productive development in other parts of the country.

C. Risks

- 7.3 To mitigate the risk of a possible lack of demand for the competitive funding mechanism, a demand study was prepared. The study identified clusters in the incipient stage that complied with the basic eligibility requirements and were potentially interested in working with the program (see paragraph 2.2). The dissemination activities planned for the first component will also help to mitigate this risk.

- 7.4 To mitigate the risk as to the sustainability of the second-tier mechanism supported by the program, complementary resources from strategic partners, such as regional governments, foundations, and private firms, are expected to be mobilized from the outset of the program. Lastly, the third component includes a plan to continue the mechanism into the future that will facilitate the transfer of learning and the sustainability of the arrangement.
- 7.5 Given the innovative nature of the proposed public-private mechanism in the Peruvian context, there is a risk that changes in the political climate could affect its viability. To mitigate this risk, it is important to ensure that: (i) the spaces for public-private dialogue are suited to the conditions of Peruvian institutions; and (ii) the stakeholders have a sense of ownership in the program. The PPSC will meet frequently at the outset of the program to obtain feedback on the process, quickly making any necessary adjustments. Also, an intensive campaign of public events to be attended by business associations and public and private institutions will be organized to publicize the benefits of public-private cooperation to support business development, and the benefits and advances of the program.

VIII. SOCIAL AND ENVIRONMENTAL IMPACT

- 8.1 The criteria for evaluating the subprojects include provisions concerning their environmental impact and management of activities-related impacts. Should there be negative environmental impacts that can be mitigated, the program activities would need to be oriented to alleviating the problems. The project's environmental guidelines, which were adapted from the MIF environmental guidelines for investment projects, have been incorporated into the Operating Regulations. The PEU, as part of the project evaluation and monitoring system, will track the specifics of the beneficiary firms, including gender factors, in order to identify differences associated with project performance and extract lessons for the future.

IX. SPECIAL CONTRACTUAL CONDITIONS

- 9.1 As a condition precedent to the first disbursement, it must be demonstrated to the Bank's satisfaction that: (i) the program executing unit and the public-private steering committee have been set up; (ii) a chief supervisor who will act as a contact between the PEU, the executing agency, and the PPSC has been appointed; and (iii) the program director and the members of Grupo Apoyo's consultative committee have been appointed. Within three months after the first disbursement, Instituto Apoyo must present, to the Bank's satisfaction, the Operating Regulations, a disbursement schedule, the disbursement triggers, and a work plan for year one of the program.

- 9.2 During program execution, the replenishment of the revolving fund and the corresponding disbursements for the PEA and each subproject will be conditional on fulfillment of the disbursement triggers set in the corresponding AWP. Also, disbursements to the PEA will depend on the rate of advance of the subprojects.

**LOGICAL FRAMEWORK
CLUSTER PROMOTION PROGRAM
(PE-M1005)**

Narrative summary	Performance indicators	Means of verification	Assumptions
GOAL			
To contribute to the competitive development of SMEs in Peru through the promotion of clusters.	<p>Three years after the end of the program:</p> <ol style="list-style-type: none"> 1. SMEs supported under the program have reported at least a 30% improvement in productivity. 2. At least 8 of the 12 clusters supported by the program continue to carry out collective activities and maintain business linkage arrangements. 	<ul style="list-style-type: none"> • Documents of the MEF and the National Competitiveness Council (CNC) 	<ul style="list-style-type: none"> • Stable macroeconomic environment. • No recession. • The government continues to attach priority to the sustainable development of SMEs.
PURPOSE			
To establish a joint public-private working mechanism with national coverage which: (i) fosters more competitive SME performance through interfirm linkages and cooperation between firms and institutions that provide support; and (ii) promotes public-private cooperation in the field of productive development policies.	<p>By the end of the program:</p> <ol style="list-style-type: none"> 1. The methodology of the competitive program is recognized nationally as effective in promoting cluster competitiveness. 2. In at least 10 of 12 clusters supported by the project: <ul style="list-style-type: none"> - the increase in aggregate sales over the baseline is higher than the average national growth rate for their respective sectors. - SMEs participating in the program acknowledge substantial improvements in quality management. 3. Peru has at least one public-private institutional mechanism to foster coherent cluster-focused productive development policies. 	<ul style="list-style-type: none"> • Industry statistics • Program monitoring system • Semiannual reports by the PEU to the PPSC • Minutes of the PPSC • Semiannual monitoring reports by the LSUs • Semiannual monitoring reports by the PEU • To measure program recognition: surveys of first-tier participating and nonparticipating institutions and parties attending activities to publicize the results, and a review of program mentions in the press and specialized journals 	<ul style="list-style-type: none"> • The firms and supporting institutions continue to be committed to the cluster arrangement and the supporting institutions to promoting consolidation. • Collective business actions and coordinated business arrangements promoted by project make a positive contribution to boosting SME productivity.

