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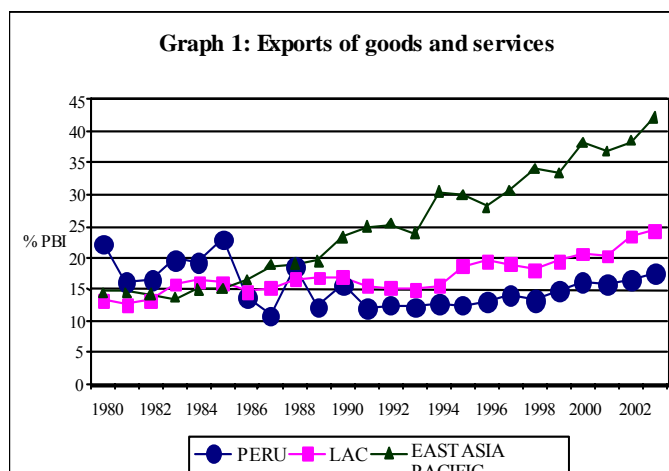
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A. INFORMATION ON THE COUNTRY'S EXPERIENCE

A.1 Country policy to promote exports

Background

During the 1990s, Peru experienced a commercial and economic liberalization that was not reflected in a significant growth in exports, which were below the average in Latin America and well below the average of East Asian countries (see Graph 1).



Source: World Bank World Development Indicators

To address this problem, a National Strategic Exports Plan (PENX) was prepared in early 2003. This plan identified the impediments and set forth the objectives for and actions aimed at developing the sector, facilitating trade and supporting specific exporting sectors. In 2004, exports increased by 39.0% over 2003, totaling a FOB value of US\$ 12,600 million.

Specific objectives of the trade policy

The guiding principles governing the Peruvian Foreign Trade Policy were formulated by the Ministry of Foreign Trade (MINCETUR) within the framework of PENX, in coordination with the associated agencies of the public and private sector. The policy has three major, specific objectives:

1. Development of foreign trade.
2. International trade negotiations.
3. Foreign trade promotion and culture.

For the attainment of these objectives the following strategies have been developed:

- Operative Sectorial Plans of Exportation are prioritized in six sectors (agriculture, fishing, textile and confections, forest providing useful wood, jewelry's shop, crafts).
- The Main Plan of "Facilitation" of Trade seeks to increase competitiveness in trade on the base of priority actions to be executed by the public and private sector.
- Strategic Regional Plans of Exportation, which have now been developed for 18 regions.

Foreign financial assistance to trade

The World Bank's Lima office has compiled all data about international cooperation since 2000, covering among others refundable (loans) and non-refundable (donations) financial support. This involved processing the data of more than 500 projects. Table A.1 shows the results of the major ongoing trade-related projects.

Table A.1. Ongoing Projects in the Development of the Trade Sector

Name of Project	Starting Date	Proposed Completion Date	Amount \$	Area of the Project	Type of Cooperation	Financing Source
Improve the Quality of Life of Peruvians in Target Areas along the Peru-Ecuador Border	27-Sep-00	31-Jan-06	20,000,000	Development of the Peru-Ecuador Border	Non-refundable	AID
TC0112061 Trade Articulation and Competitiveness		18-Mar-06			Non-refundable	IDB
PE-M1004 Project in Support of Competitiveness		30-Sep-07	20,000,000		Loan	World Bank
PE0219 Program for the Development of Trade Policies		20-Jul-06	7,500,000		Loan	IDB
PE0239 Program for Reforming Competitiveness		04-Dec-06			Loan	IDB
Agreement ASR/B7-3100/IB/98/0099 Amortization of Competition rules in the Andean Region.	01-Nov-02	30-Nov-05	673,000	Competition	Non-refundable	European Community
Project ATN/SF-7510-RG Creation of the Border Integration and Development Projects Bank	01-Feb-02	30-Mar-05	150,000	Border Integration & Development	Non-refundable	IDB
Project ATN/SF-8142-RG Training in foreign trade for the Andean Community	01-Jan-03	30-May-05	150,000	Training in Trade Negotiation	Non-refundable	IDB
CAF Special project in Support of Trade Negotiations.	01-Jan-04	30-Dec-05	194,000	Border Integration	Non-refundable	CAF
CAF Development of cultural industries in the CAN	01-Jan-05	30-Dec-05	10,000	Border Integration / Strengthening	Non-refundable	CAF
Franco Andean Protocol 2003	01-Jan-03	30-Dec-05	145,080	Integration & Strengthening of Policies	Non-refundable	France
Franco Andean Protocol 2004	01-Jan-04	30-Dec-05	133,092	Integration	Non-refundable	France
USAID Donation Agreement N°530 – Participation of CAN in the ALCA	01-Jan-03	30-Dec-07	1,182,970	Training in Trade Negotiations	Non-refundable	USAID

Source: World Bank, Lima Office.

