

INVESTMENT PROMOTION FOR SMALL AND MEDIUM-SIZED ENTERPRISES  
FOREIGN TRADE ASSOCIATION OF PERU (COMEXPERU)

(TC-98-10-16-1)

EXECUTIVE SUMMARY

EXECUTING AGENCY: Foreign Trade Association of Peru [Sociedad de comercio exterior del Perú] (COMEXPERU)

OBJECTIVES: The general objective of this program is to contribute to the development of SMEs by promoting investment in, and financing of, projects in areas for which demand is strongest. Specifically, the project seeks (i) establish contacts between SMEs and the financial sector, and (ii) set a platform of specialized services for SMEs.

AMOUNT AND SOURCE OF FINANCING:	Modality:	Grant
	MIF: IIIA Window	US\$ 842,400
	Local counterpart funding:	<u>US\$ 561,600</u>
	Total:	US\$1,404,000

ENVIRONMENT AND SOCIAL IMPACT: The Committee on Environment and Social Impact (meeting TRG 13/99) recommended that the operating procedures include an evaluation of environmental and social considerations.

EXECUTION AND DISBURSEMENT SCHEDULE: The program will be executed over a period of 24 months and the grant disbursed in 30 months.

EXCEPTIONS TO BANK POLICY: None

SPECIAL CONTRACTUAL CONDITIONS: Prior to the first disbursement, COMEXPERU will present a detailed work plan to the Bank's satisfaction and it will have pre-selected an executive coordinator for the project.

The Bank will perform two independent evaluations, chargeable to the program, to evaluate the progress made, based on the performance criteria listed in Annex I. The first will be performed 12 months into the project or when 50% of the resources have been disbursed and the second will be performed 24 months after commencement of the project.

## I. ELIGIBILITY OF THE COUNTRY AND PROJECT

- 1.1 The Republic of Peru was declared eligible for all Multilateral Investment Fund (MIF) facilities on December 14, 1993. Also, the project was declared eligible by the Office of the MIF on February 10, 1999. The proposed activities are intended to develop small and medium-sized enterprises (SMEs) through 1/ (i) the establishment of contacts with the financial sector and capital markets with sound projects that are profitable, and (ii) the offering of a platform of specialized services.

## II. BACKGROUND

- 2.1 A significant number of Peruvian enterprises have considerable potential for expansion, but are unable to raise the necessary financing for their projects because they lack the skills needed to prepare and formulate their projects properly, the time needed to consider the long term, or contacts with financial entities and potential local and foreign strategic investors. Hence, there exists a need for specialized financial consulting services, ranging from project evaluation and formulation to actual project presentation and negotiation with previously contacted sources of finance.
- 2.2 One of the most important structural reforms undertaken in Peru in the first half of the 1990s was the dismantling of the domestic development banking system and the deregulation of the country's capital markets. These measures removed several barriers to inefficient resource management, permitting the immediate entry of many new actors to financial and capital markets.
- 2.3 One of the major problems encountered by Peruvian SMEs is that they have problems in obtaining financing because the technical skills needed to present projects clearly and attractively are lacking. The present project seeks to correct this market flaw by making available a subsidy for the establishment of an SME service platform for specialized consulting services. The project will focus on financial considerations, particularly on a comprehensive financial evaluation to establish optimum financial strategies, negotiations, and contacts with national and international sources of financing.

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1/ It is important to note that of Peru's 5,389 leading companies (in terms of sales) 3,652 (or approximately 67%) have annual sales of less than US\$3 million, with 1,550 posting sales of less than US\$1 million and 2,102 reporting sales of between US\$1 million and US\$3 million. Most companies affiliated with COMEXPERU have annual sales of under US\$3 million.

### III. OBJECTIVES AND ACTIVITIES

#### A. Objectives (general and specific)

- 3.1 This program's general objective is to contribute to the development of SMEs by encouraging investment in areas in which demand is greatest. Specifically, the project aims to: (i) strengthen links between the SMEs and the financial sector and capital markets by presenting sound, profitable projects; and (ii) set up an SME service platform for specialized consulting services.

#### B. Program components and activities

##### 1. Establishment of the SME service platform

- 3.2 Through a competitive bidding process, using selection criteria approved by the Bank, COMEXPERU will be responsible for pre-qualifying consultants to take part in this program as suppliers. Every effort will be made to develop a broad base of firms and experts that can offer quality services to SMEs.