Narrative summary	Performance indicators	Means of verification	Assumptions
COMPONENTS			
Component 1: Awareness-building, promotion, and implementation of the competitive funding mechanism	<p>By the end of month 15:</p> <ul style="list-style-type: none"> At least 400 entrepreneurs and 60 public and private institutions—30 of which are located in the provinces—have participated in the programs to raise awareness about collective development processes and the benefits of establishing clusters. At least three strategic partners have formally joined the program by offering some kind of support for it. From the two calls for proposals, at least 30 proposals for strengthening clusters have been preselected as eligible and at least 12 have been selected for support by the program. 	<ul style="list-style-type: none"> Records of attendance at the events Program monitoring system Semiannual performance reports on each subproject Semiannual reports by the PEU to the PPSC Minutes of the meetings of the PPSC Records of the projects received in the program's calls for proposals Final evaluation of each subproject Website 	<ul style="list-style-type: none"> There is acceptance by institutions and firms in issues relating to the formation of clusters.
Component 2: Cofinancing of initiatives and execution of the subprojects	<ul style="list-style-type: none"> Three months after having reported on the selection of subprojects in each call for proposals, all the subprojects selected have signed execution agreements and have begun to carry out their plans of activities. By the end of the program, the LSUs in all the selected subprojects have been strengthened in operational and financial project management, strategic development, and/or technical capacity to support production linkage. <p>By the end of the program:</p> <ul style="list-style-type: none"> At least 12 clusters from at least 8 departments have received support through the mechanism established by the project. At least 240 SMEs are actively involved in subprojects to strengthen clusters supported by the project. In each of the clusters supported, the performance indicators have grown faster than the baseline 	<ul style="list-style-type: none"> Reports by the PEU to the PPSC Minutes of the meetings of the PPSC Agreements between the LSUs and the program executing agency Program monitoring system Semiannual performance reports on each subproject Industry statistics Final evaluation of each subproject Collective production integration strategies of each cluster Workshops for participants to exchange experiences Surveys of the participating firms on the quality of the services offered by the program (coordinated by the USMS) 	<ul style="list-style-type: none"> Companies taking part in the program have the technical, organizational, and collaborative capacity to carry out joint projects. The firms that participate in the program are willing to pay and have the capacity to do so. The subprojects do not experience drastic and unexpected downturns in market conditions. The PEU monitors the quality of the technical assistance services. The firms are interested in participating in training and technical assistance

Narrative summary	Performance indicators	Means of verification	Assumptions
	<p>indicators for average national growth for their respective sectors.¹</p> <ul style="list-style-type: none"> The following aggregate indicators for linkage and production integration within each subproject are satisfied, with respect to the baseline: <ul style="list-style-type: none"> Increase of at least 50% in the SMEs in the cluster that have current agreements to improve competitive performance with support institutions (universities, technology innovation centers, institutional innovation networks, etc.). Average increase of at least 30% in the value of annual transactions among the SMEs in the cluster. At least 6 clusters have been able to open up a new end market. The entrepreneurs who benefited from the program consider the services it financed contributed significantly to improving their competitiveness (at least 50% in year 2 and at least 70% in year 3). 		<p>events.</p> <ul style="list-style-type: none"> The firms are willing to carry out collective activities. Firm information and sector statistics are available.
Component 3: Monitoring, evaluation, and dissemination of results	<ul style="list-style-type: none"> Six months into the program, the monitoring system is operating. Before the first disbursement for each subproject, information has been obtained to calculate the baseline for the indicators agreed on in advance between the PEU and each LSU. At 36 and 48 months (or when 90% of the funds have been disbursed) the executing agency has documented and disseminated the lessons learned about support for production integration processes and the competitive funding mechanism, with a view to its future sustainability. 	<ul style="list-style-type: none"> Program monitoring system Semiannual performance reports on each subproject Semiannual reports by the PEU to the PPSC Minutes of the meetings of the PPSC Reports of the analytical studies commissioned by the program Final evaluation of each subproject Program e-bulletins Program website 	<ul style="list-style-type: none"> Local capacity exists to carry out successful initiatives drawing on the experience of the MIF project. The conditions exist in other provinces/countries for replicating the model for promoting production clusters tested by the project

¹ The specific indicators will be determined by the PEU and the LSUs based on the collective production integration strategies and with respect to the baseline results. As a minimum, the set of performance indicators for each subproject will include: aggregate sales of the participating firms, value of exports to target markets, average productivity, and aggregate employment.

