

**DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK  
MULTILATERAL INVESTMENT FUND**

**REGIONAL**

**LEARNING FROM BUSINESS ALLIANCES**

**(TC-03-03-02-3)**

**DONORS MEMORANDUM**

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## **ANNEXES**

### **ANNEX I      Logical Framework**

**ABBREVIATIONS**

CCU	Central Coordination Unit
CESI	Committee for Environment and Social Impact
CLACDS	Center for Competitiveness and Sustainable Development
ICT	Information and Communication Technology
IDB	Inter-American Development Bank
FOEX	Fund for Export Promotion
FAT/PAC	Fund for Technical Assistance for Competitiveness
MIF	Multilateral Investment Fund

## LEARNING FROM BUSINESS ALLIANCES

(TC-03-03-03-2-RG)

### EXECUTIVE SUMMARY

<b>Executing agency:</b>	INCAE as a co-financing institution and executing agency.		
<b>Beneficiaries:</b>	Direct beneficiaries of the Program include: up to 32 private, non profit organizations including foundations, business associations, exporting associations, professional organizations, cooperatives, chambers of commerce, or technical/training institutions from the participating countries - Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua and Panama - that will receive grant funding to implement business alliance projects. Each project is expected to include an average of 25 small and medium enterprises (SMEs), reaching 800 companies.		
<b>Project cost and financing:</b>	Modality:	Non-reimbursable	(Facility III-a )
	MIF	US\$	5,000,000
	INCAE	US\$	5,000,000
	Local	US\$	3,400,000
	<b>TOTAL</b>	<b>US\$</b>	<b>13,400,000</b>
<b>Objectives and components:</b>	<p>The goal of this regional Program is to improve international competitiveness of participating countries' SMEs by strengthening business alliances. The purpose of the Program is create a strategic partnership with INCAE to support a range of business alliance projects in specific economic sectors, with identified high growth potential, and to learn collectively and disseminate best practices from the grant projects and the partnership. To this end, the Program will implement two components: (i) Program Promotion and Challenge Grant Fund; and (ii) Learning and Dissemination.</p> <p><b>Component I</b> is divided into two areas of activity: (i) Promotional activities (\$589,700) which include the resources needed to promote the challenge grants and Program, as well as to process and approve the projects; and (ii) the Challenge Grant Fund for a total amount of \$8 million in grants, averaging \$250,000 per project, divided evenly between MIF and INCAE, disbursed on a <i>pari passu</i> basis, with the goal of funding 32 business alliance projects, assisting 800 SMEs.</p> <p><b>Component II</b> proposes to improve understanding about effective business alliance projects, assess the suitability of replicating the Program model and to promote the use of best practices in business alliances by encouraging the growth of partnerships involving the non-profit, governmental and private sectors. The best practices and lessons obtained from implementation of these pilot projects will be carefully analyzed and widely disseminated for demonstration effects and possible replication of the experience elsewhere in the region.</p>		

**Execution and Disbursement timetable**

Execution: 48 months  
Disbursement: 54 months

**Special contractual conditions:**

Prior to the first disbursement, in addition to the Bank's standard contractual conditions, INCAE will have appointed the Program Director. Prior to disbursement on the Challenge Grant Fund, INCAE will provide evidence to the Bank of having: (i) approved the operational guidelines for the Challenge Grand Fund, in accordance with the terms and conditions agreed with the Bank; (ii) approved the model Grant Agreement for the financing of projects charged to the Challenge Grant Fund in accordance with the terms and conditions agreed with the Bank; and (iii) submitted the list of eligible projects for the first six months of the Program and the Bank will have provided its no objection. The second and subsequent disbursement for the grant fund will be subject to the presentation of: (i) the list of eligible projects for the following six months and (ii) a report of the amount of resources committed, disbursed, and expended in projects financed, including MIF and counterpart resources; and (iii) projected cash flow to cover the cumulative commitments for a six month period.

**Exceptions to Bank policy:**

None.

**Environmental/ social impact:**

The Committee on Environment and Social Impact (CESI) reviewed and approved the proposed Project at its meeting on April 4, 2002 (TRG 12-03). See paragraph 6.5.

## **I. PROJECT ELIGIBILITY**

- 1.1 The proposed Program meets the MIF eligibility criteria for a grant through the Small Enterprise Development Facility (Window III-a). This Facility provides resources to non-governmental organizations to expand the volume and range of services available to small and medium enterprises. This Program responds to MIF's mission of promoting private sector development by funding small, targeted interventions that pilot new approaches in improving the environment for private sector growth and investment. The Program will support the use of strategic business alliances to help small firms attain goals otherwise beyond their individual reach. The countries included in this Program are Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama. The Program will also include the Dominican Republic as a country undergoing greater integration with Central America, including free trade agreements with the region. All countries included have been declared eligible for MIF financing.

