

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PERU

**PROGRAM TO ENHANCE PRODUCTIVITY AND
COMPETITIVENESS III (PEPC III)**

(PE-L1099)

LOAN PROPOSAL

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4.	Economic assessment http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38881154
5.	Country strategy with Peru 2012-2016 http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=37004139
6.	“Mejoramiento de cobertura, periodicidad y calidad de las estadísticas empresariales y productivas en el Perú: Diagnóstico y plan de acción” [Enhancing coverage, frequency, and quality of business and productivity statistics in Peru: Diagnosis and action plan], 2009 http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36992248
7.	Diagnóstico del Sistema Nacional de Calidad: Resumen ejecutivo [Diagnostic assessment of the National Quality System: Executive summary] (AENOR), 2011 http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36992241
8.	Plan de acción para la reforma del SNC [Action plan for reform of the SNC] (AENOR), 2011 http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36992242
9.	Justificación del cambio institucional propuesto para el SNC en el Perú [Justification of the institutional change proposed for the SNC in Peru] (AENOR), 2012 http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36992246
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ABBREVIATIONS

BCRP	Banco Central de Reserva del Perú [Central Reserve Bank of Peru]
CENEC	Censo Nacional Económico [National Economic Census]
CENEPRED	Centro Nacional de Estimación, Prevención y Reducción de Riesgos de Desastres [National Disaster Assessment, Prevention, and Reduction Center]
CITES	Centros de Innovación Tecnológicos [Technology Innovation Centers]
CNC	Consejo Nacional de la Competitividad [National Competitiveness Council]
CONCYTEC	Consejo Nacional de Ciencia, Tecnología e Innovación Tecnológica [National Science, Technology, and Technological Innovation Council]
DGAEICYP	Dirección General de Asuntos de Economía Internacional, Competencia y Productividad [International Economic Affairs, Competition, and Productivity Division]
DGETP	Dirección General de Endeudamiento y Tesoro Público [Public Debt and Treasury Division]
DGPP	Dirección General de Presupuesto Público [Public Budget Division]
DIGEMID	Dirección General de Medicamentos, Insumos y Drogas del Ministerio de Salud [Pharmaceuticals and Medical Supplies Division of the Ministry of Health]
DIGESA	Dirección General de Salud Ambiental del Ministerio de Salud [Environmental Health Division of the Ministry of Health]
ECLAC	Economic Commission for Latin America and the Caribbean.
EEA	Encuesta Económica Anual [Annual Economic Survey]
FIDECOM	Fondo de Investigación y Desarrollo para la Competitividad [Research and Development for Competitiveness Fund]
FINCYT	Programa de Ciencia y Tecnología [Science and Technology Program]
GCI	Global Competitiveness Index
IAMC	Independent assessment of macroeconomic conditions
INDECI	Instituto Nacional de Defensa Civil [National Civil Defense Institute]
INDECOPI	Instituto Nacional de Defensa de la Competencia y de la Protección de la Propiedad Intelectual [National Competition and Intellectual Property Protection Institute]
INEI	Instituto Nacional de Estadística e Informática [National Statistics and Information Technology Institute]
ITP	Instituto Tecnológico Pesquero del Perú [Fishing Technology Institute]
ITSE	Inspecciones Técnicas de Seguridad en Edificaciones [Building Technical Safety Inspections]
MEF	Ministry of Economy and Finance
MINAGRI	Ministry of Agriculture and Livestock
MINCETUR	Ministry of Trade and Tourism
MSE	Micro and small enterprise
MTC	Ministry of Transportation and Communications

MVCS	Ministry of Housing, Construction, and Sanitation
NFPS	Nonfinancial Public Sector
OECD	Organization for Economic Cooperation and Development
OGPP	Oficina General de Planificación y Presupuesto [Planning and Budget Office]
ONGEI	Oficina Nacional de Gobierno Electrónico e Informática [National Office of e-Government and Information Technology]
PDSLTT	Plan de Desarrollo de los Servicios Logísticos en Transporte [Development Plan for Transportation Logistics Services]
PEPC	Program to Enhance Productivity and Competitiveness
PMM	Programa de Modernización Municipal [Municipal Modernization Program]
PRODUCE	Ministry of Production
RENIEC	Registro Nacional de Identificación y Estado Civil [National Registry of Identification and Civil Status]
SEDAPAL	Servicio de Agua Potable y Alcantarillado de Lima [Lima Water and Sewer Service]
SENASA	Servicio Nacional de Sanidad Agraria [National Agricultural Health Service]
SINACYT	Sistema Nacional de Ciencia, Tecnología e Innovación Tecnológica [National Science, Technology, and Technological Innovation System]
SNC	Sistema Nacional de Calidad [National Quality System]
SUNARP	Superintendencia Nacional de Registros Públicos [National Superintendency of Public Registries]
SUNASS	Superintendencia Nacional de Servicios de Saneamiento [National Superintendency of Sanitation Services]
SUNAT	Superintendencia Nacional de Aduanas y de Administración Tributaria [National Superintendency of Customs and Tax Administration]
TFP	Total factor productivity
TUPA	Texto Único de Procedimientos Administrativos [Consolidated Code of Administrative Procedures]
UAC	Usuario aduanero certificado [certified customs user]
VUCE	Ventanilla Única de Comercio Exterior [Foreign Trade One-stop Window]
WEF	World Economic Forum

PROJECT SUMMARY

PERU

PROGRAM TO ENHANCE PRODUCTIVITY AND COMPETITIVENESS III (PEPC III) (PE-L1099)

Financial Terms and Conditions			
Borrower: Republic of Peru		Flexible Financing Facility*	
		Amortization period:	8 years
Executing Agency: Ministry of Economy and Finance (MEF), acting through the Public Debt and Treasury Division (DGETP).		Weighted average life (maximum):	7.25 years**
		Disbursement period:	12 months
		Grace period:	6.5 years
		Inspection and supervision fee:	***
		Interest rate:	LIBOR-based
Source	Amount (US\$)	Credit fee:	***
IDB: Ordinary Capital	25 million	Currency of approval:	U.S. dollars from the Bank's Ordinary Capital (OC)
Local counterpart:	0		
Total:	25 million		
Project at a Glance			
Project objective and description:			
The general objective of the programmatic series is to help enhance business productivity and competitiveness, by improving the business environment, strengthening institutions, policies, and instruments for competitiveness, and supporting productive development and innovation. This operation is the third of three consecutive technically linked but independently financed single-tranche programmatic policy-based loans. The objective of this third operation is to reduce transaction costs faced by companies during their operations and help raise the level of sophistication of Peru's firms by strengthening the institutional framework and policies to support competitiveness and innovation.			
Special contractual conditions precedent to the first disbursement of the loan proceeds:			
Disbursement of the proceeds is contingent on fulfillment of the policy reform commitments, once the loan contract has been signed and the special and general conditions precedent to the disbursement have been met, in accordance with the Policy Matrix (Annex II), the Means of Verification Matrix, and the Policy Letter (see paragraph 2.1).			
Exceptions to Bank policies: None.			
Project qualifies as: SEQ [] PTI [] Sector [] Geographic [] Headcount []			

* Under the terms of the Flexible Financing Facility (document FN-655-1), the Borrower has the option of requesting modifications to the amortization schedule, as well as currency and interest rate conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

** The final weighted average life will be calculated based on the effective date of contract signature.

*** The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable provisions of the Bank's policy on lending rate methodology for Ordinary Capital loans.