Narrative summary	Performance indicators	Means of verification	Assumptions
	<ul style="list-style-type: none"> By the end of the program, at least 150 firms and 30 institutions have participated in seminars to report on the lessons learned in the promotion of production clusters. 		
ACTIVITIES			
<p>Component 1: Awareness-building, promotion, and implementation of the competitive funding mechanism</p> <p>1.1 Awareness-building and promotion of the competitive funding mechanism</p>	<p>MIF contribution: US\$ 34,600 Counterpart contribution: US\$ 117,500</p> <ul style="list-style-type: none"> Three months into the program, one workshop, with an international rapporteur, is held to raise awareness and provide information on models and success stories involving strategies for linkage and collective association in clusters. Four months into the program, the website is fully operational. Six months into the program, brochures and publicity materials explaining the benefits, commitments, and requisites of the program have been printed and are being distributed. Starting in month six and during the period in which proposals for the funding are received, a direct marketing campaign is conducted aimed at entities that support clusters and at entrepreneurs. During year one, at least 10 workshops to launch the program have been held in different parts of the country (2 in Lima and 8 in other large regions) to better illustrate the objectives and the procedures for participation in the program and to answer concerns from potential beneficiaries and LSUs. 	<ul style="list-style-type: none"> Minutes of the first meeting of the PPSC, with its procedures and subsequent meetings Promotion plan Program website Program monitoring system Semiannual reports by the PEU to the PPSC Bimonthly information bulletins on the program 	<ul style="list-style-type: none"> Qualified support staff and institutions are available to monitor and provide training to clusters. Connectivity and Internet use amongst SMEs are sufficient to turn the website into an effective tool for dissemination. Companies and supporting institutions are sufficiently interested to participate and present calls for proposals. The firms find opportunities in the cluster arrangement and the collective development capacity to present collective projects.

Narrative summary	Performance indicators	Means of verification	Assumptions
1.2 Eligibility, evaluation, and selection of cluster projects	<ul style="list-style-type: none"> By month 15, two calls for proposals have been held. 		<ul style="list-style-type: none"> The projects identified in the proposals reflect at least minimum levels of demand anticipated by the executing agency during program preparation.
Component 2. Cofinancing and execution of the subprojects 2.1 Support for the startup of the subprojects 2.2 Cofinancing of subprojects	MIF contribution: US\$1,862,600 Counterpart contribution: US\$1,428,000 <ul style="list-style-type: none"> After the two calls for proposals, 12 workshops are held to launch the subprojects. During execution of the subprojects, the LSUs have been trained in areas where they exhibited weaknesses (project management, financial management, support techniques for production integration procedures). Agreements on subproject execution have been signed with at least 6 LSUs by the end of year one and at least 12 within 18 months into the program. By the end of the program, the subprojects have carried out the following activities, among others: preparation of CPIS for each cluster, training for entrepreneurs, technical assistance in specific areas, business roundtables, consulting services on market intelligence, technological services, shipment of samples to foreign markets or strategic clients, organization of technological and trade missions. 	<ul style="list-style-type: none"> Records of attendance by LSUs, SMEs, and other cluster players at the startup workshops Program monitoring system Semiannual performance reports on each subproject Semiannual reports by the PEU to the PPSC Minutes of the meetings of the PPSC Final evaluation of each subproject 	<ul style="list-style-type: none"> SMEs have the minimum capacity to formulate collaborative proposals and fulfill the technical and procedural conditions for cofinancing. The Consultative Committee has sufficient capacity to cover the needs for strategic support in formulating the proposals.

Narrative summary	Performance indicators	Means of verification	Assumptions
<p>Component 3. Monitoring, evaluation, and dissemination of results and lessons learned, with a view to sustainability</p> <p>3.1 Baseline and monitoring system</p> <p>3.2 Information bulletin on project progress and outcomes</p> <p>3.3 Evaluations</p> <p>3.4 Dissemination of results and lessons learned for sustainability</p>	<p>MIF contribution: US\$ 261,400 Counterpart contribution: US\$58,500</p> <ul style="list-style-type: none"> • Consultants have been hired to measure the baseline for each subproject. • The monitoring system is in operation by month six. • Starting in month four, a bimonthly e-bulletin is distributed to report on progress, milestones, calls for proposals, and the outcomes of the subprojects and the program as a whole. • Performance of external evaluations at 24 and 48 months. • Analytical studies conducted. • Between month 18 and the end of the project, a total of three workshops are held (one per year) to share learning experiences among the subprojects. • Between years two and four, 12 seminars are held (9 in the provinces and 3 in Lima) to inform the business community about the outcomes and lessons learned. • 46 months into the program, an international seminar is held on lessons learned, with coverage in the national media and dissemination by the program. 	<ul style="list-style-type: none"> • Program monitoring system • Semiannual performance reports on each subproject • Semiannual reports by the PEU to the PPSC • Program website • Bimonthly information bulletin • Final reports of the studies and evaluations • Articles (written and/or audiovisual) in specialized media, the national press, and the provincial press. 	<ul style="list-style-type: none"> • The conditions exist in other provinces/Latin American countries for replicating the model for promoting production clusters tested by the project. • Companies supply the information that is needed to evaluate the program promptly. • Essential statistical data are made available from other sources within the proper time frame. • Availability of firm information and sector statistics.

