

»» DEG evaluation results



Virú contributes to Peru's sustainable development

Development effects of a Peruvian agriculture company and how DEG's new Development Effectiveness Rating (DERa) captures these effects

This report is a result of DEG's evaluation work on development effectiveness. DEG's monitoring and evaluating team checks at regular intervals whether the transactions it finances help to achieve sustainable development successes and sets out ways to make further improvements for DEG and its customers.

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PREFACE

Private sector enterprises that are financially successful and that act responsibly promote local development in several ways: by creating more and better jobs, providing income locally, supporting countries on their way of transformation while acting in a sustainable manner and providing community benefits. Thus, private-sector activities are key for achieving the UN's Sustainable Development Goals (SDGs)¹.

However, in developing and emerging markets, access to finance for long-term investments remains a critical constraint to sustainable private sector growth. For 55 years, DEG – one of the leading European Development Finance Institutions – has been promoting private enterprise initiatives as a contribution to sustainable growth and improved living conditions of the local population by providing long-term financing and advice to enterprises in more than 80 countries worldwide.

How can private sector contributions to achieve the global Sustainable Development Goals be measured? Using international harmonized indicators, DEG steers on development effectiveness with its newly developed Development Effectiveness Rating (DERa)². DERa is a multidimensional index guided by the SDGs and built along five outcome categories: decent jobs, local income, market and sector development, environmental stewardship and community benefits. DERa follows up on changes in performance on a yearly basis since DEG's investment.

The aim of this case study, which is based on in-depth document reviews and on-site interviews, is twofold: firstly, it provides an insight into how DEG's agribusiness customer Virú contributes to development in Peru and secondly, it shows how DEG's DERa reflects this contribution. DERa also links its indicators to companies' contributions to the relevant Sustainable Development Goals. Through its activities, Virú contributes to the following SDGs:



¹ For more information about the Sustainable Development Goals and the 2030 Agenda see: <https://sustainabledevelopment.un.org/>.

² For more information on DEG's new Development Effectiveness Rating (DERa) see: <https://www.deginvest.de/International-financing/DEG/Über-uns/Was-wir-bewirken/Wir-messen-Wirksamkeit/>.

Contents

Executive Summary	1
A. Company background information – understanding Virú’s business	3
B. Virú’s contribution to Peru’s sustainable development and how DEG measures it.....	3
Decent jobs	4
Local Income	7
Market and sector development	11
Environmental stewardship.....	14
Community benefits.....	16
C. DERA results summary for each category	18
D. Role of DEG	19
E. Conclusion and Virú’s way ahead	20

Executive Summary

How an agriculture company contributes to Peru's sustainable development

Virú Group ("Virú") is one of the three biggest agricultural exporters in Peru. In addition to its own cultivation, extending over 8,000ha of farmland, Viru buys fruits and vegetables from smallholders. Its products are processed at three processing plants and distributed worldwide. It includes asparagus, artichokes, avocados, peppers, mango and heart of palms as well as value-added products such as pestos, bruschettas, and ready-to-eat meals. Its main customers are supermarket chains like REWE, Carrefour, EDEKA and local traders.

In 2013 DEG provided Virú with a long-term loan, thereby supporting its expansion plans. DEG also assisted Virú in implementing a water efficiency management including a waterlilies based wastewater treatment plant as part of its Business Support Services (BSS).

DEG measured how the company contributes to sustainable development applying DERA and confirmed the findings in an on-site case study.

Permanent workforce of 7,500 - comprehensive trainings

As a producer of agricultural products and Peru's largest employer, Virú offers job opportunities especially for people in rural areas. Virú has a permanent workforce of more than 7,500 employees in eight processing plants and employs another 1,500 seasonal workers in peak season. The employees, 50 % of which are women, come mainly from surrounding communities. The number of employees has risen by 39 % since DEG's first investment in 2013.

Virú fully complies with the ILO core labour standards and international standards regarding, amongst others, remuneration, working hours and minimum age for employment as well as with respect to occupational health and safety requirements. By directly transferring salaries to its employees' bank accounts and thus providing a proof that salaries come regularly, Virú has contributed to increasing their creditworthiness. Virú offers hard and soft skill trainings for all its employees. The company cooperates closely with its 275 small suppliers to ensure, for instance, that they comply with the ILO core labour standards and provides respective training, for example in occupational health and safety.

As part of its integrated CSR strategy, Viru provides, for example, free transportation, medical centres, childcare, canteen and products at reduced prices.

Local income of 130 million euros

Agribusinesses such as Virú pay salaries to its local employees; receive raw and packaging materials, water, biomass, fertilisers and land lease from local suppliers; invest in new land, buildings and machineries; pay interests to local banks and taxes and licence fees to local municipalities and central governments.

By doing so, Virú generated local income of EUR 130 million in 2017. The local population and its families benefit from this, as well the government that invests this money to provide infrastructure.

Export and innovation - success factors for Peru

Virú's export-oriented production has a positive effect on Peru's current account balance by generating export revenues and foreign exchange earnings. So far the company has been exporting to the

US and to Europe, with an export share of 45 %, respectively. In future, Virú will sell its products also in Peru and Central America as well as China.

Following a clear diversification strategy, Virú is one of the most innovative agricultural companies in Peru with regards to product development, state-of-the-art production technologies and effective logistic solutions.

Environmental stewardship in line with international standards

Virú contributes to the global climate change goals by protecting biodiversity; reducing emissions, chemical fertilisers and pesticides as well as committing to an efficient water and wastewater management. Its E&S management is certified according to EU and US standards. Since Virú is operating in regions with relatively low precipitation, an efficient water and wastewater management is of particular importance. It thus uses modern drip irrigation systems to reduce water usage and has installed computer-based groundwater level monitoring tools. Based on a feasibility study, co-financed by DEG, Virú built a wastewater treatment plant, put in operation at year-end 2017, in order to permanently comply with these standards.

Effective cooperation with local communities

With an annual budget of EUR 1.2 million Virú constantly improves the living condition of surrounding communities by supporting schools, sponsoring students, providing medical facilities and water pipes. In addition, it supports its suppliers in terms of trainings and protective clothing.

For every production expansion, Virú assesses potential impacts and risks of the project to the local community and develops possible solutions together with the residents. In addition, it has implemented an anonymous grievance mechanism, where employees and general public can state their grievances.

In the San Martin region, Virú supported the local population in obtaining legal titles for a total of more than 10,000 ha by registering in the land registry. This enabled the local people to sell and lease around 2,000 ha to Virú, in accordance with the law and at appropriate prices.

A. Company background information – understanding Virú's business



With EUR 151m in sales and amounting to net profits amounting to EUR 13.6m³ in 2017, Virú Group ("Virú") is one of the three biggest agricultural exporters in Peru. Virú follows a fully integrated business model including cultivation, processing and distribution of fresh (15% of revenues in 2017), preserved (73%) and frozen (12%) vegetables and fruits such as white and green asparagus, artichokes, avocados, peppers, mango and heart of palms. Value-added products include pestos, bruschettas, and ready-to-eat meals.

Having started with 150ha 24 years ago, the company currently cultivates more than 8,000ha of farmland and permanently employs over 7,500 Peruvians on their fields and in eight production plants in Sullana, Virú, Tarapoto and Chinchá valleys. In addition to its own vegetable cultivation, Virú buys from more than 275 small-scale farmers, who cultivate fruits and vegetables on 3,632ha. Almost all of the production is exported globally with main customers – supermarket chains like REWE, Carrefour, EDEKA and traders – in the US (45%) and the EU (45%).

Virú is active in a relatively new sector for Peru. The modern, export-oriented agribusiness sector started to develop 27 years ago with the construction of three big irrigation systems (Chavimochic in Trujillo, Majes Siguan in Arequipa and Chira in Piura). The sector has grown quickly in recent years (2005-2016: 18.8%) and is, besides mining, one of the main drivers of Peruvian GDP growth as it has the highest potential for productivity gains. It is expected that the sector will contribute to 15% of GDP growth and USD 7.5bn in exports in 2018.

Due to its tropical climate and the Andes mountain range, which produces a natural greenhouse effect along the entire coast, foreign crops like asparagus, mangos, grapes, artichokes, avocado and peppers can be grown in Peru. Virú is aware of the critical importance of safeguarding the eco-systems by ensuring intelligent and efficient usage of scarce resources.