Role of the public sector

MINCETUR is responsible for designing, coordinating, executing and supervising the foreign trade policy. There are, however, other public entities with major functions at the local government level and a direct impact on foreign trade – see Table A.2

Table 2: Public sector agencies providing services to traders

Public agency	Services provided to exporters/importers
Digesa	Issuance of official health certificates for export and import purposes.
Digemid	Issuance of sanitary registrations for pharmaceutical and related products, sanitary permits and certificates.
Inrena	Authorization, registration and contracts for forest exploitation.
Senasa	Approval and issuance of phytosanitary and animal health certificates and licenses for exports and imports.
Sunat/Aduanas	Authorizations relating to payment vouchers, customs agencies, and tax collection.
Mincetur/PROMPEX	Facilitator, supports export companies' trade promotion , certificates of origin (for some unions)

Since private firms are the main actors in development within a stable macroeconomic environment with appropriate game rules, they participate through private institutions such as unions, associations and chambers, and play an important role in promoting and supporting the implementation of mechanisms and instruments to support their members, warning the State and the people when working conditions are biased towards a collector rather than facilitator role.

Major export issues

As part of the preparation of the PENX and based on the main objectives of commercial development, the following major problems and their causes were identified:

Exportable range of products

The products on offer are not diversified, they are produced in limited volumes and the added value content is low. There is a high concentration of export products in industries with low job generation capacity.

Export destinations

There are no concerted public/private sector strategies to identify, prioritize, diversify, and consolidate destination markets.

Foreign trade facilitation

The existing legal framework is an obstacle to effective mechanisms facilitating foreign trade and developing competitive logistics and financial markets with better access conditions for users.

Export culture

Few Peruvian enterprises have a real export 'export culture'. There is little experience, long-term planning, consistency or coordination of export efforts.

A.2 Legal and incentive framework

Various strategies and instruments have been designed to solve the problems and promote partnerships and consortia:

Legal forms for consortia

From a legal standpoint, a consortium is an association agreement whereby two or more persons (whether individuals or bodies corporate), associate to take an active, direct part in a certain business or company, aimed at obtaining an economic benefit, maintaining each one his/its own autonomy. Consortium agreements are governed by Law 26887, Business Corporations' Act (Article 445).

Each member of a consortium has the obligation to perform the activities entrusted to him that are specific to the consortium, in accordance with the procedures and mechanisms provided in the agreement.

The goods used by the members of the consortium to comply with their activity remain their sole property. The joint acquisition of certain assets is governed by the rules of co-ownership.

Each member of a consortium is individually related to third parties when performing the activities entrusted to him/it within the consortium. When the consortium enters into a contract with a third party, the members will be jointly responsible when so agreed in the contract or when so provided by the law.

Tax and financial incentives

Consortia that do not keep their books separately are neutral from the standpoint of income tax and general sales tax (IGV), their partners being accountable for the taxes applicable to the joint operation and the IGV to be paid. Consortium partners are entitled to fiscal credit.

The operator of the consortium (the partner that is entrusted with the management of the consortium) is responsible for reporting the revenues and costs of the joint operation proportionally to the participation of the members.

The export of products by a consortium must abide by the Final Exportation Customs Procedure that provides for a specific modality referred to as 'exports under joint venture agreements': in the case of consortiums and other joint-venture agreements that do not keep their books separately, it is the consortium that is the exporter and dispatches the goods with a single Shipping Order.

Customs systems rules that promote exports (temporary admission, drawback, reposition of goods under franchise) are applicable to the contracts entered into by the consortium acting through its operator. The refund percentage is 5% of the FOB value of the exported product.

Labour

Export companies that make up a consortium may hire temporary personnel for their production operations aimed at exports, in relation to an export contract or purchase order under the provisions of Decree Law 18138 and Decree Law 22342. The advantages are: a) no payment for final indemnification; b) a reduction by half of social costs.