PE-MI005 CLUSTER PROMOTION PROGRAM**DETAILED BUDGET**

(In US\$)

COMPONENTS / ACTIVITIES / ITEMS	Quantity	Unit	Unit price	Total	MIF	Counterpart contribution	
						Cash	Kind
C1: Awareness-building, promotion, and implementation of the competitive funding mechanism							
Subtotal Component 1				152,100.0	34,600.0	93,000.0	24,500.0
1.1 Awareness-building and promotion mechanism							
a. Awareness-building workshop (with international rapporteur)	1	Global	8,500.0	8,500.0	7,000.0	0.0	1,500.0
b. Press notices, Lima and provinces	2	Convocatoria	5,000.0	10,000.0	0.0	0.0	10,000.0
c. Design and printing of promotional materials, information, and applications	2	Convocatoria	8,500.0	17,000.0	0.0	17,000.0	0.0
d. Direct marketing campaign for networks & associations of SMEs, Lima and regions	2	Convocatoria	5,000.0	10,000.0	0.0	10,000.0	0.0
e. Events and workshops to launch calls for proposals in Lima	2	Evento	1,500.0	3,000.0	0.0	0.0	3,000.0
f. Events and workshops to launch calls for proposals in the provinces	8	Evento	500.0	4,000.0	0.0	0.0	4,000.0
g. Travel and per diems	8	Viaje	600.0	4,800.0	4,800.0	0.0	0.0
h. Presentations and efforts by the CC to attract support from large companies	4	mensual	3,000.0	12,000.0	0.0	12,000.0	0.0
i. Design and implementation of the project web site	1	Global	2,000.0	2,000.0	0.0	2,000.0	0.0
j. Maintenance of the web site	46	Mensual	300.0	13,800.0	13,800.0	0.0	0.0
1.2 Support for project formulation, evaluation, and selectio							
a. Support for project formulation	14	Mes/persona	2,000.0	28,000.0	0.0	28,000.0	0.0
b. MIF official (half time for calls 1 and 2)	3	Mes/persona	2,000.0	6,000.0	0.0	0.0	6,000.0
c. Project evaluation (2 full-time evaluators, calls 1 and 2)	12	Mes/persona	2,000.0	24,000.0	0.0	24,000.0	0.0
d. Travel and per diems for validation to potential project zones	30	Viaje	300.0	9,000.0	9,000.0	0.0	0.0
C2: Cofinancing and execution of subprojects						0.0	
Subtotal Component 2				3,320,600.0	1,892,600.0	780,000.0	648,000.0
2.1 Support for the startup of selected subprojects							
a. Startup workshops in Lima, one per call	2	Evento	1,500.0	3,000.0	3,000.0	0.0	0.0
b. Startup workshops in the provinces (10 estimated)	10	Evento	1,000.0	10,000.0	10,000.0	0.0	0.0
c. Travel and per diems 2 people (10 estimated)	10	Viaje	600.0	6,000.0	6,000.0	0.0	0.0
d. Specialized assistance startup of subprojects and LSUs	24	Mes/persona	3,000.0	72,000.0	72,000.0	0.0	0.0
2.2 Cofinancing for cluster subprojects							
a. Subprojects calls 1 and 2	12	Subproyecto	252,000.0	3,024,000.0	1,728,000.0	648,000.0	648,000.0
2.3 Legal and accounting support							
a. Permanent legal advisory services	4	Annual	4,000.0	16,000.0	16,000.0	0.0	0.0
b. Accounting advisory services	48	Mensual	1,200.0	57,600.0	57,600.0	0.0	0.0
2.4 Strategic guidance for projects							
c. CC commitment	44	Mensual	3,000.0	132,000.0	0.0	132,000.0	0.0
C3: Monitoring, evaluation, and dissemination of results and lessons learned for the sustainability of the mechanism							
Subtotal Component 3				319,900.0	261,400.0	58,000.0	500.0
3.1 Baseline, subproject monitoring							
a. Design and implementation of the control and monitoring system, training PEU	1	Global	4,000.0	4,000.0	0.0	4,000.0	0.0
b. Training USMS and baseline methodology	3	Mensual	2,000.0	6,000.0	0.0	6,000.0	0.0
c. Baseline evaluation x project	12	Subproyecto	3,000.0	36,000.0	0.0	36,000.0	0.0
d. Initial input of baselines into the system and training for LSUs	12	Subproyecto	500.0	6,000.0	0.0	6,000.0	0.0
e. Permanent monitoring of subprojects (USMS)	43	Mensual	2,000.0	86,000.0	86,000.0	0.0	0.0
f. Quarterly travel x project USMS	110	Viaje	300.0	33,000.0	33,000.0	0.0	0.0
3.2. Information bulletin on project progress and results							
a. Printed version	4	Annual	4,000.00	16,000.00	10,000.00	6,000.00	0.00
b. Bimonthly electronic versions	22	Bimestral	800.00	17,600.00	17,600.00	0.00	0.00
3.3							
a. Analytical studies, years 2, 3, 4	3	Annual	8,600.0	25,800.0	25,800.0	0.0	0.0
b. Midterm evaluation (50% progress)	1	Global	20,000.0	20,000.0	20,000.0	0.0	0.0
c. Final project evaluation	1	Global	28,000.0	28,000.0	25,000.0	0.0	0.0
3.4 Dissemination of outcomes and lessons learned for sustainability							
a. Event Lima (results, lessons learned, sustainability), years 2, 3, 4	3	Annual	1,000.0	3,000.0	3,000.0	0.0	0.0
b. Events provinces (results, lessons learned, sustainability), years 2, 3, 4	9	Annual	1,000.0	9,000.0	9,000.0	0.0	0.0
c. Workshops to exchange experiences project participants	3	Evento	4,000.0	12,000.0	12,000.0	0.0	0.0
d. International seminar	1	Evento	20,500.0	20,500.0	20,000.0	0.0	500.0
Project executing unit				16.07%	16.42%		
Subtotal Component UE				739,400.0	443,400.0	264,000.0	32,000.0
3.1 Executing unit staff							
a. Project director	48	Mensual	4,000.00	192,000.00	192,000.00	0.00	0.00
b. Financial administrative assistant	48	Mensual	1,200.00	57,600.00	57,600.00	0.00	0.00
c. Technical assistant to project director	48	Mensual	1,000.00	48,000.00	0.00	48,000.00	0.00
d. Chief supervisor	48	Mensual	2,500.00	120,000.00	0.00	120,000.00	0.00
e. CC	48	Mensual	2,000.00	96,000.00	0.00	96,000.00	0.00
3.2 PEU operating, administration, and training costs							
a. PPSC operations, transfers, meetings (in Lima and regions), reports	48	Mensual	1,000.00	48,000.00	48,000.00	0.00	0.00
b. Communications (telephone)	48	Mensual	500.00	24,000.00	24,000.00	0.00	0.00
c. PEU offices and secretarial support	48	Mensual	625.00	30,000.00	0.00	0.00	30,000.00
d. Equipment (2 comp., 1 printer, 1 fax, telephones, datashow)	1	Global	9,000.00	9,000.00	9,000.00	0.00	0.00
e. Equipment maintenance	48	Mensual	200.00	9,600.00	9,600.00	0.00	0.00
f. Materials	48	Mensual	500.00	24,000.00	24,000.00	0.00	0.00
g. Training and participation in network workshops MIF PEU	1	Global	20,000.00	20,000.00	18,000.00	0.00	2,000.00
h. Regular visits to projects (1 or 2 people from the PEU)	105	Viaje (1.5)	400.00	42,000.00	42,000.00	0.00	0.00
i. Other	48	Mensual	400.00	19,200.00	19,200.00	0.00	0.00
Audits							
Subtotal				20,000.00	20,000.00	0.00	0.00
a. External financial audits	4	Annual	5,000.00	20,000.00	20,000.00	0.00	0.00
Contingencies							
Subtotal				48,000.00	48,000.00	0.00	0.00
a. Contingencies	48	Mensual	1,000.00	48,000.00	48,000.00	0.00	0.00
TOTAL				4,600,000.0	2,700,000.0	1,195,000.0	705,000.0
Percentage				100.0%	58.7%	26.0%	15.3%

