

PROMOTION OF YOUTH STARTUPS IN PERU

(TC-99-11-18-3-PE)

EXECUTIVE SUMMARY

Executing agency: Asociación Pro Bienestar y Desarrollo [Association for Welfare and Development] (PROBIDE)

Financing:	MIF Window III-A:	US\$ 815,000
	PROBIDE and guarantors:	<u>US\$1,560,000</u>
	Total:	US\$2,375,000

Terms:	Execution period:	48 months
	Disbursement period:	54 months

Objectives and description: The **general objective** of the project is to help promote a business culture and boost private investment in the innovative business startups by the country's youth, by strengthening cooperation ties between young entrepreneurs, private enterprise, and civil society.

The **specific objective** of the project is to strengthen and expand a pilot mechanism for promoting and financing the sustainable startups by Peruvian youth.

Through national business plan competitions for youth startups, PROBIDE will review and screen the best projects. A guarantee panel made up of PROBIDE and the participating private companies and financial institutions will select the projects, which will be awarded guarantees from a Guarantee Fund. The Fund, administered by a trust in a commercial bank, will be composed of contributions in guarantees of up to US\$500,000 from private companies in Peru and a MIF contribution of up to US\$500,000 in cash. The guarantors will guarantee up to 67% of the credits granted to the winning projects at market interest rates by the commercial banks participating in the program. The private companies participating in the Fund will seek opportunities to establish business ties with the youth startups, to offer them advisory services, monitoring, and other types of business partnerships. Those ties, supported through PROBIDE monitoring, will be key in supporting the new enterprises during their startups phase and ensuring that they are consolidated over time.

This operation will support two competitions in three years that will offer guarantees for the financing of 120 youth startups which will create jobs and generate income for 500 young people. PROBIDE will use the MIF resources to consolidate the mechanisms for promoting, analyzing, and selecting new youth business proposals which will help guarantee the success of those youth startups. PROBIDE will provide a series of tools and training opportunities for the participating youth to improve their ability to plan proposals and present business plans. The operation plans to offer these opportunities to almost 8,000 young people.

**Special
contractual
clauses:**

Prior to the first disbursement of technical-cooperation funding, PROBIDE must submit, to the Bank's satisfaction, evidence that the Project Leader has been appointed and a team of consultants hired, according to terms of reference previously agreed upon with the Bank. PROBIDE must also submit the following documentation to the satisfaction of the IDB/MIF: (i) evidence of the availability of the counterpart resources, and the disbursement schedule; (ii) the Operating Regulations for the competitions; (iii) the terms of reference for the consultants to be hired using MIF resources during the preparation and execution phase of the first national competition under this project.

As a condition precedent to the first disbursement of resources for the Guarantee Fund (US\$500,000), PROBIDE must submit to the Bank's satisfaction: (i) agreements with the guarantors for a minimum of US\$200,000; (ii) agreements with the commercial banks in which the banks commit to issuing credit for up to 1.5 times the amount in the Fund; and (iii) evidence that the trust has been established.

Resources will be disbursed to the Private Guarantee Fund (US\$500,000) in similar amounts concurrently with the contributions of the private companies participating in the Fund, once the conditions precedent to the first disbursement have been met (see paragraph 4.4).

The technical cooperation contribution will be disbursed *pari passu* with the local contributions. In no case may disbursements of the technical-cooperation resources exceed the disbursements made as contributions to the Private Guarantee Fund (see paragraph 4.3).

The interest generated from the MIF contribution (US\$500,000) to the Private Guarantee Fund will be used to finance activities under the technical-cooperation component, such as training, monitoring and oversight. In addition, the guarantors will provide cash resources equivalent to the interest generated by the MIF contribution to the Fund to cover the operating and administrative expenses of the fund and any losses (see paragraph 3.18).

The agreement for the establishment of the trust (the Private Guarantee Fund) will specifically stipulate that the following events will be grounds for liquidation of the Fund and consequently return of the assets to the trustees (the MIF and participating companies):

- (i) investment project competitions are not held every two years, unless there are exceptional reasons acceptable to the Bank;
- (ii) PROBIDE ceases to operate, becomes inactive, or is liquidated; or
- (iii) the Fund has a delinquency rate of over 40%.

**Exceptions to
Bank policy:**

None

I. COUNTRY AND PROJECT ELIGIBILITY

- 1.1 The Donors Committee declared the Republic of Peru eligible to receive all types of Multilateral Investment Fund (MIF) financing on December 14, 1993. The operation is eligible for MIF financing from the Small Enterprise Development Facility (III-A). The operation seeks to promote an entrepreneurial spirit and culture and generate innovative business opportunities for the country's youth by establishing a Private Guarantee Fund with private Peruvian companies.