## **II. BACKGROUND**

### **A. Program Rationale**

- 2.1 Before the trends of increasing trade opening and economic liberalization, Central American companies must learn how to compete successfully in an increasingly complex and demanding environment. Ninety-six percent of these companies are small and medium<sup>1</sup> (SMEs), representing approximately 54 percent of employment and 34 percent of total regional production. Therefore, improving the competitive situation of Central America's productive structure necessarily means supporting its small and medium enterprises.
- 2.2 The entrepreneurial structure of the countries of Central America is characterized by polarization. There are a small number of large national or multinational companies, which have integrated into international markets, coupled with a large number of small and microenterprises with serious productivity problems including: low negotiating capacity, limited access to local and international markets, and a lack of skilled labor and technological resources that are vital for competitiveness. The challenges of competitiveness facing Central America need to be addressed within the framework of international integration. Central American companies have to compete with producers of goods and services in international markets, as well as in their own markets. National and international integration processes are therefore key factors for improving the competitiveness of companies. Firms that operate in alliances with related firms and support institutions are more innovative and therefore more successful in raising productivity than firms that operate in isolation.
- 2.3 This Program will assist groups of SMEs that have achieved a certain level of cooperation, in improving their competitiveness by cooperating with one another and by targeting specific sectoral needs. Business alliances for the purpose of this Program are defined as partnerships among a minimum of 10 SMEs in the selected sectors, where commercial efforts are joined to enhance the productivity of the group, while minimizing risks and maximizing the leverage of the business opportunity.

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<sup>1</sup> i.e. Companies with less than 100 employees and less than \$3 million in assets.

- 2.4 The support for the strengthening of business alliances has been identified as the area of intervention for this Program due to a number of factors. (i) Alliances are a potential solution for a number of constraints small producers confront, e.g. limited access to financial institutions and formal bank credit, low negotiating power with suppliers, and difficulty in market access. (ii) Alliances are the only real competitive exit for many SMEs, by permitting them to add financial and human resources, take advantage of economies of scale in some areas, and share risks. (iii) Alliances among firms are essential to functioning as part of a competitive cluster, as has been demonstrated in the methodologies and processes developed by INCAE<sup>2</sup> and other institutions. Finally, (iv) with limited resources, the Program seeks to identify an area of intervention that can be applied and measured across the region. Business alliance projects have similar technical assistance design characteristics that can be measured and assessed for learning and dissemination purposes.
- 2.5 The Program will establish a fund that will co-finance up to 32 business alliance projects (in the specified countries) with the participation of approximately 800 SMEs. These projects will offer small businesses new ways of adapting to changing market realities without creating market distortions or long-term dependencies on subsidized services. Projects will come from four key sectors of the Central American economy, identified by INCAE and defined in the Central American Agenda for the 21<sup>st</sup> Century,<sup>3</sup> based on their current importance in the economy and their development potential as a world-class cluster. The four sectors are agribusiness, tourism, textiles, and information and communication technology.
- 2.6 As part of the analysis for this Program, a detailed mapping of each sector was conducted to: (i) establish the specific constraints producers are confronting, (ii) identify the development priorities for each sector, (iii) understand the competitiveness goals and the critical areas of intervention for business alliances within the sectors, and (iv) quantify the demand for technical assistance (see Annex IV of the Technical Files for the mapping exercise analysis).

## **B. Regional Coordination**

- 2.7 In Central America, there are a number of important initiatives with the objective of stimulating SMEs' competitiveness. The National Programs of Competitiveness in various countries in the region are a good example. In addition, there are also specific programs which, directly or indirectly, seek to stimulate greater association among small enterprises. Examples are, the Fund for Export Promotion (FOEX) and the Fund for Technical Assistance for Competitiveness (FAT/PAC) in El Salvador, the Program of Bonds of the Chamber of Industries in Guatemala, the Program of Support for the Productive Sector and Small Business in Honduras and the Challenge Fund for the Technological Transformation in Costa Rica.
- 2.8 The definition of cluster in the National Programs of Competitiveness typically refers to a sectoral concentration of companies, undertaking related or like activities, whose joint

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<sup>2</sup> Source: INCAE-CLACDS, HIID, BCIE and AVINA. "Competitividad Empresarial en Centroamérica." Costa Rica, 2001.

<sup>3</sup> INCAE-CLACDS and HIID. "Centroamérica en el Siglo XXI: Una Agenda para la Competitividad y el Desarrollo Sostenible." Costa Rica, 1999.



action permits reaching a collective efficiency. This Program proposes a regional approach, complementary to the national efforts that will help to identify common needs of firms within sectors and across countries, thereby encouraging appropriate cross-border solutions. This Program is proposing to finance **development projects** with second tier institutions and therefore differentiates itself from traditional competitive or export promotion projects that intervene at the company level with demand subsidies, financed typically through matching grants, for consulting services.

- 2.9 In addition to the distinctive project approach where the Program will award grants to institutions working with SMEs in specific sectors, INCAE will also manage the design and implementation of a number of learning and dissemination activities, based on the business alliance projects, which further differentiates this effort from the many other national programs of competitiveness. Moreover, this Program will define indicators to measure cost reduction, value added, and profitability of participating SMEs as well as benchmarks to monitor efficiency of the grant making by tracking execution and disbursements to the benefit of the participating countries and the Donor community.
- 2.10 The fact that the Program is being directed at the private sector at a regional level, permits the establishment of rapid comparisons of experiences in distinct countries, responding to SMEs commercial needs in real time and allows for the extraction of general lessons about the issues raised in all previous research and work on competitiveness in the participating countries. After these lessons are validated, dissemination to the private and public sector is an important and enduring aspect of the Program. Finally, this Program proposes to foster national and regional Donor coordination through the organization of national committees (see paragraph 3.3) and through the design of monitoring instruments and delivery of the dissemination events planned in the Learning Component.

