

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PERU

**PROGRAM TO PROMOTE SUSTAINABLE FINANCING
IN THE PERUVIAN AMAZON REGION:
OPPORTUNITY TO LEVERAGE BIOBUSINESSES
(BIOBUSINESS PROGRAM)**

(PE-L1258/PE-G1007)

LOAN PROPOSAL

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ABBREVIATIONS

BCRP	Central Reserve Bank of Peru
CGR	Contraloría General de la República [Office of the Comptroller General]
COFIDE	Corporación Financiera de Desarrollo
COOPAC	Savings and loan cooperatives
ECLAC	Economic Commission for Latin America and the Caribbean
EIB	European Investment Bank
ESMR	Environment and social management report
ESRS	Environmental and social risk management system
FONAFE	Fondo Nacional de Financiamiento de la Actividad Empresarial del Estado [National Fund for the Financing of State Entrepreneurial Activities]
GDP	Gross domestic product
IMF	International Monetary Fund
INEI	National Statistics and Informatics Institute
MINAM	Ministry of Environment
MSMEs	Micro, small, and medium-sized enterprises
NCL	France-IDB Natural Capital Lab Trust Fund
PRODUCE	Ministry of Production
SBS	Superintendency of Banking, Insurance, and Pension Fund Administrators
SIAF	Sistema Integrado de Administración Financiera [Integrated Financial Management System]
SMEs	Small and medium-sized enterprises
USAID	United States Agency for International Development

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Financial terms and conditions				
Borrower and beneficiary:			Flexible Financing Facility	
Republic of Peru			Amortization period: ^(b)	10 years
Executing agencies:			Disbursement period:	5 years
Ministry of Environment (MINAM), with support from the Corporación Financiera de Desarrollo (COFIDE), as technical executing agency			Grace period:	6 years ^(c)
Source	Amount (US\$ million)	%	Interest rate:	LIBOR-based
IDB (Ordinary Capital):	20	91	Credit fee:	(d)
France-IDB Natural Capital Lab Trust Fund (Investment grant): ^(a)	2	9	Inspection and supervision fee:	(d)
Total:	22	100	Weighted average life:	8 years
			Approval currency:	U.S. dollar
Program at a glance				
Program objective/description: The program's general objective is to further economic growth in the Peruvian Amazon region in the long term by supporting the sustainable use of its natural capital. Its specific objective is to increase biobusiness investment in the region.				
Special contractual conditions precedent to the first disbursement of the financing: The following will be special contractual conditions precedent to the first disbursement: (i) submission of evidence that MINAM and COFIDE have approved the program Operating Regulations and that those regulations have entered into force, in accordance with the terms previously agreed upon with the Bank; (ii) submission of evidence that MINAM and COFIDE have signed a trust contract for the administration of program resources, in accordance with the terms and conditions previously approved by the Bank; and (iii) submission of evidence that MINAM and COFIDE have signed a subsidiary agreement for the execution of the program's activities, in accordance with the terms previously agreed upon with the Bank (paragraph 3.9).				
Exceptions to Bank policies: None.				
Strategic alignment				
Challenges: ^(e)	SI <input checked="" type="checkbox"/>		PI <input checked="" type="checkbox"/>	EI <input type="checkbox"/>
Crosscutting themes: ^(f)	GE <input type="checkbox"/> and DI <input type="checkbox"/>		CC <input checked="" type="checkbox"/> and ES <input checked="" type="checkbox"/>	IC <input type="checkbox"/>

(a) See document GN-2970, Proposal for the Establishment of the France-IDB Natural Capital Lab Trust Fund.

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

(c) Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.

(d) 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 policies.

(e) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

(f) GD (Gender Equity) and DI (Diversity); CC (Climate Change) and ES (Environmental Sustainability); and IC (Institutional

Capacity and Rule of Law).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

- 1.1 With a sound macroeconomic framework since 2015, Peru is becoming one of the best-performing economies in Latin America and the Caribbean. Weakened by the volatility of international markets, sluggish world growth, and internal problems with infrastructure and productivity, GDP fell to 2.2% in 2019 (from 4% in 2018) though projections pointed to a rebound to 3.2% and 3.7% over the 2020-2022 period.¹
- 1.2 The COVID-19 pandemic had an unprecedented impact in Peru,² leading to an 11.4% drop in GDP in 2020, according to the Ministry of Economy and Finance (MEF). Nevertheless, Peru's finances were resilient compared to other emerging economies. The government swiftly responded with a package exceeding 20% of GDP, similar to the ones implemented in developed countries, including direct support measures for the health system, households, and businesses.³
- 1.3 The economic contraction caused by the COVID-19 crisis is hitting small businesses and businesses that depend on value chains, exports, and tourism particularly hard. Against a social backdrop with high levels of inequality, the economic impact is likely to be more severe, and response capacity weaker, in regions that have historically struggled with structural challenges related to productive capacity and societal welfare. Forecasts indicate Peru will grow by 8.5% in 2021 and 5.3% in 2022,⁴ associated with the increased demand for exports and the easing of containment measures, which should contribute to growth in the short and medium term.
- 1.4 **Biological wealth and the challenges facing the Amazon region.** Peru is one of the world's most biodiverse countries, encompassing 11 ecoregions with an abundant variety of plants and animals. Nonetheless, deforestation and forest degradation have been causing losses of natural capital and more than 50% of the country's greenhouse gas emissions.⁵
- 1.5 The Amazon region is Peru's largest region (60% of the country's territory), accounting for 21% of the country's agricultural land and 100% of its rain forest (94.6% of its forests of any type). However, the region contributes just 4.7% to national GDP.⁶

¹ International Monetary Fund (IMF) (2020); Central Reserve Bank of Peru (BCRP) (2020).

² As of 1 September 2021, the country had reported 2,149,591 confirmed cases and 198,263 deaths (World Health Organization, [COVID-19 Dashboard, Peru](#)).

³ IMF bis (2020). The policies extended tax deadlines and created a fund to help small and medium-sized enterprises (SMEs) secure working capital and refinance debts. Fiscal support initiatives cut the policy rate and reduced reserve requirements to provide liquidity to the financial system.

⁴ IMF, Peru: Concluding Statement of the 2021 Article IV Mission.

⁵ MINAM, Peru, [National Inventory of Greenhouse Gases](#).

⁶ National Statistics and Informatics Institute (INEI) (2020). Amazonas, Loreto, Madre de Dios, San Martín, and Ucayali departments, 2015-2019 average.

- 1.6 As a result of the region's dependency on mining and hydrocarbons,⁷ scant economic diversification, and sluggish growth, urban poverty rates in the Amazon region are the highest in the country, while rural poverty affects 47% of the region's population.⁸ More than 71% of the population lives in marginalized neighborhoods, informal settlements, or substandard housing, with problems relating to land titling and gaps in infrastructure and basic services. There are also environmental problems: more than 86% of the total area covered by degraded national ecosystems countrywide is located in the Amazon region, and annual deforestation rates are on the rise.⁹
- 1.7 In contrast, the region is teeming with natural capital, given that 83.5% of the Amazon biome in Peru is concentrated in the country's Amazonian departments.¹⁰ They are home to over 10,000 species of plants that contribute ingredients for medicinal, cosmetic, culinary, and other productive uses. There is also enormous potential in micro, small and medium-sized enterprises (MSMEs) that work with natural capital. According to the Taxpayer Master File kept by the National Tax and Customs Administration, in 2018 there were more than 150,000 formal MSMEs registered in the Peruvian Amazon region (6.8% of the nationwide total).¹¹ This implies a comparative advantage for a shift in production-related activities toward the sustainable use of biodiversity-based goods and services to create jobs, spur the local economy, and strengthen the local economy's integration into value chains (production, processing, marketing, and export networks). This process involves a variety of public and private stakeholders who need to responsibly integrate the region's cultural¹² and biological diversity into their working models.
- 1.8 **The bioeconomy and biobusiness.** The bioeconomy is an organization of economic activities based on the production, use, and conservation of renewable biological resources to sustainably produce and trade products, processes, and services. Development of the bioeconomy in Latin America and the Caribbean is still at an early stage but is of strategic interest, since it offers a frame of reference for the design and implementation of public and private actions to move toward more profitable, efficient, and sustainable production systems, while striving for more comprehensive ecosystem conservation and restoration. The bioeconomy is not a sector of the economy but rather an economic model through which various stakeholders interact around natural capital.

⁷ The oil, mining, and hydrocarbons sector accounts for 53% of the GDP of Madre de Dios and 35% of the GDP of Loreto.

⁸ United States Agency for International Development (USAID) (2013).

⁹ INEI (2019).

¹⁰ The Amazon biome comprises the departments of Amazonas, San Martín, Loreto, Ucayali, and Madre de Dios, as well as parts of nine Andean-Amazonian departments (Cajamarca, La Libertad, Huánuco, Pasco, Junín, Huancaavelica, Ayacucho, Cusco, and Puno) ([optional link 5](#)).

¹¹ Ministry of Production (PRODUCE) (2020). *Diagnóstico productivo regional de Loreto, Amazonas, San Martín, Ucayali y Madre de Dios*.

¹² The Amazon is the country's most ethnically diverse region: approximately 7% of its population is indigenous, 5% is Quechua, and 3.3% is Afro-descendant. [INEI](#) (2017).