B. Virú's contribution to Peru's sustainable development and how DEG measures it

Private sector enterprises that are financially successful and act responsibly promote local development in several ways: by creating more and better jobs, providing income locally, supporting countries on their way of transformation while acting in a sustainable manner and providing community benefits.⁴

The following chapter describes Virú's development effects along those societal outcomes and how they are rated by DEG via its Development Effectiveness Rating (DERa)⁵, which also links Virú's contributions to achieving the global Sustainable Development Goals (SDGs).⁶



³ Exchange rate 31.12.2017, <https://www.oanda.com/lang/de/currency/converter/>, retrieved from internet on 19.02.2018. This exchange rate is applied for the whole case study.

⁴ See for instance ODI (2016): <https://www.odi.org/sites/odi.org.uk/files/resource-documents/11182.pdf> or EDFI (2016) Investing to create jobs, boost growth and fight poverty: <https://www.edfi.eu/wp/wp-content/uploads/2017/10/EDFI-Flagship-Report-2016.pdf>.

⁵ For more information on Development Effectiveness Rating (DERa) see: <https://www.deginvest.de/Internationale-Finanzierung/DEG/Über-uns/Was-wir-bewirken/Wir-messen-Wirksamkeit/index.html>.

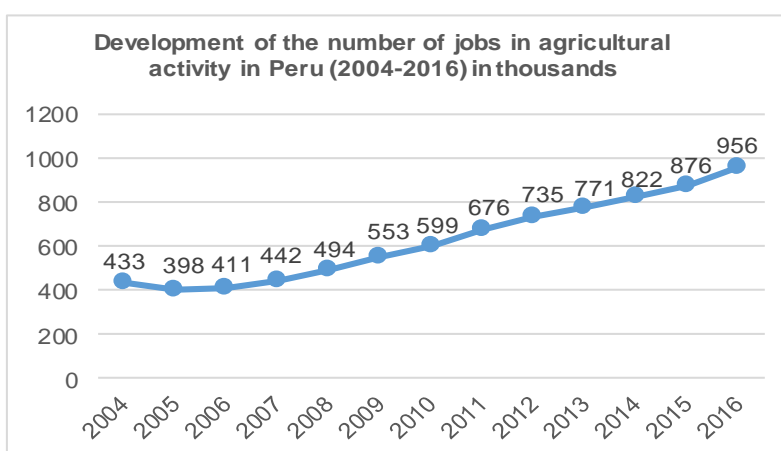
⁶ For more information about the Sustainable Development Goals and the 2030 Agenda see:

Decent jobs

Jobs are the best way out of poverty! Jobs provide income and open up the possibility of a self-determined life.⁷ Between 2006 and 2016 between 9 and 10 million people were lifted out of poverty in Peru: The number of people living below the poverty line (by national standards) was reduced from half of the population in 2006 to a fifth in 2016; still, 9% of the population lives on less than EUR 3 a day.⁸ As 80% of households receive income from informal employment in Peru, formal jobs are of special importance.

Number of jobs

In the last 12 years, formal agricultural employment in Peru has more than doubled from 433,000 to 956,000. Virú contributes to this positive development by **formally employing, on average, 7,500 and more than 10,500 Peruvians in peak season** at the processing plants in La Libertad, Chincha and Caynarachi and on the fields (3-10 people are needed per hectare depending on the crop). According to the Ministry of Labour, Virú was the largest employer in Peru in 2017. As a producer of agricultural products, Virú offers people in rural areas the opportunity to earn income for themselves and their families. Workers are usually recruited from surrounding local communities and 50% of them are women. Only in peak season, people are also recruited from further away.



Decency

It is however not only the mere number of jobs, which is important for development. These jobs need to be decent too. As minimum requirements, a company has to comply with the ILO Core Labour Standards as well as with ILO Basic Terms and Conditions of Employment⁹. Furthermore, a good Human Resource (HR) and Occupational Health and Safety (OHS) Management System has to be in place.

Virú complies with the relevant **ILO Core Labour Conventions & Basic Terms and Conditions of Employment** for example on working hours and remuneration. The minimum daily wage for agricultural workers in Peru was Sol 29.27 (EUR 7.5) in 2016. The lowest wage the company paid was Sol

<https://sustainabledevelopment.un.org/>.

⁷ For more information see: <http://www.worldbank.org/en/topic/jobsanddevelopment>.

⁸ For more information see: The World Development Report 2013 "Jobs", http://siteresources.worldbank.org/EXTNWD2013/Resources/8258024-1320950747192/8260293-1322665883147/WDR_2013_Report.pdf.

⁹ The so-called *ILO Core Labour standards*, or fundamental labour laws, which were adopted in the Declaration on Fundamental Principles and Rights at Work in 1998 cover the four fundamental principles: freedom of association and the right to collective bargaining; the elimination of forced and compulsory labour; the abolition of child labour; and the elimination of discrimination in the workplace. They are set out in eight conventions. In addition, the *ILO Basic Terms and Conditions of Employments* cover working hours, remuneration/minimum wage as well as occupational health and safety. For more information see: <http://www.ilo.org/global/standards/introduction-to-international-labour-standards/conventions-and-recommendations/lang--en/index.htm>.

33.17 (EUR 8.5) for unqualified hand labour and between Sol 34 (EUR 8.7) and Sol 100 (EUR 25.7) for qualified labour. While this might seem only slightly more than the minimum wage, one has to consider that most of the agricultural jobs provided in Peru are informal ones (see also chapter *Local income – personnel expenses* for average salaries).¹⁰ Virú transfers the salaries to its employees' bank accounts on a weekly basis.

As all employees are officially registered, Virú pays social security contributions including contributions to pension funds and a capacitation fund for industrial workers. The age verification procedures are robust enough to ensure compliance with the minimum employment age of 18. A similar approach is followed with suppliers during spot and systematic checks.

The company has established an **Occupational Health and Safety Unit** and implemented procedures to comply with Occupational Health and Safety Standard 18001¹¹, IFC Performance Standard 2¹², and World Bank Group General Environmental, Health and Safety Guidelines¹³ and specific industry sector guidelines for Food and Beverage Processing. For instance, the company conducts workplace hazard analyses, which are used to prioritize preventive actions needed to eliminate or reduce factors which might cause accidents.

Training offers and HR Management

The average educational level in Peru provides a challenge for the private sector: 5.9% of Peruvians are still illiterate and only 68% of students finish high school. Peru's agribusiness sector is particularly affected by a lack of technicians, given the ongoing increasing automation process. Thus, employee training is key for a company's success.

Virú offers a **wide variety of training options** for all its em-

"For the last 14 years, I have appreciated the punctual paying of salaries on a weekly basis by Virú. This constant income allows me to sufficiently provide for my family, amongst others food, clothing and renting a flat. Virú also supports me with school materials for my five children, like exercise books."

Female local asparagus field worker

From worker to supervisor – a better life for his kids

14 years ago, Rafael De la Cruz started as an operator in Virú's asparagus production plant, earning the minimum wage. Step by step he climbed up the career ladder after having learned all processing steps from pickling to canning. Virú supported him with trainings like in production controlling and leaderships skills.



Today, Rafael is responsible for more than 60 people and his income has tripled. With this, he was able to send his daughter and son to high school. His son studies IT engineering. Rafael's continuous learning process enabled him to provide his children with more opportunities than he had when he was young – giving them the chance of a better life.

¹⁰ Organización Internacional del Trabajo (2014): Incumplimiento con el salario mínimo en América Latina: El peso de los factores económicos e institucionales, http://www.ilo.org/wcmsp5/groups/public/---americas/---ro-lima/---sro-santiago/documents/publication/wcms_311072.pdf.

¹¹ OHSAS 18001, Occupational Health and Safety Assessment Series, is an internationally applied [British Standard](https://www.bsigroup.com/en-GB/ohsas-18001-occupational-health-and-safety/) for occupational health and safety [management systems](https://www.bsigroup.com/en-GB/ohsas-18001-occupational-health-and-safety/). For more information see: <https://www.bsigroup.com/en-GB/ohsas-18001-occupational-health-and-safety/>.