A.3 Role of support agencies

The following agencies are involved in the creation and development of consortia:

Ministry of Production (PRODUCE)

The Competitiveness Bureau of PRODUCE is responsible for the Ministry's Productive Letter programme which is meant to ensure industrial restructuring, the development of export products at the local level and an increase in company productivity. The Productive Letter promotes company partnership schemes as a tool for boosting market share. The particular instrument for this purpose is the Productive Competitiveness Plan. This Plan provides support to the consolidation of entrepreneurial groups and the creation of consortia or any other type of partnership schemes. The following support activities are available under the Plan:

- 1) Partnership programme: value added chains, supplier development (see Section A.5), 'horizontal consortia' (Produce-Compete Programme – see Section A.5), local and regional clusters, special economic zones
- 2) Standardization
- 3) Innovation
- 4) Productivity culture
- 5) Culture promotion and facilitation

PROMPYME

PROMPYME is an agency that reports to the Ministry of Labour and Social Promotion and promotes the creation of partnerships and the development of small and medium-sized enterprises (SMEs). The Interamerican Development Bank is supporting PROMPYME with US\$ 1,600,000 in the project 'Development of Entrepreneurial Networks in the Gamarra Clothing and Cusco Conglomerates'.

Ministry of Agriculture

The Ministry of Agriculture is working jointly with the private sector on agreements involving competitiveness in agricultural value chains such as hard yellow corn and cotton.

Agency for the Promotion of Exports (PROMPEX)

PROMPEX promotes the creation of export consortia. The Peruvian Asparagus Institute, PROVID, PROHAAS, IPAC, APEM, and PROCITRUS have all been created under the direction of PROMPEX, which has laid the foundations for the agroexport value chains managed by the private sector.

The private sector

The main entrepreneurial associations such as the Lima Chamber of Commerce (CCL) and the National Society of Industries and the Association of Exporters (ADEX) assist the Ministries in the management of their programmes by disseminating information on the programmes and providing the technical and legal advice that companies require to implement the programmes.

The CCL also conducts multiple technical training and assistance activities for SMEs in the emerging districts of Metropolitan Lima and envisions the creation of five export consortiums. For the latter project, international support will be sought, among others technical support from UNIDO. Support for complementary programmes will also be sought from the European Commission (AL-INVEST).

A. 4 Number and types of export consortia

Promoting various types of production and export consortia is considered a top priority in Peru. The Ministry of Production has started to work in the following productive chains:

Cotton – textiles – clothing chain

Textiles and clothing is one of the sectors that have experienced the fastest growth in the past decade. It is estimated that this sector generates 250,000 direct and indirect jobs. Clothing accounts for 79.47% of the subsector's total exports. Table A.3 shows the export destinations and the growth of exports during 2003-2004.

Table 3

MAIN DESTINATION COUNTRIES FOR COTTON, KNITTED FABRICS AND CLOTHING EXPORTS AND
KNITTED DRESS ACCESSORIES
YEARS 2004/2003
THOUSAND DOLLARS

Nº	COUNTRY	YEAR 2003	YEAR 2004	VAR% YEAR 2004/2003
1	UNITED STATES	482,824.94	661,234.67	36.95%
2	VENEZUELA	34,385.10	57,331.22	66.73%
3	SPAIN	14,652.53	23,159.33	58.06%
4	GERMANY	11,081.75	14,235.22	28.46%
5	CHILE	12,374.79	12,520.96	1.18%
6	CANADA	10,230.76	11,245.44	9.92%
7	ECUADOR	6,989.83	10,439.01	49.35%
8	ITALY	6,176.82	10,433.42	68.91%
9	COLOMBIA	7,959.24	9,921.40	24.65%
10	BOLIVIA	7,690.15	9,184.84	19.44%
	SUB TOTAL COUNTRIES	594,365.92	819,705.51	37.91%
	OTHER COUNTRIES	67,044.90	66,637.72	-0.61%
	TOTAL	661,410.82	886,343.23	34.01%

SOURCE: ADUANAS
PREPARED BY: CCE - CCL

Textiles – camelid value chain

Peru has 85% of the world population of camelid animals and is the largest producer of alpaca fibre. The country has some 4.5 million alpacas, 8% of which are baby alpacas, 35% are fleece and the rest are fibers of major thickness, with a production capacity of 6,400 tons of wool in the average.

The importance of the camelid value chain animals lies first in the export potential of the high quality alpaca and vicuña fibres and to a lesser extent, that of the llama and guanaco fibres. It is also important because of its social impact on the alpaca breeders, who are part of the population of the high Andes. It has a modern, highly competitive textile industry base in Arequipa. Table 4 shows the value and destination of exports.

