

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

PERU

PROMOTING INNOVATION IN SUPPLY CHAINS

(PE-M1047)

DONORS MEMORANDUM

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ABBREVIATIONS

CEPP	Comité Estratégico Público-Privado [Public-Private Strategy Committee]
CNC	Consejo Nacional de Competitividad [National Council on Competitiveness]
FINCYT	Fondo de Innovación, Ciencia y Tecnología [Innovation, Science, and Technology Fund]
IEF	Innovando El Futuro
PCM	Presidencia del Consejo de Ministros [Presidency of the Council of Ministers]
TIS	Technological innovation system

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EXECUTIVE SUMMARY

Beneficiary/ Executing agency:	Innovando El Futuro	
Beneficiaries:	Innovative companies in the textile-apparel and food-cuisine supply chains.	
Financing:	MIF (nonreimbursable)	US\$1,000,000 ¹ (58%)
	Counterpart:	US\$ 734,400 (42%)
	Total:	US\$1,734,400
Project objectives:	<p>The project objective is to make productive-sector businesses more competitive by creating an operative mechanism to disseminate innovation to the productive sector. The purpose is to introduce a methodology at Innovando El Futuro (IEF) to identify, promote and support dissemination of innovation to the productive sector through four entrepreneurship initiatives in two strategic sectors, the textile-apparel sector and the food-cuisine sector.</p> <p>Using the methodology applied by Fundación Chile to identify, develop, and launch innovative businesses, the program will identify a portfolio of proposals with potential impact and conduct a selection process to choose four (tentatively two per subsector) to be taken through the feasibility phase (pre-commercial ramp-up). The project will finance four components.</p>	
Execution timetable:	Execution period:	36 months
	Disbursement period:	42 months
Special contractual clauses:	<p>As conditions precedent to the first disbursement, the executing agency will deliver the following to the Bank's satisfaction: (i) the annual work plan for the first year of the project, and the milestone triggers for the entire execution period; (ii) evidence that the project Operating Regulations have entered into force; and (iii) evidence that the project coordinator has been contracted.</p>	

¹ The MIF contribution includes US\$5,000 for the Impact Evaluation Account.

**Environmental
and social
impact review:**

This operation was approved without qualification on 25 March 2008.
The operation was classified as category “C.”

**Coordination
with other
donors:**

No other donors conducting similar projects were identified.

**Exceptions to
Bank policy:**

Project auditors will be contracted by the Bank, rather than by the
executing agency.

I. BACKGROUND AND PROBLEM TO BE ADDRESSED

A. Peru's capacity for innovation and positioning in the global context

- 1.1 Economic activity around the world is marked by the increased and accelerated incorporation of knowledge into the production of goods and services, shifting value to intangible elements where the productivity and competitiveness of enterprises and countries increasingly reside. This process is still just beginning in most Latin American countries, particularly Peru. With scant investment in research and development, Peru fell from 75th place in 2005 on the international Technology Index to 78th place in 2006, and ranks 74th in the Global Competitiveness Index. According to a study Peru's National Institute for Competition and Intellectual Property Protection (INDECOPI), this also reflected in a knowledge trade deficit in 2004 of US\$427 million for trade in goods with medium and high technological content, and US\$539 million for technology-intensive services.

B. An emerging national technology innovation system

- 1.2 The National Council on Science, Technology and Technological Innovation (CONCYTEC) is the apex institution of the National Science, Technology and Technological Innovation System (SINACYT). Created in 1968, its members are drawn from academia, government research institutes, business organizations, and civil society. Throughout most of its history, it has exercised little leadership in the spread of innovation in the productive sector and has been of little relevance to the private sector, despite a comeback in recent years.
- 1.3 According to the study, "La participación pública y privada en la investigación y desarrollo e innovación tecnológica en el Perú" [Public and Private Participation in Research, Development, and Technological Innovation in Peru], conducted by Grupo de Análisis para el Desarrollo (GRADE), the Peruvian technological innovation system (TIS) consists of a group of institutions with weak research and innovation capacity and weak linkages to each other or to users in the productive system, i.e. businesses. In the view of authors like Sagasti (2003), there is no TIS in Peru. However, there are institutions active in the field of science and technology that may be ineffective and respond to incentives that may be contradictory. For example, Mulling Consulting (2002) recognizes the existence of a very fragmented TIS whose parties do not interact constructively but compete with one another.
- 1.4 The public institutions within the TIS include a number of specialized technological institutions serving the needs of specific sectors, but the linkages between them and private enterprises are weak; these include the Peruvian Geophysical Institute (IGP), the Peruvian Amazon Research Institute (IIAP), the Geological, Mining and Metallurgical Institute (INGEMMET), the National Agricultural Innovation Institute (INIA), the National Telecommunications Research and Training Institute (INICTEL), the Peruvian Oceanic Institute (IMARPE), the National Health Institute (INS), the Peruvian Nuclear Energy Institute (IPEN) and the Institute of Fisheries Technology (ITP). Another component of the TIS are technological

innovation centers (TICs) formed by small producers to promote technological innovation to improve competitiveness. A public institution active in this area is INDECOPI, which manages the national patent system and is responsible for protecting intellectual property rights.