### **C. The Institutional Response**

- 2.11 INCAE is a non-profit academic institution principally dedicated to professional formation in the areas of administration and economics. It has been in existence for 40 years and has its own offices and continuous operations in each country of Central America, the Dominican Republic, as well as in other countries outside the region. For seven years, INCAE has relied on a unit of applied investigation and facilitation of processes of change called the Latin American Center for Competitiveness and Sustainable Development (CLACDS), which has intensively worked on the conception of a new viable paradigm for sustainable development in Central America. In the last three years CLACDS has focused on laying the foundations to improve the business climate, assess the competitiveness of regional industry, and develop the Agenda for Competitiveness. The Agenda is a technical tool allowing top decision-makers in the public and the private sector to establish, for the very first time, a vision of Central America's positioning in the global economy.
- 2.12 INCAE, through CLACDS, is in a privileged position to partner with the MIF and to manage this regional Program: it understands Central America's competitiveness problems as few other organizations do; it has excellent relations and a wide network of contacts among the region's most important public and private institutions; and it has extensive experience in grant management, having implemented numerous competitiveness and development projects. In addition, INCAE is renowned for its capacity to develop evaluation methodologies and performance and impact indicators,

which are important outputs of this Program. Finally, INCAE has an annual operating budget of \$15 million and is prepared to co-invest with the MIF in this partnership. INCAE is more than an executing agency, it is also a financial partner committed to contributing in cash the required \$5 million matching funds in support of this Program.

- 2.13 A strategic partnership with an academic institution that has extensive grant management expertise working with SMEs and the capacity to match MIF resources is very desirable from the MIF's point of view. MIF has had much success in the last ten years identifying private sector partners and financing projects that pilot practical ways for small businesses to adapt to changing market conditions. However, MIF has been less successful in creating mechanisms to learn from its many SME experiences and to disseminate best practices from the pilots.
- 2.14 This partnership with INCAE, which is designed both to pilot new projects and to learn and disseminate from the experiences, is in itself innovative. The partnership will reduce the transaction costs of grant making by entrusting the identification, processing, supervision, evaluation, and learning functions for up to 32 small projects to INCAE. It will also improve the potential for learning from this experience as INCAE will closely monitor and technically supervise the projects in accordance with Program and firm level indicators, generating very measurable results in a concentrated time frame. These results will enable the Bank and other donors to establish more definitively what works and why in the area of SME competitiveness.

### **III. OBJECTIVES AND COMPONENTS**

#### **A. Objectives**

- 3.1 The goal of this regional Program is to improve international competitiveness of Central American SMEs by strengthening business alliances. Through a strategic partnership with INCAE, the Program will: (i) support business alliance projects in the participating countries in specific economic sectors with identified high growth potential and (ii) learn collectively and disseminate best practices from grant projects and the partnership. To this end, the Program proposes to implement two components: (i) Program Promotion and Challenge Grant Fund; and (ii) Learning and Dissemination.

#### **B. Components**

**Component I: Program Promotion and Challenge Grant Fund (MIF US\$ 4,291,900 /INCAE US\$ 4,297,800; Local Grant Beneficiary Counterpart US\$ 3,400,000).**

- 3.2 This component is divided into two areas of activity: (i) Promotional activities (\$589,700) which include resources necessary to promote the Challenge Grants and the overall Program, as well as process and approve the grants; and (ii) the Challenge Grant Fund. MIF and INCAE will each contribute \$4 million to this fund, for a total amount of \$8 million to be available in donations, disbursed on a *pari passu* basis, with the goal of funding up to 32 business alliance projects.
- 3.3 At the outset of the Program, seven "launching" events will be held in each of the participating countries to explain and promote the Program and motivate greater participation among the potential beneficiary institutions. Leading representatives of

relevant public and private institutions will be invited to participate in these events. Promotional and launching events will last a day and a half and will be facilitated by a member of INCAE's faculty from Costa Rica.