II. BACKGROUND

A. Problems facing Peruvian youth

- 2.1 Out of a total population of 26 million, an estimated 6 million are young people ages 18 to 25 and approximately 16 million are under 29. Furthermore, roughly 700,000 young people are studying in an institution of higher education (universities or institutes). Upon graduation, the vast majority of young people look for jobs in the public and private sectors, however very few get a full time job in their particular field. This is reflected in the country's high rates of unemployment (8.8%) and underemployment (44%); these figures are even higher among young people. Compounded with the results of the country's current economic recession, the downsized State labor force, and structural and industrial changes caused by market liberalization and globalization, Peruvian youth have even fewer opportunities to obtain steady employment. Opportunities are few, and the potential for improving the situation does not seem encouraging.
- 2.2 One alternative is for young people to create their own small businesses, enabling them to apply their knowledge, creativity, energy, and enthusiasm to business and productive activities. It is trained, qualified young people who can provide an alternative to emerge from the region's current underdevelopment. However, many Peruvian youth are discouraged by their job prospects, and they still have a very weak entrepreneurial culture. What's more, those who have a business initiative encounter serious problems and limitations, such as: (i) the absence of clear policies promoting private initiative; (ii) insufficient practical knowledge on designing, planning, and presenting a business plan for a venture; (iii) great difficulties obtaining economic, statistical, and sector data for preparatory studies and investment project preparation; and (iv) there little or no access to credit, due to insufficient collateral and concrete business experience.

B. A private-sector and civil-society response

- 2.3 In light of this situation, in 1998 the Asociación Pro Bienestar y Desarrollo [Welfare and Development Association] (PROBIDE), with the support of the Instituto Nacional de Defensa de la Competencia y de la Protección de la Propiedad Intelectual [National Institute for Safeguarding Competition and Protecting

Intellectual Property] (INDECOPI) launched a new program, the “Creer para Crear – National Competition for Young entrepreneurs,” to foster and promote the creative and business talent of thousands of students in the country’s universities and technological institutes. The program consisted in calling a national competition for university students; after a pre-selection and selection process, awards were given to the most innovative and feasible business projects with the greatest potential. The winning projects received guarantees from a private enterprise in order to access a bank loan under commercial, yet preferential terms. To set up a guarantee program, PROBIDE received support from the private sector by signing agreements with over 20 leading private enterprises in the country, including Banco Wiese, Banco de Crédito, Alicorp, Backus and Johnston, Coca-Cola, Microsoft, IBM, Wong, Nestlé, Kentucky Fried Chicken, Pizza Hut, and others; resources in the guarantee program reached US\$530,000.

- 2.4 The first competition convened a target population of over 100,000 young people in their final years of study, as well as graduates from 1997 and 1998, by sending invitations to the country’s 66 universities and 450 technological institutes. In the end, a total of 1,590 young people participated, with an average of 3 participants per group; 453 investment projects were received, 80% of which were submitted by young people from the provinces. Following an initial evaluation by professional experts and grading, 104 projects qualified for the finals; of those, 32 were selected to receive guarantees from the private sponsors.

C. Lessons learned and the PROBIDE proposal

- 2.5 PROBIDE has learned a series of lessons from the first competition, the implementation of the guarantee program, and the experience gained in coordinating and implementing the activities. PROBIDE found a series of weak points that had to be improved to guarantee the program’s impact in the future. The main weaknesses were: (i) the young people’s lack of ability to prepare high-quality business plans; (ii) the lack of technical support from universities; (iii) limitations in coordinating activities in all provinces nationwide; (iv) inadequate promotion of the competition; (v) the lack of methodological arrangement and standardization of the process and the analysis and selection criteria; (vi) the lack of technical and business support for the enterprises being guaranteed; (vii) the casual nature of the guarantee program; (viii) the guarantee risk was not shared by the banks; and (ix) the need to implement mechanisms to ensure the sustainability of the Fund and the other activities. With a view to designing a sustainable program that has a greater impact, PROBIDE requested resources from the Bank to: (i) **expand and strengthen the guarantee program** to have a greater impact on creating new youth enterprises; and (ii) **consolidate and strengthen the operating processes** to ensure that more startups are financed and that they are sustainable sources of employment and income.

D. Bank strategy on microenterprise and small business

- 2.6 The Bank's strategic operating areas in Peru for the period 1998-2000, as set forth in the country paper (CP-1279, of April 10, 1998) are: (i) support for the modernization of the economy, including the second phase of the structural reform process and support for small business and microenterprise to boost their productivity; (ii) support for job creation, poverty reduction, and provision of social services; and (iii) modernization of the State. Specifically, the proposed operation falls under areas (i) and (ii).

III. PROJECT OBJECTIVES AND MAIN COMPONENTS

A. Objectives

- 3.1 The project's general objective is to promote an entrepreneurial culture among young people in the country and boost private investment in their innovative business initiatives, by strengthening cooperation ties among young entrepreneurs, private enterprise, and civil society. The specific objective is to strengthen and expand a pilot mechanism for promoting and financing the sustainable startups of Peruvian youth.

B. Project components

- 3.2 To achieve the objectives set, the project will have two main components that will be executed simultaneously. The first is the *expansion and consolidation of the mechanisms for promoting, analyzing, and selecting new youth business proposals*. The second is the *creation and strengthening of the Private Guarantee Fund* to finance the enterprises.