C. “Innovando El Futuro”

- 1.5 In this context, a group of business leaders proposed the creation of an entity that would serve as a link between technological know-how and private enterprise, between the academic environment and the productive sector. Several years ago, these entrepreneurs took part in the successful establishment of Peru 2021, an entity that promotes the concept and methods of corporate social responsibility in Peru. This new initiative is being led by Manuel F. Sotomayor, José Chueca Romero, Henry Day Sprinkmoller, Enrique Agois Banchemero, and Juan José Calle.²
- 1.6 Innovando El Futuro (IEF) was formally established as a civil association in 2008. Drawing on the experience of Fundación Chile, a nonprofit institution established over 30 years ago to increase the competitiveness of the Chilean productive system, IEF promotes effective coordination between the TIS and the productive sector. It will work with the various stakeholders in the innovation process, primarily private enterprises, to weigh and set strategic priorities.
- 1.7 IEF defines innovation as the introduction of products, processes, or services in Peru that are new or superior to those existing in the market. This definition focuses on identifying incremental innovations that can facilitate the competitive development of certain strategic sectors. While not excluding leading-edge innovation, IEF aims to strengthen the processes and connections between various links in the supply chain, in the belief that a cutting-edge product cannot become competitive unless the entire supply chain achieves the necessary efficiencies and innovations. IEF also aims to create jobs and increase value added by developing

² Manuel Sotomayor, who will head this process, is an entrepreneur with extensive experience in the fishing industry. He was president of the National Confederation of Private Business Institutions (CONFIEP), which represents the various organizations within the Peruvian business community. He founded Peru 2021 and served as its president for six years. José Chueca, the current vice president of Peru 2021, successfully combines entrepreneurial responsibilities (as director of shopping centers and specialized consulting firms), policy consulting (as ministerial advisor and current chairman of the INDECOPI Market Access Committee), and scholarly activities (as director of the Peruvian Business Administration Institute (IPAE) and professor at the Universidad Católica). Henry Day Sprinkmoller, an entrepreneur from the energy and hydrocarbon sector, was a founder of Peru 2021 and, together with Mr. Sotomayor, has promoted corporate social responsibility in Peru. He is currently a director of CONFIEP and chairman of the board of IPAE. Enrique Agois Banchemero is a Peruvian businessman associated with the communications media, particularly print. He was executive president of the publishing group Empresa Periodística Nacional S.A. He has been a member of the Peru 2021 board of directors continuously since its founding. He has also served on the Management Board of the Fundación Peruvian Foundation for Nature Conservation (PRONATURALEZA) since 1995, and on the National Executive Committee of the Coordinating Committee for the Fight Against Poverty since late 2005. Juan José Calle is currently active in the shopping center industry. He is vice president of the Peruvian Association of Shopping Centers and general manager of Jockey Plaza Shopping Center. He also serves on various corporate boards and is a director of the association, Preeducación.

the country's natural and human resources and incorporating innovations as the basis for boosting the competitiveness of traditional sectors. In this regard, IEF proposed to focus on innovation in two supply chains: the textile-apparel chain and the food-cuisine chain.

D. Two pilot cases: Innovation in the textile-apparel and food-cuisine supply chains

- 1.8 **Textile-apparel.** With annual exports over US\$1.4 billion and growing 20% each year, textiles currently represent one of Peru's highest-value supply chains. The National Council on Competitiveness (CNC) has made textiles a priority for promotion. The textile sector's potential vertical integration mobilizes resources from the agricultural sector (cotton), livestock (camelids: alpaca, llama, vicuña, and guanaco) to the chemical sector (packaging) and labeling, as well as laundry and dry cleaning, to produce a strong backward linkage effect on the economy. The sector is composed primarily of microenterprises and small businesses, which serve as the productive base enabling the few large companies to export. Despite positive trends, the sector faces problems at all links along the chain. With respect to fiber, for example, cotton producers face low crop productivity, inefficient pest control, inability to meet demand for organic fiber, and little progress in seed enhancement. In the area of camelid fiber, producers need to continue efforts to genetically enhance species and improve rearing techniques and conditions. In spinning, dyeing and weaving, ancestral techniques handed down from generation to generation are valued in the market and must be preserved, but can function efficiently only with innovations in those processes to mitigate environmental impacts.
- 1.9 **Food-cuisine.** Peruvian cuisine has gained worldwide recognition in the last 10 years or so, reflected in vigorous growth in the sector and its supply chain. Market studies by international firms indicate strong international consumer demand for Peruvian cuisine and associated products. Signs of the sector's strength can be seen, for instance, in the fact that more Peruvian cookbooks have been published in the last 10 years than in all previous years combined, and 22 officially recognized cooking schools have opened in the past five years in Lima, which is now the world's leading city in number of cooking schools (the only Cordon Bleu school in Latin America is located in Lima). The sector involves an entire network of domestic inputs, from production and processing of agricultural produce to the creation of specific markets, brands, and products for local and international clients, in addition to restaurants, cooking schools, buffets, and much more. However, many variables still need to be developed for this growth to be significant for the national economy. These include genetic enhancement of domestic breeds to develop species that can be more easily introduced in different markets; improving supply-network infrastructure and processes to ensure product quality; and standardization of national dishes to ensure quality and preserve the identity of Peruvian cuisine.