- 1.9 Biobusinesses, including businesses involved in bio-trade, consider environmental and social concerns in addition to economic ones, that fit within the framework of the bioeconomy. Alongside a regulatory framework, supportive markets, and innovative services and technologies, biobusiness provides an opportunity to transition toward an economy that is based on sustainable production and that places a value on natural capital, thereby supporting the delivery of ecosystem services and the conservation or recovery of forest cover, and, consequently, biodiversity and habitat. Such a transition can reinvigorate the local productive structure, spurring job creation and the development of new industries. Promoting biobusiness also directly supports the fulfillment of commitments set out in international agreements on biodiversity and climate change.
- 1.10 The Peruvian government defines biobusinesses as “businesses that are anchored in the sustainable use of biodiversity-based products, while adhering to the criteria of environmental, social, and economic sustainability. Biobusinesses absorb the costs of natural resource conservation, community engagement, and incorporation of traditional knowledge when generating value and revitalizing local economies.”¹³ Biobusiness encompasses products for direct consumption, plant- and animal-based products, and ecotourism services¹⁴ for domestic and foreign markets.
- 1.11 **Potential for biobusinesses and the financing barrier.** The growing demand on international markets for natural or native products has led to an increase in the number of companies interested in pursuing this type of business.¹⁵
- 1.12 A market potential analysis¹⁶ has identified 36,420 viable biobusinesses in the Amazon region that need support, most of which are microenterprises or small businesses in the agroforestry and agriculture sectors. Value chains for biobusinesses include products derived from cocoa, sacha inchi, and achiote; crops grown under good practices that support forest climate initiatives, such as coffee; non-wood forest products such as Brazil nuts, aguaje fruit, and rubber; as well as ecotourism and beekeeping.

¹³ MINAM (2020).

¹⁴ Ministerial order 46-2020-MINAM, Guidelines for the identification and promotion of ecobusinesses and biobusinesses.

¹⁵ PROMPERÚ. *Oportunidades comerciales para los productos del Biocomercio en Europa*, 2018. According to the Integrated Foreign Trade Information System, exports of Peru's main native products increased in value by more than 50% between 2013 and 2017, while their volume increased by over 87%.

¹⁶ [Optional link 5](#).

1.13 Despite their potential benefits, biobusinesses in the Amazon region face the following barriers related to incomplete markets, which limit their access to the formal credit:¹⁷

- (i) **Limitations on local financing supply.** Although the Peruvian banking sector is profitable and well-capitalized,¹⁸ traditional banks do not offer credit lines under appropriate terms for these businesses, regardless of the level of maturity of a project. Their deposit structure is short term, and financing is focused on medium-sized and large companies (over 70%).¹⁹ The average interest rate for microenterprises and small businesses ranges from 18% to 31.3%, far higher than the 6% average for large companies.²⁰ After the pandemic, the Amazon region saw the largest rise in past-due loans in the entire country (36% compared to the same month in the preceding year).²¹ Commercial banks have a relatively limited presence in the Amazon region, where microenterprises and small businesses predominate, accounting for just 2% of credit from the formal financial sector.²² For example, annual interest rates for loans in the region, which are mainly working capital loans issued by credit unions, stand at between 30% and 35% for the cocoa and Brazil nut chains at production hubs.²³ Drivers of this include: (i) high operating costs for small-scale lending; (ii) high transaction costs because the area is remote and sparsely populated; (iii) additional constraints on available collateral, including property titles; (iv) a lack of credit records and low levels of financial education; (v) a lack of clustering, given that stakeholders are located in remote and inaccessible areas; (vi) low rates of bank use and banking deposits, which increases capital costs²⁴ and (vii) as a result of those higher capital costs, the perception of higher risk among financial institutions.²⁵ Though their seed capital needs may not be very large, the region's biobusinesses do not have access to sources of venture capital, angel investors, or other financing mechanisms regardless of their projects' commercial potential.

¹⁷ Other barriers include a dearth of support services and goods such as technical assistance, road infrastructure, irrigation, drainage, and energy systems; scant support for marketing; and a lack of standards to define biobusiness.

¹⁸ IMF (2020). As of February 2020, the system reported arrears rates of 3.5%, a return on assets of 2.25%, and a capital to risk-weighted assets ratio of 14.25%.

¹⁹ Superintendency of Banking, Insurance, and Pension Fund Administrators (SBS) (2019).

²⁰ [Optional link 5.](#)

²¹ Equifax Peru, July 2020.

²² Amazonas, Loreto, Madre de Dios, San Martín, and Ucayali departments, [BCRP, 2020](#).

²³ [Optional link 5.](#)

²⁴ Forest Trends, Earth Innovation Institute, and Mecanismos de Desarrollo Alternos (2017). A Financial Strategy for the Production-Protection Compact in the Peruvian Amazon.

²⁵ In practice, banks are geared toward formal businesses, but the risks they perceive are often related to the high degree of informality in the entrepreneurial sector.

- (ii) **Lack of support for specialized knowledge development.** From an entrepreneurial standpoint, the production and marketing of innovative products generates incremental investment costs, given the rigorousness of accountability and governance standards, particularly on international markets. Many biobusinesses operate in markets that are highly volatile (in terms of volume and prices), with inherent risks that adversely affect their competitiveness. Furthermore, environmental value does not usually translate into a price premium. A poor understanding of these risks, coupled with an unfamiliarity of the principles and criteria for a business to solidly establish itself as a biobusiness—mainly in the early stages and when new technologies are involved—act as barriers to financing and constraints on private investment.²⁶

- 1.14 A lack of familiarity with the technologies and know-how needed to develop a sustainable business and access to finance are the problems most frequently mentioned by biobusiness entrepreneurs in the Amazon region (20.7% and 17.2%, respectively).²⁷ Accordingly, unleashing their full potential will require: (i) increasing access to financial services under appropriate terms that ensure a lower level of risk for financial institutions; and (ii) supporting biobusinesses with training on how to design sustainable, profitable, and highly scalable business plans (production and marketing stages).
- 1.15 The market potential analysis has identified a demand for biobusiness investment financing of US\$111.6 million among formal companies currently operating in the Amazon region with consolidated business models.²⁸ Financing obstacles and knowledge mainly affect microenterprises and small businesses, but anchor companies²⁹ also play an important role, since they can act as magnets and achieve multiplier effects by mobilizing a wide range of companies around a production chain.
- 1.16 **Bioeconomy, gender equity, and diversity.** Limited access to business development opportunities and land ownership makes it even more difficult for women to access formal credit. Although little is known about the bioeconomy workforce in the Amazon region and its breakdown by gender, the data suggest that support for biobusinesses could have a positive impact. In agriculture and agroforestry, which are dominated by small-scale family producers, men are identified as the head of household for more than 87% of the productive units,³⁰ but there is recognition of the vital role played by women in primary production. As for non-wood forest products and aquaculture, women play an important role in the selection and initial processing stages. More than 90% of aquaculture

²⁶ European Investment Bank (EIB) (2017).

²⁷ MINAM (2019).

²⁸ [Optional link 5.](#)

²⁹ An anchor or magnet company is a company that can sustain a commercial relationship with its suppliers. Executive Order 019-2020-PRODUCE defines anchor companies as companies with sales of more than 1,700 tax units and between 5 and 10 suppliers with annual sales of 20 tax units.

³⁰ Robiglio, V., et al. (2018).

enterprises³¹ are owned by men. However, filleting and processing plants are an important source of work for women in Peru's Andean and coastal regions, which could be replicated in the Amazon region. Lastly, despite being relatively less important for the economy, the nature tourism and ecosystem services sectors have complex value chains linked to other sectors, which offers women opportunities to work in different roles (as guides or in administration, or handicrafts production), resulting in economic and personal development benefits.

- 1.17 **Breakthroughs in local rules and regulations ([optional link 8](#))**. The Peruvian government has been supporting initiatives to foster sustainable development for over a decade, including the promotion of business models to help preserve biodiversity and encourage economic, environmental, and social sustainability.
- 1.18 The National Environment Policy (Executive order 012-2009-MINAM) promotes bio-trade, spurring the establishment of sustainable supply chains. The National Biodiversity Strategy and Action Plan Through 2021 (Executive order 009-2014-MINAM) includes the need to “boost biodiversity’s contribution to national development, increasing the country’s competitiveness and the equitable distribution of benefits,” which specifically includes the promotion of competitive biobusinesses. The National Bio-trade Strategy and Action Plan Through 2025 (Executive order 008-2016-MINCETUR) seeks to consolidate the legal and institutional framework and mechanisms for the promotion and implementation of bio-trade. The Guidelines for Green Growth (Ministerial order 161-2016-MINAM), as the focal point for coordinating and integrating environmental and social policies into economic growth, include the promotion of “green investment and sustainable natural resource management” and the “design and implementation of tools and incentives to promote private sector involvement and participation in sustainable activities.” [Ministerial order 046-2020-MINAM](#) sets out general guidelines for identifying and promoting biobusinesses, with the aim of improving the institutional, political, and regulatory frameworks for developing this type of business. The [National Competitiveness and Productivity Plan 2019-2030](#) (Executive order 237-2019-EF) incorporates efforts to promote environmental sustainability, such as the creation of instruments for the sustainable management and development of natural resources, support for biobusiness value chains, and the development of specialized financial instruments for value chains that help curb deforestation and pollution. In 2019, the Peruvian Congress promulgated the Building a Sustainable Amazon Act (Law 30,977), which emphasizes that access to credit is a requirement for the sustainable development of the Amazon region and that biobusiness is part of the commercial development of this region. Furthermore, the Ministry of Economy and Finance has created a [specialized team for forestry sector development](#) as a forum for public-private discussion to promote the sector.

³¹ PRODUCE, (2020).

