

**Inter-American Development Bank
Technical Cooperation Program (Trust Fund Financing)**

Technical Cooperation Project Brief

TC N°: BR-T1101

I. GENERAL INFORMATION:

Project title:	Local institutional strengthening and economic development of Micro and Small Enterprises (MSEs)
Project team:	Matías Bendersky, team leader; Victoria Flórez; Elisa Botero (INT/INT); Gerónimo Frigerio (LEG/SGO)
Trust Fund:	Markets and Governance for Poverty Reduction Trust Fund (KMG)
Beneficiary Country:	Brazil
Contracting Agency:	Inter-American Development Bank
trust fund contribution:	US\$150,000
Execution and Disbursement Deadlines:	Execution: 12 months Disbursement: 18 months

II. OBJECTIVES:

- 2.1 The overall objective of the project is to foster local economic development, increase employment and reduce poverty in Brazil through institutional strengthening and support to States and Municipalities in the design and development of international insertion strategies for Micro and Small Enterprises (MSEs)¹. The specific objectives are to: (i) increase awareness in public and private sector agents of the importance of supporting trade and investment policies and programs, aimed at strengthening the productive integration of MSEs and lower income segments as a part of the value chain in exports and Foreign Direct Investment (FDI); and (ii) provide technical assistance to local governments in areas related to FDI and export promotion to accomplish active social inclusion policies.

III. DESCRIPTION:

- 3.1 The project will fund the following activities:
- 3.2 Activity 1 – Diagnostic study. The objective of this activity is to prepare a diagnostic assessment that will: (i) evaluate existing Municipal Development Master Plans (“Planos Diretores de Desenvolvimento Municipal”) in at least 5 Municipalities (“Prefeituras”) identifying context and scope of strategies and activities related to export promotion, FDI and economic development at a local level for MSEs; ii) provide and analyze export and investment data of MSEs by product or service; (iii) list those Prefeituras that do not have a development plan and those who have not considered export promotion, FDI and economic development issues in their planning; (iv) review State policies and regulations and its

¹ According with the “Lei Geral da Micro e Pequena Empresa” Micro Enterprises are defined as having maximum annual revenues of up to roughly US\$100,000 and Small Enterprises up to roughly US\$1,000,000.

application by the chosen Prefeituras; and (iv) recommend actions including opportunities to complement development plans embracing internationalization and investment related policies for economic and social development of MSEs.

- 3.3 **Activity 2 – Action plans.** The objective of this activity is to provide technical support to the selected States and Prefeituras in order to design strategies and incentive schemes to improve: i) internationalization of products and services of lower income MSEs; and ii) MSEs' capacities to insert in the external markets and exploit FDI opportunities. To achieve these objectives, a model action methodology will be designed and developed to serve as a reference for local governments in their effort to strengthen trade-related institutions capacities to improve export promotion, FDI attraction and promote social inclusion at the local level. The Action Plan will include: i) Analysis of the effectiveness and use of investment and export promotion policies and incentives for MSEs at the local level (analyze export and investment data of MSEs by product or service traded); ii) A list and description of available resources and funding for MSEs including Federal and State initiatives; iii) Scope, impact and effectiveness of all investment and export promotion activities; iv) benchmark of successful activities, initiatives and strategies related to trade promotion and economic development for MSEs; v) Define strategies at the State and Municipal levels for technical cooperation and training of MSEs including the design of a matching grant schemes directed towards their international insertion; vi) Identify opportunities of the State and Municipality to improve the capacity of SMEs in taking advantage of FDI; vii) Development of an inclusive methodology on SMEs local economic development; and viii) Financial and institutional capacity analysis of each local government selected in the diagnostic study.
- 3.4 **Activity 3 – Public-Private Workshops.** The objective of this activity is to raise awareness and obtain feedback among private and public stakeholders by organizing a series of workshops and round table discussions. The workshops and discussions will highlight best practices and deepen the dialogue between local government and local business people regarding the economic and social opportunities that come along with internationalization of MSEs and foreign investment attraction.
- 3.5 **Activity 4 – Strengthening Ties with Local Officials.** The objective of this activity is to present the Bank's experience and results of the economic and social impact of fostering MSEs trade and FDI in one main event directed to local Government officials. In addition, the main findings and recommendations resulting from the action plan will be presented. This activity will facilitate the dialogue between the Bank and the local Government officials to explore future financing for the implementation of the action plan.
- 3.6 The activities included in this operation will require hiring the following individual consultants: (i) a senior consultant that will coordinate the activities of the project, develop the diagnostic assessment, organize and coordinate the dissemination activities and prepare terms of reference (ToRs) for the trade and economic development consultants (ToRs: <http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1383547>), and (ii) two trade and economic development consultants who will prepare the Action Plan, participate in public-private workshops and present the study findings in all dissemination events. As a result of the activities financed by the project, the products expected are: (i) a diagnostic