E. Rationale

- 1.10 Innovando El Futuro (IEF) has reviewed the methodological options to strengthen the process of generating innovative ideas and proposals and providing support in structuring them, and determined that the model used by Fundación Chile is best adapted to its objectives and the Peruvian context. Representatives of IEF visited Fundación Chile to familiarize themselves with its innovation-based business development methodology, which has produced significant results in developing new areas of business in Chile. The initial contacts and exchanges with Fundación Chile have enabled IEF to begin identifying innovation proposals.
- 1.11 Accordingly, the project will support the establishment of IEF. Unlike Fundación Chile, IEF will be an exclusively private entity, although it will have government backing. IEF has sufficient resources to operate during the project execution period, and its sponsors have made a clear commitment to sustain it after project completion. However, establishing IEF will require not only additional financial resources but also technical support. Fundación Chile will be a strategic partner in this effort, and the MIF will play an important role in its positioning by supporting execution of the first pilot innovation projects. The project will support activities along the supply chains of two strategic sectors, the textile and apparel sector, and the food and cuisine sector. These will serve as two pilot tests of the methodology for spreading innovation.
- 1.12 IEF will work with the various stakeholders in the innovation process, primarily small businesses, to weigh and set strategic priorities, supporting them as they adopt new technologies, seek strategic partners, and implement innovations. The project will also create linkages between IEF and other international technology spillover experiences. It also bears mention that this program and IEF's work fit into the objectives of Peru's National Competitiveness Plan.
- 1.13 The project is innovative in that it will introduce an institutional structure based on a success story in a neighboring country, and will encourage closer technological and business ties between the two countries. The outcome of this experience will also be important in identifying methods and systems to replicate the operation in other countries in the region.

F. Relationship to other Bank-supported initiatives

- 1.14 The Science and Technology Program (1663/OC-PE), launched by the Bank and the Government of Peru in July 2007, will invest US\$25 million to improve competitiveness in Peru by strengthening the country's capacity for research and technological innovation. The program is moving at a brisk pace, and to date approximately 65% of the resources have been committed. The program is being executed through the Innovation, Science, and Technology Fund (FINCYT), a coordination unit specially established within the Presidency of the Council of Ministers (PCM). It supports: (i) implementation of innovation and/or research and development proposals submitted by businesses, research centers, and universities; (ii) capacity building and creation (grants, laboratory equipment, and other

support); and (iii) strengthening and coordination of the National Innovation System. In addition, a technical-cooperation operation (ATN/KK-11039-PE, which has a budget of US\$280,000) will begin execution in 2009 and focus on promoting technological innovation at small and medium-sized enterprises. It will be executed by FINCYT and the PCM's National Council on Competitiveness (CNC). The members of FINCYT's Board of Directors (the Ministry of Production, CNC, and others) will serve on the Public-Private Strategy Committee (CEPP) for this project, ensuring effective coordination between the two operations.

II. OBJECTIVES AND DESCRIPTION

A. Objectives

- 2.1 The project *objective* is to make productive-sector businesses more competitive by creating an operative mechanism to disseminate innovation to the productive sector. The *purpose* is to introduce a methodology at Innovando El Futuro (IEF) to identify, promote, and support dissemination of innovation to the productive sector through four entrepreneurship initiatives in two strategic sectors, the textile-apparel sector and the food-cuisine sector.

B. Description

- 2.2 Using the methodology employed by Fundación Chile to identify, develop, and launch innovative businesses, the program will help identify a portfolio of proposals with potential impact and conduct a selection process to choose four (tentatively two per subsector) to be taken through the feasibility phase (pre-commercial ramp-up). The program is demand-oriented in that the selected projects must have well-defined target markets. The project will finance four components.

Component 1. Creation of networks and transfer and implementation of methodologies (MIF: US\$145,900; Counterpart: US\$326,200)

- 2.3 The objective of this component is to introduce into IEF's operations and adapt to IEF's specific context the work methods used at Fundación Chile to identify, select, structure, and monitor productive projects. To support these processes, the project will establish national and international support networks in the areas of technology and business development. In addition to the activities described below, the program will provide accounting and administrative support to the executing agency as requirements in those areas are identified.
- 2.4 Identification of strategic partners. A series of meetings will be arranged in cooperation with Fundación Chile to initiate contact with institutions and entrepreneurs and build relationships that will foster a commitment to working together. Three types of networks are envisioned: (i) a network of contacts to facilitate the identification and selection of proposals; (ii) a more structured network of specialized national and international centers to develop "technology monitoring units" that can identify technological trends and opportunities; these should have great potential to transfer new technologies to the selected sectors; and

- (iii) other agreements relating to very specific technological and market prospecting areas.
- 2.5 Development of an investor network. IEF has identified groups of private investors³ that could form a network of angel investors; the project will provide technical assistance to implement and formalize such a network. The following activities are planned: (i) promotion of the concept; (ii) development and/or adaptation of working methodologies and tools to facilitate matchmaking between investors and entrepreneurs/businesspeople (e.g. technical and financial evaluation of business proposals, model contracts, etc.); and (iii) preparation of manual addressing conduct, codes of ethics, confidentiality clauses, and governance.
- 2.6 Adaptation and transfer of the methodology. This activity will support the transfer of working tools used by Fundación Chile to IEF, adapting them to the Peruvian context and the selected sectors. The tools to be used in the process will incorporate the evolving analysis as ideas flow to project. The selection process will emphasize three mutually complementary aspects: market, technology, and potential impact. The evaluation stage will consider market appeal and the entrepreneurial team as additional factors, and use tools such as idea sheets, profiles for initial proposal analysis, and evaluation methods for innovative projects. It will also use technology and market intelligence provided by the “technology monitoring units.” The project will support technical assistance in the following areas as part of the transfer process: (i) training of the program director and other team members; and (ii) technical assistance to IEF in conducting its activities. The team will also visit the businesses supported by Fundación Chile, in order to gain first-hand knowledge of the different phases of its model.
- 2.7 Creation of a database of specialized consultants. The project will conduct a competitive process to preselect and evaluate consultants for technical, business structuring, and legal assistance. The beneficiaries will also evaluate the consultants’ work during project execution. This is a crosscutting activity to support all areas of project execution.

