

TC Document

I. Basic Information for TC

▪ Country/Region:	BRAZIL
▪ TC Name:	Increasing Foreign Trade Inclusion in Brazil
▪ TC Number:	BR-T1444
▪ Team Leader/Members:	Estrazulas De Souza, Francisco Hugo (INT/TIN) Team Leader; Deregibus, Bernardo (ORP/REM); Esteves, Yasmin (INT/INT); Gomez Gonzalez, Maria Margarita (INT/TIN); Isabel Williamson, David Alejandro (ORP/GCM); Mourino Aoun, Isabela Maria (ORP/REM); Oliveira Andrade, Rafael (INT/TIN); Piereck, Guilherme C. (INT/TIN); Quilez Llopis, Alba (INO/FNP); Rospide, Maria De La Paz (INT/TIN); Vasquez Ochoa, Manuela (INT/TIN); Verissimo Da Silva, Carolina (LEG/SGO) De Souza, Francisco Hugo (INT/TIN) Team Leader; Deregibus, Bernardo (ORP/REM); Esteves, Yasmin (INT/INT); Gomez Gonzalez, Maria Margarita (INT/TIN); Isabel Williamson, David Alejandro (ORP/GCM); Mourino Aoun, Isabela Maria (ORP/REM); Oliveira Andrade, Rafael (INT/TIN); Piereck, Guilherme C. (INT/TIN); Quilez Llopis, Alba (INO/FNP); Rospide, Maria De La Paz (INT/TIN); Vasquez Ochoa, Manuela (INT/TIN); Verissimo Da Silva, Carolina (LEG/SGO)
▪ Taxonomy:	Research and Dissemination
▪ Operation Supported by the TC:	n/a
▪ Date of TC Abstract authorization:	n/a
▪ Beneficiary:	The Federative Republic of Brazil
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	Cofinancing Special Grants(COF)
▪ IDB Funding Requested ¹ :	US\$398,015.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	3 years
▪ Required start date:	July 2020
▪ Types of consultants:	Firms and individuals
▪ Prepared by Unit:	INT/TIN-Trade & Investment
▪ Unit of Disbursement Responsibility:	INT-Integration and Trade Sector
▪ TC included in Country Strategy (y/n):	No
▪ TC included in CPD (y/n):	No
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Economic integration; Gender equality; Diversity

II. Objectives and Justification of the TC

- 2.1 “Brazil has learned that intensification and facilitation of trade is an opportunity to resume growth, create jobs, and improve access to capital whilst reducing poverty and increasing productivity.”²

¹ These funds will be administered by the IDB through a non-reimbursable project-specific grant (PSG). The Palladium Group will contribute 317,197 GBP at the exchange rate of 0.796 as of July 14th, 2020.

² Statement of Requirements Brazil Prosperity Fund Programme - Increasing Foreign Trade Inclusion and Efficiency in Brazil.

- 2.2 However, foreign trade in Brazil is currently highly concentrated and difficult. According to data released by the Ministry of Economy of Brazil, only 1.3% of companies are responsible for 94% of Brazilian foreign trade³. Most of these are foreign multinational firms operating in Brazil and large Brazilian multinationals such as WEG, Petrobras and Embraer.
- 2.3 Micro, Small and Medium Enterprises (MSMEs), which constitute 99% of Brazilian firms, represent only 5% of the total value of Brazilian exports⁴. According to an IDB study, MSMEs that export pay salaries 42% higher, sell 55% more, are 54% more productive, generate 246% more employment, and are, therefore, more conducive to social mobility⁵. This represents a significant unexploited potential for the country's economy.
- 2.4 Another IDB study⁶ revealed that key barriers preventing LAC MSMEs from trading internationally are: (i) "informational asymmetries serving global markets, ranging from information on partner reliability to acquiring and internalizing core information on market demand"; (ii) "lack of (...) a management team with an international background, that drives high-trust high-touch relationships with key channels and buyers, and creates adaptive process and product innovations by improving on existing technologies and codifiable knowledge"; and (iii) access to finance ("LAC MSMEs face among the world's highest collateral requirements and net interest margins, and these firms also pay significantly higher interest rates than do their larger counterparts"). IDB Group has been working on overcoming this last point through sovereign guarantee lending operations that fund financing programs for SMEs via development banks, as well as through IDB Invest operations, such as the Trade Finance Facilitation Program and Supply Chain Financing operations.
- 2.5 To help remove these barriers and increase MSME internationalization in LAC, IDB has created ConnectAmericas.com (CA), a social media platform where business representatives can post or apply to international purchasing announcements, access learning materials, and apply to receive financing. CA has 389,950⁷ registered businesspeople that have reported over US\$700 million in transactions. There are currently 10,031 registered firms from Brazil in CA.
- 2.6 In 2016 CA launched CA for women, a section of the platform dedicated to women entrepreneurs where users can find purchasing announcements from buyers looking to source from women owned or women managed business, as well as learning materials specifically dedicated to this audience.
- 2.7 The United Kingdom Foreign and Commonwealth Office has launched a UK Prosperity Fund program called Increasing Foreign Trade Inclusion and Efficiency in Brazil. This program "aims to support Brazil's economic development by (i) reducing the costs of trade; and (ii) increasing participation of Brazilian MSMEs in global value chains. The Program's MSME-focused interventions target geographical areas and types of