study; (ii) a comprehensive action plan; and (iii) main event directed to local Governments including lessons learned, presentation of international best practices and study results.

IV. JUSTIFICATION:

- 4.1 Brazil is composed of 26 States (and one Federal District) and is one of the countries with the most Municipalities in the world with 5560, of which 14 have over one million inhabitants. Brazilian local governments enjoy a considerable amount of autonomy gained with the Federal Constitution that came into effect in 1988. The new Constitution decentralized the responsibilities and resources of sub-national governments and strengthened the policy making role of States and Municipalities. Irrespective of their size, it gave them the same responsibilities and authority for public investment and implementation of economic and social programs. Therefore, sub-national economic strategies, policies, and programs have a tremendous impact in the Brazilian economy.
- 4.2 By Constitutional requirement, all States and more importantly all Municipalities with more than 20,000 inhabitants, should plan their local development through the above mentioned Planos Diretores. The Planos Diretores are supposed to guide actions and initiatives of local governments and civil society in the articulation of social, economic and environmental development policies. The content of the Planos Diretores was established in the City Statute and specified by Resolution No. 34 of the National Council of Cities. Resolution No. 34 was established as one of the guarantees for the fulfillment of the certain city duties in areas such as "...economic activities, specially for small commercial enterprises, industrial, service and family farming.....". However, as of today, the Planos Diretores are mainly focused in urban development, infrastructure, environment, sanitation and social development.
- 4.3 Even though the Brazilian Institute of Geography and Statistics (IBGE) reports that 99.2% of existing businesses in the urban sector are micro and small companies², most local Governments do not put forward strategies, policies and/or regulations favoring economic development of MSEs. These shortcomings in local policies could be attributed to a lack of support, training and technical assistance at the Municipal and State level. For the most part, local governments in Brazil seem to be forgetful of the potential benefits of supporting MSEs particularly on the positive impact on employment and poverty reduction. Partially addressing this challenge, SEBRAE (Federal Agency for the Support of Micro and Small Enterprises), has provided some support to the municipalities in articulating priorities, strategies and local agendas promoting economic development for MSEs, particularly, presenting credit instruments and granting some fiscal and tax policy incentives.
- 4.4 There is still however a critical need for sound local policies that support the internationalization of MSEs. Brazilian exports in the past four years have increased 22.9%, thanks to the export oriented focus of all sizes of companies, yet between 2005 and 2006 the number of MSEs exporting companies decreased while medium and large companies continued to grow in terms of exports. Government institutions at the local level need to design strategies that foster international commerce and create forward and backward linkages between MSEs and larger size companies. Policies of this nature promote job

² 9.5 million of MSEs belong are considered informal.

creation, reduce poverty, increase productivity, improve managerial and export capacity of MSEs, and have numerous additional spillovers including a more favorable and attractive environment for investment.

- 4.5 This project aims to spur economic development and reduce poverty in Brazil by stimulating trade-led SMEs enterprises growth and employment in local governments, enhancing public/private sector understanding of benefits of international trade and FDI; improving local institutions' policies and strategies oriented to ignite MSE trade-led growth.
- 4.6 **Bank Strategy.** The project is consistent with the guidelines established in the IDB Country Programming Document for Brazil, which highlights under the priority areas for the Bank to focus cooperation activity in: productivity for small and medium-sized enterprises, poverty, income distribution and institutional strengthening with emphasis on sub-national governments. Moreover, the project is also well aligned with the objectives of the Markets and Governance for Poverty Reduction Trust Fund as it will promote trade, job creation and poverty reduction through institutional strengthening, supporting local governments in the design and development of international insertion strategies for SMEs.