1. Expansion and consolidation of the mechanisms for promoting, analyzing, and selecting new youth business proposals

- 3.3 To ensure that the lessons learned during the first national competition for young entrepreneurs are applied, PROBIDE will use MIF resources to institute several improvements in each phase of the process of generating new investment projects. The final purpose of these activities is to identify new entrepreneurs who do not have their own investment resources, make their business plans feasible, and ensure their survival and success in the market. The proposed activities will help to consolidate the process and broaden the scope of the competition and guarantee program to benefit more young people through higher-quality services. The activities include: (i) training at three levels: trainers, youth participants, and regional coordinators; (ii) strengthening analysis mechanisms and selection of innovative, feasible proposals; (iii) promoting the competition; (iv) monitoring and oversight, advisory services, and promoting business ties to the winning new businesses; and (v) institutional strengthening of PROBIDE.

a. Training (MIF: US\$96,000; PROBIDE: US\$56,000)

- 3.4 With a view to improving support services for the youth participants, thereby enhancing the quality of the proposals presented, a series of training activities will be conducted that are targeted at: (i) trainers; and (ii) the group of pre-selected youth. Training will be provided to a group of regional coordinators for better competition organization and dissemination.
- 3.5 **Training the trainers:** Because of the lack of technical support from the universities and technical institutes for the participating youth in formulating their ideas and consequently preparing their investment projects in the first competition, 500 professionals (5 each for 100 universities and other institutions of higher learning) will be trained to fulfill this task nationwide in order to serve all interested youth. To this end, two experts will be hired to select the candidates and prepare the written and visual materials (see paragraph 3.13) for use by the future “trainers” and will train them on their use. To give the trainers the space and tools needed to lend the required support to the young people, PROBIDE will sign cooperation agreements with different universities and other institutions of higher learning to establish workshops on preparing investment projects and to provide advising to the interested youth.
- 3.6 **Training the preselected young people:** The groups of young people who have passed the first round need more personalized help so that they may, as a group, reformulate and adapt their investment projects to be submitted for the final selection. Specifically to provide this service, PROBIDE will hire two consultants who will make up an interdisciplinary team to meet the demands of the young people. They will also serve as technical advisors for redefining the strategies during the investment project preparation stage. An estimated 3,000 to 4,500 young people will receive this support.
- 3.7 **Training the regional coordinators:** The coordinators are the competition promoters and first points of contact that young people will have with the competition. They are responsible for coordinating all promotion activities with the universities and institutes in their area and for providing initial guidance to the young people interested in participating, giving them the requirements and helping them throughout the registration and business idea/plan presentation process. A total of 48 regional coordinators will be trained (2 coordinators x 24 Departments) thereby providing adequate national coverage. For this, two experts will be hired; they will select the candidates, prepare the educational materials, and train them.

b. Strengthening the analysis and selection mechanisms (MIF: US\$42,000; PROBIDE: US\$79,000)

- 3.8 To ensure the selection of innovative, economically sound proposals, based on the criteria listed in the competition operating/implementation manual, a series of steps

will be taken to enhance the proposal analysis mechanisms and strengthen the selection team of experts. To this end, an inter-disciplinary team will be set up called the Ad Hoc Committee, composed of specialists from each of the competition's eligible productive sectors and of a support team of junior professionals. The Ad Hoc Committee will be responsible for analyzing, selecting, and recommending proposals that, technically, should be chosen to move on to the next phase. It will support the work of the grading committee, which is responsible for selecting proposals for the competition finals. MIF resources will finance the fees of the specialists on the Ad Hoc Committee and the travel and per diem expenses of the grading committee for the first competition.

c. Promotion (PROBIDE: US\$176,000)

- 3.9 To attract the most proposals possible nationwide, different promotion activities will be conducted both before and during the competition. In addition to nationwide direct promotion in universities and institutes, PROBIDE will reach the target group through the mass media, such as the radio, magazines, and newspapers; this promotion will support the work conducted by the various regional coordinators.

d. Monitoring and oversight, advisory services, and promoting business ties (MIF: US\$54,000; PROBIDE: US\$87,000)

- 3.10 To promptly identify problems in the startups, PROBIDE will be in charge of monitoring their installation and financial and operating performance. To this end, the young people will be asked to submit monthly reports, which will be supplemented by on-site visits to the enterprises by experts every two months during the first year and at longer intervals during the second year. A PROBIDE Monitoring and Oversight Committee will be established to review the monthly reports from the enterprises and the technical reports. The Committee will recommend corrective measures to the business and, when appropriate, report to the guarantors and/or financing bank, so they may provide advising to the young people and, when possible, facilitate convergence to promote business ties between the new enterprise and the sponsor. MIF resources will be used to cover part of the cost of the consultants hired for these business monitoring and oversight activities.
- 3.11 The advisory services from the guarantors, be they one-time or as a result of business ties, aim to help the new venture take its first business steps, thus increasing the likelihood of success. Taking advantage of the sponsors' experience, the young people can receive advising in areas such as: the purchase of raw materials, production plans and selling strategies, administrative organization, etc. To cash in on this relationship between the guarantor and the enterprise being guaranteed, the former will assign one official to act as a liaison and tutor for the latter. PROBIDE will also promote collective learning and business ties among the young entrepreneurs. The young people will exchange information on their

businesses through a database for the guaranteed enterprises and through a chat room on the PROBIDE web site (see paragraph 3.13). The young people are expected to share production and market information and support each other to resolve problems and seek out business opportunities among themselves.

- 3.12 To address the needs of the startups, beyond what the guarantors are able to do, MIF resources will cofinance up to 50% of the cost of hiring advisors on specific topics, depending on the demand expressed. That financing will supplement the limited support available for young people whose businesses do not have ties to a sponsoring guarantor.

e. Institutional strengthening (MIF: US\$48,000; PROBIDE: US\$6,000)

- 3.13 To enhance PROBIDE's capacity and improve the quality and timeliness of the services offered to the participating youth, MIF resources provide financing to:
- (i) Design and prepare a kit for preparing investment projects, which will be used to train young people and the trainers, placed on the program's web site, and recorded on a compact disk (CD) for distribution, where required.
 - (ii) Design and install a database and procure computer equipment. The database will be used to manage information on all the participants, projects, startups created, and their monitoring. It will also enable PROBIDE to prepare timely reports and boost its capacity to effectively monitor and oversee the startups created.
 - (iii) Improve the "Creer para Crear" program's web page. PROBIDE will use its web page to lower its operating costs and increase its capacity to disseminate information on the program, competitions, training, etc. nationwide. For example, both the information on the applications, regulations, and competition criteria and the investment project kit will be available on the web site. It will also have chat rooms for the young people participating in the competitions and members of the startups created to exchange information.