- 3.4 INCAE will organize National Committees in each country comprised of the leading SME organizations, Project Directors of Donor assisted programs, representatives of Nationals Program of Competitiveness, and other relevant members that will meet quarterly to review grant project proposals and on-going or planned programs of assistance for SMEs. These Committees, under INCAE's direction, will discuss on-going and planned programs of assistance for SMEs programs, review project submissions, and help foster a sense of inter-agency coordination. Minutes of the quarterly meetings will be centralized in the Program's Central Coordination Unit, posted on the Program Web site and circulated to all participating members and countries.
- 3.5 Each of the seven participating countries in this Program will have a National Representative. This person will be contracted by the Program to provide information and promote the Program, coordinate actions with other related institutions, advise possible beneficiaries in the design of proposals, provide follow-up for approved projects, support the collection of information for the learning component, and support the processes of auditing and external evaluation.<sup>4</sup> The National Representative is a key actor in the success of this Program as he/she will become the focal point for inter-institutional coordination at the country level; program promotion; and grant project identification, technical supervision, and monitoring.
- 3.6 Finally, the Program will have an exclusive Web site. This Web site will not only provide information to potential beneficiaries, but also permit the Program to collect key information about the different proposals and projects being executed. INCAE will ensure that the site is maintained and that content is disseminated broadly to facilitate grant project monitoring and overall Program learning.
- 3.7 The **Challenge Grant Fund** will support up to 32 projects: 10 in the first year, 12 in the second and 10 in the third. The Challenge Grant fund will be available to legally statuted NGOs in the participating countries that have a strong potential or experience in the design and delivery of SME support or business alliance projects; and are financially solvent. Foundations, business associations, exporting associations, professional organizations, cooperatives, chambers of commerce, or technical/training institutions that have a track record working with SMEs and are from the participating countries will all be eligible for grants. More detailed information related to institutional eligibility is included in the Challenge Grant Fund Operational Manual in Annex II of the Program's technical files.
- 3.8 Project eligibility will be granted only for business alliance projects. Each project will include a minimum of 10 companies: the overall alliance in any one project may include large firms, but Program funds will be restricted to supporting only SMEs in the alliance. All projects will need to address one of the four identified sectors: agroindustry, tourism, textiles, or ICT. Proposals will be reviewed and selected on a first come, first served basis from eligible institutions based on the following criteria: demonstration of the alliance; financial and operational sustainability of the proposal; direct and indirect

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<sup>4</sup> The representative will be a young professional with a Masters in Business Administration, with a minimum of five years of residence in the country. His/her contract will be for the first 30 months (2.5 years) of the program's operations.

beneficiaries and project impact; and applicants' degree of experience in project execution and in working with SMEs. Proposals will be also be assessed on the ability of the beneficiary institution to extend, replicate and sustain the program once grant financing is concluded (reference Annex II).

3.9 Eligible activities for business alliance projects have been identified for each sector of the Program as part of the analysis and are detailed in Annex II. However, in general terms and for all sectors, eligible activities will include:

- technical assistance for the development of market niches in high value added products,
- management of nationally and regionally processed and differentiated products,
- collective purchase of supplies,
- implementation of internationally recognized certification systems,
- adaptation of information and communication technologies to maximize the competitive advantage of the groups of firms,
- promotion of lines of complimentary products,
- training in contract negotiations and forms of payment,
- design of collective purchase and production agreements, and
- identification of strategic alliances between SMEs and larger companies in the development of new products.

3.10 All grants will have a minimum duration of 12 months and a maximum duration of 36 months. Grant amounts will range from a minimum of \$200,000 to a maximum of \$400,000. The MIF and INCAE will each will finance 35% of the total cost of each pilot project selected. It is expected that the average size of the MIF financing for individual projects will be US\$125,000. INCAE will also contribute on average \$125,000 per grant project. A 30% local counterpart contribution from the requesting SME institution, of the total project amount, will be a requirement for eligibility.

**Component II: Learning and Dissemination (MIF US\$352,200/INCAE US\$211,320).**

3.11 The objectives of this component are to improve understanding about effective business alliance projects, assess the suitability of replicating the Program model and to promote the use of best practices in business alliances by encouraging the growth of partnerships involving the non-profit, governmental and private sector. The best practices and lessons learned obtained from implementation of these pilot projects will be carefully analyzed and widely disseminated for demonstration effects and possible replication of the experience elsewhere in the region. The component includes a series of coordinated monitoring activities to ensure that there is considerable learning and dissemination from this Program. A description of the activities that will be funded by the Program follow.

3.12 To enable consistent monitoring, the seven National Representatives will undergo an intensive one-month training program in Costa Rica at the Program's initiation. With this training, combined with continuous support of the Program Coordination Unit at INCAE, it is expected that the seven National Representatives will have the ability to provide on-going support, supervision and monitoring of lessons learned throughout the Program.

3.13 The Program will design of a number of monitoring instruments to measure grant project performance. Productivity indicators will be developed for SMEs in the first six months

- to measure cost reduction, value added, an profitability of the business alliances; benchmarks will also be developed in the first semester to measure the efficiency of the strategic partnership with INCAE, e.g. time required to identify and process grant projects, timely execution and disbursements of the grants, administration, etc.
- 3.14 The Program will organize a series of workshops to strengthen project implementation performance and disseminate experiences and best practices in the second and third year of implementation. Program personnel, and at least 15 Project Directors, including all of the projects approved at the time of the planned event, (whether in execution or not), will participate in each of the workshops. The idea behind these workshops is to achieve cross-fertilization among the Project Directors, National Representatives and Program personnel, and to identify the main lessons learned and generate project implementation improvements. The findings of these workshops will be converted into minutes and case studies. These documents will be published on the program's Web site and distributed, in print format, to the relevant institutions in the seven countries.
- 3.15 Program dissemination activities will include six National Workshops, one for each country, with the exception of Costa Rica since it is the seat of the Regional Workshop. Fifty participants of relevant public and private sector institutions would be expected to participate in each half-day event. The objective of these workshops would be to share experiences of the Program and lessons learned over the entire process. At the end of the fourth year, four Regional Dissemination Workshops will be held in Costa Rica. Each of these events will last approximately half a day and include the participation of some 100 people from relevant institutions in all of the participating countries. Similar to the National Workshops, the goal of the Regional Workshops will be to share Program experiences and lessons learned over the entire process.
- 3.16 INCAE will contract experts in monitoring to supervise research and make needed analyses to document lessons learned from the partnership and the business alliance projects in the last year of the Program. In addition, research assistants will be retained for each country to work on specific case studies and lessons drawn from the projects. Finally, to conclude the Program, INCAE will document all of the experiences, case studies and lessons learned, in a publication.