V. BUDGET:

- 5.1 The project will finance: (i) One senior consultant expert in project management (ii) Two senior consultants experts in SMEs development and investment issues; and (iii) the local organization and logistics costs relating to the dissemination forum, including related travel and per diem expenses. The total cost of the Project is estimated at one hundred and fifty thousand dollars (US\$150,000), in accordance with the following categories:

TYPE OF EXPENSE (IN US \$)	TOTAL
Consulting Services	100,000
1 consultant (Coordinator) @ US\$ 500/ day * 40 days, plus travel expenses	30,000
1 consultant (expert in trade and economic development) @ US\$ 500/ day * 60 days, plus travel expenses	35,000
1 consultant (expert in trade and economic development) @ US\$ 500/ day * 60 days, plus travel expenses	35,000
Dissemination Activities	40,000
Public-private workshops (global unit for organization, logistics and travel expenses)	15,000
Final dissemination seminar (global unit for organization, logistics and travel expenses)	25,000
Contingencies	10,000
TOTAL	150,000

VI. RESPONSIBILITY IN THE BANK:

- 6.1 **Technical Responsibility:** Integration and Trade Sector (INT). Matías Bendersky. 202.623.1723. mbendersky@iadb.org
- 6.2 **Responsibility for Disbursements:** INT will have the responsibility for disbursements.
- 6.3 **Execution:** The Bank will be the contracting agency.

VII. ENVIRONMENTAL AND SOCIAL STRATEGY:

Due to its nature, the studies and other products financed in the proposed operation will not have direct or negative environmental and social impacts. Based on the "Safeguard Policy Filter Report" (#2008-04073943-2), the project will not require complementary environment or social actions. Moreover, based on the "Safeguard Screening Form" (#2008-04074244-2), this Technical Cooperation was classified as a project under category "C."

VIII. RECOMMENDATION:

- 8.1 Matías Bendersky, designated team leader for the project of the reference, recommends the approval of this operation and the use of resources from the Markets and Governance for Poverty Reduction Trust Fund totaling up to US\$150,000 in order to finance the corresponding project.

IX. CERTIFICATION:

- 9.1 I certify that resources from the Markets and Governance for Poverty Reduction Trust Fund (KMG) are available for up to US\$150,000 in order to finance the activities described and budgeted in this document. This certification reserves resources for the referenced project for a period of twelve (12) calendar months counted from the date of signature below. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, except in the case a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in US dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this TC Brief. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, for which the Fund is not at risk.



Marguerite S. Berger
Chief

Grants and Cofinancing Management Unit (VPC/GCM)



Date

X. APPROVAL:

Approved:



Luis A. Moreno
President


Date



Vo Bo LES

Nuchowich, Ana

From: Frigerio, Geronimo
Sent: Tuesday, April 08, 2008 10:33 AM
To: Florez Toro, Victoria E.
Cc: Cayo, Javier; Bendersky, Matías; Botero Duque, Elisa; Baena, Maria del Pilar; Parra, Maria Cecilia; Guillamon, Bernardo E.
Subject: LEG re: BR-T1101 - IDBDOCS-#1383544-v1-
Local_institutional_strengthening_and_economic_development_of_Micro_and_Small_Enterpri
ses_(MSEs).DOC

Attachments: IDBDOCS-#1383544-v1-
Local_institutional_strengthening_and_economic_development_of_Micro_and_Small_Enterpri
ses_(MSEs).DOC

Matías, Vicky,

Documento revisado. Todo muy bien. Hice cambios con marcas de revisión (ver adjunto). Los revisan, le dan el OK, y estamos para seguir.

Como entiendo que hay apuro, copio a Cecilia Parra para que esté al tanto de todo. Cecilia nos ayudará mas adelante con el LMS.