##### 2. Comprehensive consulting services for SME investment projects

- 3.3 The suppliers selected will have the opportunity to provide all-round advisory services to duly qualified SMEs in need of assistance in formulating their investment projects. The program itself, combined with a rigorous promotion of services, will pinpoint enterprises with considerable expansion potential but having problems in tapping sources of long-term funding, or reasonably priced foreign trade lines of credit. The target group for these activities will be SMEs that meet the following eligibility criteria: they must (i) have annual sales of under US\$3 million, (ii) have fewer than 100 employees, (iii) be engaged in ecologically sustainable activities, (iv) have considerable knowledge of the market or expertise in the line of activity, (v) have feasible, but as yet unmet, financial needs, (vi) have attractive business potential in terms of products and markets, and (vii) have a background demonstrating that the partners and companies are conscientious and businesslike.
- 3.4 A large number of enterprises lack sufficient counterpart capital to obtain the financing they need. In such cases, the ideal solution is to identify a strategic and/or venture capital partner, that can assume certain risks. The contacts and financial expertise needed to locate and negotiate the resources required to meet such a need will be provided by consultants duly pre-qualified by COMEXPERU.

- 3.5 This task consists of establishing a viable relationship between companies and local and international financial entities, with support being provided in two core areas: (i) project formulation, including project evaluation and refinement to make them more attractive; and (ii) identification of the best financing option (including financial credit, leasing, finding a strategic partner, etc.) and (iii) its presentation to financial institutions and other sources of financing. Under the program, a subsidy of up to one half of the total consulting services fee will be made available, to a maximum of US\$2,500. The firm concerned will choose its consultant from the list of those pre-qualified by COMEXPERU. The Executing Unit for the program, through the senior outside consultant and the external quality control consultant, will be responsible for monitoring the quality of the consulting services provided.
- 3.6 A project requiring assistance in overcoming some technological, commercial, administrative, or legal constraint will be referred to consultants or bodies specializing in that particular field. Such SMEs may subsequently qualify for the financial advisory services available under the second component. The outside quality control consultant will be responsible for referring such SMEs to other consultants and bodies.

### 3. Promotion of services

- 3.7 To attain the project's objectives and implement the activities described in the first two components, institutional assistance will be needed to disseminate information on program activities through events aimed at the target group. COMEXPERU could achieve this objective as follows: (i) by employing its current gamut of information services (including its Negocios Internacionales [international business] magazine, Informe Macroeconómico Mensual [monthly macroeconomic report], Semanario Financiero [financial weekly], and Informes Sectoriales [sectoral reports]; (ii) by using the organization's web site (<http://www.comexperu.org.pe>); (iii) through forums already providing information on, and training in, key issues for business development and modernization in the country, as well as forums for the financial sector, SMEs, and large-scale entrepreneurs at COMEXPERU and at the Development Finance Corporation (COFIDE) <sup>2/</sup> Center, to narrow the cultural gaps between these three groups; (iv) by setting up a booth at the COFIDE Center; and (v) through the outside consultants prequalifying for the program, who will be keen to identify companies interested in taking part.

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<sup>2/</sup> This is a business support services promotion center (credit, technical and legal assistance, etc. located at COFIDE's main office in Lima and has a potentially large number of clients for the program.

#### IV. EXECUTING AGENCY AND BENEFICIARIES

##### A. Executing agencies

- 4.1 The executing agency for the project will be the Foreign Trade Association of Peru [Sociedad de Comercio Exterior del Perú] (COMEXPERU), an institution that was created in 1989 as the National Association of Exporters [Sociedad Nacional de Exportadores] (SNE) and took on its new name as well as the representative and services function in 1998. Since its inception, the institution has sought to support and contribute to the sustained development of Peruvian entrepreneurs, especially those active in global markets, and exporters in particular. COMEXPERU has approximately 151 affiliates, most of which have annual sales of less than US\$3 million. The institution is noted for its excellent management image, representativeness, and ready access to the financial sector.
- 4.2 The organization comprises: (i) a General Assembly; (ii) the Office of the President; (iii) a Board of Directors; and (iv) a General Manager's Office with responsibility for all operations. The heads of the Economic Studies, Business Consulting Services, Investment Promotion, Trade Promotion, and Financial Administration Departments all report to the General Manager. Altogether COMEXPERU employs 21 qualified professional staff and a further 20 persons providing administrative and support services.
- 4.3 At an organizational level, COMEXPERU's main divisions are: (i) Sector Committees, which assess the problems facing key areas of foreign trade; (ii) a Specialized Consulting Services unit, which assists with operational aspects of foreign trade (customs procedures, benefits, tax regimes, legal aspects, etc.) and helps arrange business contacts; (iii) an economic studies department, responsible for recommending corrective policy measures and for systematic monitoring of the economy (publication of a financial weekly, a monthly macroeconomic bulletin, the Negocios Internacionales magazine, etc.); and (iv) an investment promotion unit, recently set up with a small grant from the Andean Development Corporation (CAF), to provide support to affiliates in all areas that could favorably impact the company's competitive capacity.
- 4.4 Through the Direct Advisory Service (DAS) started up for the investment promotion, COMEXPERU became aware of the need to bridge the gap between SMEs and the financial sector. COMEXPERU itself could not satisfy this huge market demand; hence the idea of establishing a consulting services referral mechanism that would put SMEs in touch with financial institutions. Several enterprises have obtained financing thanks to COMEXPERU advisory services, notably Alpalana (US\$700,000), Serlipa (US\$2 million), Caolines