**Component 2. Identification and selection of innovative projects
(MIF: US\$246,500; Counterpart: US\$137,100)**

- 2.8 This component will support the identification and selection of projects to be developed into businesses (Component 3). The initial step in the selection process will be a technical evaluation conducted by the technical committee with the assistance of experts. The second level, conducted by the executing agency’s board of directors, will consider the business aspects of proposals. The selection will be based on the following criteria: (i) the projects must be high-impact in terms of creating new industries or making a substantive innovative change within the selected sectors, but the proposed technology must be state-of-the-art and

³ The investors identified are highly regarded businesspeople willing to contribute “smart capital,” i.e. investment funding, access to contact networks, business management experience, and other resources.

reasonably accessible to the project; (ii) proposals must demonstrate that they are replicable or scalable; (iii) the idea must have commercial appeal; (iv) a business management team must be in place; and (v) the proposed projects must be environmentally and socially sustainable (mitigation measures must be built upon consensus with the affected groups in accordance with the Bank's environmental and social guidelines). At least 20 project ideas are expected to be presented over the life of the project.

- 2.9 Identification of projects. The following activities are planned: (i) mapping of activities and relevant actors; (ii) profiling of supply chains in the two beneficiary sectors, based on review of existing materials and assessment of the food-cuisine chain (in light of the lack of significant studies addressing that sector); (iii) focus groups to identify opportunities, problems, and breaks in supply chains, and to develop new businesses; and (iv) market prospecting.
- 2.10 Selection of projects. The first selection filter is a project sheet or profile.⁴ Investor interest will be one of the criteria in this phase of the selection, in addition to those indicated above. Sponsors of projects that reach the prefeasibility phase will sign a contract with IEF establishing the terms and conditions of the institution's support and the rates and/or fees to be paid by the business operators. This process is expected to result in the selection of 10 profiles to proceed to the prefeasibility phase. The second filter will consist of a prefeasibility analysis of the 10 selected proposals, ranking them according to the methodology described in paragraph 2.8. This phase will also consider potential financial earnings.
- 2.11 Investment forums. Proposals that successfully complete the first two phases will be presented at investment forums held to initiate contact with strategic investors who might partner with the original entrepreneurs. The program will support entrepreneurs at this stage through the following activities: (i) advisory support in preparing their investor presentations; (ii) two investor forums organized and held, beginning in the second year; and (iii) technical support for negotiations with investors. IEF will be entitled to receive a finder's fee or other form of remuneration, which may include a stake in the capital stock of the enterprise.

Component 3. Technology dissemination and sustainability
(MIF: US\$223,300; Counterpart: US\$51,300)

- 2.12 The objective of this component is to structure four projects for startup or to proceed to the commercial phase, which will serve as demonstrative examples. Studies will be conducted at the feasibility level, and business plans prepared. The process of monitoring the entrepreneurship projects will also begin, including: (i) feasibility studies to specifically identify the variables most relevant to the

⁴ This is based on the profiles used by Fundación Chile, which provide information on the opportunity or problem, technological and economic background, risks and barriers, sponsor backgrounds, and potential impact.

business;⁵ (ii) development of business plans summarizing the project strategic plans and principal findings of all feasibility studies conducted; the business plans will be used for presentations to third parties; and (iii) monitoring of the businesses, through the implementation of specific monitoring mechanisms such as integrated management control (IMC).

Component 4. Project monitoring and dissemination
(MIF: US\$93,200; Counterpart: US\$88,100)

- 2.13 This component will support implementation of a system to monitor activities, so as to document and disseminate the outcomes achieved and to more effectively monitor project management itself. The following activities will be financed: (i) setting the baseline and definition, implementation, and maintenance of the project monitoring system; (ii) two events to disseminate experiences and outcomes and raise awareness in the business community; and (iii) a communications and promotion plan, including the creation of a website and development of promotional and educational materials, including videos of experiences.
- 2.14 **Expected outcomes.** The expected outcomes of the project are: (i) increased competitiveness of enterprises in at least two value chains (productivity gains, product diversification, increased exports, introduction of new production technologies, and management enhancements); (ii) implementation of four new innovation projects proposed by small and medium-sized enterprises; (iii) identification of three international partnerships and establishment of a technology monitoring unit for each sector; (iv) a proven manual of methods and procedures for project selection, identification, evaluation, structuring, and monitoring that can be used to guide IEF's operations; and (v) a database of specialized consultants and a trained executing agency team.

III. COST AND FINANCING

- 3.1 The total project cost will be US\$1,734,400. The MIF will provide 58% of that amount as a nonreimbursable contribution (US\$1 million). IEF will be responsible for the counterpart resources.

⁵ Based on illustrative information obtained mainly in the initial evaluation phase. The qualitative variables are minimum requirements. Projections are dynamic. The following types of studies will be conducted simultaneously: (i) market studies; (ii) technical studies; (iii) organizational and administrative studies; (iv) legal studies; and (v) environmental studies.