- 1.19 Peruvian law has evolved to highlight its approach to the conservation and sustainable use of biodiversity for the benefit of the population. Open trade practices have also been key to the growth in exports of biodiversity-based products over the last decade.³²
- 1.20 **Summary of the problem the program addresses.** In the Peruvian Amazon, a region that has significant social weaknesses and major shortcomings in value creation and which is highly vulnerable amid the crisis, biobusinesses offer an opportunity to promote sustainable production and economic growth, commercially develop natural capital, and conserve forest cover and ecosystem services.
- 1.21 To complement the deployment of public policies to develop biobusiness in the region, the business community needs to get involved through business investments that help apply a value approach to the sound use of biodiversity for social and economic ends. Confidence in this sector is still limited; therefore, the challenges of lack of access to funds must be addressed so viable projects can obtain financing to boost and scale up their development. Public intervention is needed to address the scant access to finance, particularly for microenterprises and small businesses. Financing for productive purposes facilitates the availability of capital and allows for investments in equipment, infrastructure, technology adoption, and capacity building. By virtue of that investment, businesses produce higher returns, are better prepared to participate in markets, and are more sustainable. The removal of restrictions on access to credit would increase the number of biobusinesses that invest, the size of their investments, and the scale of their activities, creating jobs and incomes for the community and helping to break the cycle of low investment, small scale, and sluggish economic activity.³³
- 1.22 This program would provide financing to biobusinesses in the Peruvian Amazon region through a trust (paragraph 1.38) administered by Corporación Financiera de Desarrollo (COFIDE). MINAM will be the trustor, which will channel first and second tier funds through regulated and unregulated financial intermediaries, using a variety of financial instruments, complemented by risk-reduction mechanisms. The program will receive support from a technical cooperation operation (paragraph 1.42) to provide specialized assistance for potential beneficiaries in project preparation and monitoring. The trust will have a governance framework that allows for efficient decision-making aligned with the pertinent national policies, which gives the trustor and the trustee the power to define and supervise matters within their purview, capacity, and experience.
- 1.23 **The roles of COFIDE and MINAM.** MINAM is the lead agency in the environmental sector and the authority responsible for formulating national environmental policy. Within its purview, MINAM is responsible for promoting biobusinesses with private sector participation and for establishing sustainable supply chains in coordination with other relevant agencies.

³² MINAM (2010).

³³ There is evidence of the positive impact of access to credit programs ([Eslava et al. \(2012\)](#); [IDB \(2014\)](#); [OECD-ECLAC \(2013\)](#); [World Bank \(2014\)](#)).

- 1.24 COFIDE's mandate is to bridge gaps in financing, contributing to the supply of financial products to promote the development of local financial and capital markets, productive investment, and infrastructure nationwide.
- 1.25 COFIDE is committed to supporting the improvement of the business environment, especially for MSMEs, and to developing financial solutions for venture projects with positive externalities, including aquaculture, agroindustrial, and agroexport businesses with a social, environmental, and economic impact, and high-impact innovative ventures.³⁴ Under this framework, COFIDE has been broadening the scope of its business lines, despite the recent crisis, and is well positioned to channel financing to biobusinesses and offer advisory support for projects at the national and regional levels (paragraph 2.4).
- 1.26 **Existing knowledge.** The literature highlights the bioeconomy's potential to: (i) boost the competitiveness of agroindustry and other "bio" sectors of the economy; (ii) strengthen productive diversification and the creation of value added; (iii) create jobs and facilitate the realignment of the agricultural workforce; (iv) promote land occupancy and planning based on new productive arrangements; and (v) promote environmental sustainability and social inclusion.³⁵
- 1.27 Investing in better management of biodiversity-based resources through the bioeconomy is essential for the attainment of the Sustainable Development Goals. The European Commission points to "private investment in new business models" as a determining factor to unlock the potential of the bioeconomy. According to the European Investment Bank (EIB), project promoters underscore the need for long-term financing, longer grace periods, flexible terms, advantageous interest rates, and equity-type instruments that absorb risk, and coverage arrangements that help attract private capital. According to the EIB, innovative financial and risk-transfer instruments adapted to projects of this kind are necessary.³⁶
- 1.28 According to the Economic Commission for Latin America and the Caribbean (ECLAC), efforts to foster the bioeconomy need to have a comprehensive approach that considers scientific and technological activities, as well as the "development of new businesses and value chains." Promotion of the bioeconomy requires the strengthening of such processes as business incubation and acceleration, as well as access to funds to help companies reach markets under competitive conditions. ECLAC underscores the importance of promoting access to finance for SMEs, particularly in the seed and growth stages, including the creation of dedicated funds that combine public and private resources, as well as financial resources provided through nonfinancial instruments.³⁷

³⁴ COFIDE (2019).

³⁵ [Aramendis, R. et al. \(2018\)](#).

³⁶ EIB (2017).

³⁷ ECLAC (2018).

- 1.29 **The IDB's experience and lessons learned.** The IDB has ample experience with financing programs for sustainable projects, SMEs, and value chains and, in particular, with support for public development banks (such as the support program for agricultural SMEs going global in 2018, grant [GRT/AG-17206-CRC](#)). Preparation of these programs has featured: (i) a clear identification of the problem of access to finance for the target sector; (ii) collaboration between public and private stakeholders; (iii) development of viable, innovative financial instruments; and (iv) a mix of available resources to maximize impact in terms of leverage and demonstration effect. The 2012 Forest Investment Program operation (operation [2838/SX-ME](#)) in Mexico offered loans through a second tier bank to indigenous communal forest producers with support from a technical cooperation project to build capacity at the financial institutions and among the producers, including market linkage and certification. IDB Invest has experience investing directly as well as through funds like the [Ecobusiness Fund](#) in Peru, which structures businesses for value chains such as: (i) Brazil nuts in the Madre de Dios region, through a partnership between Brazil nut dealers and an international anchor company; and (ii) the alpaca fiber producers' cooperative in Peru's Southern Sierra region, which processes the fiber for the European market.
- 1.30 The proposed program taps into lessons learned such as: (i) ensuring adequate supervision of financial terms for end beneficiaries, thus preventing the loss of additionality along the intermediation chain and market distortions (paragraph 3.8); (ii) supporting the creation of a formal monitoring and evaluation system, anticipating potential deviations from execution timeframes and potential impacts on fulfillment of targets and the ability to gather information (paragraph 3.13); (iii) guaranteeing systematic data collection and management (paragraph 3.14); and (iv) providing support for activities that require technical knowledge of innovation (paragraph 1.42).
- 1.31 **Coordination with other IDB programs.** The proposed program is coordinated with the Program to Improve Productivity and Competitiveness (loan [4957/OC-PE](#), 2019) in the definition of policy measures to improve the investment climate in the forestry sector, including illegal logging, deforestation, and technological development. It is coordinated with the technical cooperation operation on sector executive tables (operation [ATN/OC-16693-PE](#), 2018), which provides support for the Executive Roundtable on Forest Development. In addition, it will coordinate with Forest Investment Projects in Peru (operation [4604/SX-PE/GRT/SX-16930-PE](#), 2018) and the Readiness Preparation Proposal for Reducing Emissions from Deforestation and Forest Degradation, Sustainable Management of Forests, and Enhancement of Forest Carbon Stocks (REDD+) (operation [ATN/FP-16683-PE](#), 2018), which stress the importance of conducting consultation processes with local and indigenous communities to minimize reputational risk, taking into account such considerations as land ownership and formalization of companies, environmental management and the impact of extension service arrangements, and the monitoring and evaluation of socioenvironmental risks and impacts. The program will also complement the activities of the Amazonia Regenerate Accelerator and Investment Trust (Bolivia, Brazil, Colombia, Guyana, Peru, and Suriname) (operation [GRT/SX-16930-PE](#)), whose objective is to increase regenerative economy investments that help to reduce deforestation, reforest, and support positive biodiversity impacts in the

Amazon biome. It will also coordinate with IDB Lab programs that focus on bioeconomic activities in Peru's Amazon region, such as the Peruvian-grown Brazil Nuts for the World program (operations [SP/OC-20-37-PE](#), 2020, and [ATN/OC-18397-PE](#), 2020) that promotes the adoption of technology in every stage of this value chain to improve its competitiveness. Lastly, the program is expected to serve as the pilot for a model for public-private investment in the bioeconomy that could be replicated in the future through the Amazon Initiative, currently being designed by the IDB.

- 1.32 **Coordination with other multilateral institutions and/or cooperation agencies.** The program will benefit from the work of the [France-IDB Natural Capital Lab Trust Fund \(NCL\)](#) with international initiatives for biodiversity and biobusiness financing, impact measurement, and linking producers to markets. The NCL is the IDB's official liaison with the United Nations Convention on Biological Diversity and is part of financing and investment working groups alongside governments, private institutions, and donors, including the Coalition for Tropical Forests coordinated by the French government and the Tropical Forest Alliance.
- 1.33 Given the long-term vision and the expectation of future capitalizations of the proposed trust (paragraph 1.41), coordination with other agencies and donors active in the region is essential, as is sharing this instrument so it can be used as a platform for taking viable coordinated action. With this intent, program preparation has enlisted representatives from agencies and donors, such as the Norwegian Fund, the Swiss Agency for Development and Cooperation, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), USAID's Conservation International ([optional link 11](#)), and nongovernmental organizations.
- 1.34 **Strategic alignment.** The program is aligned with the second Update to the Institutional Strategy (document AB-3190-2), under the development challenges of: (i) social inclusion and equality, because it focuses on a vulnerable region of Peru with major gaps in basic services and a high rate of poverty; and (ii) productivity and innovation, inasmuch as it provides support to companies that invest in biobusiness, modernization, and more efficient processes through innovative financing instruments. It is also aligned with the crosscutting areas of: (i) climate change, by promoting biodiversity and socioenvironmentally sustainable practices to reduce deforestation and reestablish forest cover in degraded areas with an increase in forest carbon stocks. All told, 100% of the operation's resources are invested in climate change mitigation and adaptation activities according to the [joint methodology of the multilateral development banks for tracking climate finance](#). These resources contribute to the IDB's target of increasing financing for climate-related projects to 30% of approvals each year; and (ii) environmental sustainability through the promotion of biodiversity and natural capital (paragraph 1.35). The program is aligned with the IDB Group Corporate Results Framework 2020-2023 (document GN-2727-12), through the "micro, small, and medium-sized enterprises financed" indicator. It is also compatible with the approach set out in the Proposal for the Establishment of the France-IDB Natural Capital Lab Trust Fund (document GN-2970), by promoting innovative financial instruments for biodiversity conservation. The program is aligned with the IDB Group Country Strategy with Peru 2017-2021 (document GN-2889) through the areas of: (i) economic productivity, with a focus on the strategic objective of strengthening the business climate through better

access to finance; and (ii) fostering environmental sustainability and climate change mitigation and adaptation, with a focus on the objective of strengthening environmental management by supporting the transition to an economy based on the sustainable use of natural capital. Lastly the program is included in the 2021 Operational Program Report (document GN-3034).