Bhumi (US\$360,000 venture capital), Perú Café (US\$1 million), Bellino Pelle (short-term credit line), Valditex (short-term credit line). COMEXPERU has also advised several other companies including LP Holding (structuring of a capital increase), Sacos del Pacífico (design of a financial restructuring strategy), ADAEPRA (estimation of farm debt), and Inversiones M&S (advisory assistance in preparing a strategic plan). Annex II summarizes the Alpalana S.A. and Caolines Bhumi S.A. cases, by way of illustration.

B. Implementation mechanism

- 4.5 The project will have an executing unit that will report to COMEXPERU. The members of the executing unit will be the executive coordinator for the project, a senior outside consultant, and two junior outside consultants (one for quality control and the other for promotional activities). This four-member team will be in charge of (i) identifying and selecting companies and projects considered compatible with the project objective, (ii) issuing competitive calls for bids to draw up a list of consultants to take part in the project, (iii) hiring the consultants selected by the participating companies, (iv) promoting the program, and (v) controlling and supervising the quality of the consulting work. The consultants in the executing unit will be selected on the basis of the qualification criteria set out in Annex III, which also contains the main functions and responsibilities.
- 4.6 Through a competitive bidding, the terms and conditions of which will be agreed on with the Bank, COMEXPERU will be in charge of pre-qualifying individual consultants and consulting firms to take part in this program as suppliers (Annex III lists the minimum requirements for program consultants). Based essentially on the experience the consultants have had in preparing financing projects, the executing unit will be responsible for prequalifying consultants for the project.
- 4.7 Participating companies that satisfy the eligibility criteria will be able to choose from the consultants prequalified by COMEXPERU. Under the program, up to 50 percent of the total cost of the consulting services, to a maximum of US\$2,500 will be reimbursed only when the corresponding invoices have been presented and the quality of the advisory services rendered has been verified. The amount of the subsidy will decline over time to zero, with a view to facilitating the gradual development of the consulting services market and to ensuring that the program is self-sustaining.
- 4.8 Considering that the executing agency and the beneficiaries are private companies, the policies of the Bank and the regulations of the MIF for the procurement of goods and services will be used to govern the proper use of the funds, eligibility (MIF member countries) of goods, and subject to rules of economy and efficiency. COMEXPERU will use competitive methods whose modalities conform to market practices, the needs of the entity,

and whose prices, terms, and conditions are line with program needs. To this end, COMEXPERU will agree with the Bank on the limits and/or cases in which prior nonobjection will be requested based on the terms of reference and specifications of the equipment and procedures to be followed for selection and/or procurement.

C. Project preparedness

- 4.9 During the design phase, it was verified that COMEXPERU is in a position to initiate the program since it has (i) the necessary counterpart resources for the project, (ii) a highly competent management team, and (iii) satisfactory facilities and equipment. In addition, the COMEXPERU management team is engaged in addressing the tasks required for fulfillment of the contractual conditions set out in chapter VIII.

D. Beneficiaries

- 4.10 The beneficiaries would be small and medium-sized enterprises with annual sales of less than US\$3 million and fewer than 100 employees. The idea is to reach at least 170 SMEs during the 24-month period. The project is expected to satisfy pent-up demand in the agribusiness sector, which is regarded as the most important sector from the point of view of its potential for development, its multiplier effect on the economy (output, exports), and its social impact (eradication of poverty). At the same time, the development of a market for specialized financial assistance services will help Peruvian SMEs to have access to financing.