¹² IFC PS 2 are labor and working conditions, which include the fair treatment of workers, the provision of safe and healthy working conditions, the avoidance of child or forced labor as well as the identification of risks in the primary supply chain. For more information see: http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/performance-standards/ps2.

¹³ For more information on the World Bank Group General EHS Guidelines see: http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/ehs-guidelines.

ployees: hard skill trainings such as machinery operation, maintenance and other technical certifications, as well as distinct soft-skill trainings like communication, responsibility, and leadership. If there is no trainer with respective knowledge available in Peru, Virú finds creative ways. For instance, a couple of years ago, they purchased Italian machines, which often broke down due to misuse. Thus, the production plant manager, Mario Deza, had the idea to send two technicians to Italy for training. Since then the machines have been running smoothly. In total, Virú **spends EUR 308,000 per year on training measures.**

Three people in the HR department deal with staff development. One of the services they offer is a transparent career plan, which allows employees to see clearly how they can climb the career ladder and which support they can receive from Virú, e.g. respective trainings. The other HR employees mainly focus on recruitment and salary payments. All HR procedures and implementations are in line with IFC Performance Standard 2 (see footnote 12).

DERa The **high number of direct jobs** in combination with a **very good level of decency** is reflected by **19 out of 19 points.**

Virú contributes to the achievement of **SDG 8 “Decent work”** and **SDG 5 “Gender Equality”** as 50% of employees are women. Virú also contributes to **SDG 1 “No poverty”** as the majority of Peruvian farmers earn less than the minimum wage. **SDG 4 “Quality education”** by providing high-quality training for all of its employees and suppliers.

Job growth

The **employment numbers have risen** substantially since DEG’s first investment in 2013¹⁴, when the company counted 5,400 employees. It is common that people have been working for Virú for the last 10 years and longer – across all positions. Current business plans forecast a continuation of this growth, offering employment for around 9,500 people by 2021.

DERa The 39% job growth since DEG’s investment leads to **3 out of 9 points in DERa.**

Indirect job potential

The 275 small-scale suppliers, which supply 40,000 tonnes p.a. of vegetables and fruits to Virú, hire in total about 5,000 workers. The company actively monitors the suppliers’ fields to ensure that suppliers comply with ILO Core Labour Standards.

Virú not only provides training for its own employee; suppliers are also allowed to attend the trainings. Last year 150 suppliers were trained in integrated pest management, good agricultural practices, resources management and emergencies attention by Virú.

DERa The **indirect job creation at the small-scale suppliers is reflected with 9 out of 9 points.** Virú “targets the poor” by supporting these suppliers and thus contributes to **SDG 10 “Reduced inequalities”** and **SDG 1 “No poverty”**.

Additional benefits

Motivated employees are willing to perform good work. Therefore, Virú is aware of the importance of additional services for its employees. For instance, they recognized a lack of transportation options to its production facilities for employees living in remote areas and started to offer free transporta-

¹⁴ For more information on DEG’s investment to Virú see Chapter “D. Role of DEG”.

tion. Further additional benefits range from medical centres, childcare, canteen, products at reduced prices and social insurance schemes as part of their integrated Corporate Social Responsibility (CSR) strategy. Furthermore, Virú provides Welcome Packages for every newborn of an employee and celebrates all employee birthdays and festive days. Virú has been rewarded for its internal Social Responsibility Activities by BSCI (Business Social Compliance Initiative), ABE AMCHAM (Asociación de Buenos Empleadores de la Cámara Comercio del Perú) and FLO CERT. In total, Virú spends EUR 2.7m per year on additional benefits for its employees.



"Our employees are extraordinary! In 2017, we spent around EUR 308,000 for training measures. All of our employees were trained internally and more than 400 went to vocational schools.

The results of a 360° performance evaluation carried out last year have shown that 70% of the staff have increased their performance level favorably compared to the evaluations made in previous years."

Oscar Echegaray, Virú's HR Manager

Local Income

Own monetary income provides opportunities for self-determined decisions of individuals and institutions. By paying salaries to local employees, sourcing from local suppliers (from smallholder farmer to local banks), as well as paying taxes and licence fees to local municipalities and central governments, companies like Virú increase opportunities for local people and their families and enable governments to provide the necessary infrastructure.

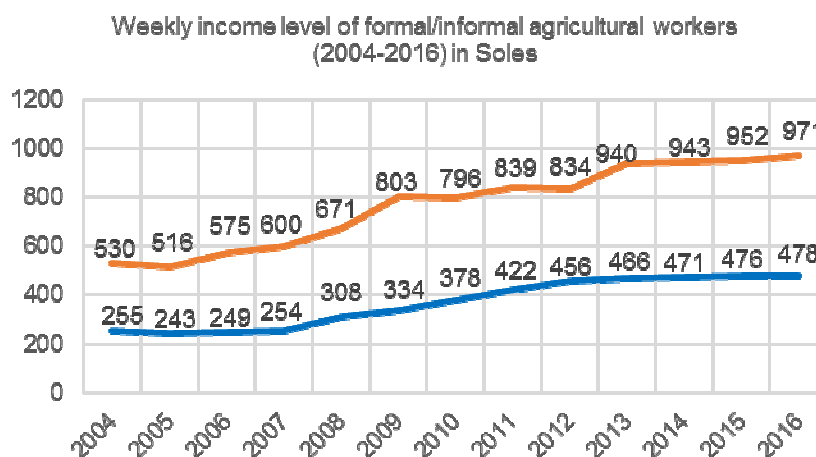
In 2017, Virú had the following expenses, which at the same time are income for others:

Virú's expenses → Local income for...	In 2017
Personnel expenses → Local income for employees	EUR 35m
Procurement cost → Local income for supplier	EUR 74m
Capital expenditure → local income for supplier/ construction company	EUR 21m
Tax expenses → Local income for the government	EUR 2m
Interest expenses → Local income for banks	EUR 5m
Profit after tax → Local income for shareholders (reinvestment)	EUR 14m
Total spending → Total local income	EUR 150m

Personnel expenses – income for local people

Peru has made significant economic progress over the last years. However, income is very unevenly distributed. On a national level, this is reflected by a relatively high Gini coefficient of 0.48. In comparison, Germany has a Gini coefficient of 0.28.¹⁵ The uneven distribution of income is especially pronounced between urban and rural areas: For instance, the number of people living on less than EUR

1.8 a day is twice as high in rural areas as in cities. Low personal income is not only an obstacle for individuals; it also hinders community development as people do not have the money to boost local consumption. This is especially relevant for rural areas, where domestic demand is low due to the still prevailing high levels of poverty. As a producer of agricultural products, Virú offers poor, unskilled Peruvians in rural areas the opportunity to earn income for themselves and their entire household. In total, Virú had EUR 35m in **personnel expenses in 2017**.



Procurement costs – income for (local) suppliers

Buying goods and services from other local companies fosters local economic integration. There is a business case for companies to source locally. Benefits include, amongst others, less import duty payments, improved reliability of supply and increased social acceptance. At the same time, local society can benefit from it as well, for example through job creation, skill development and an improved trade balance.¹⁶

Virú has a strong focus on sourcing locally and integrating Peruvian suppliers into its supply chain. This ranges from sourcing raw and packaging materials, biomass for the cultivation of crops to commissioning transport companies, which deliver the finished goods to the harbor in Lima. For instance:

- Raw and packaging materials:** Virú is strongly committed to supporting local smallholder farmers. This not only strengthens their local licence to operate but also reduces operational risks. Virú buys 40,000 tonnes p.a. in **raw materials** from more than 275 local small-scale farmers, who cultivate fruits and vegetables on more than 3,600ha. In addition to sourcing raw materials locally, Virú imports a small amount of raw materials for its ready-to-eat meals from outside Peru, for example parmesan cheese. **Packaging materials** like cans and glasses are mainly provided by an American company, which manufactures locally in Peru. This industry has started to grow in Peru since the agro-industry sector began its growth 20 years ago.

¹⁵ The Gini coefficient is a measure of statistical dispersion intended to represent the income or wealth distribution of a nation's residents, and is the most commonly used measure of inequality. A Gini coefficient with a value of zero represents absolute equality and with a value of 100 absolute inequality. For more information see: United Nations Development Programme (2016): Human Development Report 2016: Human Development for Everyone, http://hdr.undp.org/sites/default/files/2016_human_development_report.pdf.