1.35 The program is consistent with Peru's Bicentennial Plan, "[Plan Bicentenario: El Perú hacia el 2021](#)," through strategic action line 6 (natural resources and environment), which establishes as a national priority the "conservation and sustainable use of natural resources and biodiversity, with an integrated ecosystem approach and an environment that affords good quality of life for the population and makes for healthy, viable, and functional ecosystems in the long term," as well as through strategic action line 4 (economy, competitiveness, and jobs). It is also aligned with Peru's Nationally Determined Contributions with regard to adaptation under the "forestry" thematic area and mitigation in the "land use, land-use change, and forestry" sector.

1.36 **Gender and diversity considerations.** Due to the lack of data for an accurate measurement of trends in identified gender- and diversity-related weaknesses (paragraph 1.16), the technical cooperation project (operation [ATN/NL-18496-PE](#)) that complements this program (paragraph 1.42) is considered key to maximizing opportunities with equality and diversity, mainly through: (i) a study of the gaps in access to credit between men and women in biobusiness; (ii) training within companies with support from business advisory institutions; and (iii) engagement of and communication with indigenous populations and local communities.

B. Objectives, components, and cost

1.37 **Objectives.** The program's general objective is to further economic growth in the Peruvian Amazon region in the long term by supporting the sustainable use of its natural capital. Its specific objective is to increase biobusiness investment in the region.

1.38 **Sole component. Financing for investments in biobusinesses (US\$22 million).** The program would have one single component designed to cover the diverse needs of the target market, offering a menu of innovative financial products for private investment in biobusinesses engaged in the restoration or conservation of natural capital. COFIDE will establish and administer a trust³⁸ that will be capitalized by MINAM, as the trustor, with program resources: i.e., a US\$20 million loan from the IDB's Ordinary Capital and US\$2 million from [NCL](#)³⁹ in the form of an investment grant.⁴⁰

³⁸ A trust is a contract under which one entity (the trustor) cedes goods to another (the trustee) so that the latter can administer and manage those assets and transfer them to the end beneficiary.

³⁹ The NCL, financed by the French government, promotes project incubation; mobilization of resources and provision of financing for forest restoration, protection, and conservation; value creation; and the development of jobs, income, and markets.

⁴⁰ Nonreimbursable resources as envisaged in document GN-2970 to finance investment operation PE-G1007.

- 1.39 The trust will finance eligible projects directly or through financial intermediaries that have completed an accreditation process,⁴¹ as described in the [program Operating Regulations](#). Financing will be issued in line with demand⁴² through financial products, including associative credit mechanisms for anchor companies and their links; medium-term credit to expand product processing/storage/distribution capacity; guarantee programs; and factoring products (paragraph 3.6).⁴³ Although identified demand includes a higher proportion of small biobusinesses, larger firms in certain subsectors will be eligible since they act as anchor companies for the supply chain (paragraph 1.15). To ensure diversification among the beneficiaries, the program Operating Regulations establish that most of the program's resources will be used to finance MSMEs and will cap loans at US\$1 million per company.
- 1.40 The nonreimbursable resources from the NCL will be used to incorporate risk coverage/transfer or compensation mechanisms for the financial products offered in order to compensate higher levels of exposure or correct possible mismatches in payments to integrated companies/links in supply chains owing to conditions inherent in the project cycle. This will make it possible to back credit operations that are smaller scale and/or entail higher risk, as it eases pressure on capital, adjusts payments to fit the productive investment cycle, holds intermediation margins steady against incremental risk, and improves biobusinesses' rates of return to spur investments to scale. These mechanisms can include: (i) interest rate offsets, blending, or incentives for compliance;⁴⁴ and (ii) coverage/guarantee tools that help transfer risk or compensate/indemnify in the event of a loss.
- 1.41 By definition, a trust is a structure that brings together different sources of funding and risk-management arrangements in order to channel financing. The proposed trust plays a key role in the efficient operation of resources since it helps diversify the financial products on offer, which are tailored to different sizes of companies and business models, thanks to the flexibility a trust affords to management of assets, liabilities, and risks. In the future, additional funds could be obtained to broaden its reach, which would boost the catalytic impact of the intervention.

⁴¹ Financial intermediaries authorized by the BCRP and accredited to operate with COFIDE in accordance with its [risk manual](#), and other eligible institutions to which the trust will issue an equivalent credit rating, in accordance with the [trust guidelines](#), the [program Operating Regulations](#), and COFIDE's assessment of the assignment of financial intermediation lines.

⁴² The participation of financial intermediaries such as cooperatives, international finance companies, and other institutions that traditionally serve microenterprises and small businesses in the Amazon region should ensure that microenterprises and small businesses account for a significant share of the portfolio.

⁴³ The selection of financial products, specific terms (rates, tenors) and intermediation type (first or second tier) will depend on the characteristics of each project/beneficiary and its return/risk profile. The financial products and intermediation arrangements will be listed in the [program Operating Regulations](#).

⁴⁴ Incentives related to a cut in the interest rate based on the development results of beneficiary projects. This mechanism can be applied to credit operations with anchor companies that generate demonstrable benefits for the links in their chains, for example.

- 1.42 **Complementary technical cooperation project.** The program will be supported by a technical cooperation project (operation [ATN/NL-18496-PE](#))⁴⁵ financed with nonreimbursable resources from the NCL (US\$3 million). That project will (i) strengthen beneficiary companies on financial, environmental, and social matters; (ii) build capacity at financial intermediaries to structure biobusiness portfolios that comply with financial, environmental, and social profitability criteria; (iii) collaborate with business and technical advisory institutions, accelerators, incubators, and/or innovation centers for biobusinesses; (iv) promote the program in the region and in the identified market niches; and (v) consolidate COFIDE's capacity, as the technical executing agency, for tracking project performance, monitoring and evaluation, management of socioenvironmental risks and impacts, and the operation of impact fund investment markets, in order to increase the trust's capitalization with other sources. The technical cooperation project will also support the identification of value chains in which women have the highest rates of involvement and gender gaps in access to credit and participation in value chains (paragraph 1.36). Lastly, it will support engagement of and communications with indigenous groups and local communities to enhance the benefits they receive and their participation in eligible chains, as well as identify conditions under which they can gain access to finance.

C. Key results indicators

- 1.43 **Expected results.** The program is expected to lead to the development and financing of a portfolio of economically and commercially viable projects that are environmentally and biodiversity-conscious, creating incentives for more lenders to support investments of this kind. During the COVID-19 crisis, the program should also help ease the stress factors that adversely affect the region's biobusinesses as a result of the decline in economic activity and worsening financial conditions.
- 1.44 The indicators for the program include: (i) for the specific objective: (a) total portfolio of biobusinesses financed or guaranteed by COFIDE; (b) the arrears rate for the biobusiness loan portfolio compared to the arrears rate for microfinance institutions in the Peruvian Amazon region; (c) resources leveraged under the projects financed by the program; share of the portfolio financed by the program used for restoration, conservation, and/or responsible management projects; and (d) instruments for risk coverage or subsidies designed and used in the program; and (ii) for the general objective: (a) increase in the GDP of the Peruvian Amazon region; and (b) percentage of hectares restored, conserved, and/or responsibly managed in the areas of the companies and/or projects financed (Annex II).
- 1.45 **Beneficiaries.** The direct beneficiaries will be private biobusinesses as defined by the Peruvian government (paragraph 1.9), including MSMEs and large producers organized in individual or associative structures (cooperatives) and

⁴⁵ Technical cooperation funding [ATN/NL-18496-PE](#) was approved on 18 December 2020, and execution of the project will begin prior to the start of the loan program.

anchor companies in biobusiness value chains.⁴⁶ The program's indirect beneficiaries will include all value chain participants, through better coordination and distribution of benefits, and the communities of the region as a whole, thanks to the implementation of practices that promote biodiversity conservation and sustainable use. The project team has identified a potential of 36,420 biobusinesses in the region with financing needs.⁴⁷ Based on the assumptions of the economic analysis, the program should serve nearly 6,500 biobusinesses, with an average loan amount weighted by company size that ranges from US\$1,934 for the permaculture sector to US\$500,000 for ecosystem services.

- 1.46 The project eligibility criteria, which are consistent with Peruvian regulations and COFIDE policies and procedures, are set forth in the [program Operating Regulations](#) and include: (i) biobusiness classification, by meeting pre-established criteria related to such issues as efficient use and proper disposal of materials, good production, storage, processing, and marketing practices, and certifications; (ii) assurances that the socioenvironmental impacts and risks are adequately managed and supervised, in accordance with the socioenvironmental safeguards, including exclusion lists ([environmental and social management report](#)) (paragraph 2.7); and (iii) requirements regarding the process for application of funds, which must be through channels accredited by the trust.
- 1.47 **Economic feasibility.** The [economic evaluation](#) identifies program benefits associated with the income of the beneficiary biobusinesses (as a proxy for value generation) and job creation, compared to a scenario without the program. Discounting the flows at 12% yields a net present value of US\$4.05 million and an internal rate of return of 19%. The sensitivity analysis finds that the program's economic value remains positive in several scenarios, including those with variations in the incremental growth of sales and jobs with and without the program, portfolio mix, and average loan size.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 Since it involves financial intermediation, the program will be structured as a US\$20 million investment loan charged to the Bank's Ordinary Capital under the global credit modality, and a US\$2 million investment grant from the France-IDB Natural Capital Lab Trust Fund (NCL) (paragraph 1.38).

⁴⁶ The classification by size is based on the system of the National Tax and Customs Administration, the BCRP, the Ministry of Economy and Finance, and most development institutions. It classifies companies by annual sales in tax units, as follows: (i) microenterprise: up to 150 tax units or S/ 630,000; (ii) small, up to 1,700 tax units or S/ 7,140,000; (iii) medium-sized, up to 2,300 tax units or S/ 9,660,000; and (iv) large, more than 2,300 tax units or S/ 9,660,000 (Executive order 013-2013-PRODUCE).