Saludos, Gerónimo

Geronimo Frigerio
Attorney
Inter-American Development Bank
Legal Department
Sovereign Guaranteed Operations
Country Department Southern Cone
Direct Ph. (54 9 11) 6717 - 0555
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Fax: (54 11) 4320 - 1831
geronimof@iadb.org



IDBDOCS-#138354
4-v1-Local_inst...

-----Original Message-----

From: Florez Toro, Victoria E.
Sent: Tuesday, April 08, 2008 11:16 AM
To: Frigerio, Geronimo
Cc: Bendersky, Matías; Botero Duque, Elisa
Subject: IDBDOCS-#1383544-v1-
Local_institutional_strengthening_and_economic_development_of_Micro_and_Small_Enterprises_(MSEs).DOC

Gerónimo,
Bienvenido al equipo.
Te envío el TC Brief.
Saludos,
Vicky

<< File: IDBDOCS-#1383544-v1-

Vb Bo ESR

Nuchowich, Ana

From: ESRNet
Sent: Monday, April 07, 2008 5:55 PM
To: Botero Duque, Elisa; ESRNet
Cc: Florez Toro, Victoria E.; Bendersky, Matías
Subject: RE: BR-1101

Clasificación: C

VPS/ESG ha revisado la operación de la referencia y da su no objeción a la misma.

Saludos

ESRTeam

From: Botero Duque, Elisa
Sent: Monday, April 07, 2008 4:33 PM
To: ESRNet
Cc: Florez Toro, Victoria E.; Bendersky, Matías
Subject: BR-1101

Please find attached the Technical Cooperation Brief for the above-mentioned operation. According to the new procedures, we also attach the Safeguard Policy Filter Report, the Safeguard Screening form, and the Excel file generated by the Sustainable Finance Toolkit.

Any questions can be addressed to the Project Team Leader, Marias Bendersky INT/INT, Victoria Florez INT/INT, or Elisa Botero INT/INT.

Kind regards,

Elisa Botero-Duque
Inter-American Development Bank
elisab@iadb.org
+1 202 623 3698
www.iadb.org

<< File: IDBDOCS-1383544-
Local_institutional_strengthening_and_economic_development_of_Micro_and_Small_Enterprises_(MSEs).
DOC.DRF >> << File: IDBDOCS-1384170-CVS_Data.XLS.DRF >> << File: IDBDOCS-1383614-
Safeguard_Policy_Filter_Report.DOC.DRF >> << File: IDBDOCS-1383619-
Safeguard_Screening_Form.DOC.DRF >>

Annex I
Procurement Plan

Local institutional strengthening and economic development of Micro and Small Enterprises (MSEs)
(BR-T BR-T1101)

Ref. No.	Description and type of the procurement contract	Estimated Contract Cost (CAN\$ 000)	Procurement method ³	Review (ex-ante or ex-post)	Source of financing and percentage		Estimated Dates		Status (Pending, in process, awarded, cancelled)	Comments
					IDB %	Local / Other %	Publication of Specific procurement notice	Completion of contract		
Procurement of consultant services										
	1. Consulting Services <ul style="list-style-type: none">Project Coordinator2 Trade and economic development experts	20,000	CQS	Ex-ante	100%	-	N/A	N/A	Pending	
		30,000	CQS	Ex-ante	100%	-	N/A	N/A	Pending	
Procurement of works and goods (& other services)										
	2. Travel (ticket and per diem) <ul style="list-style-type: none">Project CoordinatorExperts	10,000	Shopping	Ex-ante	100%	-	N/A	N/A	Pending	
		10,000	Shopping	Ex-ante	100%	-	N/A	N/A	Pending	
	3. Organization expenses <ul style="list-style-type: none">Public-private workshop (global)Dissemination seminar (global)	15,000	Shopping	Ex-ante	100%	-	N/A	N/A	Pending	
		25,000	Shopping	Ex-ante	100%	-	N/A	N/A	Pending	