³ Ministério da Economia, Indústria, Comércio Exterior e Serviços - <http://www.mdic.gov.br/index.php/comercio-exterior/estatisticas-de-comercio-exterior/outras-estatisticas-de-comercio-exterior>.

⁴ [DataSebrae Exportação](#).

⁵ Inter-American Development Bank, Going Global: Promoting the Internationalization of Small and Mid-Size Enterprises in Latin America and the Caribbean, 2014.

⁶ Inter-American Development Bank, Going Global: Promoting the Internationalization of Small and Mid-Size Enterprises in Latin America and the Caribbean, 2014.

⁷ 06/19/2020 cut.

businesses where it can make the greatest contribution to poverty reduction and women's economic empowerment.⁸ One of the key deliverables of the program in the MSME component is the creation of the Global Trade Hub (GTH), a virtual one-stop shop of online services to exporters—that is, a single centralized digital solution that integrates and pilots new or improved (existing) MSME trade support services provided by government agencies and private organizations. Also, in Year One, the program will implement three pilots. Pilot A will focus on connecting MSMEs with Anchor Exporters located in Brazil, Pilot B will connect MSMEs with corporate buyers abroad (B2B), and Pilot C will connect MSMEs with direct consumers. The program will be implemented by a consortium led by The Palladium Group, in partnership with EY, Endeavor, Procomex, USP, OCO, Hamburg Port Consulting, Nextrade and IDB⁹, through ConnectAmericas.com.

- 2.8 The effects of the COVID-19 pandemic in the Brazilian economy have been profound. The IMF projects a 9.1% decrease in Brazilian GDP in 2020¹⁰. Data released by the Brazilian Institute of Geography and Statistics in July 2020 shows that 715,400 MSMEs have been forced to close due to the pandemic¹¹. Exports have dropped 6.7% in 2020. Exports in the top 5 sectors for Brazilian MSMEs have dropped 25.2% this year. Also, social distancing and travel restrictions have led to the cancellation of fairs, business events and international trade missions.
- 2.9 These effects highlight the need for programs that provide business and learning opportunities for MSMEs via online channels. Business Support Organizations such as Sebrae, Apex-Brasil and CNI have shifted more of their efforts toward strengthening the companies' digital capabilities and providing tools such as online business and networking events, e-learning. This TC aim to help increase the impact of these efforts.
- 2.10 **Objective.** The objective of this TC is to increase foreign trade in Brazil by increasing the participation of Brazilian MSMEs in foreign trade, and facilitating access to trade-related business support services provided by government agencies and private organizations. To this end, the resources of this TC will fund activities related to the implementation of Pilot B and the GTH. These activities can be structured in three areas: (i) scale up the use of CA by MSMEs and CA Local Partners in Brazil; (ii) the organize five online business matchmaking events (*rodadas de negocios*); and (iii) support the conceptualization, development and governance of the Global Trade Hub (GTH), and the integration of CA into the GTH (APIs¹², Single Sign On, webservices, etc.).
- 2.11 **Alignment.** These objectives and areas of focus are aligned with the Bank's "Update to the Institutional Strategy 2010-2020" (AB-3008) as they address several of the structural and emerging development challenges the Bank is working to tackle. Firstly, it seeks to address: (i) low social mobility; and (ii) gender- and minority-based

⁸ Statement of Requirements Brazil Prosperity Fund Programme - Increasing Foreign Trade Inclusion and Efficiency in Brazil.

⁹ The Administrative Agreement between IDB and The Palladium Group is under negotiation.

¹⁰ IMF.