RELATED PROJECTS
PERU: CLUSTER PROMOTION PROGRAM
PE-M1005

A. Similar or related MIF projects in Peru

Project number and date of approval	Project name, executing agency, and amount	Date of signature, original disbursement period, and extensions in months	Amount disbursed	Comments
ATN/ME-8616-PE 21 Jan. 2004	Development of business networks in garment-making (Gamarra) and tourism (Cusco) clusters of Peru <u>OPD PROMPYME</u> Total: US\$1,600,000.00 MIF: US\$940,000.00 Cancelled: US\$30,000.00 PROMPYME: US\$630,000.00	Signed: 23 March 04 Original last disbursement: 22 Sept. 07 Extension: 0 months	20%	At December 2005, PROMPYME had achieved the goals of establishing a total of 27 business networks in both clusters, where it has introduced the concept of collective development efforts in the business environment as a means of boosting competitiveness and expanding markets, and it has laid the groundwork for larger experiences that demonstrate the feasibility of the proposal. It is expected that the mechanism designed to deliver technical assistance services and training will be responsive and effective, which should help to consolidate the development of the business networks.
ATN/ME-7935-PE 24 June 2002	Development of clothing and weaving small enterprises <u>NGO EL TALLER</u> Total: US\$132,300.00 MIF: US\$92,600.00 Cancelled: US\$1,905.67.00 El Taller: US \$39,700.00	Signed: 2 Sept. 02 Original last disbursement: 2 Sept. 04 Extension: 7 months	100%	As a result of the project, seven networks were established that group 63 companies together (one of them was jointly located); 56% of the companies conducted operations with new markets (either through joint orders, subcontracts, or directly) in addition to seeing an improvement in their performance indicators, such as an increase in production, efficiency per operator, productivity, and sales, implementation of a group policy to reduce costs based on the optimization of raw materials, the work system and plant distribution, and a reduction in costs, defective products, and reprocessing costs.
ATN/ME-8156-PE 9 Dec. 2002	Market opportunities for food processing microenterprises in the Mantaro Valley <u>NGO ITDG</u> Total: US\$145,850.00 MIF: US\$100,000.00 Cancelled: US\$15,193.58 ITDG: US\$45,850.00	Signed: 20 May 03 Original last disbursement: 20 Jan. 05 Extension: 4 months	100%	The project called for the establishment of business networks in three sectors (dairy products, baked goods, and beekeeping), an improvement in their production and management systems to guarantee uniform quality, and sustainable joint access to new markets. By the end of the project, there were 20 entrepreneurs organized into three formalized networks, with six brand-name products introduced at new sales points, and higher productivity, greater plant efficiency, and increased production.