2. Creation and strengthening of the Private Guarantee Fund

- 3.14 This component will provide institutional and financial strengthening of the Private Guarantee Fund in order to finance startups. The purpose of the Private Guarantee Fund is to offer a financial guarantee mechanism for the projects selected in future PROBIDE competitions. The guarantees granted will serve as collateral for the projects and will enable them to access bank financing with better interest rate conditions and terms. Consequently, the purpose of the FUND is to increase the

creation of small businesses, boost the number of credits to this sector, and obtain longer terms, significant grace periods, and lower interest rates than those traditionally given in the financial system.¹

a. Advisory services for Fund organization and execution (MIF: US\$15,000)

- 3.15 For the legal and operating establishment of the Fund, PROBIDE will hire a law firm to examine legal, financial, administrative, regulatory, and supervisory aspects. The firm will manage the establishment of a trust, regulated by the Office of the Bank Superintendent. The MIF resources allocated to the Guarantee Fund will be transferred to form the trust assets and will be administered by the trustee, bearing in mind the specific goals established by the trustees (PROBIDE and the guarantors). Consequently, the guarantee resources will be administered by an independent mechanism, which ensures the necessary transparency and security.

b. Expansion of the Fund (MIF: US\$500,000; private companies: US\$500,000; commercial banks: US\$500,000)

- 3.16 The MIF will contribute US\$500,000 in cash to the Private Guarantee Fund, against the commitments PROBIDE obtained from private enterprise totaling US\$500,000. As an additional contribution, Peru's counterpart funds allow for a one-third overdraft by the commercial banks when granting the credit.² Therefore, the composition of the guarantee program will be as follows: one third, IDB/MIF; one third, guarantors; and one third, financing banks.
- 3.17 Bearing in mind the most recent international experience, the Fund will have the following four features: (i) it will offer a **joint and several** guarantee that will be paid when the other established guarantees are drawn on, so that when there is a claim, the guarantee is nullified, and the legal process of collecting the credit and recovering the established counterguarantees begins; (ii) it will be **selective**, therefore the projects to be guaranteed will be selected through a competitive process involving several stages of analysis and ranking. It should be noted that the final decision will be made by the Guarantee Panel made up of PROBIDE, the guarantors and the financial institutions participating in the Private Guarantee Fund; (iii) **coverage** will be 67% of the amount of the credit (see paragraph 3.19), and the financial institutions will therefore be directly liable for 33% of the credits disbursed; and (iv) it will be **sponsored**: most of the projects will be guaranteed by

¹ The results of a collateral fund are measured, among other ways, by "additionality," i.e. the number of enterprises financed that would not have been if the Fund did not exist, the longer terms of the credits, and the lower interest rates. For this program, the number of young people trained and geographic areas reached will also be included.

² PROBIDE already has letters of commitment from private enterprises and banks totaling US\$900,000 in guarantees and US\$200,000 in contributions in cash or in kind for program activities.

enterprises that will give them administrative and technical assistance; in some cases they will enter into production purchasing contracts and, in others, they will foster alliances with the mentor or investment sponsor. It should be noted that the credits will not cover 100% of the total cost of the financed project. The members of each project will contribute, on average, 5% of the total investment, depending on their means.

- 3.18 The Private Guarantee Fund will be fed resources from the MIF and the private-sector guarantors. The latter will be represented by enterprises in the commercial, industrial, or financial sectors that want to support the creation of small businesses. The Private Guarantee Fund will issue certificates of guarantee for the banks participating in the financing agreements (see paragraph 9.3). In this way, the Private Guarantee Fund will guarantee each project in the financial system, but the guarantors as a whole will be responsible for the guarantee given to the startups. A single guarantee is presented to the bank granting the financing, and only one institution replies, but under the program, the guarantee is shared among the resources of the MIF and all the guarantors. The interest generated from the MIF contribution (US\$500,000) to the Private Guarantee Fund will be used to finance activities under the technical-cooperation component, such as training, monitoring and oversight. In addition, the guarantors will provide cash resources equivalent to the interest generated by the MIF contribution to the Fund to cover the operating and administrative expenses of the fund and any losses. The Private Guarantee Fund will be maintained by a 2% charge on sales by the guaranteed enterprises and the cash contributions by the guarantors (see paragraph 9.7).
- 3.19 In case of debtor default, the Private Guarantee Fund pays the commercial bank the balance of the outstanding loan and distributes the costs of guarantee losses in the Fund. In other words, half of the 67% of the guaranteed loan is charged to the MIF cash resources and the other half to the guarantors, based on their percentage share in the total guarantee.
- 3.20 Since this program is a new experiment in promoting startups among young people and could be a model that can be duplicated in other countries, the project will have resources to analyze and disseminate the results and lessons learned. In the project's third year, once there are preliminary results from the startups formed in the project's first competition, PROBIDE will hire a consultant to examine the lessons learned and organize an event to disseminate them internationally.