¹¹ <https://www.nexojournal.com.br/expresso/2020/07/20/Qual-o-impacto-a-longo-prazo-do-fechamento-de-pequenas-empresas>.

¹² A set of programming tools that enables a program to communicate with another program or an operating system, and that helps software developers create their own applications - <https://www.oxfordlearnersdictionaries.com/definition/english/api>

exclusions¹³. On this front, this TC focuses on strengthening international trade and management related skills of MSMEs, with particular focus on MSMEs owned by women and minorities, in order to reduce gender- and minority-based exclusions in labor markets. Also, as described before, MSMEs that export is more conducive to social mobility, as they generate more employment and pay better salaries than non-exporting MSMEs. Also, through the development of the GTH, the program will strengthen the capacity of the public sector to deliver services by providing a one-stop shop where users will be able to quickly find and engage trade-related support services.

- 2.12 Secondly, this TC seeks to tackle one of the key causes of the limited economic integration: high concentration of exports in few volatile commodities or unsophisticated manufactures (p.4). On this front, the TC will focus on collecting, publishing, and disseminating purchasing announcements from importers and anchor exporters that will focus on value-added goods and services, thus helping decrease the dependence on commodities and unsophisticated manufacturing. In addition, the TC would create contents focusing on standards, certifications and good practices required for products with added value, and services, thus, generating and disseminating information that can contribute to increased market access for these value added products and services.
- 2.13 Thirdly, this TC is aligned with the IDB Brazil Country Strategy 2019-2022 (GN-2973). Specifically, it is aligned with the strategic priority “Promote national and international integration to boost productive capacity” in that the activities are aimed at increasing the internationalization of MSMEs. It is also aligned with the cross cutting issues of “gender and diversity”, since the programme is focusing on “inclusive” trade, and “innovation and digital transformation”, since the programme is providing technology tools to facilitate the internationalization of MSMEs. The TC is also aligned with the “promote greater competitiveness” strategic objective set out in the Country Strategy. The program will disseminate information and facilitate access to services aimed at lowering costs associated to exporting from Brazil. By lowering these costs, the program seeks to contribute to making Brazilian MSMEs more competitive internationally.
- 2.14 Finally, this TC is also aligned with the Integration and Trade Sector Framework Document (GN-2715-11). Specifically, the TC focuses on the following principles that guide IDB’s work on trade and integration: (i) support for small and medium-sized companies in their internationalization processes; and (ii) specific consideration of gender and climate change with a view to promoting the sustainability of the interventions¹⁴.
- 2.15 **INT relevant experience.** INT has been managing CA since its launch in 2014. Thus, the CA team possesses proven experience in the (i) production and dissemination of contents required for the Program (purchasing announcements, articles, videos, etc...); (ii) the design, dissemination and implementation of virtual and offline business matchmaking events; and (iii) the design, development, dissemination, and evaluation of online platforms to help MSMEs export. Also, since its launch, CA has been working

¹³ Inter-American Development Bank, IDB’s Update to the Institutional Strategy 2010-2020 (March 2015), pg. 4.

¹⁴ Inter-American Development Bank, Integration and Trade Sector Framework Document (October 2019), pg. 32.

closely with local business organizations in Brazil (including, APEX, CNI, SEBRAE) and government agencies (Ministry of the Economy, Ministry of Foreign Affairs, Ministry of Agriculture). CA has 35,120 registered users from Brazil.

III. Description of activities/components and budget

- 3.1 **Component I. Scale up CA in Brazil (US\$250,000).** This component aims to enable business connections between Brazilian MSMEs and International Buyers through CA. To that end, this component will use the funds to engage consultants to carry out the following activities: (i) produce purchasing announcements from foreign buyers looking to source from Brazilian MSMEs; (ii) produce e-learning materials (i.e. videos, articles, self-assessment tools) on foreign buyer standards and requirements, and other relevant trade matters; (iii) disseminate purchasing announcements and learning materials; (iv) support MSMEs in their applications to purchasing announcements and verification process; and (v) manage relationships with buyers. All these activities are to be carried out in close coordination with other consortium members of the UK Prosperity Fund program and local partners.
- 3.2 **Component II. Organize five online business matchmaking events (US\$80,099).** The resources of the TC allocated to this Component will be used to (i) engage a provider for an online business matchmaking platform; (ii) engage consultants to coordinate the organization and dissemination of the events; and (iii) engage external providers such as designers, public relations firms, online marketing providers to promote the events. All these activities are to be carried out in close coordination with local partners, which will be co-organizers of the events.
- 3.3 **Component III. Support GTH development, governance, and CA integration (US\$48,015).** The IDB will use its experience and expertise in the development of CA, an online trade platform for MSMEs, to engage consultants to support the conceptualization, development and governance of the GTH, and the implement the integration of CA features into the GTH¹⁵. To achieve that, the resources of this Component will fund advising services to: (i) participate in Design Sprint sessions; (ii) support live user feedback collection; (iii) advise on data visualization and dashboard design; (iv) advise on the MSME Global Trade Hub Management and User Support; (v) support on the GTH marketing and dissemination efforts; and (vi) support the GTH Technical Secretariat¹⁶.