¹⁶ For instance, the Boston Consulting Group found out that the gross margins were 4.8 percentage points higher, all else being equal, for consumer packaged goods companies that were the top performers in socially responsible sourcing than for the median performers. For more information see: <https://www.bcg.com/d/press/25october2017-total-societal-impact-174436>.

- **Natural resources:** For growing and processing its crops Virú spends EUR 840,000 on **water** per year, EUR 475,000 for **biomass** – between 20,000 kg and 100,000 kg per ha are needed to cultivate crops – and EUR 4.3m for **fertilizer**. Most of the fresh water required is supplied by the public Chavimochic irrigation system (70%) and only a small proportion as a back-up from groundwater wells. The three public irrigation projects Chavimochic, Majes and Olmos are the foundation of the agro-export business in Peru. As in the coastal area, rainfall is scarce. Local dairy farms and local distributors provide biomass and fertilizer.
- **Land lease:** Virú leases more than 2,000ha for EUR 3.2m p.a. from local private people for cultivating fruits and vegetables. In the San Martín region, Virú supported all traditional landowners in obtaining their land titles through land registry entries, so that they could sell and lease their land plots in a legal way to Virú (see *Chapter Market and Sector Development*).

From technician to independent farmer

After having worked 4 years as a technician for Virú and having saved Sol 20,000 (EUR 5,617), César Cárdenas realized his dream in 2015 – becoming an independent farmer as his father and grandfather had been.

Today César rents 13ha and employs 12 people. With Virú he has a fixed purchase agreement for his artichokes and corn, which guarantees him planning security. He reinvests 80% of the earnings in expanding his business. Besides providing training in good agricultural practices, Virú offers extension-service programmes including pre-financing and provision of inputs like biomass and fertilizer.

With this progress, supported by Virú, Cesar today earns two times more than he did as a technician at Virú. However, what is much more important for him is that he finally is his own boss and has more flexible working hours.



Capital expenditure – income for (local) suppliers and construction company

Agribusiness companies on an expansion path need to acquire further land, new processing plants and machineries – either reinvestments or new ones.

- **Acquiring new land:** Since 2016, Virú has acquired more than 1,000ha of new land for cultivating asparagus, avocados and hearts of palms from private owners. As the land is only effectively usable up to 10 years for asparagus, this is a constant major cost position for Virú.
- **Buildings:** Due to its expansion strategy, Virú constantly constructs new processing plants, administration buildings, etc. The latest two processing plants cost EUR 10m in total. In 2017 Virú spent EUR 6,1m on constructions.
- **Machinery:** Besides replacement investments in machinery, Virú follows a clear strategy of automation in order to reduce the risk of non-availability of workers especially in peak seasons and to improve productivity and competitiveness. Virú mainly sources its machinery – like asparagus peeling machines – from Europe. In 2017, it spent EUR 2.6m on machinery and equipment.

Taxes and licenses – income for local government

Agricultural companies in Peru pay a flat rate business income tax of 15% and value added tax of 18% to the central *Superintendencia Nacional de Administración Tributaria* and trade taxes and license fees to the municipalities. This supports the Peruvian government in providing infrastructure such as power and water supply, traffic routes/ public transportation, as well as a free education and health system; and thus provides the framework for the country's positive development.

In 2017, Virú contributed to the Peruvian governments income with EUR 1,634,000. Official tax payments are of great use in Peru as the country had a budget deficit of 24.7% of GDP in 2016¹⁷ and a 60% informal sector, which does not contribute to government income.

However, Transparency International ranks Peru relatively high in its corruption perception index (101 out of 176).¹⁸ Thus, it is not ensured that tax income is spent in the most efficient and effective way. See also the latest "Odebrecht corruption scandal"¹⁹.

Interest expenses by Virú – income for local banks

By obtaining financing from local banks, corporates can play an important role for the development and professionalization of a local banking sector. The market penetration of Peruvian banks has increased steadily in the last couple of years – the average credit growth was 17.4% in the period 2011-2015 and reached a 58.6% bank assets to GDP rate in 2016. However, in regional comparison, bank penetration is still very low. Only 40% of investments in Peru are facilitated by Peruvian banks. Furthermore, there is a high concentration among three international financial institutions, which hold over 60% of loans and deposits.

As agribusiness is very working capital intensive due to a long business cycle from cultivation to distribution, having access to short-term financing is key for Virú. Therefore, Virú has business relations with a variety of local banks and international banks operating in Peru. In addition to its classic short-term financed credit lines from local banks, Virú uses factoring facilities to optimize its current ratios (see chapter *Role of DEG*). As it is hard to receive long term financing from local banks, Virú has long-term credit lines with several international banks. In total, Virú paid EUR 5m in interest in 2017, 52% of which to Peruvian banks.

Profit after tax – income for local shareholder

Entrepreneurs are driving economic growth. Because of their willingness and capability to invest in and manage business (and taking the respective risks), they create added value. By reinvesting their profits, they generate even higher value add. Peru has, compared to other Latin American countries, a relatively high investment rate with 22.5% in 2016 and 21.8% in 2017.

The Peruvian entrepreneur Miguel Nicolini de la Puente established Virú in 1994. He holds almost 100% of the shares and is still active in the company as Member of the Board. Agribusiness is Mr Nicolini's professional passion and he deeply cares about the sustainable successful growth of Virú. Thus, he reinvested his profits over the last years in new businesses closely related to Virú's activities. For instance, he founded three small companies in Europe, specializing in the sale of Virú's products (Spain: Campos del Pacifico, France: Ducamp, Italy: Pire Fine Foods). This does not have a direct effect on generating local income in Peru, but an indirect one by ensuring continued sales by Virú.

¹⁷ Economist Intelligence Unit (2017): Country Risk Service – Peru – September 2017, p. 8ff.

¹⁸ Transparency International (2017): Corruption perceptions Index 2016, https://www.transparency.org/news/feature/corruption_perceptions_index_2016#table.

¹⁹ BBC News (2017): Brazil's Odebrecht corruption scandal, <http://www.bbc.com/news/business-39194395>.

His latest project is the foundation of a heart palm production and processing company – Caynarachi S.A. (“Caynarachi”), a sister company of Virú. This company provides more than 220 direct jobs on the fields (2,300ha) in Tarapoto, Caynarachi, 50 workers at the palmito processing facility, as well as 109 smallholders and their employees. Caynarachi is the second largest formal company in the region (Palmas del Shanusi).

DERa

Local income: In total, Virú spent EUR 150m on **salaries, procurement, capital expenditures and taxes**. Out of this 95% are spent locally, which constitutes local income for employees, suppliers, governments and shareholders. This is reflected in DERa with 19 out of 19 points.

Local income growth: In comparison to last year, there was an increase of 18% in local income. This dynamic effect is reflected in DERa with 16 out of 19 points.

Virú enables the Peruvian government to provide infrastructure by paying a substantive amount on taxes. Thus, Virú contributes to **SDG 17 “Partnership for the Goals”**.

Market and sector development

There are different angles to consider when looking at investments and their impact. Depending on the country’s investment needs and sector of operation, similar business activities can result in very different development outcomes. For example, investments in the manufacturing industry are likely to have a direct effect on private sector growth while investments in enabling industries such as infrastructure or finance can help improve a country’s business environment and enable further private sector growth. However, not equally impactful in all markets, it depends on the level of saturation and business environment in the respective market. In addition, the level of impact is also influenced by the competitive situation within the sector and by the innovative potential of companies.

Market development

An investment is likely to have a higher impact on private sector growth in less developed countries compared to lower- and upper-middle-income countries. The level of investments and thus the potential of private sector growth depends amongst others on the ease of doing business in the respective market. When a market is characterized by inefficient business regulations, this hampers businesses to reach their potential and attract investors. When investments occur in such markets it signals to other investors that it can be done and thus supports future investment.