Expenditure items	MIF	Local counterpart	Total	%
Comp. 1 Creation of networks and transfer and implementation of methodologies	145,900	326,200	472,100	27.2%
Comp. 2 Identification and selection of innovative projects	246,500	137,100	383,600	22.1%
Comp. 3 Technology dissemination and sustainability	223,300	51,300	274,600	15.8%
Comp. 4 Project monitoring and dissemination	93,200	88,100	181,300	10.5%
Program management	181,100	131,700	312,800	18.0%
Evaluations	35,000	-	35,000	2.0%
Audit	30,000	-	30,000	1.7%
Contingencies	40,000	-	40,000	2.3%
Impact Evaluation Account	5,000	-	5,000	0.3%
TOTAL	1,000,000	734,400	1,734,400	100%

- 3.2 **Sustainability.** The project's sustainability is based primarily on: (i) contributions from the private sector (through partners and fundraising from third parties); (ii) earnings from various forms of equity in the enterprises; and (iii) contributions from public and development institutions. A sustainability workshop will be held at least one year before the end of the execution period, attended by representatives of the Bank, the executing agency, and others as agreed upon, to identify what measures are necessary to ensure that the activities continue once the project funding has ended.

IV. PROJECT EXECUTION

- 4.1 **Executing agency.** The executing agency will be Innovando El Futuro (IEF), a nonprofit civil association established recently to spread and introduce innovations among private enterprises, so as to make the productive sectors more dynamic and competitive. The funds to establish and operate IEF are provided entirely by the private sector with the full backing of the government. Its five founding partners (see footnote 1) are widely respected in the business community. Program governance will be vested in the Public-Private Strategy Committee (CEPP) and the IEF Board of Directors. In terms of operations, the program director will be responsible for execution of the planned activities, and technical committees will be established.
- 4.2 **Execution mechanism.** IEF Board of Directors will be the program governance body. Its principal functions with respect to the project will be: (i) evaluating the program's management; (ii) approving the annual work plan and budget; (iii) evaluating and validating the project selection process; and (iv) overseeing the program's strategic direction and working with the CEPP. The CEPP is a support and consultative body consisting of no more than five representatives from the private sector and four from the public sector, all senior executives of organizations whose activities relate to program objectives. Its role will be to support achievement of the program objectives, facilitate access to available public and private resources, promote partnership-building, and evaluate program operations.

- 4.3 The Program Director will be responsible for program activities in general, and the following in particular: (i) directing project support processes from the time projects are identified; (ii) developing and monitoring budgets; (iii) conducting procurements and contracting; (iv) promoting and managing institutional relationships and liaison with the MIF; and (v) maintaining the monitoring system. The program director will be supported by:
- a. Technology management: a person or entity responsible for establishing and maintaining IEF's scientific and technical relationships.
 - b. Sector coordinators: one per sector, responsible for ongoing monitoring of activities within the respective sectors.
 - c. Administrative and accounting support: a part-time employee responsible for accounting, supervision, and distribution of MIF disbursements and all functions relating to administrative management of the program.
- 4.4 Technical committees, consisting of five members (a representative from the board of directors, the director, two experts, and the respective sector coordinator), will assist program management from identification through final selection of the technology-based business projects.
- 4.5 **Disbursements.** In addition to meeting the requirements established in the General Conditions of the technical-cooperation agreement and the Bank's standard procedures for disbursement of nonreimbursable technical-cooperation operations, disbursements will be contingent upon key indicators (milestones), established and agreed upon between the executing agency and the MIF during approval of the annual work plan along with their means of verification. Resources will be disbursed using the advance of funds procedure (revolving fund of 15% of the MIF contribution). Achievement of milestones does not exempt the executing agency from the responsibility to meet the project's objectives as set in the Logical Framework. The first advance of funds to the executing agency will be subject to the conditions indicated in the executive summary.
- 4.6 **Procurement.** The executing agency will procure goods and services and contract the consulting services for the project in accordance with Bank policies (documents GN-2349-7 and GN-2350-7, as revised), the MIF guidelines, and the Procurement Plan. Once two procurement processes for goods and services and two contracting processes for consultants have been conducted, the Bank and the executing agency may agree that subsequent procurement and contracting processes with a total amount less than US\$30,000 will be subject to ex post review. This amount may also be revised by the Bank.

V. MONITORING AND EVALUATION

- 5.1 **Project status reports.** The executing agency will be responsible for delivering project status reports (PSRs) to the MIF within 30 days after the end of each calendar semester. These reports will follow a format previously agreed with the

- MIF and will contain information on project execution, milestones met, outcomes obtained, and their contribution to achieving the project objectives as stated in the Logical Framework and other operative planning instruments. The PSRs will also describe project issues encountered and possible solutions. Within 90 days before the end of the execution period, the executing agency will deliver a final PSR to the MIF that will highlight outcomes achieved, project sustainability, and lessons learned.
- 5.2 **Financial supervision.** The executing agency will establish and assume responsibility for keeping adequate financial accounts, internal control mechanisms, and filing systems for the project, which shall be consistent with IDB/MIF accounting and auditing rules and policies. The IDB will contract independent auditors to perform the audit of financial statements prepared by the executing agency at the end of the execution period. Supporting documents for disbursement requests will be subject to ex ante review. The application and frequency of these reviews (in this case, ex ante) can be modified by the MIF based on the results of reviews and/or subsequent institutional assessments performed during project execution.
- 5.3 **Evaluation.** Two evaluations will be conducted by independent consultants selected and contracted by the Bank, chargeable against the operation. The midterm evaluation will be done once 50% of program funds have been disbursed, or after 18 months of execution, whichever occurs first; and the final evaluation will be done 90 days before the end of the execution period. The terms of reference for these evaluations will be prepared by the executing agency and approved by the Bank. The midterm evaluation will address, inter alia: (i) the project execution mechanism; (ii) mechanisms for selecting the beneficiaries of technical assistance; (iii) steps taken to facilitate project sustainability; (iv) progress toward completion of the planned activities, and changes in the indicators established in the Logical Framework; and (v) the effectiveness of project activities and beneficiary satisfaction. The final evaluation will include an analysis of outcomes achieved and address: (i) sustainability of the project activities; (ii) the extent to which the project purpose and objectives have been achieved; (iii) impact of project activities; and (iv) lessons learned from project execution.
- 5.4 A closing workshop will be held three months before the end of the execution period, attended by representatives from the executing agency, the Bank, and others as agreed upon with the Bank, to jointly evaluate the outcomes achieved, identify lessons learned, and agree on the scope of the ex post evaluation, as applicable.