Project number and date of approval	Project name, executing agency, and amount	Date of signature, original disbursement period, and extensions in months	Amount disbursed	Comments
ATN/ME-8272-PE 2 April 2003	Training and strengthening networks of rural microproducers in Tallamac, department of Cajamarca <u>OPD PROMPYME</u> Total: US\$170,686.00 MIF: US\$100,000.00 Cancelled: US\$8,641.44.00 PROMPYME: US\$70,686.00	Signed: 26 Sept. 03 Original last disbursement: 26 May 05 Extension: 7 months	100%	As a result of the project, a network composed of 33 producers in Tallamac was formalized. All the producers have been able to introduce their products on socioeconomic market B in Cajamarca. Initially, the goal was to introduce the products on the B market in Lima. However, the indicator was adjusted to the Cajamarca regional market, since shipping costs were very high on account of the small production volumes. By the end of the project, a 40% increase in production and sales had been achieved, with a 20% increase in productivity (explained by the quality of the milk and optimization of the processes) generated through the network's joint sales.
ATN/ME-8294-PE 25 April 2003	Development of production chains for export crops in Morrope, department of Lambayeque <u>INSTITUTO DE FOMENTO Y DESARROLLO (INFOD)</u> Total: US\$143,000.00 MIF: US\$100,000.00 INFOD: US\$143,000.00	Signed: 17 June 03 Original last disbursement: 17 Feb. 05 Extension: 12 months	100%	It was able to establish three production chains that were trained and received advisory services for the production of humus as an input for agroexports from the zone and neighboring departments. By the end of the project, the producers were able to jointly obtain an adequate production volume and establish sustainable channels for marketing the product.
ATN/ME-8325-PE 15 May 2003	Strengthening of the asparagus production chain <u>INSTITUTO PERUANO DEL ESPÁRRAGO Y HORTALIZAS (IPEH)</u> Total: US\$143,000.00 MIF: US\$100,000.00 Cancelled: US\$2,496.34.00 IPEH: US\$43,000.00	Signed: 14 Aug. 03 Original last disbursement: 13 Oct. 04 Extension: 0 months	100%	The project included the development of local ability in GAPs, support for producers in introducing and certifying GAPs, and disseminating the results among asparagus producers around the country. The project was able to strengthen Peru's asparagus production chain, maintaining its positioning on the European market and increasing its exports to that destination. More than 3,900 hectares were certified, for almost 25% of the area used to grow asparagus in the country. This was only possible thanks to the joint work of the agents in the chain (suppliers-producers-exporters).

B. MIF projects in the productive integration cluster

Project number and date of approval	Project name, executing agency, and amount	Date of signature, original disbursement period, and extensions in months	Amount disbursed	Comments: Satisfactory execution or problems, such as delays, extensions, reformulation, change in executing agency, etc.
ATN/ME-7203-CO 17 Oct. 2000	Development of the Productive Chain of Isabella Grape Fundación Carvajal MIF: US\$1,111,947	16 Feb 2001	100%	Programmed targets have been met.
ATN/ME-7468-CH 27 June 2001	Productive chain integration for micro enterprises SERCAL MIF: US\$1,092,000	9 Aug. 2001	100%	The conditions precedent were fulfilled with a delay of 8 months. In 2005, a final evaluation of the operation was performed, with positive results. On the negative side, the institutional capacity of the executing agency is weak.
ATN/ME-7927-BR 26 June 2002	Development of Industrial Districts SEBRAE MIF: US\$2,075,000	10 Sept. 2002	50%	Although the rate of disbursements has been slow, significant progress has been reported in all components.
ATN/ME-8112-AR 20 Nov. 2002	Program for Supply Chain Development in the Province of Cordoba ADEC MIF: US\$1,082,640	27 Mar. 2003	62%	Operation is being carried out without delays and without substantive changes.
ATN/ME-8291-RG 30 April 2003	Learning from Business Alliances INCAE MIF: US\$5,000,000	17 June 2003 54 months	17%	The midterm evaluation has been performed. Although delays were encountered in project startup, the Regional Committee has received a number of proposals for projects and the deadline for receipt of proposals has been extended until March.
ATN/ME-8432-ME 10 Sept. 2003	Development of productive chains to promote exporting SMEs in Guanajuato COFOCE-CIEX MIF: US\$1,000,000	1 Dec. 2003	28%	Rate of advance of project is satisfactory and important lessons are being learned in instilling confidence in business groups for future projects.
ATN/ME-8456-DR 10 Oct. 2003	Competitiveness of micro, small, medium enterprises in Santiago de los Caballeros AIREN MIF: US\$566,000	Oct 16/03	52%	Is proceeding satisfactorily.