Peru is classified as an **upper-middle-income country** (DAC classification²⁰ 2016) with a GDP per capita at PPP of USD 11,741 in 2016. About 60% of GDP is generated by the service sector, a third by industry and mining, and agriculture adds merely 8%. However, growth was mainly driven by commodity exports in the last years. With the decrease in commodity prices in 2014, Peru’s economic growth has fallen back behind the 8% in the boom years 2012-2015 (3.8% in 2016). For the period 2018-21, annual growth rates of 3.6% are forecasted.²¹

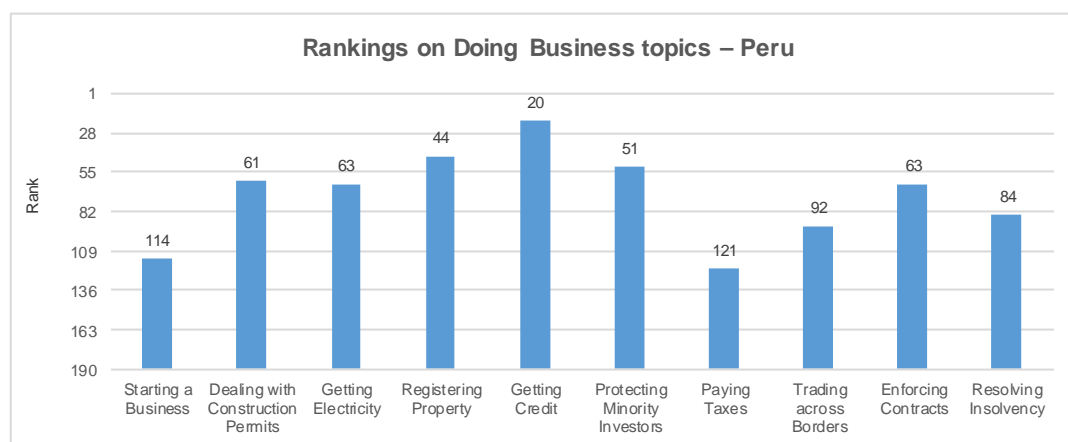
²⁰ The *DAC List of ODA Recipients* shows all countries and territories eligible to receive official development assistance (ODA). These consist of all low and middle-income countries based on gross national income (GNI) per capita as published by the World Bank, with the exception of G8 members, EU members, and countries with a firm date for entry into the EU. The list also includes all of the Least Developed Countries (LDCs) as defined by the United Nations (UN). For more information see: OECD: DAC List of ODA Recipients, <http://www.oecd.org/dac/stats/daclist.htm>.

²¹ Economist Intelligence Unit (2017): Country Risk Service – Peru – September 2017, p. 6.

Peru's good market orientation and its prudent, business-friendly policy framework leads to a relatively **good position in the 2016 Ease of Doing Business** ranking: rank 55 out of 190 with 69.5 out of 100 points, which is the third rank in the region behind Mexico and Columbia.²² However, there is still room for improvement

in facilitating private sector activities, which are key for stable economic growth. In particular when it comes to ease of starting a

business, paying taxes, providing the necessary infrastructure like electricity, resolving insolvency, and trading across borders.²³



Sector development

Sectors such as Information and Communications Technologies (ICT), transportation, energy, and financial services enable other economic activities in a country. As a result of private sector investments in these sectors, other businesses benefit from improved infrastructure such as electricity, telecommunication or transport infrastructure, but also from financing in the form of debt or equity.

Virú – as a producer and processor of agricultural goods – is not active in such an enabling sector. However, the modern agricultural sector, especially for export – as a relatively new sector in Peru, which has grown quickly in recent years (2005-2016: 18.8%) – is still the sector which has the highest potential for productivity gains. As shown in the previous chapter, this leads to the creation of local income.

DERa The **DAC country classification** as middle-income country in combination with the **Ease of Doing Business** in Peru are reflected in DERa with 5 out of 13 points as a country score reflecting the moderate need for private investment compared to lower income countries. As **agriculture is not an “enabling sector” for further private sector growth**, it receives 0 points out of 13 in DERa.

As Virú exports almost its entire production, the company also has a positive effect on Peru's current account balance by generating export revenues and foreign exchange. Both are important to stimulate a country's economic growth and in case of Peru the major drivers for the decrease of poverty

²² The *Distance to Frontier* (DTF) measure shows the distance of each economy to the “frontier” which represents the best performance observed on each of the indicators across all economies in the Doing Business sample since 2005. An economy's distance to frontier is reflected on a scale from zero to 100, where zero represents the lowest performance and 100 represents the frontier. The ease of doing business ranking ranges from one to 190. For more information see: The World Bank: doing business, <http://www.doingbusiness.org/data/exploreeconomies/peru>.

²³ The World Bank: Doing Business Report Peru 2018 <http://www.doingbusiness.org/~media/WBG/DoingBusiness/Documents/Profiles/Country/PER.pdf> – Report.

and hunger over the past decade.²⁴ Thus, Virú also contributes to the OECD Aid for Trade agenda²⁵.

Competitive situation including innovative potential

Food production in Peru is still quite low-tech and labour intensive and further investments in innovations are needed to exploit the full productivity potential.

Following its clear diversification strategy, Virú is quite innovative for an agricultural company in Peru in mainly three areas:

- New product (development):** Having started with only asparagus in 1994, new crops have been introduced to the portfolio in the last couple of years like avocado, mango, and palm hearts as the latest innovation. The introduction and rotation of (new) crops is especially important as after 10 years of cultivating asparagus on a field, the yield decreases significantly. As part of its clear diversification strategy, Virú now also develops new ready-to-eat products like bruschetta and pesto. The latest development is a party tray and quinoa line with quinoa salad with mango, passion fruit, blueberries and papaya or quinoa with a spicy tomato sauce. Virú develops not only products on request but also proactively generates additional demand. Currently, 11 people are working in product development including chefs and technical staff.

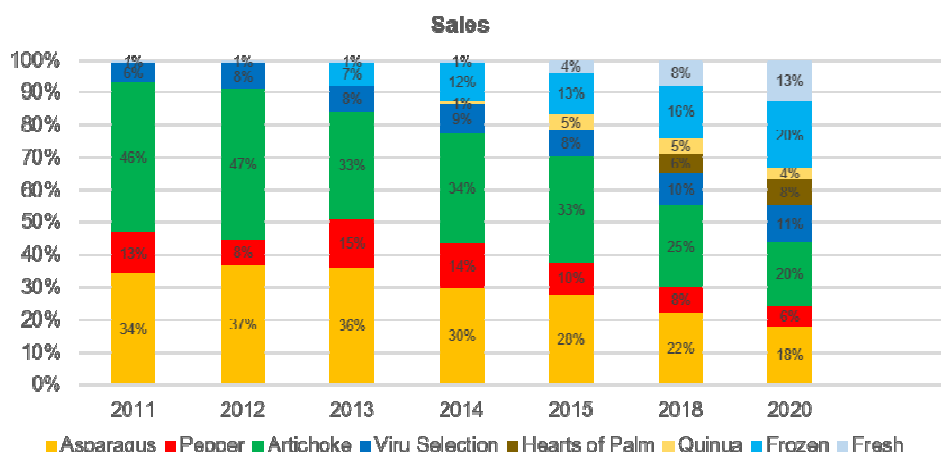
“Innovation is an inherent value of our development policy, thanks to which we encourage diversification of new crops in the region. For this reason, we are able to regularly introduce new product lines and packaging on the global market. In cooperation with distinguished chefs and outstanding specialized technicians, we create new products and invest resources to improve our processes, capacities, machinery and facilities.”

Mario Deza, production manager
- New process and technology:** Virú uses the latest production technology – almost all machinery (like conveyer belts, sorters, washing, peeling and packing machines) comes from Europe or the US – and applies effective logistics solutions to dispatch its products to destination immediately. Automatization in production was and is an important factor to improve efficiency and productivity and deal with the challenge of increasing labour demand.
- Marketing strategy and gaining new sales markets:** In order to diversify its sales markets, Virú recently started to also sell its products in Peru and Central America, where margins are higher, as well as to China. Virú targets not only traders, but also big retail customers like supermarket chains. On the one hand, this is possible due to its logistic advantages in the EU thanks to related distributors (own warehouses), and thus, shorter delivery times in bigger quantities. On the other hand, Virú’s advantage is also its wide portfolio of products (by crop, presentation, etc.) as supermarket chains like to receive a bundle of different types of products of the same product type.