IV. EXECUTING AGENCY AND EXECUTION MECHANISM

A. Executing agency

- 4.1 The operation will be executed by the Asociación Pro Bienestar y Desarrollo (PROBIDE). This non-profit institution was established in 1998 and has the

following objectives, among others: (i) to promote creativity and an entrepreneurial culture among young people in order to identify and train young entrepreneurs; (ii) to promote implementation of training workshops on project preparation; (iii) to organize seminars and conventions on economic, organizational, technical, and scientific matters; (iv) to produce publications related to entrepreneurial culture; and (v) to boost job creation.

B. Execution mechanism

1. Project responsibility

- 4.2 PROBIDE, through its board of directors, will be responsible for: (i) supervising fulfillment of project goals and objectives; (ii) verifying appropriate budget execution; (iii) reviewing and approving the annual project plan of activities and budget, including the use of the local contribution; (iv) allocating financial resources to ensure the continuity of project execution; (v) selecting and hiring the Project Leader; and (vi) establishing the executing unit and approving the hiring of the rest of the unit's technical personnel and the consultants/specialists in different economic sectors.

2. Execution period and disbursement schedule

- 4.3 The project execution period is 48 months and the disbursement period, 54 months. Technical cooperation resources will be disbursed through a revolving fund mechanism for the equivalent of 10% of the total MIF contribution, in keeping with Bank procedures. The technical cooperation contribution will be disbursed *pari passu* with the local contributions. In no case may disbursements of the technical-cooperation resources exceed the disbursements made as contributions to the Private Guarantee Fund.
- 4.4 Resources will be disbursed to the Private Guarantee Fund (US\$500,000) in similar amounts concurrently with the contributions of the private companies participating in the Fund, once the conditions precedent to the first disbursement have been met (see paragraph 9.6).

3. Procurement of goods and services

- 4.5 PROBIDE is responsible for procuring the equipment and hiring the consultants; it will do so in keeping with Bank standards, procedures, and policies thereon.

4. Social and environmental elements

- 4.6 In keeping with the suggestions from the CESI, several elements were added to the project design to ensure that the operation's activities promote investment in projects and microenterprises that are socially and environmentally sustainable. They include: (i) the project selection criteria in the different phases include

environmental and social eligibility criteria; (ii) projects that do not comply with the country's current environmental regulations, that do not have the required permits, or that are detrimental to occupational safety and/or health will not be eligible for guarantees; (iii) the project grading and approval committee will include one official from an environmental agency (la Comisión Nacional de Medio Ambiente (CONAM) or another); (iv) the winning projects that stand out for their positive social or environmental impact will receive special recognition awards; (v) the budget includes resources for hiring environmental specialists to conduct the necessary studies for projects that so require; and (vi) the maximum investment amount and the steps required for the approval of guarantees provide for self-selection of contestants in low and middle sectors of society.

C. Degree of preparation

- 4.7 The project is in an advanced stage of preparation; the draft operating regulations for the competitions and the draft timetable of activities were prepared jointly with PROBIDE experts. Furthermore, PROBIDE already has letters of commitment from the participating private guarantors and commercial banks, totaling US\$900,000, as well as draft agreements to sign with them.

D. Beneficiaries

- 4.8 The project will have direct and indirect beneficiaries. The direct beneficiaries are young students in the final years of their degree or students who have graduated in the last five years from throughout the country, who are 30 or younger. This project is expected to directly benefit up to 500 young people, through guarantees for their startups, during a four-year period. It will also benefit thousands of students who present projects, even if they are not selected as winners, through the training they will receive in project preparation and by opening their eyes to an entrepreneurial culture.

V. COST AND FINANCING

A. Costs

- 5.1 The project totals US\$2,375,000, of which the MIF will contribute US\$815,000 in non-reimbursable funding. PROBIDE and the guarantors, sponsors, and banks will contribute counterpart funds in the amount of US\$1,560,000. The following table provides a breakdown of the budget:

COMPONENT	MIF	PROBIDE	GUARANTORS AND BANKS	TOTAL
1. Expansion and consolidation of the mechanisms for promoting, analyzing, and selecting new youth business proposals	240,000	404,000	0	644,000
(a) Training	96,000	56,000	0	152,000
(b) Strengthening analysis and selection mechanisms	42,000	79,000	0	121,000
(c) Monitoring and oversight, business ties, and advisory services	54,000	87,000	0	141,000
(d) Promotion	0	176,000	0	176,000
(e) Institutional strengthening	48,000	6,000		54,000
2. Creation and strengthening of the Private Guarantee Fund	515,000	0	1,000,000	1,515,000
(a) Organization of the Fund	15,000	0	0	15,000
(b) Expansion of the Fund	500,000	0	1,000,000	1,500,000
3. Evaluations/auditing	35,000	30,000	0	65,000
4. Project coordination and administration	0	126,000	0	126,000
5. Dissemination of results and lessons learned	15,000	0	0	15,000
6. Contingencies	10,000	0		10,000
TOTAL	815,000	560,000	1,000,000	2,375,000

- 5.2 The counterpart resources will be contributed partly by PROBIDE and partly by the guarantors and sponsors, both in cash and in kind. PROBIDE will contribute US\$333,000 (62%) of its counterpart resources in cash and US\$227,000 in kind. The guarantors' resources for the guarantees (US\$500,000) will be based on the signature of letters of guarantee for the Private Guarantee Fund, and the commitment on the part of the participating commercial banks is to grant loans totaling 1.5 times the total amount of the Private Guarantee Fund.