#### **IV. PROGRAM COST AND FINANCING**

- 4.1 The total cost of the program is estimated at US\$13,400,000 million of which US\$5 million will be provided from the MIF resources (Small Enterprise Development Facility) on a non-reimbursable basis and \$5 million will be provided by INCAE in cash and in accordance with the cost table that follows and with the detailed project budget (see Annex III in the Program technical files). US\$11,400,000 (\$4 million each from MIF and INCAE, with an additional \$3,400,000 from the grant beneficiary SME organizations) will be used for the Challenge Grant Fund. US\$1 million each from MIF and INCAE has been allocated to cover the administrative and technical assistance requirements to promote, identify, process, monitor, technically supervise, evaluate, learn and disseminate from the grant projects.

<b>Components/budget Categories</b>	<b>MIF Contribution</b>	<b>INCAE contribution</b>	<b>Local NGO contribution</b>	<b>Total</b>
<b>Project Executing Unit, Equipment and logistics</b>	US\$156,200	US\$431,970		US\$588,170
<b>Component 1: Promotion and Execution of the Challenge Grant Fund</b>	US\$4,291,900	US\$4,297,800	US\$3,400,000	US\$11,989,700
<b>Component 2: Learning</b>	US\$352,200	US\$211,320		US\$563,520
<b>Mid term evaluation</b>	US\$30,000			US\$30,000
<b>Final evaluation</b>	US\$70,000			US\$70,000
<b>Audits (4)</b>	US\$40,000			US\$40,000
<b>Contingencies</b>	US\$59,700	58,910		US\$118,610
<b>TOTAL</b>	<b>US\$5,000,000</b>	<b>US\$5,000,000</b>	<b>US\$3,400,000</b>	<b>US\$13,400,000</b>
<b>Percentages</b>	(50%)	(50%)		

## **V. EXECUTING ARRANGEMENT AND IMPLEMENTATION MECHANISM**

- 5.1 The proposed Program will be executed over four years. The executing agency will be INCAE, a private, non-profit, multinational, higher-education organization devoted to teaching and research endeavors in the fields of business and economics. INCAE will co-finance the Program. CLACDS within INCAE will administer the Program. CLACDS has expert staff, draws on the installed capacity of INCAE, and is the recognized authority in Central America on competitiveness.
- 5.2 INCAE has unique technical and institutional advantages to ensure an effective and timely implementation of the Program's activities, including: its ability to match the MIF's contribution on a dollar for dollar basis, its extensive track record in the area of competitiveness, its campuses, network of offices and experts in Central America, its experience in managing grant projects, its adherence to the highest of international standards for financial responsibility and transparency, and its ability to leverage public and private sector resources.
- 5.3 INCAE will create a Central Coordination Unit (CCU) in CLACDS that will be responsible for the day-to-day implementation of the Program. This unit will be responsible for (i) analyzing, preparing, processing, awarding, supervising and evaluating up to 32 grant projects in the seven identified countries in Central America; (ii) mobilizing matching funds and monitoring local in-kind and cash contributions from NGO grant partners; (iii) contracting specialized local consultants in each participating country to assist in project design, preparation and supervision; and (iv) organizing conferences, workshops, briefings in accordance with the Donors Memorandum and