²⁴ Peru was able to reduce the country’s hunger situation by about 50% since 2005, reaching rank 37 out of 118 in 2016 (see the Global Hunger Index 2016 by the International Food Policy Research Institute: <http://www.ifpri.org/publication/2016-global-hunger-index-getting-zero-hunger>, retrieved from internet on 5.2.2018). Furthermore, a study by Moreno, Huaranga and Ricardo, Félix shows the socio-economic effects of the agri-export companies in the Peruvian’s province Virú. See *Impacto socioeconómico del desarrollo agroexportador del proyecto especial chavimochic, provincia de virú, la libertad, Perú, 1997-2007* (2008), <http://dspace.unitru.edu.pe/handle/UNITRU/5300>.

²⁵ For more information about the OECD Aid for Trade Agenda see: <http://www.oecd.org/trade/aft/>.

These innovations – in combination with a strong (regional/crop) diversification and vertical integration strategy, a fairly diversified client base, a well-running distribution channel through its subsidiaries in Europe, and holding all relevant certificates for the EU and US – are the basis for Virú's strong competitive situation, further growth and its way to **enhance market shares** to develop into one of the leading agricultural companies in Peru.



Besides this, Virú changes “**the rules of the game**”. By having worked very closely together with the municipality of Caynarachi on property rights, Virú drove the change in regulations in Caynarachi. Before Virú's involvement, land titles were not that common in and around Caynarachi. In total, more than 10,000ha were registered through Virú's initiative.

DERa

Virú's **innovative capacity** (new products, marketing strategies for various markets, better processes) and its continuing efforts to **enhance market shares** is reflected with 14 out of 16 points in DERa.

Environmental stewardship

The global private sector relies largely on natural resources, either as part of their core business or in their supply chains. For development to be sustainable, global environmental and climate protection as well as resource efficiency are key. By complying with international environmental standards, by implementing initiatives towards more sustainable operations or by using renewable energy the private sector contributes actively to achieving this aim.

Environmental management – mitigation of potential negative externalities and pro-active actions

In recent years, the Peruvian government has strengthened its efforts to ensure that companies comply with national social and environmental standards.

Virú's practices demonstrate its awareness of the potential environmental impact that farming and associated activities may have. At corporate level, the company **has implemented an Environmental Health and Safety (EHS) Committee**, including senior level managers, to manage environmental and social (E&S) issues. E&S roles are clearly defined and assigned, including an environmental conservation plan as well as a consolidated monitoring framework. Virú's environmental conservation plan includes approved and required conservation management techniques, programs, and approved waste management activities. In addition, Virú holds all important EU and US E&S certificates²⁶.

To be more specific, Virú manages its natural resources, mitigates its potential negative environmental effects and adapts its business activities to climate change as follows (excerpt):

²⁶ Cert Global GAP, BRC Global Food Standard, Kosher, IFS Food Standard, HACCP Peru, SCR-Flo Cert, ISO 14001, Fundo Verde, BASC Virtual.

- Sustainable agriculture:** All of Virú's fields are certified under Globalgap²⁷, a leading international standard of Good Farming Practices. 30% of Virú's land in Caynarachi is classified as protected land and not used by Virú for agricultural use. Thus, Virú contributes to the conservation and enhancement of desert wildlife that previously consisted of a very limited number of reptiles, birds, field rodents and very scarce flora. The company actively monitors the fields of suppliers to ensure that there is no conversion of natural habitats. This is carried out using geo-referenced environmental and social data in the production units of the suppliers.
- Stack emissions** are analysed by the company annually as per national and international requirements. All data shown are below the World Bank Group's EHS general guidelines for Small Combustion Facilities emissions (3MWth-50MWth), and national regulations.
- Water consumption efficiency management:** As water is a scarce resource on the planet and Virú is operating in regions in which rainfall levels are rather low, Virú uses modern drip irrigation systems to reduce water usage and has undertaken cleaner production activities in the last years to increase overall efficiency. Likewise, it has implemented automated flushing systems. Furthermore, Virú has installed remote control computer-based groundwater level monitoring tools in all wells to track future trends in groundwater availability. Virú's **Resource Efficiency Management Plan** is aimed at achieving further reductions from the baseline data of April 2016 and thereby working towards aligning water consumption at the processing facilities with international industry benchmarks.
- Waste water management:** The parameters for untreated process wastewater exceeded at one production site the requirements of the World Bank Group's General EHS Guidelines²⁸ for discharge into fresh waterways in the past years. To overcome this, Virú built a state-of-the-art wastewater treatment plant in Virú, which was put in operation by the end of 2017. Furthermore, Virú's employees participated in a water stewardship training by the The Alliance for Water Stewardship Standards²⁹ in order to implement sustainable water management at all operations.
- Waste management:** As part of its integrated approach, Virú sells its vegetable waste to smallholder cattle raiser. In addition, Virú has a composting area where it prepares fertilizer for its fields.
- Minimising the impact on the environment – efficient pesticide management:** Virú takes care of biological control to



Picture 2: Virú's drip irrigation system

"Biological control has a greater priority than the use of pesticides. We use beneficial insects that control harmful pests. Thanks to that, products are more natural with less chemicals and pesticides."
César Cabrejo, Environmental Manager

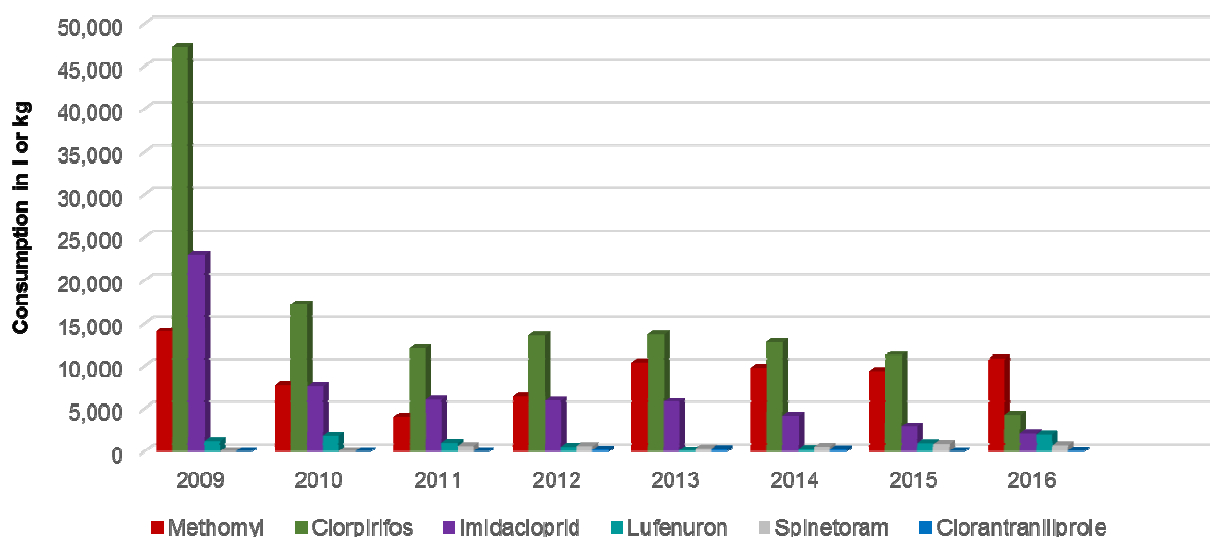
²⁷ GLOBALG.A.P. is an internationally recognized standard for farm production. It standard demands, among other things, greater efficiency in production. It improves business performance and reduces waste of vital resources. It also requires a general approach to farming that builds in best practices for generations to come. For more information see: Global G.A.P: Cultivating the Future of the Planet, https://www.globalgap.org/uk_en/for-producers/globalg.a.p/.

²⁸ For more information on the World Bank Group's General EHS Guidelines see: http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/ehs-guidelines.

²⁹ The Alliance for Water Stewardship Standard provides a globally-applicable framework for major water users to understand their water use and impacts, and to work collaboratively and transparently for sustainable water management within a catchment context. For more information see: <http://a4ws.org/about/>.

use less chemicals and pesticides. Due to its tailored Integrated Pest and Disease Management Program to counteract *Prodioplosis Longifila* (an insect which affects asparagus), Virú reduced its chemical pesticide use by about 70% until 2011. This strategy consists of a variety of complementary methods (physical, mechanical, chemical, biological, genetic, legal and/or cultural). With its technical irrigation system in the fields Virú efficiently streamlines the use of nutrients and pesticides.