B. Financial sustainability

- 5.3 The Fund's financial sustainability lies essentially in the selection of projects and guarantors, and finally in the safe management of the resources. Poor project selection will be reflected in heavy losses, and therefore in decapitalization of the Fund. Furthermore, the success of program dissemination and the results of the enterprises financed will determine its continuation. It is hoped that, by promoting the competitions nationwide and showing the positive results of the startups, other private companies will be more interested in participating in the program, thereby promoting greater private-sector support with human and financial resources.
- 5.4 The Private Guarantee Fund will cover all its costs through income from two sources: (i) the fee charges (a 2% charge on sales by the guaranteed enterprises); and (ii) annual cash contributions by the guarantors to the Private Guarantee Fund. Since the private companies are not providing their guarantees for the Private Guarantee Fund in cash, their annual contributions will be in amounts sufficient to

enable the Fund to cover all its costs, including administrative expenses and projected Fund losses. Moreover, the income generated by interest on the liquid MIF resources in the Private Guarantee Fund will be used to cover training and monitoring expenses under the program. According to Private Guarantee Fund projections and sensitivity analyses conducted, with a loss ratio of roughly 40%, there is accelerated decapitalization of the Private Guarantee Fund. Therefore, it is recommended that program structure and procedures be reviewed when Fund losses reach 30%. If losses reach 40% or more, the trust must be dissolved and the remaining resources returned to the MIF (see paragraph 9.4). However, due to the particular program characteristics that guarantee the selection of the best projects and to the advisory services and business ties, which significantly increase its chances of success, losses are not expected to reach those levels. Furthermore, since the commercial banks will be assuming one-third of the risk for each project financed and are involved in their final selection, the risk of financing projects that do not have strong potential for success is minimized.

VI. PROJECT JUSTIFICATION AND RISKS

A. Justification

- 6.1 This project will provide an incentive for the Peruvian student body and will also stimulate the Peruvian economy by offsetting the lack of capital and financial markets. PROBIDE has an appropriate, proven mechanism for promoting new ventures: the national investment project competition. Specifically, this second competition anticipates: (i) 120 projects financed, which will create jobs and generate income for the 400 to 500 project participants; and (ii) over 500 additional jobs created by the guaranteed enterprises by promoting the growth of suppliers in their regions of origin.
- 6.2 The competitions not only provide financing opportunities and advising to the winners, but they also have a demonstrative effect, showing the success of the new generation of entrepreneurs to both the financial sector and business community and to youth in general; this will convince them that it is possible and feasible for Peruvian youth to launch new ventures when good ideas meet support from business and financing leaders. Those young people not selected in the competition will be better prepared for future ventures thanks to the training they receive on preparing business plans. In fact, many of those who were disqualified in the first competition actively sought advice from the winners in order to present better plans in future competitions.
- 6.3 One of the operation's main results will be the transformation of an informal program of individual guarantors into an official, independent entity, regulated by the Office of the Bank Superintendent, that has contributions from the MIF and the most important private enterprises in Peru and that issues guarantees that makes it

possible to distribute the risk among all the guarantors. This new entity (the trust) will guarantee the transparency and security needed to professionally manage the guarantors' resources and be able to attract other investors that would like to support the creation of startups by Peruvian youth. This operation could serve as a new model for alliances between civil society and the private sector to seek solutions to the challenges the new generation will face.

B. Risks

- 6.4 The project has two main risks: (i) the possible bankruptcy of the Private Guarantee Fund if the new winning enterprises do not achieve the level of economic growth needed to repay the debt; and (ii) the possibility of bias in choosing the winners, given the interest in selecting startups that have ties to the guarantors.
- 6.5 The project mitigates the risk through: (i) improved selection; (ii) support from the business network; and (iii) the lending conditions. Based on the lessons learned from the first competition, several changes were made that ensure the selection of the most feasible plans, and important activities were incorporated to significantly strengthen plans that need to be reinforced. The support of the business network formed between the guarantors and PROBIDE ensures the success of the young people selected, by offering them monitoring and oversight services, business ties, and advising (see paragraphs 3.10 to 3.12). The loan period is four years, with a one-year grace period, and a loan recovery period in the event of delinquency before execution of the guarantee has begun. However, the interest rate will continue to be the market rate, to prevent subsidization of ventures that are not sound.
- 6.6 The second risk was not observed during the first competition, since guarantors supported investment projects that were not related to their business and selected them primarily because they were attractive, feasible plans. Nonetheless, to ensure that there is no unfair selection, the project will separate the guarantee function from the business ties and advising function, forming a Private Guarantee Fund in which all guarantors share the risks of the loan.

VII. MONITORING AND EVALUATION

A. Monitoring

- 7.1 Monitoring of project execution will be based on the work plan that PROBIDE will present to the Bank's satisfaction; the plan must be geared towards meeting the performance evaluation parameters established in the logical framework (Annex I) as the minimum goals.
- 7.2 PROBIDE will submit semiannual progress reports on the project to Bank, which must include: (i) information on the technical assistance received and its results;

(ii) information on the training activities conducted and their results; (iii) performance indicators, based on the ones listed in Annex I; (iv) should any of the goals fail to be attained, the reasons for such failure and the corrective measures taken; (v) a financial report on the application of program resources; and (vi) a financial report on the Private Guarantee Fund.