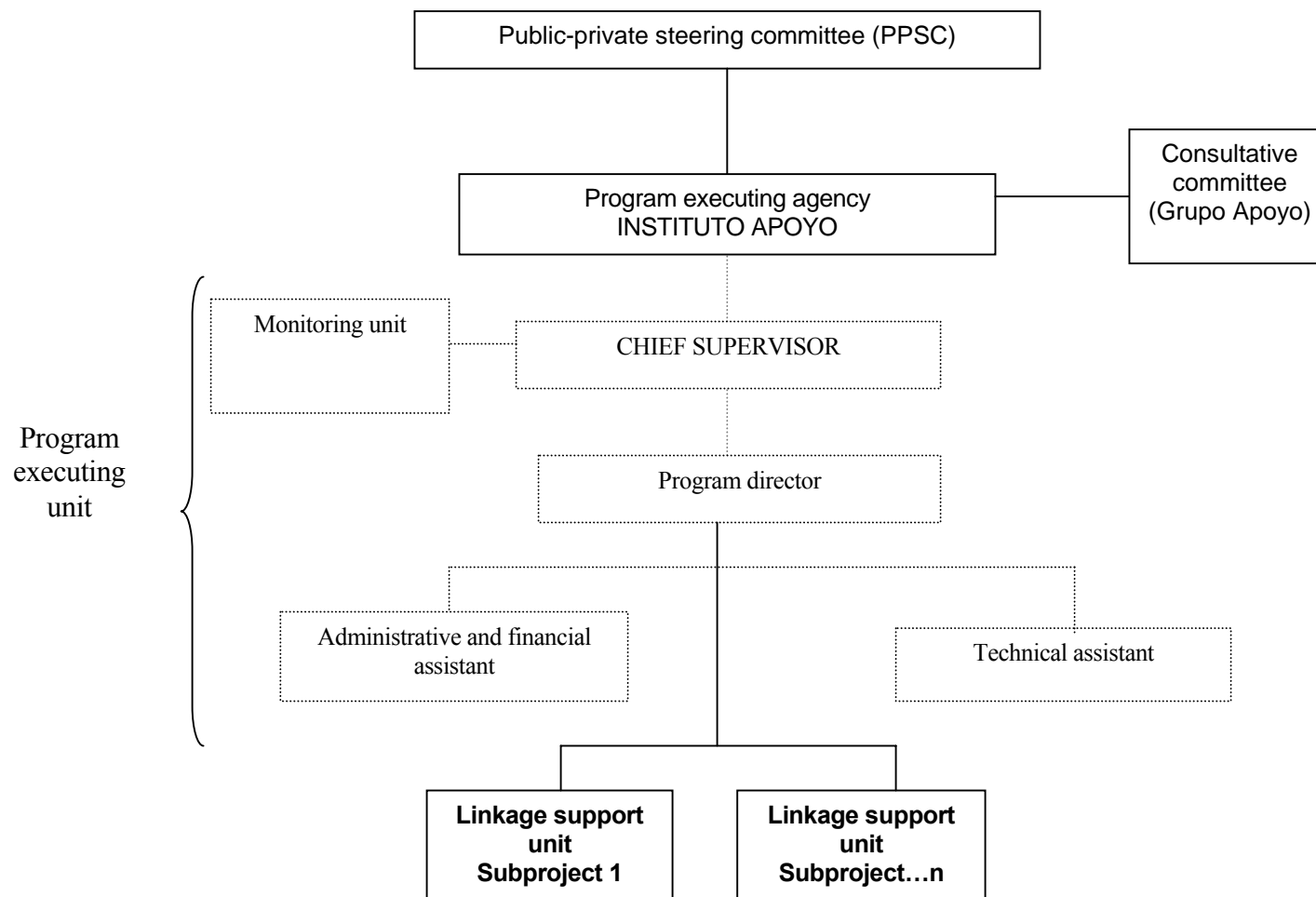
Project number and date of approval	Project name, executing agency, and amount	Date of signature, original disbursement period, and extensions in months	Amount disbursed	Comments: Satisfactory execution or problems, such as delays, extensions, reformulation, change in executing agency, etc.
ATN/ME-8541-UR 20 Dec. 2003	Support for the development of the Wine productive chain Asociación de Bodegas Exportadoras de Vinos Finos de Uruguay (ABE) MIF: US\$500,000	23 Dec. 2004	68%	Is proceeding satisfactorily, with good results in strengthening collaborative development and export promotion. Only negative is weak support on the part of INAVI.
ATN/ME-8601-UR Jan. 2004	Development of the productive chain linked to the Ñandú Asociación Uruguaya de Criadores del Ñandú (A.U.CRI.ÑA) MIF: US\$463,000	16 April 2004	56.2%	Delays were encountered with startup but project is now proceeding satisfactorily.
ATN/ME-8797-CO Aug. 2004	Supporting cluster competitiveness Universidad de Los Andes MIF: US\$3,450,000	3 Dec. 2004	10%	The delay by FOMIPYME in approving the counterpart led to delays. The results of the competition exceeded expectations. Implementation is expected to continue without further delays.
ATN/ME- 9212-RG 25 May 2005	Integration of Central American microproducers into international value chains Asociación Nicaragüense de Productores y Exportadores de Productos no Tradicionales (APENN) MIF: US\$1,120,000	21 July 2005 36 months	20%	The activities are being carried out satisfactorily in three countries.
ATN/ME-9271-EC 30 June 2005	Cooperative SME operations in the floriculture value chain Asociación Nacional de Productores y/o Exportadores de Flores del Ecuador - Expoflores MIF: US\$1,643,628	N/A 42 months	10%	The activities are being carried out satisfactorily.