Table 4

MAIN COUNTRIES OF DESTINATION OF THE WOOL AND FINE OR ORDINARY HAIR, YARNS AND HORSE HAIR
SECTOR
YEARS 2004/2003
THOUSAND DOLLARS

Nº	COUNTRY	YEAR 2003	YEAR 2004	VAR% YEAR 2004/2003
1	ITALY	14,719.22	16,834.92	14.37%
2	CHINA	7,632.00	10,891.89	42.71%
3	JAPAN	8,788.56	6,372.91	-27.49%
4	UNITED STATES	3,809.93	5,334.85	40.03%
5	URUGUAY	5,114.95	4,695.38	-8.20%
6	UNITED KINGDOM	3,482.37	3,904.62	12.13%
7	REPUBLIC OF SOUTH KOREA	1,472.31	3,126.21	112.33%
8	BOLIVIA	1,383.31	1,682.95	21.66%
9	GERMANY	1,952.27	1,249.98	-35.97%
10	COLOMBIA	1,778.14	1,241.04	-30.21%
	SUB TOTAL COUNTRIES	50,133.07	55,334.76	10.38%
	OTHER COUNTRIES	9,182.60	8,171.01	-11.02%
	TOTAL	59,315.67	63,505.77	7.06%

SOURCE: ADUANAS
PREPARED BY: CCE - CCL

Wood products value chain

Peru's forests cover 67.2 million hectares of which 92% is located in the Amazon region. The forest and wood products chain is of crucial importance and must be developed in a sustainable way. First and second stage processing as well as related activities have a major impact on job generation, production, and social and economic development.

From the point of view of export development, the wood value chain has the following important characteristics:

- The sustainable logging potential is 9,4 million m³ per year;
- Primary transformation: sawmill capacity slightly above 1 million m³, three-ply and veneer manufacturing capacity 120,900 m³/year, particle board capacity 18,000 m³/year, some plants manufacturing parquet flooring, poles and other wooden products (3% of the domestic wood production).
- Secondary transformation comprises floorings, doors, mouldings, furniture and components. Floorings capacity is estimated to be around 10,000 m³/year; doors 51,600 units; mouldings 1,311 m³/year. In the case of furniture and components, it is estimated that there are 30 medium-sized companies that make up 3% of the total industrial stock and 3,240 micro and small-sized companies.

In short, the present range of exportable products overwhelmingly consists of low value-added products. Table 5 shows the value and destination of exports.

MAIN DESTINATION COUNTRIES OF THE EXPORTS OF THE WOOD AND FURNITURE
SECTOR

YEARS 2004/2003
THOUSAND DOLLARS

Nº	COUNTRY	YEAR 2003	YEAR 2004	VAR % YEAR 2004/2003
1	UNITED STATES	57,856.08	63,669.42	10.05%
2	MEXICO	27,188.76	39,003.37	43.45%
3	CHINA	2,524.26	8,056.85	219.18%
4	HONG KONG	7,059.82	6,609.97	-6.37%
5	DOMINICAN REPUBLIC	2,931.10	3,164.01	7.95%
6	ITALY	2,513.67	2,815.07	11.99%
7	SPAIN	1,046.27	1,536.64	46.87%
8	PUERTO RICO	1,227.84	1,482.74	20.76%
9	GUATEMALA	302.39	624.96	106.67%
10	EL SALVADOR	195.60	590.98	202.14%
	SUB TOTAL	102,845.79	127,553.99	24.02%
	OTHER COUNTRIES	4,038.95	6,838.02	69.30%
	TOTAL	106,884.74	134,392.02	25.74%

SOURCE: ADUANAS
PREPARED BY: CCE -CCL
COVERAGE: AUGUST 005

The software products chain

The software development industry is of central importance to Peru's economy and has great potential, as the availability of cheap, highly skilled labour is similar to that of countries such as Ireland, India, and Costa Rica that have exported IT services with very good results. At present, exports amount to US\$ 8 million, and they are expected to grow to US\$ 40 million within 3 years. The main markets are Andean countries and the United States.

Currently there are 90 companies involved in the IDB-CCL project 'Increasing Competitiveness in the Software Industry', which has 3 components:

- Implementation of quality systems CMMI
- Expansion of the range of exportable products.
- Institutional strengthening

A. 5 Major obstacles to the creation of export consortiums and proposals for improvement

Main problems to the creation of more consortiums

1. Entrepreneurs are still reluctant to work in partnerships as they involve open sharing of information and a desire to work jointly on problems and factors of success. There is still a lot to do as regards attitudes and entrepreneurship, particular problems being that 96% of the companies are SMEs and that the individual product range is rather diverse.
2. Companies are too small in size: only 10% of export companies are large and medium-sized. When setting up a consortium, one or two large and medium-sized companies should be induced to assume leadership and the risk of working with smaller enterprises.
3. There are still some obstacles in the legal and tax framework to the development of small and medium-sized companies. These include:

a) Tax problems

Because of their characteristics, micro and small-sized companies require a special, exclusive tax system that provides for a single, easily collectable tax that replaces all the taxes currently in force (i.e., the income tax; the general sales tax (IGV), the selective tax on consumption, and the SENATI and ESSALUD taxes).