- detailed budget of the Program. The CCU will be comprised of the Program Director, the Program Coordinator, a Financial Administrator and an Administrative Assistant. In addition to this core staff in Costa Rica, six specialized, long-term local consultants, one in each of the other participating countries, will be contracted by and will report directly to the Program Director and CCU.
- 5.4 MIF resources will finance the cost of the Financial Administrator, the Administrative Assistant and the cost of the long-term national consultants in each of the participating countries; INCAE resources will finance the position of the Program Director and the Program Coordinator over the four years of the Program. (Terms of reference for Program staff are contained in the technical files). CLACDS will provide office space for the CCU and general support services to manage this Program. INCAE installations in each of the participating countries will also be used for promotional and dissemination events and to facilitate the work of the long-term local experts hired in each country.
- 5.5 **Challenge Grant Review and Approval Process.** For the authorization of the grant fund resources by the Bank, INCAE will submit to the Bank as requests for financing are proposed, the list of potential grant projects, and their corresponding profiles. The Bank will be responsible for providing an institutional no objection to enable INCAE to move to full proposal design. The Bank will send its written agreement or objection on the request within two weeks of receipt of the profile.
- 5.6 **A Grant Review Committee** will be established by the CCU to review project proposals for grant funding and will consist of: the Dean of INCAE, the Program Director, a specialist from the IDB Country Office in Costa Rica, the MIF Principal Coordinator, a representative from a regional SME organization, and a sectoral expert in the area of competitiveness. The grant review meetings will be conducted on line. Committee members will be given two weeks to respond. Program staff will organize responses and the proponent NGO will be notified of approval or further work required within two weeks following the conclusion of the Grant Review Committee meeting. The Bank would then be notified of approval and appropriate processing.
- 5.7 The first disbursement of the contribution allocated to the Challenge Grant Fund will be subject to the presentation by the CCU of the list of potential grant projects that could be financed during the first six months of the Challenge Grant Fund execution, in accordance with the approved operational guidelines. A first disbursement would be made of up to 50% of the total cost of grants for the first six months, not to exceed \$500,000 from the resources allocated to the Challenge Grant Fund. The second and subsequent disbursements for the grant fund will be contingent upon proper documentation by INCAE of *pari passu* disbursements from counterpart funds, along with a report of commitments on disbursements and projected cash flow requirements. INCAE will be responsible for ensuring that all grants awarded are disbursed and in compliance with Bank procedures.
- 5.8 **Program Supervision.** Basic oversight responsibility and supervision of Program execution will rest with the IDB Country Office. The Country Office will be responsible for processing of disbursement requests, following up compliance with contractual clauses, project supervision and monitoring activities, and reception of audited financial statements. INCAE will submit bi-annual reports on the status of the Program's performance to the IDB Country Office and MIF in accordance with standard IDB reporting requirements. The IDB project team with resources from the MIF contribution,

- in collaboration with INCAE, will conduct two review missions to the CCU and to select NGO project sites, to assess the Program and suggest any corrective measures needed to improve implementation.
- 5.9 **Financial oversight.** MIF funds will be administered by INCAE according to the established terms and conditions set forth in this Program. INCAE will establish and maintain adequate accounting, financial, internal control, and filing systems, which will allow the identification of sources and uses of funds of the Program. The accounting system will be organized to provide necessary documents, permit verification of transactions, and facilitate the timely preparation of financial statements and reports. INCAE will open separate and specific bank accounts for the administration of the MIF's contribution. INCAE will prepare and submit to the Bank, within a period of thirty (30) days after the closing of each semester, a semiannual report showing the status of the project accounts as of June 30 and December 31. INCAE will prepare and submit to the Bank annual audited financial statements of the Program and the Challenge Grant Fund. The financial statements will be audited by an independent auditor acceptable to the Bank. The audited reports will be submitted within 90 days after the closing date of each fiscal year.
- 5.10 The Program's records will be kept in a way that: (i) identifies sums received from different sources; (ii) reports project spending in accordance with a chart of accounts previously approved by the Bank, distinguishing between MIF contributions and funds from other sources; and, (iii) includes details necessary for INCAE to process the disbursement requests and their respective justifications of expenditures, in accordance with the Bank's disbursement procedures; and, to prepare and submit to the Bank the project's annual audited financial statements and the revolving fund's semi-annual reports.
- 5.11 **MIF Cluster Coordination.** The Program will coordinate its learning and dissemination activities with the MIF Small Business Networks and Supply Chains Cluster. The MIF is currently working to identify and to support projects throughout the region that aim to improve SME competitiveness through networks and supply chains. The indicators developed for this Program to measure firm productivity and Program efficiency will be prepared in collaboration with the MIF Office to ensure that they take advantage of and complement MIF's on-going work in the Supply Chain Cluster. Dissemination events planned for this Program will be designed to include relevant MIF project participants to ensure cross fertilization of experiences from the Cluster and this Program. Finally, the Program evaluations will take into account MIF Cluster evaluation experiences, again to ensure complementarity.

## VI. PROJECT JUSTIFICATION AND RISKS

### A. Justification

- 6.1 The proposed Program is consistent with the Bank's Competitiveness Strategy (GN-2243, January 2003) whose objective is to contribute to improve the economic and institutional environment for the development of the private sector and increasing productivity. It is also wholly consistent with the MIF's strategy of supporting innovative business relationships. By supporting this Program, the MIF will help to consolidate the competitiveness and export growth of groups of SMEs in the participating countries



while simultaneously developing methodologies and indicators to monitor and evaluate performance of innovative business alliance projects among SMEs.

- 6.2 As designed, the Program will pilot practical new ways for small business to adapt to changing market conditions without creating market distortions on long-term dependence on subsidized services. The Program will have the added benefit of strengthening the capacity of NGOs working with SMEs, as these institutions will be the direct beneficiaries of the grants and responsible for managing the projects. Indirect beneficiaries will be over 800 SMEs, which will participate in business alliances as result of the Program.