⁴⁷ Op. cit. [Optional link 5](#).

Table 1. Estimated program cost (US\$ millions)

Component	IDB (Ordinary Capital)	NCL (investment grant)	Total
Sole component - Financing for investments in biobusinesses	20	2	22
%	91	9	100

- 2.2 The disbursement period is expected to be five years from the date the IDB and the Republic of Peru sign the loan contract for the Ordinary Capital resources and the investment grant agreement for the NCL resources (paragraphs 3.9 and 3.11). The [disbursement plan](#) is set out in Table 2.

Table 2. Indicative disbursement plan (US\$ millions)

Source	Year I	Year II	Year III	Year IV	Year V	Total
IDB (Ordinary Capital)	0.50	1.90	3.80	5.70	8.10	20
NCL (investment grant)	0.06	0.20	0.40	0.60	0.74	2
Total	0.56	2.10	4.20	6.30	8.84	22
%	2.54	9.54	19.10	28.64	40.18	100

- 2.3 **The trust.** The proposed trust (paragraphs 1.38 to 1.41) will be structured in accordance with Peruvian regulations, under the Financial and Insurance System Act and Act Establishing the Superintendency of Banking and Insurance (Law 26,702) and amendments thereto; SBS Resolutions 1,010/1999, 12,880/2009, and 1,882/2014; and the bylaws and regulations governing the organization and functions of COFIDE ([optional link 7](#)).
- 2.4 MINAM will be the main trustor, whose initial contribution will come from program proceeds. COFIDE will be responsible for administration and auditing costs (paragraph 3.12). As the technical executing agency of the program, COFIDE will act as the trustee, given that it has the legal capacity to administer mechanisms of this kind and ample experience in doing so.⁴⁸
- 2.5 Through the trusts it administers, COFIDE, with the support of financial intermediaries, is currently channeling credit, equity, and guarantees into economic activities and sectors that face market barriers. Its operational, functional, and commercial capacity to structure and administer the trust have been evaluated, with satisfactory results, and all its processes and procedures cover management of the mechanisms and players that will be incorporated into the trust.

B. Environmental and social risks

- 2.6 Pursuant to Directive B.13 of the Bank's Environment and Safeguards Compliance Policy (Operational Policy OP-703), this program cannot be classified ex ante because it is a financial intermediation operation. The projects expected to be financed are based on the sustainable use of biodiversity

⁴⁸ COFIDE has administered trusts for the Peruvian government, with a portfolio of more than US\$3.185 billion (COFIDE, 2019).

products, with due regard to environmental, social, and economic sustainability criteria. Therefore, they are not expected to have significant socioenvironmental impacts. However, given the high number of potential projects, their geographic dispersion, and the complex circumstances of the Peruvian Amazon region, the operation's financial intermediation risk has been classified as high.

- 2.7 The environmental and social management report ([ESMR](#)) includes measures to manage socioenvironmental risks and impacts, including possible cumulative and indirect impacts. Furthermore, the [ESMR](#) includes eligibility criteria and an exclusion list for Category "A" projects and projects posing high socioenvironmental risk. The operation will not finance any of the activities on the Exclusion List in Annex C of the [ESMR](#), activities/sectors posing high socioenvironmental risk (Category "A"), or any activities that: (i) involve involuntary resettlement due to physical or economic displacement; (ii) entail negative impacts for indigenous peoples; (iii) may cause damage to critical cultural sites; (iv) involve a negative impact on natural habitats; or (v) involve the introduction of invasive species.
- 2.8 The environmental and social risk management system (ESRS) will include an institutional analysis of COFIDE's capacity, for project socioenvironmental management, given that it is the technical executing agency and trustee responsible for the trust. The program will be supported by another technical cooperation project (paragraph 1.42) to support the design and execution of the ESRS, and ongoing impact monitoring and supervision. The ESRS will be an integral part of the [program Operating Regulations](#), which will enter into effect in accordance with the terms previously agreed upon with the Bank as a contractual condition precedent to the first disbursement.

C. Fiduciary risks

- 2.9 As the executing agency and trustor, MINAM has experience with execution of Bank-financed operations and with the application of fiduciary policies for financial management. COFIDE does not have similar experience, but it has satisfactory experience with administering trusts similar to the one proposed for program execution, and its organizational structure is conducive to administering the bioeconomy trust. The institutional capacity assessment of the technical executing agency (COFIDE) identified weaknesses and opportunities for improvement related to lack of familiarity with the Bank's fiduciary policies for financial management. This has been taken into account in the preparation of the [program Operating Regulations](#) and identification of training and support needs for COFIDE staff members in charge of the operation. (see Annex III).

D. Key issues

- 2.10 **Sustainability.** Despite the impact of the COVID-19 pandemic on the Peruvian economy, the diagnostic assessment performed during program preparation indicates that there is high potential demand for financing (five times the value of the program, paragraph 1.15), even in the crisis situation. The complementary technical cooperation project (operation [ATN/NL-18496-PE](#)) (paragraph 1.42) includes support for structuring loan beneficiaries' financing demand. Once established, the trust should have a demonstration effect regarding the opportunity for returns presented by the bioeconomy for the local financial

system. The implicit concessionality of the loans issued by the program should drive a behavioral change stemming from the perceived risk of these businesses, and, in demonstrating their commercial viability while also building capacity, this will make the desired impacts sustainable over time.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 The Republic of Peru will be the borrower of the loan and the beneficiary of the investment grant, and the executing agency will be MINAM, with technical support provided by COFIDE, as the technical executing agency.
- 3.2 MINAM will be the trustor of the trust (to be formed) and, as such, the institution that will contribute the proceeds of the loan and investment grant to the trust. It will supervise the activities carried out by COFIDE that lie within its purview. In its role as executing agency (budgetary entity),⁴⁹ MINAM will be responsible for transferring the proceeds. In its role as trustor, it will be responsible for monitoring the trust and to that end will use the country budgeting, accounting, and treasury systems, for which no fiduciary risks have been identified (see paragraph 2.2 of Annex III).
- 3.3 COFIDE, in its role as technical executing agency, will be the trustee and have responsibility for ensuring that all operating, administrative, financial management, and monitoring and oversight arrangements, as well as the human and technical resources required for the transparent and efficient execution, administration, and supervision of the program are in place. These responsibilities include, but are not limited to: the design, implementation, execution, and auditing (the latter to be carried out internally or through third parties) of the following processes: (i) defining financial product attributes and conditions; (ii) selecting, evaluating, accrediting, and monitoring the financial and socioenvironmental performance of the eligible channels; (iii) identifying and managing potential sources of resources; (iv) developing and applying the criteria for eligibility, resource allocation and mobilization, monitoring and supervision of the beneficiaries, projects, and investments; and (v) instructing all actors on program requirements and conditions, including instances of noncompliance.
- 3.4 To that end, COFIDE's business management office, through its trust origination department, will be in charge of the program management unit. COFIDE's business management office will serve as the point of contact for program coordination with the Bank, to include all the activities described in the program Operation Regulations and the monitoring and evaluation plan. COFIDE, through its trust generation department, will administer the trust in accordance with the program Operating Regulations, thus ensuring that the resources reach the end beneficiaries through the accredited financial intermediaries.
- 3.5 Although it has no recent experience with loan operations, it has a long track record of financing sustainable investments in the private sector, and the

⁴⁹ In Peru, a budgetary entity or *pliego presupuestal* is a government agency that has a budget allocation in the Peruvian Public Sector Budget Act.

- Peruvian government habitually borrows from international agencies (e.g. Andean Development Corporation, Japan International Cooperation Agency), including from thematic investment funds like the NCL. Under its current organizational structure, COFIDE will assure all the administrative and control mechanisms and furnish the necessary human and technical resources to provide and maintain transparent and effective program administration and supervise adequate use of program resources (see paragraph 2.5 of Annex III). The complementary technical cooperation project (operation [ATN/NL-18496-PE](#)) (paragraph 1.42) includes specific activities to support program execution and coordination. The program execution unit will be COFIDE's Business Management Branch, acting through the Fiduciary Business Generation Department. COFIDE's Business Management Branch will act as point person for program coordination with the IDB, including for all the activities described in the [program Operating Regulations](#) and the [monitoring and evaluation plan](#). COFIDE, through its Fiduciary Business Generation Department, will administer the trust in accordance with the [program Operating Regulations](#), ensuring that the funds reach the end beneficiaries through accredited financial intermediaries (paragraph 2.4).
- 3.6 Under the [program Operating Regulations](#), financial institutions will act as intermediaries that channel the trust proceeds to the market. This vehicle will be the main instrument for interaction between COFIDE and the private sector, which includes the financial intermediaries and the end beneficiaries of the program, i.e., private biobusinesses (paragraph 1.46).
- 3.7 Given the multisectoral reach of biobusiness, the program has established eligibility criteria for beneficiary projects, seeking to ensure compliance with strict socioenvironmental standards to protect the region's ecosystems. The criteria are based on analyses conducted during program preparation, including: (i) a diagnostic assessment of the potential for investment in biobusinesses and specific barriers to financing; (ii) an analysis of local socioenvironmental risk management policies in the Peruvian Amazon region; (iii) an analysis of extension services and certification systems that could support the beneficiaries; and (iv) an analysis of institutional capacity and specific structures for the trust. The proposed criteria are crosscutting and complement national policies relating to biobusinesses, the Sustainable Development Goals, and other internationally recognized conceptual frameworks. These eligibility criteria (paragraph 1.46) and other related restrictions, requirements, and rules are set out in the [program Operating Regulations](#) to be agreed upon by the IDB, MINAM, and COFIDE as a condition precedent to the first disbursement under the program (paragraph 3.9). During program design, the team identified public and private initiatives that support the [development of biobusinesses in the Peruvian Amazon region](#). Under the proposed governance arrangement ([optional link 7](#) and the [program Operating Regulations](#)) and with the support of the technical cooperation project, MINAM (as the lead agency in the environmental sector) and COFIDE (as the national development bank) will ensure coordination of the various entities to promote synergies and attain the proposed results (paragraphs 1.32 and 1.33).
- 3.8 The [program Operating Regulations](#) include guidelines to ensure an adequate governance system for the trust that is consistent with program objectives, including definitions and operating rules associated with each financial product

offered and the process of identifying and assessing compliance with the eligibility criteria.