B. Evaluations

- 7.3 Using the technical cooperation resources, the Bank will hire a consultant to conduct a mid-term evaluation after prizes are awarded in the project's first competition. That evaluation will review all aspects of project execution. At a minimum, it must include the following elements: (i) promotion and training activities and results; (ii) the selection and awarding process; and (iii) the establishment and operation of the Private Guarantee Fund. The report must indicate the corrective measures needed to guarantee proper project execution and suggest the suspension of disbursement if structural deficiencies are found in project execution. Disbursements can resume once the executor proves it has taken the necessary measures to correct the situation.
- 7.4 The evaluation findings will supplement the information that will be analyzed and presented in the event for the dissemination of the operation's results and the lessons learned (see paragraph 3.20).
- 7.5 By month 48 of project execution, the Bank will use technical cooperation resources to hire a consultant to conduct the final evaluation. That evaluation will seek to gauge the project's impact. To that end, data will be examined on the number of enterprises established, the number of jobs created, the return of the guaranteed enterprises, performance of the startups created, increases in the Private Guarantee Fund, etc. comparing the information to baseline data and the projected goals listed in the Quantitative Performance Indicators and updated during the first evaluation.

VIII. EXCEPTIONS TO BANK POLICY

- 8.1 The project does not call for any exceptions to Bank policy.

IX. SPECIAL CONTRACTUAL CONDITIONS

- 9.1 Prior to the first disbursement of the technical cooperation funding, PROBIDE must submit, to the Bank's satisfaction, evidence that the Project Leader has been appointed and the team of consultants who will make up the executing unit have been hired according to the terms of reference previously agreed upon with the Bank. In addition, PROBIDE must complete to the Bank's satisfaction: (i) proof of

the availability of the counterpart resources and the disbursement schedule; (ii) the operating regulations for the competitions; (iii) the terms of reference for the consultants to be hired using MIF resources during the preparation and holding phase of the first national competition in this project.

- 9.2 The Bank will recognize, drawn on the MIF contribution, the expenses incurred by PROBIDE for the following budget categories: the design and preparation of the investment project kit, advising for the organization of the Private Guarantee Fund, improving the web page, and training trainers, up to a maximum of US\$46,000, starting on June 1, 2000, provided MIF and Bank procedures on the matter were followed.
- 9.3 As a condition precedent to the first disbursement of resources for the Private Guarantee Fund, PROBIDE must present to the Bank's satisfaction: (i) agreements with the guarantors for a minimum of US\$200,000; (ii) agreements with the commercial banks that commit to issuing credit of up to 1.5 times the amount of the Fund; and (iii) proof of the incorporation of the trust.
- 9.4 The agreement for the establishment of the trust (the Private Guarantee Fund) will specifically stipulate that the following events will be grounds for liquidation of the Fund and consequently return of the assets to the trustees (the MIF and participating companies): (i) investment project competitions are not held every two years, unless there are exceptional reasons acceptable to the Bank; (ii) PROBIDE ceases to operate, becomes inactive, or is liquidated; and (iii) the Fund has a loss ratio over 40%.
- 9.5 The technical-cooperation funding will be disbursed *pari passu* with the local contributions. In no case may the technical-cooperation funding disbursed exceed the disbursements made as contributions to the Private Guarantee Fund in terms of relative percentage.
- 9.6 The disbursements of the MIF resources for the Private Guarantee Fund (US\$500,000) will be made in similar amounts and will be made concurrently with the contributions by the private companies participating in the Fund, once the conditions precedent have been fulfilled.
- 9.7 The interest generated by the MIF resources (US\$500,000) contributed to the Fund will be used to finance activities under the technical-cooperation component, such as training, monitoring and oversight. In addition, the guarantors will contribute cash resources in amounts equivalent to the interest generated by the MIF contribution to the Fund to be used to cover the operating and administrative expenses of the Fund and its losses.

LOGICAL FRAMEWORK

MIF – TC-9911183-PE - Youth Entrepreneurs Promotion in Peru

SUMMARY OF OBJECTIVES	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTION
<p>entrepreneurial culture among young country and boost private investment in business initiatives.</p>	<p>Within 4 years:</p> <ul style="list-style-type: none"> Increased creation of new youth enterprises guaranteed by private enterprise. A positive attitude among young people regarding the possibility of creating their own businesses. 	<ul style="list-style-type: none"> Youth surveys Mid-term project evaluation Final project evaluation Statistics from the Ministry of the Economy 	<ul style="list-style-type: none"> The Peruvian economy remains stable Young people remain interested in cultivating an entrepreneurial culture
<p>expanded pilot mechanism to finance new, sustainable enterprises of youth.</p>	<p>At the end of the project:</p> <ul style="list-style-type: none"> The number of projects presented rises 400% over the first competition. The number of backed enterprises rises 300% over the first competition. A 300% increase in the amount of guarantees granted compared to the first competition. >70% of the new enterprises guaranteed survive. 	<ul style="list-style-type: none"> Reports of the Private Guarantee Fund Reports from visits made by Bank staff Youth surveys Mid-term project evaluation Final project evaluation Monitoring and oversight reports 	<ul style="list-style-type: none"> The participating guarantors fulfilled their commitments to guarantors and contributions PROBIDE continues to bring together, and the country's universities and institutes of higher education
<p><i>on and consolidation of the mechanisms for promoting, analyzing, and new youth business proposals</i></p>	<ul style="list-style-type: none"> 500 trainers trained to support business plans. 48 coordinators trained in competition promotion and organization. 7,700 young people trained to prepare quality business plans. 120 winning investment projects. 140 universities and higher learning institutions participating. 38 guarantors participating. Announcements on radio and television and in national newspapers. Statistical data from registration forms indicating competition announcement medium. 	<ul style="list-style-type: none"> Reports of the Private Guarantee Fund Reports from visits made by Bank staff Youth surveys Incorporation papers of the trust Mid-term project evaluation Final project evaluation 	<ul style="list-style-type: none"> Youth interest in the program increases. The Private Guarantee Fund maintains a sufficiently low loss ratio and anticipated revenue to ensure sustainability. The guarantors and banks up to their commitment.