I. DESCRIPTION AND RESULTS MONITORING

A. Program context

- 1.1 This document presents the third programmatic policy-based loan of a series of three consecutive single-tranche operations under the programmatic approach, in accordance with documents CA-450-1 and CS-3633-1. This third operation, for a total amount of US\$25 million, is aligned with the reform framework established in the first operation of the programmatic series (loan [2325/OC-PE](#)), approved in 2010, and with the second operation, approved in 2012 (loan [2849/OC-PE](#)).¹ The Bank has been supporting dialogue, design, and implementation of the reforms included in the series through a US\$5 million operation under the Institutional Development Sector Facility titled “Support for the Program to Enhance Productivity and Competitiveness (PEPC)” (loan [2303/OC-PE](#)), which was approved in 2010.
- 1.2 Currency stability and low inflation (averaging 2.9% per year over the last decade) have enabled Peru to sustain one of the region’s highest rates of economic growth over the last decade (6.4% annual in the period 2004-2013). Although this growth was driven by a relatively favorable external scenario, with high prices for traditional primary export products, it was also assisted by the favorable environment for private investment, relative macroeconomic and political stability, and the implementation, over the last two decades, of a series of macro and microeconomic reforms that have helped to boost the country’s competitiveness.
- 1.3 Over the last decade, the stimulus to economic growth has come mainly from the accumulation of factors of production. The increase in public and private investment has been particularly significant, rising from 17.9% to 28.3% of GDP between 2004 and 2013, while the improvement in total factor productivity (TFP) contributed between 30% and 40% to economic growth.² Peru has also been posting fiscal surpluses in recent years, the nonfinancial public sector (NFPS) reporting an economic surplus of 0.9% of GDP in 2013.³ The fiscal discipline exercised over the last decade has made it possible to reduce total public debt from 45.2% of GDP in 2004 to 19.6% of GDP in 2013, and external public debt is now just 8.8% of GDP.⁴ Peru has also become increasingly integrated in global trade flows, and its exports grew at an average annual rate of 16.6% from 2004 to

¹ The first operation was approved for an amount of US\$50 million, and the second for US\$30 million.

² TFP grew by 2.5% a year from 2001 to 2011 (most recent data available), and real GDP (2007 prices) grew by 6.2% per year, while in PPP-terms growth was 7.9% per year. This implies that TFP contributed approximately 30% to 40% of annual economic growth in the decade, depending on the measure of economic growth used. See: Fernández-Arias, Eduardo, *Productivity and factor accumulation in Latin America and the Caribbean: A database* (2014 update), IDB, Washington, D.C., 2014.

³ The NFPS balance showed a fiscal surplus equivalent, on average, to 1.7% of GDP between 2011 and 2013, with a surplus in six of the last eight years (BCRP, 2014).

⁴ External public debt in 2004 was equivalent to 35.8% of GDP.

2013, reaching a nominal value in 2013 that was six times total exports at the start of the previous decade.⁵ Although Peru's terms of trade have deteriorated since 2013, primarily as a result of falling prices for its main ore exports, total exports are expected to grow by 6% in 2014.

- 1.4 One of the key features of Peru's economic growth in recent years is that it has been accompanied by a gradual improvement in income distribution,⁶ and a reduction in the poverty and extreme poverty rates to less than half.⁷ Sustaining these redistributive policies to support this process will demand continued improvements in competitiveness so Peru can continue to pursue inclusive growth over the medium and long term.

B. Diagnostic assessment of Peru's competitive position

- 1.5 **Institutional context.** The National Competitiveness Council (CNC), under the Ministry of Economy and Finance (MEF), is the body in charge of setting strategic priorities and advancing reforms to support competitiveness, as well as coordinating the public, private, and academic sectors. The agenda for improving the business environment is being driven by the CNC in coordination with a multitude of agencies, including, in addition to those at municipal level (now key players in business facilitation): the National Superintendency of Public Registries (SUNARP), which handles the establishment and registration of companies, and registries of real property and secured transactions; the National Disaster Assessment, Prevention, and Reduction Center (CENEPRED), which is in charge of policy concerning technical inspections for the issuance of operating licenses; the Ministry of Housing, Construction, and Sanitation (MVCES), in relation to construction permits; the National Superintendency of Customs and Tax Administration (SUNAT), the Ministry of Trade and Tourism (MINCETUR), and the Ministry of Transportation and Communications (MTC), in relation to trade facilitation and logistic development, etc. Complementarily, the Ministry of Economy and Finance (MEF), the Ministry of Production (PRODUCE), and the National Science, Technology, and Technological Innovation Council (CONCYTEC) promote policies and programs linked to improving business productivity, science, technology, and innovation, and are responsible for implementing reforms to the CNC's competitiveness agenda related to their respective fields of activity.

⁵ Net international reserves also expanded rapidly over this period, reaching US\$65.7 billion at the end of 2013, equivalent to 32% of GDP (BCRP, 2014). See also optional electronic link [12](#).

⁶ The Gini index declined to 0.47 in 2009 and 0.44 in 2013 (INEI, 2014). The levels of total poverty and extreme poverty went from 58.5% and 16.2% in 2004 to 23.9% and 4.7%, respectively, in 2013. See: INEI: "Informe técnico de la pobreza en el Perú al 2009-2013" [Technical report on poverty in Peru 2009-2013], May, 2014; INEI, "Perú en Cifras-Indicadores Sociales" [Peru by the numbers: Social indicators]. See also optional electronic link [12](#).

⁷ These improvements are largely due to recent sustained economic growth, which has allowed the Peruvian government to increase its revenues considerably, enabling it to implement redistributive policies. See also optional electronic link [12](#).

- 1.6 **Diagnostic assessment of competitiveness.** Progress in implementing reforms to boost Peru's competitiveness has been reflected in its gradual improvement on the [World Economic Forum \(WEF\) Global Competitiveness Index \(GCI\)](#), and in improved productivity growth. When the first programmatic operation was approved, the country ranked 78th of a total of 131 (59th percentile) on the WEF's 2009-2010 GCI; the 2013-2014 index ranks it 61st of 148 countries (41st percentile). Also, over the period 2001-2011 TFP has grown steadily at an annual rate of 2.5% (compared with 0.91% and -0,03% in the periods 1991-2001 and 1981-1991, respectively). However, growth over the past decade has been insufficient to close the productivity gap with the United States (Peru's TFP is 49% of that of the U.S.) or the region's leading countries, such as Chile (76%) or Mexico (72%).⁸ According to the GCI the country is still a long way behind other economies in the region, such as Chile (ranked 34th on the 2013-2014 GCI) or Panama (ranked 40th). Institutions, infrastructure, and innovation remain the main weak points affecting the country's competitiveness.⁹
- 1.7 The lag in the economy's productivity is partly explained by the country's unsophisticated productive structure, heavily concentrated in commodities,¹⁰ and with a large share of workers employed in low or very low productivity sectors.¹¹ This all entails serious external and fiscal vulnerability to potential drops in international commodity prices for its exports. The country's productive structure is also extremely heterogeneous, varying in terms of company size and from region to region.¹² A brief diagnostic assessment of the factors identified as being key to developing the country's competitiveness while preparing the programmatic series, together with an analysis of recent developments, is presented below.
- 1.8 **Business environment.** In 2009, in conjunction with the CNC, the following issues were given priority for attention under the operation, as some of the main sources of additional costs for businesses: starting a business;¹³ property registry; construction permits; access to credit; and trade facilitation. Since then, Peru has seen major improvements in its position on the World Bank's Doing Business

⁸ See: Fernández-Arias, Eduardo, *Productivity and factor accumulation in Latin America and the Caribbean: A database* (2014 update), IDB, Washington, D.C., 2014. See also optional electronic link [12](#).

⁹ See www.weforum.org for more information on the rankings and assessments of countries by competitive factor.

¹⁰ Exports of mining and energy products accounted for 67.5% of total exports, while exports of nontraditional products represented 26% of the total (BCRP, 2014).

¹¹ [Plan Nacional de Diversificación Productiva: Borrador para la discusión](#) [National Productive Diversification Plan: Draft for discussion], PRODUCE, Peru (2014). See analysis of difference in productivity between sectors.

¹² Ibid. Average productivity per microenterprise worker is just 12% that of workers in large companies, and for small businesses this figure rises to 45%. See also the analysis of regional differences.

¹³ The legal paperwork involved in starting a business includes: incorporating and registering the new business, technical inspections, and procedures for obtaining an operating license.

rankings, which measure the general ease of conducting business operations in 189 countries.¹⁴ The reforms that have been implemented have enabled the country to move up from 56th place in the Doing Business rankings in 2010 to 42nd in 2014, the region's best after Chile (ranked 34th).

- 1.9 **Starting and running a business.** Between 2009 and 2014 the country has made substantial improvements in the time and cost of starting a business, obtaining a construction permit, and registering property (see Table 1. Progress of Business Environment Indicators), helping to bring down transaction costs for firms.¹⁵ This progress has been the result of a combination of regulatory reforms, technical assistance support for reforms to streamline and automate procedures, and application of budgetary incentives at municipal level¹⁶ on meeting certain reform targets, all of which was supported by the current programmatic series. Going forward, however, the challenges remain of scaling up these improvements more widely across the country as a whole, along with those of encouraging the use of online electronic platforms to allow procedures to be completed remotely, while ensuring the sustainability of the reforms.