- 3 **Consulting Firms:** **QCBS:** Quality- and cost –Based Selection; **QBS:** Quality Based Selection; **FBS:** Selection under a Fixed Budget; **LCS:** Least-Cost Selection; **CQS:** Selection based on the consultant' Qualifications; **SSS:** Single Source Selection. **Individual Consultants:** **NICQ:** National Individual Consultant selection based on Qualifications; **IICC:** International Individual Consultant selection based on Qualifications

MEMORANDO

Clasificación de Archivo: PO- BR-T1101

FECHA: 18 de abril de 2008

A: Sr. Luis Alberto Moreno
Presidente



DE: Antoni Estevealdeordal 
Gerente de Sector de Integración y Comercio

ASUNTO: **BRASIL. Especialista** Apoyo al Proceso de Planificación Municipal para Internacionalización de PYMEs (BR-T1101). Contribución hasta por la suma de US\$150.000. Recursos del Fondo Fiduciario para la Reducción de la Pobreza vía el Fomento de los Mercados y de la Gobernabilidad. Aprobación.

Adjunto enviamos, para su consideración y correspondiente aprobación, el Resumen de CT para el financiamiento de la operación de la referencia. Este documento ha sido elaborado por el equipo de proyecto teniendo en cuenta los lineamientos y procedimientos establecidos para la preparación y procesamiento de operaciones de cooperación técnica financiadas con el Fondo Fiduciario para la Reducción de la Pobreza vía el Fomento de los Mercados y de la Gobernabilidad (KMG). El Departamento de Integración será el ejecutor y beneficiario del proyecto.

De conformidad con lo establecido en la resolución DE-44/08, del 1ro de abril de 2008, el Presidente deberá aprobar operaciones individuales hasta US\$1.500.000.

En consecuencia, teniendo en cuenta que esta operación es elegible para el Fomento de los Mercados y de la Gobernabilidad, recomendamos su aprobación. El Sr. Matías Bendersky (Ext. 1723), jefe de equipo, estará disponible para cualquier consulta adicional.

 APPROVAL
PRE / PCY
BY: _____
DATE: 4/21/08
ADVISOR: 

Terms of Reference (ToRs)– Senior Consultant (Coordinator) (Tentative)

I. BACKGROUND

Brazil is composed of 26 States (and one Federal District) and is one of the countries with the most Municipalities in the world with 5560, of which 14 have over one million inhabitants. Brazilian local governments enjoy a considerable amount of autonomy gained with the Federal Constitution that came into effect in 1988. The new Constitution decentralized the responsibilities and resources of sub-national governments and strengthened the policy making role of States and Municipalities. Irrespective of their size, it gave them the same responsibilities and authority for public investment and implementation of economic and social programs. Therefore, sub-national economic strategies, policies, and programs have a tremendous impact in the Brazilian economy.

By Constitutional requirement, all States and more importantly all Municipalities with more than 20,000 inhabitants, should plan their local development through the above mentioned Planos Diretores. The Planos Diretores are supposed to guide actions and initiatives of local governments and civil society in the articulation of social, economic and environmental development policies. The content of the Planos Diretores was established in the City Statute and specified by Resolution No. 34 of the National Council of Cities. Resolution No. 34 was established as one of the guarantees for the fulfillment of the certain city duties in areas such as "...economic activities, specially for small commercial enterprises, industrial, service and family farming.....". However, as of today, the Planos Diretores are mainly focused in urban development, infrastructure, environment, sanitation and social development.

Even though the Brazilian Institute of Geography and Statistics (IBGE) reports that 99.2% of existing businesses in the urban sector are micro and small companies, most local Governments do not put forward strategies, policies and/or regulations favoring economic development of MSEs. These shortcomings in local policies could be attributed to a lack of support, training and technical assistance at the Municipal and State level. For the most part, local governments in Brazil seem to be forgetful of the potential benefits of supporting MSEs particularly on the positive impact on employment and poverty reduction. Partially addressing this challenge, SEBRAE (Federal Agency for the Support of Micro and Small Enterprises), has provided some support to the municipalities in articulating priorities, strategies and local agendas promoting economic development for MSEs, particularly, presenting credit instruments and granting some fiscal and tax policy incentives.