PRIMARY OF OBJECTIVES	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTION
<p><i>and strengthening of the Private tee Fund</i></p> <p><i>activities</i></p>	<ul style="list-style-type: none"> A trust is established to legalize and administer the Fund, which is valued at US\$1.0 million, including US\$500,000 in cash from the MIF and US\$500,000 secured from private enterprises. 2 evaluation reports. 3 audited reports. 		
<p><i>on and consolidation of the isms for promoting, analyzing, and new youth business proposals.</i></p> <p>and implement training courses for groups of pre-selected youth, and coordinators.</p> <p>and launch a project classification completed by an inter-disciplinary</p> <p>and execute an advertising campaign various forms of mass media.</p> <p>and implement a plan for disseminating ts and lessons learned.</p> <p>and implement a monitoring and t system.</p>	<ul style="list-style-type: none"> Courses designed and implemented in the first 6 months of execution. Invested each year: Year 1 Year 2 Year 3 US\$94,239 US\$4,500 US\$53,261 Invested at the end of the program: US\$152,000 Ad Hoc Committee established in the last 6 months of the first year of execution. Invested each year: Year 1 Year 2 Year 3 US\$25,955 ---- US\$25,955 Invested at the end of the program: US\$51,910 Advertising campaign designed during the first 3 months of execution. Invested each year: Year 1 Year 2 Year 3 US\$88,000 ---- US\$88,000 Invested at the end of the program: US\$176,000 Plan designed in the first six months of the third year of execution. Invested at the end of the program: US\$15,000 Monitoring and oversight system designed and implemented in the first 6 months of the second year of execution. Invested each year: Year 1 Year 2 Year 3 ---- US\$64,116 US\$76,884 Invested at the end of the program: US\$141,000 	<ul style="list-style-type: none"> Semi-annual progress reports Monitoring and oversight reports from PROBIDE experts 	<ul style="list-style-type: none"> The guarantors and banks u commitment.

SUMMARY OF OBJECTIVES	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTION
<p>and implement a kit for preparing investment projects.</p> <p>and implement a data base system on presented, winning projects, and new ones created.</p> <p>equipment.</p> <p>and launch a web page.</p> <p><i>and strengthening of the Private Guarantee Fund.</i></p> <p>and implement the Private Guarantee Fund.</p> <p><i>Managerial Activities</i></p> <p>consulting firm for the mid-term and project evaluations.</p> <p>an auditing firm.</p>	<ul style="list-style-type: none"> Kit for preparing investment projects designed, distributed, and implemented in the first 3 months of execution. Invested each year: Year 1 Year 2 Year 3 US\$19,400 ---- ---- Invested at the end of the program: US\$19,400 Database designed and implemented in the first 6 months of execution. Invested each year: Year 1 Year 2 Year 3 US\$12,000 ---- ---- Invested at the end of the program: US\$12,000 In the first 3 months of execution. Invested at the end of the program: US\$20,000 Web page designed and implemented in the first 3 months of execution. Invested each year: Year 1 Year 2 Year 3 US\$2,000 ---- ---- Invested at the end of the program: US\$2,000 Private Guarantee Fund designed and implemented in the first 6 months of execution. Year 1 Year 2 Year 3 US\$15,000 ---- ---- Invested at the end of the program: US\$15,000 Private Guarantee Fund expanded in the first year of execution: US\$1,500,000 2 evaluation reports submitted. Invested at the end of the program: US\$35,000 3 audited reports on the financial statements presented: US\$30,000 	<ul style="list-style-type: none"> Trust agreement established Semi-annual progress reports 	

SUMMARY OF OBJECTIVES	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTION
expenses for supporting program (fees, rent, paper products, communications, courier service, etc.).	<ul style="list-style-type: none"> Invested at the end of the program: US\$195,000 		

PROPOSED RESOLUTION

PERU. NONREIMBURSABLE TECHNICAL COOPERATION TO
ASOCIACION PRO BIENESTAR Y DESARROLLO
Youth Entrepreneurs Promotion in Peru

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the 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 with Asociación Pro Bienestar y Desarrollo, and to adopt such measures as may be pertinent for the execution of the Project Memorandum referred to in Document MIF/AT-___ with respect to a technical cooperation, the purpose of which is the strengthening and expansion of a pilot mechanism for promoting and financing new sustainable enterprises among peruvian youth.

2. That up to the sum of US\$815,000, is authorized for the purposes of this resolution, chargeable to the resources of the small enterprise development facility of the Multilateral Investment Fund.

3. That the above-mentioned sum shall be provided on a nonreimbursable basis.