Comparison of pesticide use by Viru 2009-2016



- Climate change adaptation:** Virú has diversified its crop production immensely in the last couple of years. This includes cultivating new crops like avocado and quinoa but also includes regional diversification by producing crops in different locations in order to minimize negative impacts by potential future El Ninos.

DERa

Because of its climate mitigation and adaption strategy as well as the efficient use of resources, Virú is classified as **climate-friendly project**. However, as the water treatment plant is still not running on full capacity, Virú achieves 17 out of 25 points.

Through its sustainable management, protection of biodiversity and the reduction of chemical fertilizers and pesticides Virú contributes to **SDG 15 “Life on Land”**, **SDG 2 “No hunger”**, and **SDG 12 “Responsible consumption”** of resources. Its clear climate adaptation and mitigation strategy triggers **SDG 13 “Climate Action”**.

Community benefits

Entrepreneurs are active citizens who play an important role in society. Not only should businesses “do no harm”, but they can “do good” and contribute to development by actively engaging with local communities. This applies particularly to countries like Peru, where the government effectiveness is improvable. The government is so far not able to provide the basic infrastructure for towns and villages such as roads, schools and security services. The World Bank ranks Peru at 107 out of 209 – behind Cuba (104) and Kazakhstan (101) – in terms of government effectiveness.³⁰

³⁰ Government Effectiveness: Reflects perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. For more information

Community risk management according to IFC PS 4³¹ – “do no harm”

Business activities may expose local communities to increased risks and adverse impacts related to worksite accidents, hazardous materials, spread of diseases, or increased traffic. The potential effects intensify where business activities lead to an increase in population in the surrounding communities.

The cities Virú and Chao have increased their number of inhabitants by 18,035 and 15,145 respectively between 1997 and 2007.³² To reduce potential negative impacts on these communities regarding health, safety and security – with particular attention to vulnerable groups – Virú has implemented responsible practices, such as:

- **Impact assessments:** For every new production site or expansion, Virú conducts a social and environmental assessment. In such an assessment, potential impacts and risks of the project to the local community are identified and addressed with the aim to decrease the incidence of accidents, injuries, illnesses, and deaths from project-related activities in the community within the projects area of influence (the local community).
- Virú’s **community engagement process** includes the process of informed participation of the affected communities, in the case of projects with potential significant adverse impacts to them.
- **Community access:** Virú grants access to resources for all communities that have sold their lands and where they had traditional usage rights. This was also required by DEG, including, for example, free access of communities to forest roads.
- The company has an anonymous Corporate Grievance Mechanism (to date, some 175 complaints have been received) and an external **grievance mechanism** in place, including an “Ethic Phone Number”, where employees and the general public can state their grievances.
- Required by DEG, Virú established a **Code of Conduct for its security personnel** at all company facilities.
- **Cultural heritage:** Before any new investment is realized, Virú needs a certificate from the Peruvian Ministerio de Cultura (CIRA) confirming the absence of cultural heritage in order to receive the approval of the environmental impact assessment.

Community development – “do good”

Pro-active private sector engagement is a win-win situation for communities and companies. On the one hand, communities profit from, for instance, improved infrastructure and better education. On the other hand, it gives companies the “social license to operate”. The social license to operate exists when business activities have the ongoing approval and/or broad social acceptance within the local community and from other stakeholders.

see: The World Bank, <https://info.worldbank.org/governance/wgi/pdf/ge.pdf>.

³¹ The objective of IFC PS 4 is twofold: i) To avoid or minimize risks to and impacts on the health and safety of the local community during the project life cycle from both routine and non-routine circumstances; ii) To ensure that the safeguarding of personnel and property is carried out in a legitimate manner that avoids or minimizes risks to the community’s safety and security. For more information see: International Finance Corporation (2007): Guidance Note 4: Community Health, Safety and Security, http://www.ifc.org/wps/wcm/connect/4af353004885583dbf6cff6a6515bb18/2007%2BUUpdated%2BGuidance%2BNote_4.pdf?MOD=AJPERES.

³² Moreno, Huaranga/ Ricardo, Félix: Impacto socioeconómico del desarrollo agroexportador del proyecto especial Chavimochic, provincia de Virú, la libertad, Perú, 1997-2007 (2008), <http://dspace.unitru.edu.pe/handle/UNITRU/5300>.

In Peru's legal framework there is no legislation governing CSR such as in India, where companies have to give 2% of its profits to charity. However, there are guidelines in Peruvians legislation that directly or indirectly promote it.³³ One incentivising implementation instrument is the possibility for companies to credit their CSR expenses on tax payments.

Virú has also tried to credit its **impressive internal and external social responsibility activities** on their tax payments, but due to bureaucratic reasons has not been successful yet. With an annual **budget of EUR 1.1m** Virú is constantly improving the living condition of surrounding communities by contributing to schools and sponsoring students (primary, secondary and university), providing medical facilities and water pipes. By providing mobile phones to police officers, Virú ensures that people can call them in case of an emergency.

Virú's Management of Social Responsibility is accredited and certified by international and national organizations like BSCI, SMETA, ICS, ABE.

In addition to its regular activities, Virú acts as a reliable partner in crisis: In early 2017, the surrounding communities like Virú itself were severely affected by countrywide flooding. Together with neighbouring companies, Virú helped itself and the surrounding communities by **repairing the broken water pipe, providing people with free meals and medical services and by donating tents, mattresses and cleaning tools**. Furthermore, Virú supported 2,000 families by reconstructing their destroyed houses.


DERa

Virú's **management of community health, safety and security risks** in accordance with international standards and the **external grievance mechanism**, in combination with Virú's active community development activities is **reflected in DERa with a score of 11 out of 17 points**.

By providing medical services to local communities and repairing the broken infrastructure after El Niño, Virú contributes to **SDG 3 "Good health"** and **SDG 9 "Innovation and Infrastructure"**. Virú also contributes to **SDG 16 "Peace and Justice"** by donating necessary equipment to the local police stations and to **SDG 11 "Sustainable cities and communities"**.

C. DERa results summary for each category

Virú's DERa score is already very good with 108 points. The average DEG portfolio client achieved 76 points in 2017.

Development Category	Contributions of Virú
DECENT JOBS 	Job numbers and dynamics <ul style="list-style-type: none"> ▶ Number of employees: 7.500 on average ▶ High potential for job creation in the value chain ▶ 39 % job growth since DEG's first investment Decency <ul style="list-style-type: none"> ▶ Compliance with ILO Core Labour Standards: Full compliance ▶ Occupational health and safety management: Certified (ILO 2001/ OHSAS 18001) ▶ Human resource management: According to international standards/ good

³³ Casanova-Claros, Mariela: Corporate Social Responsibility: a perspective from Peru. In: International Journal of Liability and Scientific Enquiry [Vol. 4, No. 1] (2011), http://www.derecho.usmp.edu.pe/cedec/doctrina_nacional/IJLSE040105_CASANOVA-CLAROS.pdf, p. 89.

LOCAL INCOME



Income generation

- ▶ A total of EUR 150m generated in local income last year
- ▶ EUR 35m in personnel expenses last year
- ▶ EUR 73m was spent on procurement of goods and services
- ▶ Corporate income tax payments amounted to EUR 1.6m

Income generation dynamics and percentage local

- ▶ Local income creation increased by 18.8% last year
- ▶ 95% of expenses contributed to local income generation

MARKET & SECTOR DEVELOPMENT



Country & sector

- ▶ Investments in upper-middle income countries like Peru are considered below average relevance for development by DEG.
- ▶ The agribusiness-sector represents no bottleneck sector for development in the country.

Innovations & competition

- ▶ Business innovations: “New rules of the game”
- ▶ Enhanced competition: Enhancing market share

ENVIRONMENTAL STEWARDSHIP



Standards

- ▶ Compliance with DEG’s **environmental standards**: Clear deviations without direct risks.