VI. BENEFITS AND RISKS

- 6.1 **Benefits.** The project's benefits are related to the implementation of a methodology to facilitate linkages between productive-sector potential and business opportunities, once a certain degree of innovation is introduced. In tangible terms, the program calls for: (i) transfer of the working methodology used by Fundación

Chile; (ii) development of local capacity in innovation process management; (iii) four projects implemented; and (iv) the creation of networks to support investment in innovative business projects (angel network), as well as technology updates and scientific assistance and information (technology monitoring).

- 6.2 **Risks.** The principal risk to the project, given the difficult economic environment and other factors, is a potential lack of tangible opportunities for technology-based businesses in the selected sectors. The project seeks to mitigate this risk through a proactive search supported by technology and business networks. A second risk, sustainability of the operation, relates to the potential institutional weakness of IEF in light of its recent establishment. The project seeks to mitigate this risk through Fundación Chile's support in transferring knowledge and by implementing specific business projects that, if successful, will have a strong demonstration effect.

VII. ENVIRONMENTAL AND SOCIAL CONSIDERATIONS

- 7.1 In principle, the project poses no significant environmental or social risks because it focuses on developing and disseminating the capacity to manage technology innovation projects. Nevertheless, initiatives financed by the project must comply with all environmental and social regulations, and tools have been identified to strengthen the beneficiary companies' management capacity in these areas. This project has been classified as Category "C."

**PROMOTING INNOVATION IN SUPPLY CHAINS
(PE-M1047)
LOGICAL FRAMEWORK**

Summary of objectives	Indicators	Means of verification	Assumptions
OBJECTIVE			
To make productive-sector businesses more competitive by creating a mechanism to disseminate innovation to the productive sector.	Three years after project end: <ul style="list-style-type: none"> 10% of beneficiary enterprises' annual sales on average are generated by products or business units that have undergone an innovation process. 	<ul style="list-style-type: none"> Project impact evaluation (subject to MIF selection). Sales records of beneficiary enterprises. 	<ul style="list-style-type: none"> The political and macroeconomic environment do not change substantially for the worse. An effective system is introduced to promote innovation in Peru.
PURPOSE			
To introduce a methodology at Innovando El Futuro (IEF) to identify, promote, and support dissemination of innovation to the productive sector through four entrepreneurship initiatives in two strategic sectors, the textile-apparel sector and the food-cuisine sector.	By the end of project execution: <ul style="list-style-type: none"> 4 projects are being implemented (two per subsector). IEF has adopted and refined a work methodology to develop innovation projects. A technology and innovation network has been developed with specialized national and international centers. An investor network has been developed. The beneficiaries report high satisfaction with project outcomes. 	<ul style="list-style-type: none"> Final project status report (PSR). Final evaluation and satisfaction survey. 	<ul style="list-style-type: none"> The actors and institutions within the networks created maintain their interest. The organizational, management, and financial capacity exists to continue and sustain the program once the execution period ends.
COMPONENTS			
Component 1. Creation of networks and transfer and implementation of methodologies. Develop the networks and structure necessary within IEF to ensure the program's success and IEF's sustainability as an institution.	By the end of project execution: <ul style="list-style-type: none"> 4 international "technology monitoring" partnerships (agreements) have been established, at least one of which is consolidated in a plan of action.¹ A manual of procedures for selecting, evaluating, structuring, and monitoring projects has been designed and adapted for IEF. An investor network has been formed, with its respective manual of procedures. Database of technology, business, etc. consultants developed and ready to use. 	<ul style="list-style-type: none"> Semiannual PSRs. Agreements. Plan of action. Procedures manual. 	<ul style="list-style-type: none"> Investors maintain their interest in and commitment to the project. Consultants maintain their interest in working with the productive sector.

¹ Major business associations and centers that conduct market, competitiveness, and trend studies in the relevant sectors.