Indicative Budget (in \$US)

Activity/Component	Description	PSG Funding	Total Funding
Component I	Produce purchasing announcements Produce learning materials Dissemination Support Coordination with consortium and local partners	250,000	250,000
Component II	Online matchmaking platform Coordination of events Marketing and dissemination	80,099	80,099
Component III	Support GTH design Integrate CA into GTH	48,015	48,015

¹⁵ These features are to be defined during the implementation of this TC. The APIs and webservices through which the CA features can be made available on the GTH have already been developed. Such development is not an activity to be funded by this TC.

¹⁶ This activity entails the participation in steering committee meetings, and support decision-making.

Administration Fee	5%	19,901	19,901
TOTAL		398,015	398,015

- 3.4 The Palladium Group expects to commit 317,197 GBP to this project, which is equivalent to US\$398,015, based on the exchange rate 0.796 as of July 14th, 2020¹⁷. Final resources in US dollars will be dependent on the exchange rate of the date when the resources are received by the Bank and converted into US Dollars. If a significant adverse fluctuation in the exchange rate reduces the amount of US dollars in this budget and such amount cannot be covered by the contingency line, the project activities will be decreased appropriately and the budget will be adjusted accordingly by the project team.
- 3.5 Resources of this project are to be received from The Palladium Group through a Project Specific Grant (PSG). A PSG is administered by the Bank according to the “Report on COFABS, Ad-Hocs and CLFGS and a Proposal to Unify Them as Project Specific Grants (PSGs)” (Document SC-114). As contemplated in these procedures, the commitment by The Palladium Group will be established through a separate Administration Agreement. Under such agreement, the resources for this project will be administered by the Bank and the Bank will charge an administrative fee of 5% of the contribution, which is duly identified in the budget of this project. The administration fee will be charged after the contribution had been received.

IV. Executing agency and execution structure

- 4.1 In light of the “Research and Dissemination” taxonomy of this TC, and in accordance with the policies and guidelines applicable to TCs (documents GN-2470-2 and GN-2629-1), this operation will be executed by the Trade and Investment Division (INT/TIN) of the Inter-American Development Bank.
- 4.2 The Integration and Trade Sector has designed, developed, disseminated, and managed ConnectAmericas.com platform, the online platform that will be used to enable business connections, disseminate technical contents, and monitor and evaluate the program.
- 4.3 The project team will be responsible for the preparation and submission to the donor of the project reporting. If at the end of project execution the project closed with a positive uncommitted and unspent balance, the project team will be responsible for informing ORP/GCM to transfer the unspent balance as agreed to by the donor and the Bank pursuant the terms of the PSG Administration Agreement.
- 4.4 INT/TIN will be responsible for the technical aspects of the project, and basic administration.

V. Major issues

- 5.1 The success of the project will depend on a significant level of engagement and participation of users and relevant local stakeholders, including the Brazilian Trade Promotion Organization (TPOs) and other business support organizations. The operation will mitigate the risk by engaging these users and stakeholders in the activities from the start of the TC and through an intensive promotion strategy during the preparation of the Components.

¹⁷ <https://fxratesr.iadb.org/>.

VI. Exceptions to Bank policy

6.1 No exceptions to Bank policies were identified.

VII. Environmental and Social Strategy

7.1 This operation does not present environmental and social risks as its main activities are centered in the use of an internet-based platform designed to offer MSMEs access to (i) purchasing announcements from international buyers; (ii) learning materials; and (iii) relevant information about financing. This operation has been classified under the "C" category in accordance with the Environment and Safeguards Compliance Policy (OP-703) (see [Safeguards Analysis Report](#) and [Safeguard Policy Filter Report](#)).

Required Annexes:

[Results Matrix_35876.pdf](#)

[Terms of Reference_22174.pdf](#)

[Procurement Plan_93857.pdf](#)