The Single, Simplified System (RUS) allows SMEs pay less taxes, but the voucher that they issue doesn't allow their buyers (usually medium and large-scale enterprises) to use the tax credit (normally IVA or sale taxes) included in that voucher; the medium and large scale enterprises therefore prefer to purchase from other medium and large-scale enterprises, rather than from SMEs.

b) Legal issues

A great problem in Peru is that an estimated 62% of the enterprises is in the informal sector. These don't pay tax. Although there is special legislation for micro businesses, which reduces their labour costs – Law N° 28015 (up to 10 workers and annual sales equivalent to 50 Taxable Units) - there are serious limitations that make it little attractive. As reported by the Ministry of Labour, roughly 3,000 micro businesses are registered at the moment while it is known that their actual number exceeds 500,000. Micro business don't register to benefit from this law because of:

- The limited duration of the advantages, which will expire in 2008.
- The permanent questioning by workers' unions. There is no legal certainty.

This makes it difficult for micro enterprises to be included in export-oriented production chains.

Proposals and recommendations

An important support activity under the Productive Letter programme is the Produce-Compete Programme. It aims to improve the performance of a group of companies that execute a joint project, helping them to meet the challenges that, because of their nature and magnitude, can be better addressed jointly. The programme has the following stages:

- 1.- Motivation and awareness building
- 2.- Entrepreneurial management
- 3.- Market development
- 4.- Product development
- 5.- Financial instruments

Another component is the Supplier Development Programme. It has three areas of action:

1. Establishing a National Supplier Development Committee.
2. Specific supplier development projects
3. World Bank project. Activities for the year 2005 include:
 - Studies to identify productive sectors and productive chains in special geographic areas that are most suitable for the creation of supplier centres, and the strategic analysis of two value chains.
 - Creating Supplier Development Centers;

- Providing technical assistance to the implementation of the National Supplier Development Programme.
- Training instructors in preparing executive teams in support of the subcontracting systems.
- Helping the companies involved in the project to progress towards total quality management.
- Organizing round tables aimed at strengthening value chains.

B. CASE STUDIES ON EXPORT CONSORTIA

CONSORTIUM NAME	<u>CPF Fruit Producers' Consortium</u>	Franky & Ricky Textiles Company
Sector	Agro-products	Textiles
Type	Sale	Production
Legal form and capital	Corporate body under a partnership contract	
Number of firms and their size	50 SMEs	22 SMEs
Year of incorporation		
Organizational structure	Administrative office: Lima Location of partners: central coastline, from Huacho to Ica	Location: Arequipa, south Peru
Main type of services provided	Export sales of their products	Supplier-development oriented programme involving a large company (Franky & Ricky) and the SMEs, with the aim at coordinating exportable production
Main markets targeted	Europe and Canada	United States and Europe. In 2003. the value of Franky & Ricky exports was US\$ 9 million, in 2004 US\$ 10.7 million
Yearly operational and promotional costs	Annual budget: US\$ 500,000	
Funding of the consortium	Initial contribution per member US\$ 1,000 in the beginning, now US\$ 3,000. No annual contribution. Each member charged US\$ 700 per exported container.	
Cost of incorporation of the consortium		
History of the consortium	The promoters of the consortium were Pro Citrus and Pro Hass, under the leadership of mr Renzo Carlini	
Achievements	<ul style="list-style-type: none"> • Sales: Increased from US\$ 8.1 million in 2003 to US\$ 11.6 million in 2004. • CPF is Peru's largest fruit exporter • Since its first year of operation, CPF's exports have quadrupled • Partners are motivated to continue their team work • Increase in agricultural investments 	The programme focuses on production and cost management, work methods and quality issues. 63% of the participating companies have completed the programme, helping them to face the challenge of exporting successfully and effectively, competing in international markets. The remaining companies have made substantial improvements.
Main challenges ahead		
Changes in membership	Number of members fluctuates around 50 – some leave, some join every year	
Change in type of services		