Environmental management and protection

- ▶ Company’s environmental management: certified (ISO 14001)
- ▶ (Significant) contributions to climate and environmental protection

COMMUNITY BENEFITS



Community risk management

- ▶ Community health and safety management: according to international standards/ good
- ▶ Company has a formal grievance mechanism in place

Community development spendings

- ▶ EUR 1.1m contributed to community development last year

Contributions to the Sustainable Development Goals (SDGs)



D. Role of DEG

In 2013, Virú had challenges to receive matured-congruent long-term financing for its expansion plans with acceptable terms from commercial financial providers. DEG supported Virú with a senior long-term loan in order to support Virú’s journey towards becoming sustainably and financially strong enough to attract long-term finance on acceptable terms from commercial finance providers. As a result, in 2016 Virú’s financial and competitive situation convinced a private US fund to provide Virú with a long-term facility for further expansion plans. However, Virú really appreciates DEG as a finance partner, especially in case of unexpected events. And, DEG also financed part of further expansion activities in 2016.

“We chose DEG as a finance partner because DEG’s employees understand our business and our needs and they always stand next to us even in times when unexpected things happen. DEG is a reliable long-term financier, who is – like we are – interested in a long-term sustainable growth path – this is what we appreciate.”

Yoselyn Malamud, CEO Virú

In addition to providing financing DEG acts as a value-adding partner in the following ways:

- **Improvement of community engagement and social management**

An environmental and social action plan was contractually agreed to improve the **management of community risks** in line with international standards. Among others, DEG required Virú to set up an external grievance mechanism, a Code of Conduct for security personnel at the company facilities, as well as general security management system procedures for security personnel.

- **Building (local) networks**

As an internationally operating company, Virú needs working capital, which can be obtained by means of trade finance solutions. DEG therefore has established a contact via its German Desk³⁴ with a German-based finance organization with excellent connections in international trade finance markets. This organization provides liquidity for international exporting enterprises by combining non-recourse cross-border factoring, purchase order finance and credit protection in new and innovative ways.

- **Technical Assistance: Waste water management and efficiency**

Sustainable water management has been a challenge for Virú not only since the latest El Niño. In addition, the Peruvian government passed new and stricter laws on water efficiency in 2015. In order to face those challenges, DEG supported Virú with technical assistance on two separate occasions: The first TA measure, completed in 2015, focused on **wastewater management and wastewater treatment** at Virú's location. Based on these findings, the second technical assistance focused on **monitoring quantity and composition of groundwater and effluents** from Virú, finalised in 2016. According to the measurement results, the technological recommendation was to build a waterlilies-based wastewater treatment plant, which was commissioned at the end of 2017.

"When we started cooperating with Virú in 2013, the company faced challenges in its wastewater management. However, at the same time, Virú's management was highly committed to take action. With the support of DEG's BSS program, Virú identified water savings potential, analysed water quality parameters and appraised the cost-benefit of different treatment technologies. In the end, Virú developed its own innovative solution: a treatment plant where water lilies play an important role in the removal of organics started operations in 2017."

Esther Kabey-Wuntke, Investment Manager DEG and Bernt Hagenlocher, Business Support Services DEG



³⁴ Together with local partner banks and the German Chambers of Commerce, DEG is offering a new service called "German Desk – Financial Support and Solutions". The service puts the needs of German SMEs and their local trading partners into focus. A German Desk Relationship Manager employed at the local partner bank and fluent in German and the local language brings together the two cultures in doing business. The range of products and services extends from setting up bank accounts through services for financing trade and transaction banking, to credit lines or investment financing for local companies wishing to acquire German equipment. For more information see: <https://www.deginvest.de/Internationale-Finanzierung/DEG/Unsere-L%C3%B6sungen/German-Desks/>.

Private enterprises that are financially successful and act responsibly like Virú promote local development by creating more and better jobs, providing income locally, supporting countries in their transformation process while acting in a sustainable manner and providing community benefits.



"We are convinced that we have a positive effect on people's day-to-day life by supporting them in their professional and personal development. We give people jobs and train them – beyond technical skills. We not only offer jobs, we offer formal jobs, which includes social benefits. We have implemented financial inclusion of our employees, by establishing bank accounts together with the local banks for all of them. This creates the foundation for receiving loans by showing a track record of constant income."

Yoselyn Malamud, CEO Virú

From a societal impact perspective, it is fantastic to see that Virú has realized it too; that it is a business case³⁵:

- **To comply with international environmental and social standards:** As Virú complies with all quality, environmental, health and safety certifications required for EU and US imports, it has access to the main markets in the world. However, being known for its positive environmental and social output, not only gives Virú access to international markets; it also leads to customers' loyalty and trust: 80% of the customers have been customers for more than 5 years.
- **To value its employees as backbone of long-term success:** Virú continuously improves its already very good management skills. A management, which has the skills to motivate its employees adequately combined with ongoing trainings for all employees, leads to a satisfied, loyal and productive workforce.
- **To source locally and be a good citizen:** Virú has included more than 275 smallholder farmers and its employees in its supply chain. This guarantees Virú constant supply of raw materials by spreading the operational risks to several suppliers. By supporting local suppliers and being proactive in community development, Virú receives the acceptance – "social license to operate" from external local stakeholders.
- **To foster good corporate governance and manage its financing sustainably:** The company's awareness on the importance of good corporate governance creates the basis for investor confidence and attraction of needed capital. For instance, the board of directors is staffed with local and international professionals, who independently approve the long-term strategy of Virú. Despite this positive effect, Virú's financial management team deals day by day with the challenges of an expanding, fully-integrated agribusiness company, which is in a diversification process. In particular, working capital management is key to fulfilling the respective covenants by lenders, stay liquid and be able to meet the respective financial obligations in the long run.

³⁵ For instance, the linkage between good management of environmental, social and governance (ESG) issues and business success has been also shown by the The Boston Consulting Group. See *The Boston Consulting Group Total Societal Impact – A new lens for strategy*.

Virú's five-year aim is to achieve a turnover of EUR 400m by 2022 by following a clear strategic mission, which includes continuous growth in sales and profits with low cost production, high quality products, on-time service, a motivated workforce, valued by the community and improving the environment. In the long run, Virú focuses on its overall vision of being the preferred manufacturer of premium quality foods and brands in the world. Virú follows a way of excellence.

DERa

Virú's societal impact in five years

With its clear strategy of continuously, financially sustainable growing, Virú will continue its contribution to further development in Peru.

Decent jobs: Virú expects to **create 1,500 more direct jobs in the next five years** and therefore will employ on average 9,000 people by 2021 who will continuously work in a decent environment. As Virú will continue to source its raw materials from many smallholders, there will be a high **indirect job potential**. DERa 31 (today) / 35 (in five years).

Local income: As Virú is still on an expansion path, paying salaries to more than 9,000 employees and taxes to the government, Virú will continuously achieve the highest score for **local income generation** with an expected **high growth rate of 12% p.a.** DERa 35 (today) / 38 (in five years).

Market and sector development: Peru will remain an **upper-middle income country** with a prudent, business-friendly policy framework and a growing service and modern export-oriented agribusiness sector. Virú's **innovation capacity** (new products, marketing strategies for various markets, better processes) safeguard the company's competitiveness. DERa 14 (today) / 14 (in five years).

Environmental stewardship: With its clear climate mitigation and adaptation strategy diversifying its products and production locations combined with a clear strategy to efficiently use resources, Virú will continue to be classified as **climate-friendly**. Once the new wastewater treatment plant is effectively running on full capacity, Virú will **comply with DEG's environmental standards**. Thus, the DERa score will positively develop from 17 (today) to 25 (in five years).

Community benefits: Virú will continue to engage actively in **community development** as part of its CSR programme and record its spending on CSR-activities more comprehensively in the future. This will lead to a higher reportable monetary sum, and thus, with a further improved **external grievance mechanism**, the DERa score will increase from 11 (today) to 13 (in five years).

In total: Overall, due to its expected improvements, in particular, in the categories decent jobs, environmental stewardship and community benefits, Virú is expected to even further improve its DERa score from 108 to an exceptional 121.

More case studies and evaluations are available online:

<https://www.deginvest.de/International-financing/DEG/Über-uns/Was-wir-bewirken/NEU-Evaluierungen>



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