## **B. Risks**

- 6.3 The main risk of the Program will be INCAE's ability to identify an ample and qualified for business alliance projects from SME institutions. This risk has been taken into account because INCAE and through CLACDS work with a number of SME institutions in the participating countries. INCAE has received an initial positive reaction to suggest that with the promotion and follow-up activities planned under this Program, the demand for projects is sufficiently large to generate the required response to ensure that up to 32 grants will be awarded in the proposed 30 month time-table.
- 6.4 Another potential risk is one of duplication of resources and effort due to the many programs of assistance in the area of SME competitiveness in Central America and the Dominican Republic. This Program's design has been careful to ensure that it complements other assistance efforts planned or underway in the area. Coordination committees will be established in each country and will meet quarterly to share information on programs and projects (see paragraph 3.4). In addition, the Program will support the creation of methodologies and models for monitoring the Program and for evaluating changes in participating companies' competitiveness. The publications, workshops, and seminars developed to disseminate experiences and lessons learned from the Program will help to inform the community of NGOs and companies about the results, thereby facilitating the design of more effective projects and outreach mechanisms for promoting competitiveness and exports.

## **C. Environmental and Social Impacts and Proposed Action**

- 6.5 The Environmental and Social Impact Committee (CESI) approved the Program at its meeting on April 4, 2003. The Program is expected to have a positive impact on the dissemination of social and environmental issues since the direct beneficiaries of the grants, non profit organizations, will be part of a coordinated effort of assistance. Each grant awarded will be monitored carefully and will become part of a centralized data management system maintained by the Coordination Unit in Costa Rica. Specific environmental eligibility criteria will be developed for project selection in the four eligible sectors (agroindustry, textiles, tourism and ICT). Sustainable tourism, environmental management, and cleaner production techniques will all be encouraged in the business alliance strategies in the respective sectors. Moreover, information on labor practices and workplace safety and health will be assessed in all projects presented for grant approval. INCAE will ensure that the Program's database of participating companies, 800 SMEs, will include sector and origin fields to determine gender

information and whether they concern indigenous groups. The Program will stress the importance of these issues in the learning and dissemination events.

## **VII. PERFORMANCE INDICATORS AND EVALUATION**

### **A. Program Monitoring**

- 7.1 The IDB project team with resources from the MIF contribution, in collaboration with INCAE, will conduct two review missions to the CCU and to select NGO project sites, to assess the Program to determine whether the Program should be modified, suspended, or cancelled. During the Program's execution, the CCU will develop a program monitoring and information tracking system as well as conduct assessments of the NGO grant partners. The tracking system and the NGO assessment reports will be made available to the Bank and the external mid-term and final evaluators. These reports and the indicators developed by the tracking system will be used by the Bank and INCAE to gauge the overall impact and assess results of the Program on a continual basis.

### **B. Program Evaluation**

- 7.2 The Bank will contract individual consultants to carry out two evaluations of the Program. A mid-term evaluation will be performed 12 months after the first disbursement and a final evaluation conducted within three months after the Program is completed. The evaluations should be guided by the Donors Memorandum and by the indicators established in the Logical Framework presented in Annex I. The mid-term evaluation will measure INCAE's institutional capacity to administer grant projects and disseminate experiences; assess the performance of the grants financed by the Program; assess the quality, price and level of incentive of services in the grant projects; and review the level of coordination and participation among NGOs and private sector donors.
- 7.3 The final evaluation will analyze: (i) the fulfillment of the Program's specific objectives; (ii) the completion of the level of indicators defined in the Learning component; (iii) the quality of services provided; (iv) the degree to which the group of companies increased their competitiveness and actually reached international markets; and (v) the Program's sustainability once the MIF contribution ended.

### **C. Grant Evaluation**

- 7.4 Internal evaluations of the grant projects will be conducted in years two and four by INCAE to examine key operations of the grants. The aim of the internal evaluations will be to provide Program staff with the information they need to make informed decisions about the quality and effectiveness of the Program. In addition to the internal assessments, using grant project resources allocated for evaluation, INCAE will contract the services of consultants to perform a final, independent evaluation of all beneficiary NGOs. The evaluation will be concluded by month 44 of the Program and will be used to assess overall INCAE Program performance, draw lessons learned, and facilitate the dissemination of different experiences in increasing competitiveness of companies and reaching the export market.

## **VIII. EXCEPTIONS TO POLICIES AND PROCEDURES**

- 8.1 None.

## **IX. SPECIAL CONTRACTUAL CONDITIONS**

- 9.1 Prior to the first disbursement, in addition to the Bank's standard contractual conditions, INCAE will have appointed the Program Director. Prior to disbursement on the Challenge Grant Fund, INCAE will provide evidence to the Bank of having: (i) approved the operational guidelines for the Challenge Grand Fund, in accordance with the terms and conditions agreed with the Bank; (ii) approved the model Grant Agreement for the financing of projects charged to the Challenge Grant Fund in accordance with the terms and conditions agreed with the Bank; and (iii) submitted the list of eligible projects for the first six months of the Program and the Bank will have provided its no objection. The second and subsequent disbursement for the grant fund will be subject to the presentation of: (i) the list of eligible projects for the following six months and (ii) a report of the amount of resources committed, disbursed, and expended in projects financed, including MIF and counterpart resources; and (iii) projected cash flow to cover the cumulative commitments for a six month period.