## V. COST AND FINANCING

A. Budget

- 5.1 The total cost of the program is US\$1,404,000, with the MIF contributing 60 percent or US\$842,400. The following is a summary program budget.

Structure of the project	MIF grant	Local counterpart	Total
Component 1: Establishment of service platform	150,000	146,000	296,000
Component 2: Comprehensive advisory services	550,700	33,300	584,000
Component 3: Promotion	111,700	338,300	450,000
Administrative and accounting support	---	24,000	24,000
Outside evaluation	30,000	---	30,000
Audit	---	20,000	20,000
TOTAL	842,400	561,600	1,404,000

5.2 MIF resources will be used principally (i) to contract the following consulting services: management, administration, and promotion of the program; (ii) to cover the cost of graphics and audiovisual material; (iii) to cover promotion and advertising expenses; and (iv) to defray 30% of computer equipment costs. Local counterpart funds will help to finance mainly administrative support services, furniture, and equipment.

B. Sustainability strategy

5.3 This project will help boost COMEXPERU's capacity and increase its membership. COMEXPERU is already providing services the costs of which are covered and the sale of these services does not produce a surplus. It also derives revenue from social costs. The new services and broadening the scope of existing ones will be done so that operating costs can be fully covered by completion of the program. The financial projections show that, assuming that the program reaches the number of SMEs proposed, it will be self-sustaining.

5.4 As to the consulting services, the sustainability strategy is based on (i) payment of at least one half of the services by the SMEs; (ii) gradual reduction in program reimbursements; (iii) contacts being established between SMEs and consultants and their services, which will enable them specifically to assess the return on investment in consulting services (obtaining financing, access to new sources of financing, etc.); and (iv) incentives for consultants to develop capacity to serve SMEs and take an interest in continuing to participate in this market with considerable growth potential.

## VI. JUSTIFICATION AND RISKS

### A. Compatibility with other Bank projects

- 6.1 The operation is consistent with the Bank's country strategy. The Bank's strategic areas of operation in Peru in the 1998-2000 period, as defined in the country paper, are: (i) support for modernization of the economy, including the second stage of the structural reform process and support for efforts by small and medium-sized enterprises to raise their productivity; (ii) support for job creation, poverty reduction, and the provision of social services, and (iii) modernization of the State. The proposed operation fits in with points (i) and (ii).
- 6.2 The Bank and the MIF have supported other SME-related programs, which this program would complement. It is important to note the multisector global credit program (1137/OC-VE) approved in November 1998 contains a US\$70 million component to provide financing for SMEs through the banking system. The MIF is financing the program of support for the Instituto de Formación Bancaria to strengthen the Peruvian financial sector's capacity to serve SMEs. In addition, the goal of the Business Services Centers project (CESEM), which is also being supported by the MIF, is precisely to enhance the business practices and competitiveness of small regional enterprises in Arequipa, Cuzco, and Huancaayo, with technical assistance geared to raising output and enabling those enterprises to expand their markets. The CESEM provide specialized consulting, training, and marketing services that help to enhance business capacity and practices. Another important program is the one being carried out by the Small Enterprise Assistance Fund (FAPE). It has received a capital injection from the MIF, which makes equity investments in companies with annual sales of between US\$200,000 and US\$2 million. COMEXPERU could refer clients to both these projects, thereby helping to spur their development and producing synergies.
- 6.3 The proposed involvement through COMEXPERU would help develop a market for business support services in an area that is vital to SMEs since large consulting firms in Peru either do not serve the needs of SMEs or are prohibitively expensive. At the same time, the new market environment call for better conceptualized and more sophisticated investment projects, with a high rate of return. In such an environment, important work can be done in bringing SMEs into contact with financial institutions and capital markets. This project could foster and consolidate the consulting services market for SMEs in the financial services area.

B. Risks

6.4 The main risks associated with this project are as follows:

- a. **Management stability in COMEXPERU.** This institution has grown at a tremendous pace over the past two years, thanks largely to its managers' efforts. A valid question is to what extent all these new initiatives promoted by COMEXPERU would survive, should some staff members leave the institution. For that reason, the selection of the executive coordinator for this project is of fundamental importance. The viability of the program will depend on the quality and efficiency of the executive coordinator of the Project and his three associates. This distinguishes the program from others, such as the ADEX program (ATN-MT-5236/PE), in which that institution's financial and management problems led to the cancellation of its Modernization of International Trade project.
- b. **Number of projects.** Another risk could be the number of projects anticipated is not generated. Considering that over 3,600 of the country's leading companies report annual sales of less than US\$3 million, COMEXPERU should have no difficulty identifying enterprises interested in participating in this program. The promotional activities will make it possible to make the program known to as many entrepreneurs as possible with a potential interest in this service.
- c. **Financial problems.** Given the present international economic climate (the recent devaluation of the *real* for instance) problems could be encountered in the form of a limited supply of financing. COMEXPERU is unable to control such externalities, although the technical assistance offered under the program will still provide better financing opportunities for participating SMEs. The Bank's other projects in support of SMEs in Peru offer excellent financing opportunities for the sector, even in an economic climate such as the one described.