Table 1. Progress of Business Environment Indicators

	Ranking DB 2014	Steps DB 2014 (DB 2010)	Days DB 2014 (DB 2010)	Cost DB 2014 (DB 2010)
Starting a business	63	5 (9)	25 (49)	10% per capita income (17%)
Construction permits	117	14 (21)	173 (203)	109% per capita income (130%)
Registering property	22	4 (4)	6.5 (14)	3.3% of property value (3.3%)
Trading across borders	55	Export 5 (5) Import 7 (5)	Export 12 (21) Import 17 (24)	Export US\$890 (US\$860) Import US\$1010 (US\$895)

Source: Internal staff calculations based on *Doing Business* 2010, 2014 data.

- 1.10 **Trade facilitation.** Peruvian companies also face high costs in moving the goods they produce. In addition to shipping costs, this is related to the costs of obtaining licenses and permits for international trade, the cost of warehousing and

¹⁴ <http://espanol.doingbusiness.org/data/exploreconomies/peru>.

¹⁵ Measurements to supplement the DB in the Lima region and outside the capital have confirmed the positive outcomes in terms of compliance with regulatory requirements and reduction in times (see optional electronic link [11](#)).

¹⁶ The Plan de Incentivos a la Mejora de la Gestión y Modernización Municipal [Incentives Plan to Improve Municipal Management and Modernization] was created under Law 29465 of 2010. It transfers resources to municipios upon meeting progressive targets in areas that include improving the business environment (operating licenses and construction permits) and is supplemented by technical assistance for municipalities with more limited capabilities. [The impact assessment of the program by Apoyo Consultoría](#) in 2013 found the budgetary incentives to have positive impacts in terms of changing municipios' behavior.

inventories, additional costs deriving from customs management deficiencies, etc. Logistics costs are estimated to represent 32% of the value of goods produced by Peruvian companies, compared with 18% in the case of Chilean companies, and the 9% average for countries of the Organization for Economic Cooperation and Development (OECD).¹⁷ In this regard, despite the progress made in the first programmatic operations, the implementation of the Foreign Trade One-stop Window (VUCE), the implementation of an Authorized Economic Operator program, and other measures aligned with international best practices in trade facilitation have yet to be completed.¹⁸

- 1.11 **Access to credit.** Access to credit in Peru remains relatively limited, particularly for micro and small enterprises (MSEs), which account for over 90% of the country's firms. At around 27% of GDP,¹⁹ the level is well below that in other countries of the region, such as Chile (100%), Brazil (68%), and Colombia (52%). The difficulty MSEs have in obtaining credit is preventing them from accumulating assets, creating jobs, and improving working conditions, and consequently, from increasing their productivity and competitiveness. This is explained in part by the lack of an adequate legal framework in Peru permitting widespread use of collateral for loans.²⁰ Recent experience of reforms of the secured transactions systems in emerging countries of Latin America, Asia, Africa and Eastern Europe has shown that a modern secured transactions system results in significantly lower costs and faster registration times, longer maturities, interest rates that are an average of 50% lower, and easier access to credit.²¹
- 1.12 **Institutions, policies, and instruments for competitiveness.** A company's competitiveness does not only depend on macro- and mesocontextual conditions and on the state of the international market; it also depends on its behavior, on its

¹⁷ See: Guasch, Jose Luis: "Logistics as a driver for competitiveness in Latin America and the Caribbean." IDB discussion paper IDB-DP-193, November 2011, page 9.

¹⁸ According to the Ministry of Trade and Tourism, the implementation of the VUCE between 2010 and 2012 has led to an 11% and a 25% reduction in processing of dossiers in the first two years.

¹⁹ Although there has been marked growth in domestic lending to the private sector as a proportion of GDP over the last 20 years, in recent years this growth has been less buoyant. See: World Bank, <http://datos.bancomundial.org/indicador/>, 2014.

²⁰ There are several factors relating to collateralization, registration, priority, and publication of secured transactions that have limited the economic impact of Law 28677 of 2006. For more details see: CEAL: "[Perú: Diagnóstico y recomendaciones de mejora del sistema de garantías mobiliarias](#)" [Peru: [Diagnostic assessment and recommendations to improve the secured transactions system](#)], Washington, D.C., March 2009; de la Peña, N; Cantuarias, F; and Fleisig, H: "Archivo de avisos para la publicidad de garantías mobiliarias" [File of secured transaction publication notices], Fundación CEAP, Washington D.C., 2009; and Kozolchyk, Boris: "Assessment of the Peruvian Secured Transactions Law (Attachment I)," National Law Center for Inter-American Free Trade, Tucson, Arizona, 2010.

²¹ The amounts of collateralized loans are typically four times higher than those of unsecured loans. See: Fleisig et al: *Reforming collateral loans to expand access to finance*, International Finance Corporation (IFC), Washington, D.C., 2006; IFC Secured Transactions Advisory Project in China, IFC, Washington, DC 2012; and Alvarez de la Campa, A. *Mexico: Reaping the rewards after the establishment of a modern collateral registry*, IFC, 2012.

having a strategic vision that enables it to take advantage of favorable conditions and overcome barriers to business and market entry, on its ability to secure dynamic competitive advantages by cooperating with other companies and institutions, and on its opportunities to access effective support services for business development and enhanced productivity and competitiveness. As part of the analysis carried out by the Bank and the Government of Peru during preparation of the programmatic series, the following priority areas for improving the competitiveness support system were identified:

- 1.13 **Public-private dialogue and strategic vision for competitiveness.** International experience shows that one key element in supporting the transformation of the productive sector is the existence of a forum for consensus-building with the private sector that takes a medium- and long-term view to help identify and prioritize reforms in the country.²² However, such forums face challenges to their ability to pursue and show results on ambitious, multisector agendas and to hold the ongoing interest of public and private stakeholders. In the most recent period the CNC's institutional arrangements have been revised, redefining its role, functions, and governance. Nevertheless, its definitive institutionalization within the MEF remains pending, as does the development of a medium- and long-term competitiveness agenda.
- 1.14 **Statistical data for the design and evaluation of production policies.** Some of the restrictions related to the quality and use of business statistics detected in the National Statistics System include:²³ (i) a lack of up-to-date statistics on key topics for competitiveness, such as the state of innovation; (ii) methodological shortcomings in the preparation and implementation of the Annual Economic Survey (EEA); and (iii) limited use and dissemination of the available survey data. In recent years the National Statistics and Information Technology Institute (INEI) and PRODUCE have made progress on strengthening the EEA's methodology, taking the first national innovation survey in the manufacturing sector in accordance with international standards and facilitating the dissemination and use of the information produced. The outstanding challenges concern the sustainability of the conducting, dissemination, and use of the surveys.
- 1.15 **Productive development and innovation.** Firms, particularly small ones, typically operate in isolation and have difficulty meeting minimum product and process quality standards. They also face constraints on access to technology and specialist services, which limits their ability to innovate and integrate themselves into markets.²⁴ The institutional and policy framework and instruments to promote quality, productive development, and innovation currently at the Peruvian

²² ECLAC: "La transformación productiva 20 años después" [The productive transformation 20 years later], Chapter VI. Santiago, Chile, 2008.

²³ See diagnostic study reports and recommendations at optional electronic link [6](#).

²⁴ For example, Chile's manufacturers invest 1.2% of sales in research and development (R&D), compared with 0.1% in Peru.

government's disposal to address the market and coordination failures leading to these constraints²⁵ suffer from various weaknesses, as described below.