- 3.9 **Special contractual conditions precedent to the first disbursement of the financing:** The following will be special contractual conditions precedent to the first disbursement: (i) submission of evidence that MINAM and COFIDE have approved the [program Operating Regulations](#) and that those regulations have entered into force, in accordance with the terms previously agreed upon with the Bank; (ii) submission of evidence that MINAM and COFIDE have signed a trust contract for the administration of program resources, in accordance with the terms and conditions previously approved by the Bank; and (iii) submission of evidence that MINAM and COFIDE have signed a subsidiary agreement for the execution of the program's activities, in accordance with the terms previously agreed upon with the Bank. These conditions are justified because: (i) the program Operating Regulations establish basic requirements and criteria for program execution; and (ii) the two agreements (COFIDE/MINAM and borrower/COFIDE) formalize mechanisms for transferring resources and obligations between the borrower/beneficiary and the executing agencies.
- 3.10 **Fiduciary agreements and requirements.** The fiduciary agreements and requirements (Annex III) establish the framework for financial management and planning, as well as for procurement execution and supervision, that will govern the operation.
- 3.11 The proceeds from the Bank loan and the investment grant may be disbursed as advances of funds, reimbursements of expenditures, or direct payments to suppliers. For advances of funds, MINAM, in coordination with COFIDE, will request disbursements from the Bank based on a financial plan that covers the program's real liquidity needs for up to 180 days. For disbursements, supporting documentation will be submitted, using Bank forms, for at least 50% of the total amount pending justification, in light of the criteria established in B3.3(iii)(a) and B3.3(iii)(d) of document OP-273-12. Both MINAM and the COFIDE-administered trust will maintain their own bank accounts in U.S. dollars as well as accounts in soles to handle program funds. The trust contract will stipulate that loan proceeds may not be used for operations that generate profits.
- 3.12 MINAM will submit to the Bank annual and final program financial statements audited by a Bank-eligible external audit firm contracted by COFIDE under terms of reference agreed upon with the Bank, even when the cost of the audit is covered by COFIDE funds. The audited annual financial statements will be submitted within 120 days after the close of each fiscal year and the final audited statements within 120 days after the date of the final disbursement or any extension thereof.
- B. Summary of arrangements for monitoring results**
- 3.13 The program will follow IDB standards for monitoring and evaluating investment operations. MINAM, though COFIDE, will regularly report to the IDB on progress toward the indicators during the execution period, as established in the [monitoring and evaluation plan](#) and the [program Operating Regulations](#).

- 3.14 MINAM, through COFIDE, will be responsible for compiling, analyzing, and keeping records of all data, metrics, and indicators agreed with the IDB, whereas MINAM will be responsible for submitting semiannual reports within 60 days after the end of each six-month period. After the final disbursement, MINAM will submit a final report, which is needed for the IDB to prepare the project completion report.
- 3.15 The proposed evaluation method is a before-and-after comparison of the program indicators and a qualitative analysis based on the evidence available at the end of program execution. The frequency of measurements and the scope of the data to be compiled for the indicators is established in Annex II and the [monitoring and evaluation plan](#).

Development Effectiveness Matrix		
Summary		PE-L1258
I. Corporate and Country Priorities		
Section 1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Issues	-Social Inclusion and Equality -Productivity and Innovation -Climate Change	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	-Micro / small / medium enterprises financed (#)	
2. Country Development Objectives		
Country Strategy Results Matrix	GN-2889	Aligned with priorities areas of: (i) Economic Productivity, with focus on the strategic objective to Strengthen the business climate; and (ii) and Foster Environmental Sustainability and Climate Change, with focus on the strategic objective to Strengthen Environmental Management.
Country Program Results Matrix	GN-3034	The intervention is included in the 2021 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		7.8
3.1 Program Diagnosis		2.3
3.2 Proposed Interventions or Solutions		1.6
3.3 Results Matrix Quality		4.0
4. Ex ante Economic Analysis		7.5
4.1 Program has an ERR/NPV, or key outcomes identified for CEA		1.5
4.2 Identified and Quantified Benefits and Costs		3.0
4.3 Reasonable Assumptions		0.0
4.4 Sensitivity Analysis		2.0
4.5 Consistency with results matrix		1.0
5. Monitoring and Evaluation		9.5
5.1 Monitoring Mechanisms		4.0
5.2 Evaluation Plan		5.5
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Medium Low
Environmental & social risk classification		B.13
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, External Control, Internal Audit.
Non-Fiduciary	Yes	Environmental Assessment National System.
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
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	The program is supported by a US\$3 million complementary operational support TC (ATN/NL-18496-PE), to be funded with resources from the France - IDB Natural Capital Laboratory Trust Fund (NCL).

The "Program to Promote the Financing of Private Investment in the Peruvian Amazon (PE-L1258)" aims, as its general objective, to contribute to the long-term economic growth of the Peruvian Amazon, supporting the sustainable use of natural capital. The specific objective of the operation is to increase eco-business investment in the region.

The key issue the program will try to address is the low economic growth in the Amazon region of Peru, which lags behind the rest of the country in terms of productivity and contributes little to the country's GDP. The local economy is undiversified and highly dependent on mining and hydrocarbons, and the region has high levels of unemployment and poverty. At the same time, significant natural resources present an opportunity for emerging eco-businesses. However, this sector faces significant barriers which limit firms' access to credit, particularly among small and micro enterprises. The key problems the project identifies are the limited supply of credit at the local level, as well as the lack of understanding of the risks specific to the sector, which works to limit private investment. The project presents a clear description of the problems as well as of the proposed solution, though some aspects of the diagnostic are limited by the lack of data.

The cost-benefit analysis yields a positive net present value for the project in the central scenario, as well as under a range of conditions presented in the sensitivity analysis. However, some of the underlying assumptions used in the analysis are not supported by evidence from either empirical or theoretical studies.

The vertical logic laid out in the POD is consistent with the results matrix indicators, which meet SMART criteria for the measurement of specific and general objectives listed above, as well as to monitor the products to be generated during the program. The team proposes to evaluate the effects of the project using a before-and-after methodology (evaluation without attribution), which is appropriate given the nature of the program and data availability.

RESULTS MATRIX¹

Program objective:	The program's general objective is to further economic growth in the Peruvian Amazon region in the long term by supporting the sustainable use of its natural capital. Its specific objective is to increase biobusiness investment in the region.
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GENERAL DEVELOPMENT OBJECTIVE

Indicator	Unit of measure	Baseline value	Baseline year	Expected year achieved	Target	Means of verification	Comments
General development objective: To further economic growth in the Peruvian Amazon region in the long term by supporting the sustainable use of its natural capital.							
Indicator 1: Increase in the GDP of the Peruvian Amazon region	%	2.4	2015-2019	2026	2.8	Calculated by the IDB based on regular reports from the National Statistics and Informatics Institute (INEI).	<p>This indicator does not purport to measure the direct impact of the program but rather is used as a benchmark for macro-level growth trends, to which the program should contribute.</p> <p>The baseline is the average growth of the sum total of the GDPs (constant 2007 prices) of the Amazonas, Loreto, Madre de Dios, San Martín, and Ucayali departments for the last five years using data (2015-2019 period) from INEI's report on GDP by department in Peru, 2007-2019 (INEI, 2020).</p>

¹ In addition to the indicators in the results matrix, the number of micro, small, and medium-sized enterprises (MSMEs) financed will be tracked using a monitoring indicator, in accordance with the requirements set out in paragraph 2.10 of the [monitoring and evaluation plan](#) and paragraph 10.4 of the [program Operating Regulations](#).

Indicator	Unit of measure	Baseline value	Baseline year	Expected year achieved	Target	Means of verification	Comments														
							<div><div><div>GDP growth (%), baseline</div><table><tr><th>Year</th><th>Amount</th></tr><tr><td>2015</td><td>3.0%</td></tr><tr><td>2016</td><td>-2.3%</td></tr><tr><td>2017</td><td>3.8%</td></tr><tr><td>2018</td><td>4.7%</td></tr><tr><td>2019</td><td>2.5%</td></tr><tr><td>Average</td><td>2.4%</td></tr></table></div><div><p>The target is the average annual growth projected for the years of program execution (2021-2024), based on the region's past growth (3.3% a year on average in the 2010-2019 period) factoring in the potential cumulative contraction (15% below average) caused by the COVID-19 crisis.</p></div></div>	Year	Amount	2015	3.0%	2016	-2.3%	2017	3.8%	2018	4.7%	2019	2.5%	Average	2.4%
Year	Amount																				
2015	3.0%																				
2016	-2.3%																				
2017	3.8%																				
2018	4.7%																				
2019	2.5%																				
Average	2.4%																				
Indicator 2: Percentage of hectares restored, conserved, and/or responsibly managed in the areas of the companies and/or projects financed	%	BL	2020	2026	BL x 1.1	Report prepared by the IDB on the results of Component 1 of technical cooperation project ATN/NL-18496-PE , Fund for technical assistance and extension services for projects to be financed by the bioeconomy lending program.	<p>Includes beneficiary projects that can be measured in terms of hectares, following the guidelines established by the technical cooperation project and the eligibility criteria contained in the program Operating Regulations.</p> <p>% = hectares used by supported projects for forest crops /total hectareage of supported projects</p> <p>Producers can put their land to different uses. The intention is to prevent any reduction in the proportion devoted to forest cover, i.e., the percentage at program end should be equal to or greater than the</p>														

Indicator	Unit of measure	Baseline value	Baseline year	Expected year achieved	Target	Means of verification	Comments
							<p>baseline (BL). The target is BL x 1.1 (a figure 10% higher than the baseline).²</p> <p>The IDB will be responsible for supervising reporting on this indicator. COFIDE will support the review of the results of the services contracted by the technical cooperation project.</p> <p>To verify data on the number of hectares financed under the project, where applicable, submission of a sworn statement by the beneficiary will suffice. COFIDE will not be required to perform an on-site verification for each project financed.</p>

² Because the beneficiary projects need to be identified before data on the number of hectares involved can be collected, the value "BL" (which is part of the baseline and the target figure) cannot be defined until execution has begun.