Summary of objectives	Indicators	Means of verification	Assumptions
Component 2. Identification and selection of innovative projects. Identify a portfolio of proposals with potential impact, from which 4 will be selected (tentatively 2 per sector) to be taken through the feasibility phase (pre-commercial ramp-up).	<p>By month 12:</p> <ul style="list-style-type: none"> - 10 project ideas have been identified to enter the selection process. <p>By month 18:</p> <ul style="list-style-type: none"> - 4 project profiles have been presented and incorporated. - 2 prefeasibility studies have been selected. <p>By month 36:</p> <ul style="list-style-type: none"> - 20 project ideas have been identified to enter the selection process. - 4 prefeasibility studies have been selected. - Investor commitments have been obtained for 2 projects per sector. 	<ul style="list-style-type: none"> - Semiannual PSRs. - Consultant reports. - Midterm and final evaluations. - Project profiles. - Prefeasibility studies. - Commitment letters. 	<ul style="list-style-type: none"> - Businesses respond favorably to the project ideas.
Component 3. Technology dissemination and sustainability. Structure 4 products for startup or to proceed to the commercial phase, which will serve as demonstrative examples of the methodology in their respective sectors.	<p>By month 24:</p> <ul style="list-style-type: none"> - Execution of 2 business plans is under way. <p>By month 36:</p> <ul style="list-style-type: none"> - Execution of 4 business plans is under way. - The mechanism for monitoring business (integrated management control) has been implemented. 	<ul style="list-style-type: none"> - Semiannual PSRs - Consultant reports. - Midterm and final evaluations. - Prefeasibility studies. - Business plans. 	<ul style="list-style-type: none"> - The proposals presented are high quality, and are selected by the project. - Market conditions remain stable for the projects supported.
Component 4. Project monitoring and dissemination. Implementation of a system to monitor activities, so as to document and disseminate the outcomes achieved and to more effectively monitor project management itself.. The project also aims to instill a culture of innovation in Peru's business sector.	<p>By month 6:</p> <ul style="list-style-type: none"> - The monitoring system is up and running. <p>By month 10:</p> <ul style="list-style-type: none"> - The communications and promotional plan has been adopted by IEF. <p>By the end of project execution:</p> <ul style="list-style-type: none"> - 2 international innovation events have been held in the textile-apparel and food-cuisine sectors. - 18 press releases highlighting project experiences have been published. 	<ul style="list-style-type: none"> - Semiannual PSRs - Baseline - Monitoring system reports. - Consultant reports. - Midterm and final evaluations. - Report of website visits. - Technical reports of consulting assignments. - Printed brochures - Printed closing report. - Videos of conferences. - Conference attendance list - Press releases. 	<ul style="list-style-type: none"> - The businesses and/or beneficiaries provide reliable information. - The actors maintain their interest in monitoring and evaluation activities.

Summary of objectives	Indicators	Means of verification	Assumptions
ACTIVITIES			
Component 1: <ul style="list-style-type: none"> - Identification of strategic partners. - Development of investor networks. - Adaptation and transfer of the methodology for the project prelaunch phase . - Creation of a consultant database. 	<p>MIF US\$145,900 Counterpart US\$326,200</p> <p>By month 12:</p> <ul style="list-style-type: none"> - The consultant database is complete. - The first draft of the procedures manual has been prepared. - A summary document identifying and describing potential strategic partners has been prepared. <p>By month 18:</p> <ul style="list-style-type: none"> - 2 missions per sector have been conducted to identify partners. - 2 international “technology monitoring” partnerships (agreements) have been established. - The operations manual for the angel investor network has been designed - The angel investor network has been established, with a virtual platform added to the IEF website. - The IEF team has been trained in Chile. - The procedures manual for selecting, identifying, evaluating, and structuring projects is complete. <p>By month 30:</p> <ul style="list-style-type: none"> - 4 missions per sector have been conducted to identify partners. 	<ul style="list-style-type: none"> - Report on potential strategic partners. - Printed operations manual. - List of angel investors. - Website - Travel reports by the IEF team. - Printed procedures manual. - List of consultants posted on the IEF website. 	

Summary of objectives	Indicators	Means of verification	Assumptions
Component 2: <ul style="list-style-type: none"> - Identification of project ideas - Selection of projects at the prefeasibility stage - Evaluation of projects at the prefeasibility stage based on filter - Identification of potential interested investors 	MIF US\$246,500 Counterpart US\$137,100 By month 12: <ul style="list-style-type: none"> - The project idea identification sheet has been completed by month 6. - 30 interviews have been conducted. - 3 focus groups have been held. - 10 project idea sheets have been completed. - 5 project profiles have been completed. By month 24: <ul style="list-style-type: none"> - 20 project profiles have been presented and incorporated. - 10 ideas have been selected by the end of the project. By month 30: <ul style="list-style-type: none"> - 50 project idea sheets have been completed. By month 36: <ul style="list-style-type: none"> - 10 prefeasibility studies have been completed. - Projects have been ranked at the prefeasibility stage. - 4 venture forums have been held. 	<ul style="list-style-type: none"> - Printed idea sheets. - Printed profiles. - Document on final ideas selected. - Printed prefeasibility studies. - Document ranking projects at the prefeasibility stage and corresponding methodology. - Printed investment portfolio. - List of venture forum participants. - Photos and videos of events. - Signed expressions of interest. 	
Component 3: <ul style="list-style-type: none"> - Feasibility studies and development of business plans 	MIF US\$223,300 Counterpart US\$ 51,300 By month 36: <ul style="list-style-type: none"> - At least 4 feasibility studies have been completed. - 4 feasibility studies have been conducted. 	<ul style="list-style-type: none"> - Printed documents relating to feasibility studies 	

Summary of objectives	Indicators	Means of verification	Assumptions
Component 4: <ul style="list-style-type: none"> - Implementation of program monitoring system - Awareness-raising and training events - Development of promotional and communications materials 	<p>MIF US\$93,200 Counterpart US\$88,100</p> <p>By month 4:</p> <ul style="list-style-type: none"> - The monitoring indicators have been identified. - The baseline is ready. - The monitoring software is ready for operation. - The website has been developed. - Promotional materials have been developed. <p>By month 24:</p> <ul style="list-style-type: none"> - The project has been presented at 1 event organized by third parties. <p>By the end of project execution:</p> <ul style="list-style-type: none"> - The project has been presented at 2 events organized by third parties. - The project report has been published. - Promotional videos have been prepared for the selected sectors. <p>During the execution period:</p> <ul style="list-style-type: none"> - The established indicators of success have been updated every two months to monitor progress of the project as a whole and progress in specific areas. - The website provides updated information. - Posters, brochures, and newspaper inserts relating to innovation and the program. - Two documentary videos have been selected to promote innovation in the selected sectors. 	<ul style="list-style-type: none"> - System available online. - Printed reports of results. - List of event attendees. - Charts and visual presentations from events held. - Posters, brochures. - Newspaper clippings. - Printed closing report. - DVD of documentary videos. 	