- 1.16 As regards the promotion of quality standards, the current main pillars of standardization, accreditation, compliance assessment, and metrology suffer from significant weaknesses in terms of coordination, infrastructure, coverage, visibility, institutional structure, and regulatory framework. As a result, the ability of Peruvian businesses, particularly the smallest, to certify their products and services as compliant with international standards, models, and requirements is limited.²⁶ In response to these challenges, the Government of Peru has designed a comprehensive reform of the legal and institutional framework of the National Quality System (SNC) and of its quality support policies, which is in the process of approval. In the case of instruments to support productive development, although there have been specific actions to promote business competitiveness, in general public interventions have been splintered, small-scale, disjointed, and thinly spread. They are severely limited in terms of budget and scope, resources are highly concentrated in the agriculture sector, and in some cases there are weaknesses in their design, execution mechanisms, and systems for monitoring and evaluating results, typically resulting from a weak institutional framework.²⁷ Despite progress on designing new coordinated instruments, they have still not been implemented.
- 1.17 Lastly, part of the explanation for the low productivity figures is related to the country's lags in innovation. The main factors behind these lags include: (i) low levels of public and private investment in research and development (R&D) (0.15% of GDP compared with a regional average of 0.78%);²⁸ (ii) insufficient critical mass of engineers and scientists; (iii) the low quality of many research institutes; and (iv) the weaknesses in governance, information, and institutional framework of the National Science, Technology, and Technological Innovation System (SINACYT).²⁹ With the Bank's support, the Government of Peru has been analyzing the main innovation support policy challenges facing it and the options

²⁵ These include externalities, transaction costs, the existence of public or club goods, and imperfect information (information asymmetries, moral hazard). For more details, see Rivas, G.: "Cómo y cuándo intervenir" [How and when to intervene], Institutional Capacity and Finance Sector (ICF), IDB-TN-160, IDB, 2010.

²⁶ See diagnostic assessment reports and recommendations on the SNC at optional electronic links [7](#), [8](#), and [9](#).

²⁷ According to [Apoyo Consultoría: "Sistema de apoyo al desarrollo productivo" \[Productive development support system\]](#) 2009, over half the productive development support initiatives had budgets of less than US\$4 million, and 70% of resources were concentrated in the agriculture sector.

²⁸ [www.ricyt.org](#). 2011 data for Latin America and the Caribbean and 2004 data for Peru (latest official data reported).

²⁹ See: [Desarrollo productivo e innovación \[Productive development and innovation\]](#), Sector note, IDB, 2011; [Informe de revisión de las políticas de innovación en el Perú \[Review report on innovation policies in Peru\]](#), OECD, 2011; [Borrador de la estrategia Crear para Crecer](#) ["Create to Grow" draft strategy]. [CONCYTEC, 2014](#).

for addressing them since 2010, but implementation of the institutional reforms and deployment of the policy instruments necessary for their success are still pending.

C. The Bank's sector strategy and expected outcomes of the project

- 1.18 **The Bank's strategy.** Both this operation and the programmatic series are aligned with the Bank's country strategy with Peru 2012-2016 (document [GN-2668](#)), in that its objective is to help increase the productivity of the economy as the basis for inclusive and sustainable growth, placing priority on improving the business climate and on policies to support productive development and innovation, among other areas of the country strategy. This program will contribute to the lending priority of the Ninth General Capital Increase (GCI-9) (document AB-2764) for regional integration through trade facilitation measures such as customs strengthening, the Foreign Trade One-stop Window (VUCE), and the Authorized Economic Operator program, which contribute to better positioning of Peruvian firms in the global marketplace and form part of what document GN-2733 calls the multicountry focus criterion. It will also contribute to the regional development targets for: (i) the percent of firms using banks to finance investments; and (ii) trade openness (trade as percent of GDP). In the case of the first target, the contribution will be through reform of the secured transactions system, which will have a positive impact on access to credit, particularly for smaller firms. In the case of the second target, it will be through trade facilitation measures, which will stimulate exports and imports (see optional electronic links [4](#) and [5](#)). The program will also contribute to the output, "Number of crossborder and transnational projects supported."
- 1.19 **Lessons learned.** This operation incorporates the lessons learned from the Bank's operations in the sector,³⁰ in particular: (i) the need to give priority to a series of reforms as part of competitiveness programs to ensure the effectiveness and relevance of interventions, through consultations and public-private forums, such as that implemented in this series with the CNC; (ii) the importance of providing technical assistance for the policy reforms promoted under sector operations, as has been done in this case with the Sector Facility [2303/OC-PE](#); and (iii) the importance of combining business environment reforms with other reforms to support business development, with a long-term time horizon.³¹ This operation complements other Bank programs at the design or execution stage focusing on other competitiveness factors not covered by this operation, such as transportation (PE-L1151; PE-L1134; PE-L1135), broadband (PE-L1146); labor markets (PE-L1152); tax and customs issues ([PE-L1130](#)); and other operations that

³⁰ The main competitiveness sector operations include: Colombia ([1758/OC-CO](#); [1930/OC-CO](#)); Dominican Republic ([2126/OC-DR](#); [2432/OC-DR](#)); El Salvador ([1492/OC-ES](#)); Guyana ([1750/SF-GY](#)); Jamaica ([1972/OC-JA](#); [2297/OC-JA](#); [3147/OC-JA](#)); Peru ([1503/OC-PE](#)); and Uruguay ([1840/OC-UR](#)).

³¹ Project completion report of the Competitiveness Reform Program ([1503/OC-PE](#)). The Competitiveness and Innovation Division has also commissioned a study to identify the lessons learned from the competitiveness sector operations.

underpin some of the areas of reform included in the programmatic series, such as trade facilitation (PE-L1159) or innovation ([2693/OC-PE](#); [3088/OC-PE](#)), etc.

- 1.20 **The project's strategy.** The challenge facing Peru in the coming years is to ensure the medium- and long-term sustainability of the inclusive economic growth it has been experiencing. This means that, in addition to making the necessary investment in infrastructure and human capital to close the existing gaps, the country needs to make a commitment to sustained productivity gains that will help it to overcome the eventual challenge of diminishing returns from the mere accumulation of factors. This will require further regulatory and institutional reforms to ensure efficient allocation of resources within the economy by reducing the transaction costs companies face. It will also mean working directly to overcome the obstacles companies face in improving their levels of productivity and competitiveness.³² Thus, the focus of the first two operations was on approving reforms to the regulatory framework to improve the business environment, and on preparing diagnostic assessments and action plans to strengthen the institutional framework and instruments to support business development, competitiveness, and innovation. For the third operation, the achievements relate to progress on implementing reforms to improve the business environment at the subnational level and the approval of far-reaching institutional and regulatory reform on issues relating to public-private dialogue, quality, and innovation. To make the outcomes of the programmatic series sustainable, the country recently approved the 2014-2018 Competitiveness Agenda, which includes all the areas supported by the programmatic series, as well as other medium-and long-term challenges related to human capital, natural resources, or energy.
- 1.21 **Economic analysis.** The order of priority of the interventions in the PEPC III has been established through a process of analysis and consultation with the main public and private stakeholders, based on the needs and challenges identified in the National Competitiveness Agenda, the Plan for Improving the Business Climate, the CNC 2012-2013 Competitiveness Agenda, and the measurements of competitiveness factors provided by international indexes such as Doing Business and the WEF's Global Competitiveness Index.³³ An ex ante cost/benefit analysis has been done for three of the main reforms supported by the programmatic series, using a discount rate of 11% and yielding a positive net present value in

³² The evidence from countries that have experienced growth based on sustained productivity gains and structural change shows that they have invested heavily in policies to enhance productive development and innovation, and to develop the institutional capacities for their implementation. ECLAC, op. cit. 2008.

³³ Technical support was provided to the Peruvian government on the design, implementation, and measurement of the outcome of reforms through complementary operations, such as [2303/OC-PE](#) and [ATN/FG-12118-PE](#).

each case, accompanied by a sensitivity analysis validating the robustness of the results obtained³⁴ (see optional electronic link [4](#)).

- 1.22 **Coordination with other multilateral development agencies.** This operation is being coordinated with the Andean Development Corporation (CAF), mainly in the area of starting businesses and entrepreneurship, and with the World Bank Group's International Finance Corporation (IFC) on reforms to improve the business climate and to promote secured transactions. The National Competitiveness Council (CNC) has also begun steps to set up a donor coordination forum to support the 2014-2018 Competitiveness Agenda, to which the Bank has been invited.