SPECIFIC DEVELOPMENT OBJECTIVES

Indicator	Unit of measure	Baseline value	Baseline year	End of project	Means of verification	Comments
Specific development objective: To increase biobusiness investment in the region.						
Indicator 1: Total portfolio of biobusinesses financed or guaranteed by COFIDE	US\$ millions	0	2020	22	Annual and final progress reports prepared by MINAM and COFIDE	<p>The baseline is zero since there was no biobusiness portfolio prior to the start of the program.</p> <p>By program end, a minimum of US\$2 million in financing above and beyond the program resources should be mobilized through financing instruments (guarantees and loans) for biobusinesses. This figure is calculated based on assumptions relating to the allocation of funds to guarantee and credit instruments and the expectation that other lenders will be willing to shoulder part of the risk of financing these projects.</p> <p>Target = portfolio financed/guaranteed by the program (US\$20 million) + additional portfolio (US\$2 million)</p>
Indicator 2: Arrears rate for the biobusiness loan portfolio compared to the arrears rate for microfinance institutions in the Peruvian Amazon region	Index	0	2020	1.4	Annual and final progress reports prepared by MINAM and COFIDE	$\text{Index} = \frac{\text{Arrears rate for the biobusiness program in the Amazon region (\%)}}{\text{Arrears rate for microfinance institutions in the Amazon region (\%)}}$ <p>Arrears are calculated as specified in the regulations of the Superintendency of Banking, Insurance, and Pension Fund Administrators (SBS):</p> $\text{Arrears} = \frac{\text{Past due portfolio (overdue and enforced collection)}}{\text{Gross portfolio (current, overdue, enforced collection, restructured, and refinanced)}}$ <p>The baseline is zero since there was no biobusiness portfolio prior to the start of the program.</p> <p>The comparable portfolio is obtained from SBS reports on the arrears rate by department and by type of financial institution for the available categories, which do not include savings and loan cooperatives (COOPACs). According to the demand analysis, COOPACs are expected to participate in the program since they have the closest ties to small-scale producers in the target region. COOPACs take on higher</p>

Indicator	Unit of measure	Baseline value	Baseline year	End of project	Means of verification	Comments
						<p>risk and are therefore expected to have higher arrears rates. The target index is higher than 1 due to the fact that only the numerator factors COOPACs into the average arrears rate. If that portfolio were to be measured, estimates indicate that the index would be 1.3 to 1.7 points higher than the baseline. Using the average (1.5) yields a target of 1.4. For reference, the arrears rate for microfinance institutions (financial companies, municipal savings banks, rural savings banks, and SME development agencies) in the Amazonas, Loreto, Madre de Dios, San Martín, and Ucayali departments is 6.24% (SBS, August 2020).</p> <p>If the value is below the target value, performance has exceeded expectations.</p>
Indicator 3: Resources leveraged under projects financed by the program	US\$ millions	0	2020	4.9	Annual and final progress reports prepared by MINAM and COFIDE	<p>This indicator is included as a standard for programs that seek to promote investment, particularly those that use grants or highly concessional resources.</p> <p>It captures the total amount of resources mobilized by financial institutions in excess of the amount guaranteed and/or the amount channeled to the institution for projects financed by the program plus a margin representing the additional contribution of resources to the trust and direct contributions to projects financed by such other sources as equity, funds from financial institutions, or donors.</p> <p>For example, if the program provides a guarantee of 70% for a financial institution, the remaining 30% is the borrower's own resources (leveraged resources).</p> <p>The program should mobilize US\$4 million in financing from other sources in credit and guarantee instruments through financial institutions, plus US\$900,000 of the developers' equity (assuming three large projects in the portfolio that each generate US\$300,000 in equity).</p> <p>Target = Resources from other sources (US\$4 million) + equity resources from the borrowers (US\$900,000)</p> <p>As established in the program Operating Regulations, COFIDE will report project-level data, including the total amount of investment financed, specifying the amount financed with program funds and the amount of additional financing from other sources (including COFIDE resources and cofinancing from the intermediary or end borrower).</p>

Indicator	Unit of measure	Baseline value	Baseline year	End of project	Means of verification	Comments
Indicator 4: Share of the portfolio financed by the program used for restoration, conservation, and/or responsible management projects (agroforestry, agrosilvopastoral systems, agriculture, non-wood forest products, forest services, etc.)	%	0	2020	70	Report prepared by the IDB on the results of Component 2 of technical cooperation operation ATN/NL-18496-PE , Strengthening of COFIDE technical and institutional capacities and special purpose vehicle, and final program monitoring report containing information on sector activities reported by the end beneficiaries of the loans.	<p>Measures the number of restoration, conservation, and/or responsible management projects, out of the total projects financed by the program.</p> <p>Restoration, conservation, and/or responsible management projects will adhere to the guidelines established in the technical cooperation operation and the financial eligibility criteria established in the program Operating Regulations.</p> <p>The IDB will be responsible for supervising reporting on this indicator. COFIDE will support the review of the results of the services contracted by the technical cooperation project.</p> <p>To verify the information on the sector in which each financed project is carried out and its contribution to restoration, conservation, and/or responsible management, submission of a sworn statement by the beneficiary will suffice. COFIDE will not be required to perform an on-site verification for each project financed.</p>
Indicator 5: Risk coverage or subsidy instruments designed and used in the program (cumulative)	Number	0	2020	3	Annual and final progress reports prepared by MINAM and COFIDE	Documents the number of distinct financial products made viable with the investment grant according to the program Operating Regulations . Risk coverage instruments and subsidies help increase investment in biobusinesses by expanding the availability of financing for higher risk projects (e.g., highly innovative projects or new ventures). There is no explicit requirement to use more than one instrument.

OUTPUTS

Indicator	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Project end	Means of verification	Comments
Sole component: Financing for investments in biobusinesses (total cost =US\$22 million)											
Output 1: Amount extended for biobusiness financing	US\$ millions	0	2020	0.5	1.9	3.8	5.7	8.1	20	Annual disbursement reports prepared by MINAM with information provided by COFIDE, in coordination with the IDB	Figures based on disbursement expectations according to identified demand and COFIDE's capacity. Issuance of the loans should be gradual and increase over the execution period.
Output 2: Amount of the investment grant issued under risk coverage instruments or subsidies	US\$ millions	0	2020	0.06	0.2	0.4	0.6	0.74	2	Annual disbursement reports prepared by MINAM with information provided by COFIDE, in coordination with the IDB	Documents the amount of investment grant resources used. As established in the program Operating Regulations , COFIDE will report on all types of instruments used at the project level.

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country:	Republic of Peru
Project number:	PE-L1258/PE-G1007
Project name:	Program to Promote Sustainable Financing in the Peruvian Amazon Region: Opportunity to Leverage Biobusinesses (Biobusiness Program)
Executing agency:	Ministry of Environment (MINAM), with support from Corporación Financiera de Desarrollo (COFIDE), as the technical executing agency
Fiduciary team:	Andrés Suárez and Allizon Milicich, Financial Management Specialists (VPC/FMP)

I. EXECUTIVE SUMMARY

- 1.1 The country's financial management systems are adequate and reliable for managing program resources (Ordinary Capital and Investment Grant).
- 1.2 MINAM and COFIDE will sign a trust contract for the administration of program resources. The executing agency, MINAM, will serve as the trustor and will capitalize the trust with funds from the operation's two financing sources. The trust, administered by COFIDE, which will also serve as the operation's technical executing agency, will finance eligible projects directly or through financial intermediaries that have completed a pre-established accreditation process as set out in the [program Operating Regulations](#). The funds disbursed will help finance a series of financial products, which may include first- and second-tier loans as well as risk coverage/transfer or compensation mechanisms for the financial products offered.

II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY AND TECHNICAL EXECUTING AGENCY

- 2.1 The program will be executed under a sole component of financing, and a trust will be established to that end. This trust will be administered by COFIDE from its own resources and in accordance with the Peruvian government's applicable rules and regulations: i.e., the Financial and Insurance System Act and Act Establishing the Superintendency of Banking and Insurance (Law 26,702) and amendments thereto; SBS Resolutions 1,010/1999, 12,880/2009, and 1,882/2014; and the bylaws and regulations governing the organization and functions of COFIDE.
- 2.2 MINAM, in its role as the executing agency and trustor (paragraphs 1.22, 1.23, and 1.24 of the loan proposal document), and as Peru's budgetary entity, has experience with the execution of Bank-financed operations and the application of fiduciary policies for financial management (loans [2759/OC-PE](#), [4291/OC-PE](#), and [4604/SX-PE](#)). For the transfer of program resources to COFIDE, MINAM will utilize

- the country financial management systems that have been accepted by the Bank, for which no fiduciary risks have been identified (paragraph 3.2 of the loan proposal document).
- 2.3 COFIDE, in its role as trustee and technical executing agency, will ensure that all administrative financial management and oversight arrangements are in place, as well as the human and technical resources required for the transparent and efficient execution of the program. COFIDE is a public enterprise, organized as a corporation, in which the Peruvian government has majority ownership. It participates in the local financial system and has the authority to perform financial intermediation, fiduciary services, and other activities as permitted by law. COFIDE is subject to the rules and regulations of the National Fund for the Financing of State Entrepreneurial Activities (FONAFE) and falls exclusively under the framework of the Superintendency of Banking, Insurance, and Pension Fund Administrators (SBS), which is responsible for regulating and supervising Peru's financial, insurance, and private pension systems. Legally, it is governed by the rules that expressly regulate its activities and by Law 26,702, the Financial and Insurance System Act and Act Establishing the Superintendency of Banking and Insurance. As a majority State-owned corporation, it is also audited annually by the Office of the Comptroller General (CGR). COFIDE mobilizes financial resources from institutions, foreign and Peruvian banks, and the international and local capital markets to issue financing through international and Peruvian financial intermediaries with a view to promoting and financing productive investment and infrastructure countrywide.
- 2.4 COFIDE is the first public institution in Peru to obtain ISO-9001 certification (ratified in 2019) and the new ISO-9001:2015 certification for trust administration. It also has formally established processes for trust administration that address design and structuring, implementation, operation, monitoring, and reporting. Its current processes and procedures cover management of all the financial products and players (channels and beneficiaries) that are expected to be included in the trust.
- 2.5 In 2021, the project team conducted an institutional capacity assessment of COFIDE, which was supplemented by documentation and virtual meetings with key staff members. It was confirmed that COFIDE's organizational infrastructure is conducive to administration of the trust envisaged under the execution mechanism and that it has the legal, operational, and functional capacity to structure and administer the trust effectively. The assessment also identified weaknesses and opportunities for improvement related to a lack of familiarity with the Bank's fiduciary policies for financial management. This was taken into account in the preparation of the contents of the program Operating Regulations and the identification of training and support needs for COFIDE staff members in charge of the operation.
- 2.6 For financial management of the operation, COFIDE's regulations, procedures, and systems will be supported by the use of the Financial Management Guidelines for IDB-financed Projects (document OP-237-12) and the [program Operating Regulations](#).

III. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE LOAN CONTRACT AND AGREEMENT

- 3.1 MINAM will submit to the Bank annual and final program financial statements audited by a Bank-eligible external audit firm (contracted by COFIDE) under specific terms of reference acceptable to the Bank, even when the cost of the audit is covered by COFIDE funds. The audited annual financial statements will be submitted within 120 days following the end of each of the borrower's fiscal years during the original disbursement period or any extension thereof. The final audited financial statements will be submitted within 120 days following the end of the original disbursement period or any extension thereof.
- 3.2 For the purposes of accountability and justification of eligible expenditures, the exchange rate used to determine the equivalent value (in either the currency of disbursement or the currency of approval) of an eligible expenditure in the borrower's local currency will be the rate in effect on the date on which the currency of approval or currency of disbursement was converted into the borrower's local currency (Article 4.10(b)(i) of the General Conditions of the loan contract/agreement). For the purposes of determining the equivalent value of expenditures incurred in local currency as part of the local contribution or for the reimbursement of expenditures chargeable to the loan/investment grant, the exchange rate will be the rate in effect on the date on which the borrower, the executing agency, or any other person or corporation to whom the authority to incur expenditures has been delegated makes the respective payment to a beneficiary.

IV. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

- 4.1 **Programming and budget.** MINAM is governed by the provisions of the Public Budget Department of the Ministry of Economy and Finance (MEF) and operates its budget under the Integrated Financial Management System (SIAM). The budget assigned to the program, guided by the program's financial planning, will be approved by the MEF and the Peruvian Congress and reported annually to the Bank. COFIDE's budget, financial, accounting, and cash management procedures are set out in its Management Policy Framework, approved in 2018. Budget management is the responsibility of the Planning and Control Office, which reports to the Finance Division. Budgets need to be approved by COFIDE's board of directors and by FONAFE. Since COFIDE has economic and financial autonomy, it is not included in the national budget. It manages its own funds, which come from several sources: capitalization, negotiable marketable bonds, international bonds, and loans with external financing.
- 4.2 **Accounting and information systems.** MINAM will use the SIAM for accounting and reporting, while COFIDE will use its corporate accounting system (SAP) which is based on the accounting principles authorized by the SBS and comprises planning, budgeting, accounting, and cash flow systems. The initial deposit and disbursements into the trust will be reported as contributions, and operations paid out will be reported as placements. Payments of nonfinancial products will be reported as expenditures, as will COFIDE's administrative costs. The ex post review of records and supporting documentation for activities and transactions charged to operation funds will be performed by external auditors. MINAM and COFIDE are

required to keep all documents and records for at least three years after the date of the final disbursement.

- 4.3 The financial statements will be prepared using information from COFIDE's SAP. Its Finance Division is responsible for keeping accounting records and preparing the financial statements of COFIDE and third parties, where applicable, under SBS rules and regulations. Assets maintained by COFIDE in its capacity as trustee at the behest of Peruvian government agencies or financial institutions are not included in its balance sheet. Those assets are kept in the financial statements and reported in COFIDE's memorandum accounts. Regular reporting from the trust will be mandated by the trust contract and in the [program Operating Regulations](#). The program's financial statements will be prepared on a cash accounting basis in accordance with the Financial Management Guidelines for IDB-financed Projects (document OP-273-12) and the Bank's instructions on audited financial reports and external audit management.
- 4.4 **Disbursements and cash flow.** Loan and grant proceeds may be disbursed as advances of funds, reimbursements of expenditures, or direct payments to suppliers. The disbursement mechanism will be manual, and the currency for managing the operation is the U.S. dollar. Both MINAM and the COFIDE-administered trust will maintain their own bank accounts in U.S. dollars as well as accounts in soles (monetization) to handle the loan and grant proceeds. Going forward, the possibility of utilizing the Treasury Single Account (TSA) will be examined with the Ministry of Economy and Finance for operations involving external debt, and MINAM could implement this option in the short term. The trust contract will stipulate that neither the loan nor the investment grant may be used for operations that generate profits. Based on the program's annual financial planning, MINAM, in coordination with COFIDE, will submit a request to the Bank to disburse funds into the trust, based on a financial plan that covers the program's real liquidity needs for up to 180 days. For disbursements, supporting documentation will be provided for at least 50% of the total amount pending justification, in light of the criteria established in B3.3(iii)(a) and B3.3(iii)(d) of document OP-273-12.
- 4.5 **Internal control and internal auditing.** At MINAM and at COFIDE, the control environment is governed by country regulations based on the National Control System and CGR Act. The purpose of the Institutional Control Body is to review the effectiveness of internal controls and evaluate COFIDE's activities in the framework of government control exercised by the CGR.
- 4.6 **External control and reporting.** A Bank-eligible independent audit firm will be charged with external control of the program. The firm will verify execution of resources and the eligibility of program expenditures, and it may also conduct reviews of program beneficiaries. The trust contract will stipulate the audits to be performed. The firm that will audit COFIDE's accounts (designated by the CGR) may also audit the program provided it is a Bank-eligible firm. COFIDE will contract the firm with its own resources following the guidelines established in Bank policies and the Bank's instructions on audited financial reports and external auditing.
- 4.7 The project's audited financial statements will include the cash flow statement, the cumulative investment statement, and notes to the financial statements. The auditors' reports will include an evaluation of the internal control system.

- 4.8 The average total cost of the audits is estimated at US\$375,000 for the five years of execution.
- 4.9 **Financial supervision plan.** The financial supervision plan can be adjusted as warranted by project execution and external audit reports.

Table 1. Supervision plan

Activity	Nature/scope	Frequency
Fiduciary	Update of cash flow and disbursement programming	With each request for an advance, as warranted by project circumstances
	Financial auditing and submission of financial statements	Annual and final
	Supervisory visits	Annual

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 5.1 **Procurement execution.** Since this is a financial intermediation program that will operate on a demand basis, no procurements of works, goods, services, or consulting services are anticipated for execution. Therefore, the loan proposal does not include a project execution plan or a procurement plan. Any procurement of services or consulting services that may be required as part of program administration and/or evaluation will comply with the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-15) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-15), or subsequent updates.

**PROGRAM TO PROMOTE SUSTAINABLE FINANCING IN THE PERUVIAN AMAZON REGION –
OPPORTUNITY TO LEVERAGE BIOBUSINESSES (BIOBUSINESS PROGRAM)**

PE-G1007

CERTIFICATION

The Grants and Co-Financing Management Unit (ORP/GCM) certifies that the referenced operation will be financed through:

Funding Source	Fund Code	Currency	Amount Up to
France-IDB Natural capital Lab Trust Fund	NCL	USD	2,000,000

For operations financed by funds where the Inter-American Development Bank (IDB) does not control liquidity, the availability of resources is contingent upon the request and the receipt of the resources from the donors. Additionally, in case of operations financed by funds that require a post-approval agreement with the donor, the availability of resources is contingent upon the signature of the agreement between the Donor and the IDB. (i.e.: Project Specific Grants (PSG), Financial Intermediary Funds (FIF), and single donor trust funds).

Certified by: _____ Original Signed _____ April 5, 2021 _____

Maria Fernanda Garcia
Chief
Grants and Co-Financing Management Unit
ORP/GCM

Date

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/21

Peru. Loan ____/OC-PE to the Republic of Peru. Program to Promote Sustainable Financing in the Peruvian Amazon Region – Opportunity to Leverage Biobusinesses (Biobusiness Program)

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 the Program to Promote Sustainable Financing in the Peruvian Amazon Region – Opportunity to Leverage Biobusinesses (Biobusiness Program). Such financing will be for the amount of up to US\$20,000,000 from the resources of the Bank's Ordinary Capital, 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 ____ 2021)

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/21

Perú. Nonreimbursable Investment Financing GRT/___-___-PE
Program to Promote Sustainable Financing in the Peruvian
Amazon Region – Opportunity to Leverage Biobusinesses
(Biobusiness Program)

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, in its capacity as implementing entity of the France-IDB Natural Capital Lab Trust Fund, to enter into such agreement or agreements as may be necessary with the Republic of Peru, as beneficiary, for the purpose of granting it a nonreimbursable investment financing to cooperate in the execution of the Program to Promote Sustainable Financing in the Peruvian Amazon Region – Opportunity to Leverage Biobusinesses (Biobusiness Program). Such nonreimbursable financing will be for the amount of up to US\$2,000,000, from the resources of the France-IDB Natural Capital Lab Trust Fund, of which the Bank is the implementing entity, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Nonreimbursable Investment Financing Proposal.

(Adopted on ____ 2021)