## VII. PERFORMANCE CRITERIA

A. Criteria for evaluating performance and benchmarks

- 7.1 Monitoring and evaluation of program execution will be effected through target-oriented program planning and in accordance with the goals and benchmarks set forth in the logical framework (see Annex I).

B. Evaluation of results

- 7.2 The Executing Unit will prepare half-yearly reports. The first will be completed before the project begins and will focus on preparing a work plan to include a detailed schedule of activities and products. Subsequent reports, to be submitted ever six months, will include an evaluation of the specific targets established in the work plan and will provide information on the extent to which the project's intermediate goals have been successful. These reports will include a summary of the program's effect in each case, specifying in what way the advisory support helped the SMEs to: (i) obtain financing; (ii) increase sales; and (iii) generate employment.

VIII. SPECIAL CONTRACTUAL CONDITIONS

- 8.1 Prior to the first disbursement, COMEXPERU will present to the Bank's satisfaction information on the work plan designed and will have pre-selected an executive coordinator for the project.
- 8.2 In addition to the COMEXPERU evaluations described in the previous section, the project envisages two evaluations by the Bank. The first one, to be carried out 12 months after the first disbursement or when 50% of the MIF's contribution has been disbursed, will evaluate the progress of the program, based on the performance criteria set out in Annex VII. Specifically, it will assess the quality and quantity of the services rendered in year one of the project, taking into account (i) access to financing by the SMEs receiving consulting services; and (ii) increases in the sales of SMEs receiving advisory assistance, and (iii) the environmental and social impact measures considered in the consultancies. The second evaluation will take place 24 months into the project, and will be performed by a consultant to be hired by the Bank.

### Logical Framework

**PERU: INVESTMENT PROMOTION FOR SMALL AND MEDIUM-SIZED ENTERPRISES**  
**FOREIGN TRADE ASSOCIATION OF PERU (COMEXPERU) (TC-98-10-16-1)**

	OBJECTIVES	INDICATORS	MEANS OF VERIFICATION
Overall objective (goal)	To contribute to the development of SMEs through investment promotion and project financing.	Percentage increase in the number of companies obtaining financing.  Percentage increase in SME sales.	Evaluations and progress reports.
Specific objective	Specifically, the project seeks: - to strengthen links between SMEs and the financial sector and capital markets by presenting sound, profitable projects. - to set up a service platform of specialized consulting services for SMEs.	Increase in the number of SMEs that manage to finance their projects (75% of projects are financed).  Increase in the number of consulting firms or individuals attending to the financing needs of SMEs (75% of prequalified consultants remain actively involved as suppliers for SMEs).	Evaluations and progress reports.
Components	Service platform of specialized consulting services for SMEs.  Comprehensive advisory services.        Promotion of services	40 consultants pre-qualified.  170 projects in 2 years.  Sales of US\$17 million (170 cases x an average US\$100,000 per firm).  48 events promoting the program. 600 applications for services provided. 50 new members of COMEXPERU.	Evaluations and progress reports.  Disbursements.  Reports and inspection visits by the Bank to COMEXPERU and enterprises taking part in the program.

PROPOSED RESOLUTION

PERU. INVESTMENT PROMOTION FOR SMALL AND MEDIUM-SIZED ENTERPRISES:  
SUPPORT FOR SOCIEDAD DE COMERCIO EXTERIOR DEL PERU (COMEXPERU)

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 Multilateral Investment Fund, to enter into such agreements as may be necessary, 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 a technical cooperation with the Sociedad de Comercio Exterior del Perú (COMEXPERU) for an Investment Promotion for Small and Medium-Sized Enterprises: Support for Sociedad de Comercio Exterior del Perú.
2. That up to the amount of US\$842,400, or its equivalent in other convertible currencies, shall be authorized for the purpose of this resolution, chargeable to 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.