Project number and date of approval	Project name, executing agency, and amount	Date of signature, original disbursement period, and extensions in months	Amount disbursed	Comments: Satisfactory execution or problems, such as delays, extensions, reformulation, change in executing agency, etc.
ATN/ME-9413-EC	Funding for competitiveness strategy for fine aroma cocoa chain Asociación Ecuatoriana de Exportadores de Cacao (ANECACAO) Corporación Ecuatoriana de Promoción de Exportaciones e Inversiones (CORPEI) MIF: US\$827,000	N/A 42 months	10%	The activities are being carried out satisfactorily.
ATN/ME-9592-JA5.	Productive Integration of Micro-Enterprises (MEs) in Jamaica The Jamaica Business Development Centre (“JBDC”) MIF: US\$419,000	N/A 36 months	0%	The agreement took 5 months to be drawn up. The executing agency is in the process of fulfilling the conditions precedent.

C. Bank projects that are similar or related

Project number	Project name, executing agency, and amount	Date of approval and disbursement period	Objective
1421/OC-PE	<p>PE0193 – FONCODES III</p> <p>Activity 2.02. Consolidation of productive projects</p> <p><u>FONCODES</u></p> <p>IDB: US\$21,000,000</p>	<p>Approved 11 Sept. 2002</p> <p>Original last disbursement: 11 Sept. 2006</p>	<p>The general objective of the program is to help improve the quality of life and promote socioeconomic development in the country's poorest rural communities. The specific objectives are to support the country in its efforts to: (i) increase access by the poorest groups to basic social and economic infrastructure services; (ii) build capacity to permit poor families to raise their income; (iii) include participation by local governments in the project cycle; and (iv) strengthen the positioning of FONCODES in the government's social, poverty-alleviation, and State modernization plans.</p> <p>The main objective of activity 2.02 "Consolidation of productive projects" is to build the capacity to sort out the bottlenecks that stand in the way of adequate production processes and advantages in their market linkages.</p>
1586/OC-PE	<p>Program of support services to gain access to rural markets</p> <p><u>Ministry of Agriculture</u></p> <p>Total: US\$25,000,000</p> <p>IDB: US\$15,000,000</p> <p>MINAG:US\$10,000,000</p>	<p>Approved: 10 Nov. 2004</p> <p>Original last disbursement: 15 March 2009</p>	<p>The objective of the proposed program is to improve rural producers' access to dynamic goods and services markets, both within and outside Peru, by providing services such as business information and training and, in so doing, boost their income. Two years after program completion, approximately 300,000 rural families will experience an average increase of 7% in income, compared to when they did not have access to the information provided under the program (program impact). As a result of the program: (i) the percentage of producers who participate in the marketplace is expected to increase from 57% (at present) to 67%; and (ii) rural businesses are expected to generate approximately US\$120 million in sales.</p>

DIAGRAM OF THE PROGRAM EXECUTION MECHANISM



DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

PROPOSED RESOLUTION MIF/DE-___/06

Peru. Nonreimbursable Technical Cooperation ATN/ME-____-PE
Cluster Promotion Program

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank or such representative as he shall designate is authorized, in the name and on behalf of the Bank, as Administrator of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the Instituto Apoyo, and to take such additional measures as may be pertinent for the execution of the project proposal contained in document MIF/AT-___ with respect to technical cooperation for the cluster promotion program.
2. That up to the amount of US\$2,730,000 or its equivalent in other convertible currencies, shall be authorized for the purpose of this resolution, chargeable to the technical cooperation resources of the Small Enterprise Development Facility of the Multilateral Investment Fund.
3. That the above-mentioned sum is to be provided on a nonreimbursable basis.

LEGIII/PE-747751-06
PE-M1005