D. Objective and components

- 1.23 The general objective of the programmatic series is to help enhance business productivity and competitiveness, by improving the business environment, strengthening institutions, policies, and instruments for competitiveness, and supporting productive development and innovation. The objective of this third operation is to reduce transaction costs faced by companies during their operations and help raise the level of sophistication of Peru's firms by strengthening the institutional framework and policies to support competitiveness and innovation.
- 1.24 The following paragraphs describe the objective of each component and the policy commitments. The changes made here and there to the PEPC III policy matrix with respect to the triggers originally planned in the second operation are described in detail in the [Matrix of differences](#). They are not regarded as affecting the policy objectives of the programmatic series, since they simply clarify the content of certain reforms (technical inspections, building permits, statistics) and update the commitments related to operating licenses, trade facilitation, productive development and quality, reflecting partial delays in some areas, offset by overfulfillment in others. In the case of secured transactions, the changeover to the new administration resulted in a delay in the reform process that has been recouped with introduction of the bill in Congress.
- 1.25 **Component I Macroeconomic stability.** The objective of this component is to continue to ensure that the macroeconomic context is consistent with the PEPC III's objectives and with the guidelines set forth in the sector policy letter.
- 1.26 **Component II. Business environment.** This component seeks to reduce the transaction costs companies face, by supporting the implementation and

³⁴ In the case of the Foreign Trade One-stop Window (VUCE), the benefits are the results in terms of the time saved in operations processing, travel, and customer waiting. In the case of reform to the secured transactions system, the starting point is the number of secured transactions registered and the current unit average loan to microenterprises, and the benefits deriving from the reduction in rates and increase in average collateral-backed lending. Lastly, the economic assessment of the National Quality System (SNC) reform incorporates benefits relating to increased tax revenue intake, reduced certification costs, and others.

consolidation of reforms in areas such as starting a business (business registration, technical inspections, operating licenses), construction permits, logistic costs and trade facilitation, and the secured transactions system. Component II has the following subcomponents.

- 1.27 **Starting a business and registering property.** The objective of this subcomponent is to reduce the time and cost involved in starting a business and to streamline procedures for registering property. Under the first two operations limited improvements were made to the online electronic platform for business registration run by the National Superintendency of Public Registries (SUNARP) and the Lima Board of Notaries. A service was set up allowing outright purchases of real estate to be registered in 24 to 48 hours, and progress was made on the regulatory and operational conditions for development of the online business registration platform using digital signatures. In the third operation, the policy commitment is to implement an online platform for business registration nationwide using electronic notices and digital signatures.
- 1.28 **Technical safety inspections.** The objective of this subcomponent is to improve the efficiency and effectiveness of the building technical safety inspections (ITSEs) required for businesses to obtain an operating license. The second operation made progress on adapting the regulatory framework for ITSEs and developing a reform proposal to simplify requirements, shorten times, and perform risk-based management. In this third operation the commitments concern progress in getting the National Disaster Assessment, Prevention, and Reduction Center (CENEPRED) up and running as the agency responsible for proposing guidelines and rules for ITSEs, and the approval of improvements to the ITSE administrative procedures, including: (i) shortening times; (ii) simplifying requirements; (iii) changes to ensure that inspectors are suitably qualified; (iv) authorization to delegate retail performance of ITSEs; and (v) facilitating the delivery of inspection services nationwide.
- 1.29 **Construction permits.** The aim of this subcomponent is to reduce the formalities and time required for businesses to obtain construction permits by optimizing and automating procedures. The first two operations made progress on approving an initial package of streamlined procedures for construction permits and established budget incentives via the Incentives Plan to Improve Municipal Management and Modernization in 2012 to stimulate the implementation of procedural improvements at municipal level. In this third operation the commitments relate to: (i) deepening the implementation of improvements at municipal level, to the point where water and sewer service connection processes can be completed at one-stop windows run by the Lima Water and Sewer Service (SEDAPAL) and sewer service providers outside the capital; (ii) progress on adaptation of construction permits to the model Consolidated Code of Administrative Procedures (TUPA); and (iii) approval of a second package of improvements in the processing of construction permits that includes: (a) streamlining and strengthening the building safety review process; (b) enhancing penalty procedures when bureaucratic hurdles

- are created, and (c) enabling simplified permits for infrastructure and essential basic services.
- 1.30 **Improving municipal procedures for starting a business.** This subcomponent aims to support improvements in municipal procedures relating to business formalities. Under the first two operations the Incentives Plan was approved, the targets relating to improving the business environment were built into the system, and progress was made on simplifying procedures for obtaining operating licenses in at least 10 municipios of Lima, with a reduction in times and costs. In this third operation the commitments include: (i) improving the Incentives Plan to incorporate the results of the recent impact assessment (financed with funds from the Sector Facility 2303/OC-PE); and (ii) progress on simplification of procedures to issue operating licenses in over 40 municipios of Metropolitan Lima and provincial capitals, and the automation and simplification of procedures in 10 of them, which will have begun deployment of the electronic application.
- 1.31 **Logistics costs and trade facilitation.** To help reduce logistics costs and streamline processes in the foreign trade logistics chain, this subcomponent includes actions relating to the Development Plan for Transportation Logistics Services (PDSLTL), and efficiency gains in foreign trade transactions, involving various institutions that control the key aspects of the logistics chain. With the first operations, progress was made on customs strengthening, the Foreign Trade One-stop Window (VUCE) was launched and gradually expanded, and the pilot Authorized Economic Operator program was started. Progress was also made on mapping foreign trade logistics chain processes and developing the PDSLTL. The commitments for the third operation include: (i) improving the foreign trade logistics chain, including the addition of a logistics component to the guidelines of the National Exports Strategic Plan, identification of services to improve the foreign trade logistics chain within the VUCE project, and implementation of the Promperú assisted logistics program; (ii) the Authorized Economic Operator program in progress; (iii) expansion of the VUCE reflected in the increase in the number of automated procedures, progress on implementing the ports and origin component, and improvements in 50 administrative procedures at the main agencies involved in the movement and control of restricted goods; and (iv) publication of the PDSLTL and progress on its implementation.
- 1.32 **Secured transactions.** The objective of this subcomponent is to improve the effectiveness and efficiency of the processes of collateralization, registration, disclosure, and enforcement of secured transactions by supporting the transition to a notification registration system that would shorten times and lower costs, as well as help improve credit access and terms, particularly for MSEs. As a result of the commitments under the first operation, a multisector committee moved forward on the preparation of a proposal for reform of the system. In this third operation the commitment will be to send the draft bill on the reform to Congress.
- 1.33 **Component III. Institutional framework and instruments to support competitiveness.** This component includes reform measures for improving the

coordination, effectiveness, and relevance of the productive support system, and for assessing and measuring its evolution and results. It includes the following subcomponents:

- 1.34 **Institutional framework for competitiveness.** This subcomponent aims to raise the level of sophistication of Peruvian businesses by supporting consolidation of the institutional framework for competitiveness through restructuring of the CNC, supporting its strengthening and ongoing dialogue with the private sector. In the first two operations, progress was made on transferring the CNC to the MEF, reorganizing its executive board, and preparation and approval of the [2012-2013 Competitiveness Agenda](#). In this third operation the commitment relates to the CNC's progress on institutional consolidation with its formal establishment as a permanent line agency of the MEF, and linking the agenda's targets with the annual budget, which, together with the new 2014-2018 Competitiveness Agenda, will pave the way for continuity of the competitiveness reforms transcending administrations' terms of office.
- 1.35 **Business statistics.** The aim of this subcomponent is to enhance the quality of business-related statistical data in order to facilitate the design of policies and instruments to support productive development and the monitoring and measurement of their results and impact. For the first operation an action plan was approved to strengthen business-related statistics; in the second, progress was made on implementing some of these actions, particularly as regards strengthening the Annual Economic Survey (EEA), dissemination of statistics, the development of a code of good practices by the National Statistics and Information Technology Institute (INEI), and the creation of an economic studies department at the Ministry of Production (PRODUCE). The commitments under this operation include progress on implementing the plan as regards dissemination of statistics, approval of the code of good practices, progress on adapting the INEI's organizational/functional structure to the new Civil Service Act, and getting the PRODUCE studies department up and running.
- 1.36 **National Quality System (SNC).** In order to facilitate the business sector's development and adoption of standards as a way of improving quality and productivity, this subcomponent aims to strengthen the SNC's institutional and policy framework, improving its coordination, coverage, and effectiveness. As a result of the first two operations, guidelines for a comprehensive diagnostic assessment of the SNC were agreed upon by a multisector working group, and the findings were used to prepare a proposal for short and medium-term reforms. The commitment under the current operation is for the government to make progress on implementing the envisaged plan of action, including, among other things, the new institutional framework based on the principles of efficiency and effectiveness, impartiality, and transparency that includes the three pillars of the SNC (standardization, accreditation, and metrology).
- 1.37 **Productive development.** The objective of this subcomponent is to identify the possible institutional arrangements for the efficient, coordinated development of

new instruments for productive development. Under the first two operations a diagnostic assessment was prepared and a proposal made for institutional arrangements and priorities for productive development support instruments, as well as a proposal for reform of the institutional model of the Technology Innovation Centers (CITES). In this third operation the commitments include: (i) progress on getting the first group of prioritized instruments up and running, all included in PRODUCE's National Productive Diversification Plan; (ii) progress on the approval of new instruments, such as the development of sector agendas, technology entrepreneurship (startups), and quality; and (iii) approval and progress on the implementation of CITES.