**PROMOTING INNOVATION IN SUPPLY CHAINS
(PE-M1047)
ITEMIZED BUDGET**

Budget items	MIF	Local counterpart	TOTAL	%
Component 1. Network creation and transfer and implementation of methodologies	145,900	326,200	472,100	27.2 %
Activity 1.1. Identification of strategic partners				0.0 %
Food-cuisine sector missions	21,600	14,400	36,000	2.1 %
Textile-apparel sector missions	21,600	14,400	36,000	2.1 %
Activity 1.2. Development of investor networks		-	-	0.0 %
Consulting engagement, development of financial management tools	12,500	12,500	25,000	1.4 %
Promotional and training materials	-	10,000	10,000	0.6 %
Training / awareness-heightening breakfast meetings	10,000	10,000	20,000	1.2 %
Investor networks	-	2,800	2,800	0.2 %
Network launch event	2,500	2,500	5,000	0.3 %
Design of virtual platform	6,000	-	6,000	0.3 %
Maintenance of virtual platform	-	5,600	5,600	0.3 %
Activity 1.3. Adaptation and transfer of methodologies for the project prelaunch phase				
Fundación Chile consulting services	-	250,000	250,000	14.4 %
Training trip for Innovando el Futuro (IEF) team	30,000	-	30,000	1.7 %
Institutional strengthening (accounting systems and procedures)	41,700		41,700	2.4 %
Activity 1.4. Consultant database				0.0 %
Competitive bid process	-	4,000	4,000	0.2 %
Component 2. Identification and selection of innovative projects	246,500	137,100	383,600	22.1 %
Activity 2.1. Identification of project ideas				
Focus group	16,800	7,200	24,000	1.4 %
Project experts	10,000	10,000	20,000	1.2 %
Activity 2.2. Selection of projects				
<u>Technical evaluation</u>		-	-	0.0 %
Consulting engagement, food-cuisine senior experts	6,000	4,000	10,000	0.6 %
Consulting engagement, textile-apparel experts	6,000	4,000	10,000	0.6 %
Consulting engagement for profiles	5,000	-	5,000	0.3 %
<u>Entrepreneur evaluation</u>		-	-	
Vetting of business operator (credit bureau, psychological analysis, etc.)	6,000	-	6,000	0.3 %
<u>Sector coordination</u>		-	-	
Food-cuisine sector coordinator	18,000	18,000	36,000	2.1 %
Textile-apparel sector coordinator	18,000	18,000	36,000	2.1 %
<u>Technology consulting engagement</u>		-	-	
Innovation manager	32,300	15,300	47,600	2.7 %
Activity 2.3. Evaluation of projects at the prefeasibility stage				
Consulting engagement for prefeasibility study	64,000	16,000	80,000	4.6 %
Consulting engagement, food-cuisine sector senior experts	7,500	5,000	12,500	0.7 %
Consulting engagement, textile-apparel experts	7,500	5,000	12,500	0.7 %
Activity 2.4. Identification of potential investors				
Preparation of investment portfolio and support for presentation	35,000	15,000	50,000	2.9 %
Venture forum	14,400	9,600	24,000	1.4 %
Legal counsel	-	10,000	10,000	0.6 %
Component 3. Technology dissemination and sustainability	223,300	51,300	274,600	15.8 %
Activity 3.1. Feasibility studies				
Consulting engagement, feasibility study	128,000	-	128,000	7.4 %
Consulting engagement, management oversight	27,000	-	27,000	1.6 %
<u>Sector coordination</u>		-	-	
Food-cuisine sector coordinator	18,000	18,000	36,000	2.1 %

Budget items	MIF	Local counterpart	TOTAL	%
Textile-apparel sector coordinator	18,000	18,000	36,000	2.1%
<u>Technology consulting engagement</u>		-	-	
Innovation manager	32,300	15,300	47,600	2.7%
Component 4. Project monitoring and dissemination	93,200	88,100	181,300	10.5%
Activity 4.1. Implementation and management of program monitoring system				
Monitoring system software design	-	4,000	4,000	0.2%
Monitoring system implementation and management	15,000	15,000	30,000	1.7%
Activity 4.2. Awareness-raising and training events				
Competitive bidding expenses (advertisements, invitations, etc.)	-	6,000	6,000	0.3%
Meeting hall, coffee breaks and meals (est. 80 attendees and 20 involved in event organization)	2,200	8,800	11,000	0.6%
International exhibitors (4 expected per event)	28,000	12,000	40,000	2.3%
Consulting engagement, event organization	4,000	6,000	10,000	0.6%
Program launch reception	5,500	-	5,500	0.3%
Activity 4.3. Development of promotional and communications materials				
Design and printing of promotional materials	8,000	-	8,000	0.5%
Documentary videos to promote innovation in sectors selected	20,000	-	20,000	1.2%
Special supplements in print media	7,500	7,500	15,000	0.9%
Preparation of closing report	3,000	12,000	15,000	0.9%
Media promotional campaign	-	16,800	16,800	1.0%
Program management	181,100	131,700	312,800	18.0%
Evaluations	35,000	-	35,000	2.0%
Audit	30,000	-	30,000	1.7%
Contingencies	40,000	-	40,000	2.3%
Impact Evaluation Account	5,000	-	5,000	0.3%
TOTAL	1,000,000	734,400	1,734,400	100%
	58%	42%	100%	