## Annex I

LOGICAL FRAMEWORK			
NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<b>GOAL</b>			
The objective of this regional program is to improve international competitiveness of Central American SMEs by strengthening business alliances .	<ul style="list-style-type: none"> <li>▪ 800 SMEs participating in business alliances supported by the Program</li> <li>▪ 480 (60%) SMEs meet commercial objectives</li> <li>▪ 240 (33%) SMEs continue to function as part of a business alliance, beyond the life of the Program</li> </ul>	<ul style="list-style-type: none"> <li>• Program Monitoring Information Tracking System at the Program and Project level</li> </ul>	<ul style="list-style-type: none"> <li>• Business alliances are an effective means for addressing small firm international competitiveness</li> <li>• There is a demand for technical assistance; and a need for program management and monitoring and evaluation</li> </ul>
<b>PURPOSE</b>			
By means of a strategic partnership, support business alliance projects in four sectors with identified high growth potential; learn collectively and disseminate best practices from grant projects and the partnership.	<ul style="list-style-type: none"> <li>▪ Productivity indicators are developed for SMEs in the first 6 months to measure cost reduction, value added, and profitability of grant projects</li> <li>▪ Increase of at least 10% of participating SMEs' annual revenue: or increase of at least 10% of firm profitability</li> <li>▪ Benchmarks developed in the first 6 months of Program implementation to measure efficiency of strategic partnership, e.g.: grant project approvals, timely execution and disbursements, outcomes, and communication.</li> <li>▪ 50% improvement in project approval, disbursement, completion, and evaluation time, as compared to donors portfolio in execution in Central America.</li> <li>▪ Number of new management practices in place.</li> </ul>	<ul style="list-style-type: none"> <li>• Management information system of Program Management Unit</li> <li>• Internal evaluation conducted by each grantee. Program Monitoring Information Tracking System</li> </ul>	<ul style="list-style-type: none"> <li>• Current levels of economic performance are maintained or improved</li> <li>• Sufficient capacity exists among SMEs to internalize and profit from technical assistance</li> <li>• INCAE has technical know how and institutional capacity to leverage funds and manage the Program</li> <li>• Inter-institutional coordination will be developed to insure that this Program is complementary to other ongoing or planned competitiveness programs</li> </ul>
<b>COMPONENTS</b>			
<b>I. PROMOTION AND FUND</b> <b>Project launching in each country</b>  <b>Promotional events</b>   <b>Grant making</b>	<ul style="list-style-type: none"> <li>• 50% of SMEs in targeted sectors informed of business alliance opportunities</li> <li>• 100 expressions of interest</li> <li>• Up to 45 proposals prepared with assistance from INCAE.</li> <li>• 35 grants approved: 10 during the first year, 20 during the second year, and 5 during the third year.</li> <li>• Reduction of price of technical assistance services for business alliances by 15% by the end of the project</li> <li>• Quality improvement of services</li> </ul>	<ul style="list-style-type: none"> <li>• Survey instrument distributed at promotional events</li> <li>• Program management information system</li> <li>▪ Minutes of the Grants Review Committee Meetings</li> <li>• Project reports</li> <li>▪ External evaluation and contract administration of the grants</li> <li>▪ Qualitative survey</li> </ul>	<ul style="list-style-type: none"> <li>• INCAE and its network are capable of generating sufficient demand for the program.</li> <li>• That there exists sufficient number of NGOs and service providers that have adequate infrastructure and capacity (equipment, staff, MIS, accounting) to implement and complete project outcomes and in a cost-effective manner.</li> <li>• Quality is maintained in the selection of grant projects</li> </ul>

# Annex I

LOGICAL FRAMEWORK			
NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<b>II. LEARNING AND DISSEMINATION</b>  - Improve understanding about the effectiveness of business alliances projects - Assess the suitability of replicating the Program model - Promote the use of best practices in business alliances, increase interest in and support for business advisory services, and encourage the growth of partnerships involving the non-profit, governmental and private sectors	<ul style="list-style-type: none"> <li>14 case studies developed based on project experiences</li> <li>30 projects approved within the first 30 months after contract signature</li> <li>6 national and 1 international seminar</li> <li>2 publications and 14 case studies</li> </ul>	<ul style="list-style-type: none"> <li>Program management information systems</li> <li>Project reports</li> <li>Project reports</li> </ul>	<ul style="list-style-type: none"> <li>NGOs proved to be effective partners</li> </ul>
<b>COMPONENTS</b>			
<b>ACTIVITIES</b>  <b>Comp. 1: PROMOTION AND FUND Promotion</b> Launching events in each country Promotional material Internet site design Press releases <b>Fund</b>  <b>Comp. 2: LEARNING</b>  <b>Experts on M&amp;E</b> <b>Implementing M&amp;E methodology and indicators</b> Workshop to train country representatives Design M&E tools Design MIS based on internet <b>Workshop to improve implementation</b> Presentation of best practices and lessons learned <b>Dissemination of best practices and lessons learned</b> Six national seminars International conference Development, presentation and distribution Publishing a book	\$589,700     \$8,000,000     \$126,300 \$13,260   \$9,000  \$62,760		