- 1.38 **Science, technology, and innovation.** With the aim of increasing the efficacy and efficiency of the country's science, technology, and innovation policies and public spending, this subcomponent seeks to support consolidation of the current institutional framework and the instruments for developing innovation and research. The first two operations made progress principally on the diagnostic assessment of the institutional framework and policies of the national innovation system, including the status of public research institutes, and on the implementation of certain recommendations deriving from these studies. The commitments under the third operation include progress on implementing: (i) actions to consolidate the sector's institutional framework; (ii) recommendations of the OECD study and competitiveness agenda, which include publication of the findings of the innovation survey and making it a permanent institutional feature, administered at regular intervals; and (iii) recommendations on the reform and strengthening of public research institutes.

II. FINANCING STRUCTURE AND RISKS

A. Cost and financing

- 2.1 This third programmatic policy-based operation will be disbursed in a single tranche of up to US\$25 million from the Bank's Ordinary Capital resources under the Flexible Financing Facility. **Disbursement of the proceeds is contingent on fulfillment of the policy reform commitments, once the loan contract has been signed and the special and general conditions precedent have been met, in accordance with the Policy Matrix (Annex II), the Means of Verification Matrix, and the Policy Letter.** The tranche release is expected to take place in the fourth quarter of 2014. Peru's external financing requirements for 2014 are approximately US\$1.7 billion, of which the US\$25 million under this program represent 1.5%. Peru's current macroeconomic framework (see paragraphs 1.2, 1.3, and 1.4) is considered favorable for the implementation of policy reform programs such as this one.

B. Environmental and social impact

- 2.2 In accordance with Directive B.13 of the Bank's Environment and Safeguards Compliance Policy (Operational Policy OP-703), and based on the results of the [safeguard policy filter report](#), this operation does not require classification. There are no environmental or social risks associated with the Program to Enhance Productivity and Competitiveness III (PEPC III).

C. Risks

- 2.3 The following main risks to the sustainability of the program and the programmatic series have been identified: (i) a slowing of the country's pace of growth could affect the priority given to the reforms contained in the program. To mitigate this risk, an ongoing dialogue will be maintained with the authorities to support the implementation of reforms; (ii) weaknesses at municipal level could affect implementation of process reengineering to simplify procedures. To mitigate this risk, the Sector Facility ([2303/OC-PE](#)) will finance support for reform implementation; and (iii) given the large number of stakeholders and the multisector and public-private nature of many of the topics addressed, there is a risk that reform processes will not be properly coordinated if there are no clear interagency coordination bodies that last over time. The CNC, acting through the working groups under the new 2014-2018 Competitiveness Agenda, will continue to play a key role in coordinating and building consensus among the stakeholders; and (iv) the many different stakeholders involved in the program could hinder data collection and the monitoring and supervision function. To address this risk, technical support on data gathering will be obtained for calculation of the PEPC indicators.

III. IMPLEMENTATION AND MANAGEMENT PLAN

- 3.1 **Borrower and executing agency.** The borrower is the Republic of Peru, and the executing agency is the Ministry of Economy and Finance (MEF), acting through the Public Debt and Treasury Division (DGETP), in coordination with the relevant sector entities. The DGETP will be responsible for: (i) preparing and submitting the disbursement request to the Bank; (ii) coordination among the various entities responsible for adoption of measures or technical execution of the activities in the Policy Matrix; (iii) supervising these entities to ensure successful program execution; and (iv) foreseeing and effectively resolving risks and strategic, technical, and coordination problems associated with program execution. For technical coordination of the reform areas included in the operation, the DGTEP will be supported by the National Competitiveness Council (CNC), which will coordinate and supervise the reforms set forth in the Competitiveness Agenda through public-private technical forums.
- 3.2 **Monitoring and evaluation.** The MEF will coordinate timely fulfillment of the commitments under this programmatic operation and will be responsible for providing information on progress with respect to the policy and results matrix

and for delivering evidence on the means of verification to the Bank. The [Results Matrix](#) and the [monitoring and evaluation plan](#) will guide the evaluation of progress in obtaining results from the reforms included in the programmatic series and will be used to evaluate them upon completion. The project completion report will be prepared within six months after the reforms have been implemented, and will assess the impact and the extent to which the objectives for this program were met.

- 3.3 **Policy Matrix.** The Bank has agreed on a [Policy Letter](#) with the Government of Peru, which describes the government's commitment to the objectives and actions established for the PEPC III. In addition, the Bank has agreed on the [Policy Matrix](#) (Annex II) and [Means of Verification Matrix](#) for the PEPC III operation.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives		Aligned	
Lending Program	Lending to support regional cooperation and integration.		
Regional Development Goals	i) Percent of firms using Banks to finance investments; and ii) Trade openness (trade as percent of GDP).		
Bank Output Contribution (as defined in Results Framework of IDB-9)	Number of cross border and transnational projects supported (infrastructure and customs, etc.).		
2. Country Strategy Development Objectives		Aligned	
Country Strategy Results Matrix	GN-2668	i) Deepen reforms to improve the business climate; ii) Develop a comprehensive innovation and development toolkit; iii) Encourage innovation and business sophistication; and iv) Achieve a strengthened and articulated National Quality System.	
Country Program Results Matrix	GN-2756-2	The intervention is included in the 2014 Operational Program.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability			
	Evaluable	Weight	Maximum Score
	8.2		10
3. Evidence-based Assessment & Solution	9.6	33.33%	10
3.1 Program Diagnosis	3.0		
3.2 Proposed Interventions or Solutions	3.6		
3.3 Results Matrix Quality	3.0		
4. Ex ante Economic Analysis	8.5	33.33%	10
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis	4.0		
4.2 Identified and Quantified Benefits	1.5		
4.3 Identified and Quantified Costs	1.5		
4.4 Reasonable Assumptions	1.5		
4.5 Sensitivity Analysis	0.0		
5. Monitoring and Evaluation	6.5	33.33%	10
5.1 Monitoring Mechanisms	1.5		
5.2 Evaluation Plan	5.0		
III. Risks & Mitigation Monitoring Matrix			
Overall risks rate = magnitude of risks*likelihood		Medium	
Identified risks have been rated for magnitude and likelihood		Yes	
Mitigation measures have been identified for major risks		Yes	
Mitigation measures have indicators for tracking their implementation		Yes	
Environmental & social risk classification		B.13	
IV. IDB's Role - Additionality			
The project relies on the use of country systems			
Fiduciary (VPC/PDP Criteria)			
Non-Fiduciary			
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality			
Labor	Yes	Implementation of an improved framework for risk analysis and technical security inspections for productive activities.	
Environment	Yes	The implementation of quality standards in the development of domestic and imported products as a result of the strengthening of the National Quality System.	
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	Sector Facility to support the programmatic series on Productivity and Competitiveness (2303/OC-PE).	
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan			

This is the third of a series of projects aimed at fostering productivity and competitiveness in Peru through institutional reforms in the areas of business climate, trade regulation, support to business innovation, production quality standards. The supported reforms are clearly aligned with both the IDB institutional priorities and the country strategy with Peru.

The reforms supported by the project are well described and clearly linked to the problems identified by diagnostic. Also, the result framework provides a clear set of measures of the reforms' benefits, such as - for instance - reductions in the time needed to complete export and import transactions, and reduction in the number of procedures and days needed to create a company.

The cost/benefit analysis is based on well spelled out assumptions on both the benefits and costs of the main reforms. However, the sensitivity analysis is less clear, probably due to the variety of reforms supported and the parameters that can affect the overall return of the project.

Finally the project includes a complete monitoring and evaluation plan. The effectiveness of the proposed reforms will be measured through a cost-benefit analysis based on the ex-post observation of achieved benefits and actual costs. The risks identified in the risk matrix are rated for magnitude, include mitigation measures and related metric to track their implementation.

POLICY MATRIX

Objective: The general objective of the programmatic series is to help enhance business productivity and competitiveness, by improving the business environment, strengthening institutions, policies, and instruments for competitiveness, and supporting productive development and innovation. This operation is the third of three consecutive technically linked but independently financed single-tranche programmatic policy-based loans. The objective of this third operation is to reduce transaction costs faced by companies during their operations and help raise the level of sophistication of Peru's firms by strengthening the institutional framework and policies to support competitiveness and innovation.