II. OBJECTIVES

The objective of the consultancy is to provide technical assistance at the State and Municipal level in order to strengthen the ability of local authorities to design and implement trade-driven economic and social development policies and initiatives for Micro and Small Enterprises (MSEs).

III. CHARACTERISTICS

1. Type of consultancy: Individual
2. Start date and duration: The consultancy will have a duration of 40 discontinuous days starting **April 1, 2008** until May 30, 2008.

3. Location: Sao Paolo and Minas Gerais, Brazil.
4. Requirements: Graduate degree in Law, Business, International Affairs or related, previous project management experience and familiarity with trade and investment policies and regulations. Fluency in Spanish, English and Portuguese are required.

IV. ACTIVITIES

The *Consultant* shall perform the following activities:

Activity I. Diagnosis of trade-policing capabilities at the Municipal and State levels:

- Identify States and/or Municipalities with interest -and potential- in designing and implementing trade-driven economic development policies and initiatives.
- For each of the identified local government, determine the existence or non-existence of Municipal Development Master Plans (Planos Diretores de Desenvolvimento Municipal) that include trade, foreign direct investment (FDI) and competitiveness related objectives.
- Evaluate existing Planos Diretores in at least 5 Municipalities (“Prefeituras”) identifying context and scope of strategies and activities related to export promotion, FDI and economic development at a local level for MSEs.
- Provide and analyze export and investment data of MSEs by product or service.
- List those Prefeituras that do not have a development plan and those who have not considered export promotion, FDI and economic development issues in their planning.
- Identify the major shortcomings in each plan as well as the opportunities for the Bank’s support in their structuring and strengthening.
- Review State policies and regulations and its application by the chosen Prefeituras.
- Overview institutional capacity of State and Municipal authorities to dictate and implement successful trade-driven economic development policies for MSEs.
- Recommend actions including opportunities to complement development plans embracing internationalization and investment related policies for economic and social development of MSEs.

Activity II. Coordination of Project’s activities:

- Act as primary link between the Bank and Brazilian Authorities at State and Municipal levels.
- Draft terms of reference and coordinate the work for all consultants hired under the TC.
- Allocate human and physical resources according to TC needs.
- Establish priorities considering time and resource constraints.

Activity III. Training and Dissemination:

- Identify and convene relevant stakeholders at State and Municipal levels.
- Organize and host the dissemination workshop in which the main results and deliverables of the project will be presented to relevant stakeholders.

V. DELIVERABLES

The *Consultant* shall submit the following deliverables:

1. Within the first two weeks following the signature of the contract, the consultant shall deliver the ToRs for the trade and economic development consultants who will prepare the Action Plan, including the following:
 - Action Plan for institutional strengthening for the design of FDI attraction and export promotion and export capacity building strategies including: i) Analysis of the effectiveness and use of investment and export promotion policies and incentives for MSEs at the local level (analyze export and investment data of MSEs by product or service traded); ii) A list and description of available resources and funding for MSEs including Federal and State initiatives; iii) Scope, impact and effectiveness of all investment and export promotion activities; iv) benchmark of successful activities, initiatives and strategies related to trade promotion and economic development for MSEs; v) Define strategies at the State and Municipal levels for technical cooperation and training of MSEs including the design of a matching grant schemes directed towards their international insertion; vi) Identify opportunities of the State and Municipality to improve the capacity of SMEs in taking advantage of FDI; vii) Development of an inclusive methodology on SMEs local economic development; and viii) Financial and institutional capacity analysis of each local government selected in the diagnostic study.
2. The Diagnostic study described in Activity I within first 6 weeks after the signature of the contract.
3. A final report summarizing the results of the dissemination event.

All deliverables shall be submitted electronically to Matías Bendersky at mbendersky@iadb.org.

VI. PAYMENT

30% of the total amount of the consultancy will be paid at submittal of deliverable No. 1, 30% at submittal of deliverable No. 2, and 40% at submittal and approval by Project Team of deliverable No. 3.

VII. COORDINATION

The consultancy will be supervised and coordinated by Matías Bendersky INT/INT.