Objectives	Institution responsible	Commitments fulfilled First operation (2010)	Commitments fulfilled Second operation (2012)	Commitments for the third operation (2014)
I. Macroeconomic sustainability				
Maintaining a macroeconomic environment that is conducive to business growth and enhanced productivity.	MEF	The macroeconomic policy framework is consistent with the guidelines established in the sector policy letter.	The macroeconomic policy framework remains consistent with the guidelines established in the sector policy letter.	The macroeconomic policy framework remains consistent with the guidelines established in the sector policy letter.
II. Business environment				
A. Reducing the time and cost of formalities for starting a business and registering property.	INDECOPI/ PCM (ONGEI)/MEF(CNC)	Online platform for starting a business completed, including enhancements to the SUNARP and Lima Board of Notaries modules. At least 80% of notaries in Metropolitan Lima interconnected.	Regulatory and operational conditions supporting the development of the national online business platform in place, including: (i) Regulations approved by PCM facilitating implementation of digital signatures in Peru, including, inter alia: a. Issuance of digital certificates for public entities by RENIEC. b. Issuance of digital certificates for private entities and individuals by agencies holding the Webtrust seal. c. Elimination of the microform requirement for the production and storage of digitally signed documents.	Online platform using electronic submissions and digital signatures for online business registration implemented by SUNARP nationally.

Objectives	Institution responsible	Commitments fulfilled First operation (2010)	Commitments fulfilled Second operation (2012)	Commitments for the third operation (2014)
	SUNARP	Service implemented for registering outright sales of real estate within 24 to 48 hours, including: (i) Making model contracts available to the public; and (ii) Setting up a specialized section.	<p>d. Elimination of requirement for INDECOPI accreditation of electronic signature software for private entities and individuals.</p> <p>(ii) Suppliers of software for digital signature and value-added services (time stamping) accredited by INDECOPI.</p>	
B. Reducing the time and formalities related to construction technical safety inspections ¹ required for businesses to obtain an operating license.	MEF (CNC)/INDECI/PCM		<p>Designation by the PCM of CENEPRED as the agency responsible for proposing guidelines and regulations for civil defense technical safety inspections, in accordance with the new National Disaster Risk Management System Act.</p> <p>Proposal for a comprehensive reform of civil defense technical safety inspections being prepared by the CNC, which includes, inter alia: (i) A new risk-based management model. (ii) A proposal for operational</p>	<p>The CENEPRED exercises its new functions as the agency responsible for proposing guidelines and regulations for building technical safety inspections (ITSEs), in accordance with the new National Disaster Risk Management System Act.</p> <p>New administrative procedure for ITSEs in force, including: shortening the time taken by each stage of the procedure, simplifying requirements for filing the application, new procedures so inspectors are able to ensure an</p>

¹ With Supreme Decrees 104-2012-PCM and 043-2013-PCM, “inspecciones técnicas de seguridad en defensa civil” [civil defense technical safety inspections] were renamed “inspecciones técnicas de seguridad en edificaciones” [building technical safety inspections].

Objectives	Institution responsible	Commitments fulfilled First operation (2010)	Commitments fulfilled Second operation (2012)	Commitments for the third operation (2014)
			<p>improvements to the procedure.</p> <p>(iii) Identification of regulatory reforms required to improve the procedure.</p>	<p>adequate level to obtain certification and accreditation, and authority to delegate retail performance of the ITSE procedure under agreements, and to enable inspectors to deliver services nationally.</p>
<p>C. Streamlining procedures for obtaining construction permits.</p>	<p>MEF (CNC)/SUNARP/ SEDAPAL/ MVCS/SUNASS</p>	<p>Reform proposal presented to Congress to eliminate the requirement that registrars check compliance with tax payments.</p> <p>Proposal presented to Congress to reduce formalities and costs related to obtaining construction permits (including the elimination of the Certificate of Urban Planning and Building Parameters, the Certificate of Ownership, and the Professional Qualification and Project Certificates).</p>	<p>Procedures for obtaining construction permits improved, including, among other aspects:</p> <p>(i) Free access via the SUNARP Web portal to information about the certificate of ownership.</p> <p>(ii) Approval by SUNASS of the regulatory framework for water and sewer service connection processes to be handled via a one-stop window and progress on its implementation.</p> <p>(iii) New building declaration form improved by MVCS.</p> <p>Incentives to implement improvements of procedures for obtaining construction permits at municipal level included by MEF in the 2012 Incentives Plan to Improve Municipal Management and Modernization.</p>	<p>Water and sewer service connection processes in Lima and at least one other municipio outside Lima available via EPS as one-stop windows.</p> <p>Processing of construction permits improved in terms of regulatory instruments, including:</p> <p>(i) Streamlining and strengthening the building safety review processes by restructuring the membership of the technical committee;</p> <p>(ii) Enhanced penalty procedures when bureaucratic hurdles are created;</p> <p>(iii) Enabling simplified permits for infrastructure and essential basic services;</p> <p>(iv) Adaptation of construction permits to the model Consolidated Code of Administrative Procedures (TUPA) as a target in the Incentives Plan.</p>

Objectives	Institution responsible	Commitments fulfilled First operation (2010)	Commitments fulfilled Second operation (2012)	Commitments for the third operation (2014)
D. Improving municipal procedures for starting a business.	PCM/DGPP/CNC	<p>Municipal Modernization Program (PMM) approved, with targets for improving the business climate in order to obtain budgetary incentives.</p> <p>Pilot computer platform for issuing operating licenses online, including interconnection with Banco de la Nación, finished and ready to begin operations in one Lima municipality.</p>	<p>Inclusion by the MEF of the target of improving the procedures for obtaining an operating license in the 2012 Incentives Plan.</p> <p>Processes for obtaining an operating license simplified in at least 10 municipios.</p>	<p>Design of 2014 Incentives Plan targets incorporates the results of the assessment conducted in 2013.</p> <p>Procedure for obtaining an operating license simplified in 40 municipios of the country, and deployment of the electronic application begun in at least 10 of them.</p>
E. Reducing logistics costs by planning and implementing an intermodal transportation logistics network, streamlining processes along the foreign trade logistics chain, and improving the interoperability of control agencies. ²	MTC (OGPP)		<p>Development Plan for Transportation Logistics Services (PDSLTL) prepared by the MTC, including:</p> <ul style="list-style-type: none"> (i) Diagnostic assessment of logistic services approved and published on the MTC website. (ii) Immediate action plan published on the MTC website, and validated with public and private stakeholders. (iii) Draft medium- and long-term plan. 	<p>PDSLTL published on the MTC website.</p> <p>Progress on implementation of the PDSLTL immediate action plan and medium- and long-term plan, including: public-private coordination mechanism for consultation, coordination, and accountability on the PDSLTL.</p>
	National Superintendency of Customs and Tax Administration (SUNAT)	<p>Regulations for express deliveries approved, and procedures for them republished.</p> <p>Regulations and procedures approved for the guarantee system in the merchandise dispatch process.</p>	<p>Pilot version of Certified Customs User certification program adapted to World Customs Organization best practices completed, and progress made on regulations.</p>	<p>Certified Customs User certification program in operation, and progress made on negotiations for mutual recognition with customs in at least two countries.</p>

² Although the reference to streamlining customs formalities was eliminated from the policy matrix due to delays in the implementation of actions by SUNAT, the objective of reducing times and costs associated with foreign trade operations has been maintained, and it was agreed with the government that implementation of customs improvements should be supported with a new investment loan, which is currently in preparation.

Objectives	Institution responsible	Commitments fulfilled First operation (2010)	Commitments fulfilled Second operation (2012)	Commitments for the third operation (2014)
		<p>System in operation for dispatch of merchandise “entry of cargo and admission (all import regimes)” in 48 hours, including: (i) process reengineering; and (ii) information technology platforms.</p> <p>Adaptation of the risk system to the new dispatch model.</p>		
	MINCETUR/MEF (DGAEICYP)/SUNAT/MTC	Terms of reference agreed upon for conducting a diagnostic assessment to identify the public and private procedures and formalities to be simplified in order to facilitate foreign trade in the framework of a comprehensive one-stop window for foreign trade.	Mapping of the foreign trade logistics chain processes completed by MINCETUR.	Progress on improving the foreign trade logistics chain, including: (i) addition of a logistics component to the guidelines for the National Exports Strategic Plan; (ii) identification of services to improve the foreign trade logistics chain within the VUCE project; and (iii) implementation of the Promperú assisted logistics program.
	MINCETUR	Pilot of the Foreign Trade One-stop Window (VUCE) launched.	At least 82 automated procedures included in the VUCE, representing 50% of restricted goods transactions.	<p>116 new automated procedures included in the VUCE.</p> <p>VUCE port module implemented with 5 administrative procedures incorporated.</p> <p>Progress on interoperability of VUCE, including: (i) VUCE origin component implemented; (ii) addition of interoperability module to the VUCE project profile; and (iii) general regulatory framework for interoperability in Pacific Alliance countries signed.</p>

Objectives	Institution responsible	Commitments fulfilled First operation (2010)	Commitments fulfilled Second operation (2012)	Commitments for the third operation (2014)
	Special Commission on VUCE Implementation (represented by MINCETUR)		<p>Process reengineering proposal for 20 administrative procedures at ITP and DIGESA prepared and agreed upon.</p> <p>Process reengineering implemented for at least five administrative procedures.</p>	Improvements to 50 administrative procedures implemented at the process level at MTC, ITP, DIGESA, DIGEMID, PRODUCE, SENASA, or MINAGRI's Flora and Fauna Division, representing the heaviest administrative burden at each agency.
F. Improving the effectiveness and efficiency of the secured transactions register.	MINJUS/MEF	Proposal for reforming the secured transactions system, submitted by the Multisector Commission.		Proposal for regulatory reform of the secured transactions system, submitted to Congress.
	SUNARP	<p>Improvements to the operation of the secured transactions register at SUNARP implemented, including:</p> <ul style="list-style-type: none"> (i) Regulation of extrajudicial enforcement; (ii) Definition of the generic description of property offered as loan security; and (iii) Definition of settlement of registration fees per contract rather than per item. 		
III. Institutional framework and instruments to support competitiveness				
A. Improving the functionality of the institutions that support the private sector and competitiveness.	CNC	Consolidation of the institutional framework for competitiveness through the institutional restructuring and relocation of the National Competitiveness Council (CNC).	Competitiveness Agenda, including the CNC's lines of action for the next two years, agreed on with the public and private sectors and approved and published, including the topics of improving the business climate, productive development, technological innovation, and the National Quality System.	Competitiveness Agenda updated and institutional reform of the CNC approved.

Objectives	Institution responsible	Commitments fulfilled First operation (2010)	Commitments fulfilled Second operation (2012)	Commitments for the third operation (2014)
B. Improving the quality of business statistics.	INEI	2010-2012 action plan agreed on for strengthening business statistics, including actions for: (i) Improving the dissemination and usage of data, including the publication of data from the manufacturing census, the economic census, and the Annual Economic Survey (EEA) dating back to the 2005 financial year;	Progress on implementation of the Action Plan to Improve Business Statistics, including at least: (i) Databases, protecting statistical confidentiality, of the 2009 EEA, IV CENEC, and 2007 manufacturing census, available on the INEI and PRODUCE websites, respectively, and EEA 2007-2009 data panel published.	Progress on implementation of the Action Plan to Improve Business Statistics, including, at least: (i) Databases, protecting statistical confidentiality, and results of the 2010-2013 EEA surveys, published to four digits;
	INEI	(ii) Conducting a specialized survey on innovation;	(ii) EEA 2012 updated with a new methodological design (including a resized form and appropriate sample size, among other things).	(ii) Panel sample information extended to 2012.
	INEI	(iii) Adopting a code of statistical good practices;	(iii) Code of statistical good practices in line with international good practice agreed upon and approved, and implementation plan proposed by INEI;	(iii) Code of statistical good practices in process of implementation;
	INEI	(iv) Institutionalizing the INEI's statistical methodology area;	(iv) Legislative bill for strengthening the National Statistics System in preparation, reflecting the code of statistical good practices adopted, including the creation of the statistical methodology area of INEI as a technical office, and sector needs.	(iv) Progress on adapting the INEI's organizational/functional structure to the new Civil Service Act.
	PRODUCE	(v) Strengthening the industrial data usage area in PRODUCE.	(v) Economic studies area of PRODUCE set up.	(v) PRODUCE economic studies area operating and producing statistics, productive sector studies, and mapping regional productive development support interventions.

Objectives	Institution responsible	Commitments fulfilled First operation (2010)	Commitments fulfilled Second operation (2012)	Commitments for the third operation (2014)
	INEI	Preliminary proposal for an EEA tabulation plan drawn up by INEI.		
C. Strengthening the institutional framework of the National Quality System (SNC).	MEF (DGAEICYP/CNC)	Working group set up to review the diagnostic assessment and action plan, with representatives from the MEF (DGAEICYP and CNC), INDECOPI, PRODUCE, MINCETUR, SENASA, DIGESA and DIGEMID.	Proposal for reform of National Quality System (SNC), and action plan for its implementation, prepared and approved by the Multisector Commission.	Progress on implementation of the SNC reform action plan, including new institutional framework based on the principles of efficiency and effectiveness, impartiality, and transparency that includes the three pillars of the SNC (standardization, accreditation, and metrology).
		Guidelines for commissioning a diagnostic study and proposal to reform and strengthen the SNC agreed on by the aforementioned multisector working group, including, at least, an analysis of: (i) standardization and technical regulations; (ii) conformity assessment; (iii) industrial, scientific, and legal metrology; and (iv) accreditation and authorization of regulatory oversight agencies.	Immediate action plan of the working groups for the implementation of the SNC reform approved.	
D. Strengthening the productive development support system.	MEF (DGAEICYP/CNC)/ PRODUCE/MINCETUR	Diagnostic assessment of productive development issues completed. Guidelines presented for conducting an analysis of strategies, policies, institutional arrangements, and support instruments for productive development.	Alternative institutional arrangement proposals for instruments to support productive development approved by the Interagency Counterpart Group. First group of prioritized productive development instruments (clusters, supplier development, and technical support platform), defined by the Interagency Counterpart Group.	First group of prioritized productive development instruments operating. Second group of productive development instruments approved.

Objectives	Institution responsible	Commitments fulfilled First operation (2010)	Commitments fulfilled Second operation (2012)	Commitments for the third operation (2014)
	ITP		Proposal for reform of the CITES institutional model prepared.	Approval of the new institutional model and progress on implementation of CITES reform, including: (i) increased administrative, budgetary, and functional autonomy; and (ii) strengthening of coordination capabilities, increased geographical and sector coverage, and new CITES services.
E. Increasing the effectiveness and efficiency of public policies and spending for science, technology, and innovation.	MEF (DGAEICYP/CNC)	Assessment of innovation support policies by the OECD begun.	OECD report on its review of science, technology, and innovation policy in Peru completed and distributed to the main stakeholder groups.	Consolidation of institutional arrangements for steering and functioning of the science, technology, and innovation sector.
	CNC		Recommendations from the OECD study incorporated in the CNC's 2012-2013 Competitiveness Agenda.	Actions demonstrating progress on the implementation of OECD recommendations and the Competitiveness Agenda.
	PRODUCE/INEI		Pilot 2012 Innovation Survey conducted by INEI.	Findings of innovation survey published and survey placed on an institutional footing for it to be conducted at regular intervals.
	MEF (CNC)/MEF (DGAEICYP)/FINCyT	Diagnostic assessment begun of needs and performance of main public technological research and development institutes.	Study of needs and performance of public technological research and development institutes, including diagnostic assessment and recommendations for reform and strengthening, completed.	Progress on implementation of recommendations on: (i) Governance mechanisms and coordination with research institutes. (ii) Blueprint for strengthening research institutes.
	PRODUCE/FINCyT	Allocation of competitive funds to support business innovation through the FINCyT begun by the Research and Development for Competitiveness Fund (FIDECOM).		

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/14

Peru. Loan ____/OC-PE to the Republic of Peru
Program to Enhance Productivity and
Competitiveness III (PEPC III)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Peru, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a program to enhance productivity and competitiveness III (PEPC III). Such financing will be for an amount of up to US\$25,000,000 from the Ordinary Capital resources of the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on __ _____ 2014)

PE-L1099
LEG/SGO/CAN/IDBDOCS#39064817-14