

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

**REGIONAL
(BOLIVIA, BRAZIL, PARAGUAY)**

**SUPPORT FOR COMPETITIVE INTEGRATION
OF THE BORDER REGION**

(RG-M1170)

DONORS MEMORANDUM

This document was prepared by the project team consisting of: Claudio Cortellese (MIF/OPS) Project Team Leader; Natalia Laguyás (MIF/OPS); Oscar Farfán (MIF/DEU); Ismael Gilio (MIF/CBR); Camille Ponce (MIF/CBO); Carlos Ortiz (MIF/CPR); and Anne Marie Lauschus (LEG/NSG).

CONTENTS

EXECUTIVE SUMMARY

I.	FRAME OF REFERENCE	1
A.	Frame of reference.....	1
B.	Opportunities and challenges for crossborder business development	2
C.	Rationale and additionality	4
II.	OBJECTIVE AND DESCRIPTION.....	5
A.	Objectives	5
B.	Description.....	5
Component 1:	Network creation and capacity development	5
Component 2:	Access to business development services.....	5
Component 3:	Support for development of sustainable and innovative business projects	6
Component 4:	Development of public goods	7
Component 5:	Monitoring, lessons learned, and dissemination of outcomes	7
III.	COST AND FINANCING	8
IV.	PROGRAM EXECUTION	8
V.	MONITORING AND EVALUATION.....	10
VI.	BENEFITS AND RISKS.....	12
VII.	ENVIRONMENTAL AND SOCIAL CONSIDERATIONS	13

ANNEXES

Annex I	Logical Framework
Annex II	Itemized Budget

APPENDICES

Proposed resolution

INFORMATION AVAILABLE IN THE MIF/OPS FILES

Annex III	Operating Regulations
Annex IV	Timetable
Annex V	Milestone table
Annex VI	Procurement plan
Annex VII	Risk analysis

ABBREVIATIONS

AWP	Annual work plan
CAINCO	Cámara de Industria y Comercio [Chamber of Industry and Commerce]
CIRD	Centro de Informaciones y Recursos para el Desarrollo [Information and Resources for Development Center]
LED	Local economic development
LEU	Local Execution Unit
LSC	Local Steering Committee
MS	Mato Grosso do Sul
MSE	Micro and small enterprise
PMU	Project Management Unit
PSR	Project status report
SEBRAE	Serviço Brasileiro de Apoio à Micro e Pequena Empresa [Brazilian Microenterprise and Small Business Support Service]

**REGIONAL
(BOLIVIA, BRAZIL, PARAGUAY)
SUPPORT FOR COMPETITIVE INTEGRATION
OF THE BORDER REGION
(RG-M1170)**

EXECUTIVE SUMMARY

Executing agency:	Serviço Brasileiro de Apoio à Micro e Pequena Empresa de Mato Grosso do Sul [Brazilian Microenterprise and Small Business Support Service of Mato Grosso do Sul] (SEBRAE/MS)	
Beneficiaries:	680 microenterprises and small businesses located in the border region of the state of Mato Grosso do Sul, Brazil, with Bolivia and Paraguay, which will be integrated into the supply chains of the food, forestry, tourism, and mining/iron and steel industries as suppliers to anchor companies, as well as other sectors conducive to productive development.	
Financing:	MIF	US\$1,000,000 (35%)
	SEBRAE Nacional	US\$1,000,000 (35%)
	SEBRAE/MS	US\$ 500,000 (18%)
	Other	US\$ 334,000 (12%)
	Total	US\$2,834,000
Project objectives:	<p>The border region of the state of Mato Grosso do Sul with Paraguay and Bolivia is very rich in natural resources and part of a major logistics hub. However, despite the potential growth that might derive from economic integration of this region, there are large low-income population segments, mainly on the Paraguayan and Bolivian sides.</p> <p>The project's <u>general objective</u> is to promote the sustainable, integrated economic development of the two selected border regions of Brazil with Bolivia and Paraguay, taking their border status as an opportunity to expand productive relationships. The <u>specific objective</u> is to foster the competitiveness of micro and small enterprises (MSEs) in these areas, facilitating their integration into supply chains and networks with large anchor companies.</p>	
Execution timetable:	Execution period:	42 months
	Disbursement period:	48 months

Special contractual clauses:

As conditions precedent to the first disbursement, the following will be provided to the Bank's satisfaction: (i) the general project execution plan and annual work plan (AWP) for the first year of the project; (ii) evidence that the project Operating Regulations are in force; and (iii) evidence that the Project Manager has been selected. The executing agency, SEBRAE/MS, will be responsible for providing a comprehensive AWP covering all project activities, even those conducted by subexecuting agencies.

Activities to be executed by the subexecuting agencies will be eligible for financing, provided that they meet the following criteria: (i) the subexecuting agency in the relevant country has signed a collaboration agreement with the executing agency consistent with the principal points of the agreement between the executing agency and the IDB for this project; and (ii) a project execution plan and annual work plan for the first year have been submitted for the activities to be conducted by the subexecuting agency

Environmental and social impact review:

The Environmental and Social Impact Review Secretariat (ESR) approved this operation on 12 August 2009. The operation was classified as category "C."

Coordination with other donors:

The project will be partially cofinanced by the German Agency for Technical Cooperation (GTZ).

Exceptions to Bank policy:

None.

I. FRAME OF REFERENCE

A. Frame of reference

- 1.1 The state of Mato Grosso do Sul (MS), created in 1979, is located in midwestern Brazil and borders on Brazil's major production and consumer centers of Minas Gerais, São Paulo, and Paraná. In addition, MS is situated on the routes to the Argentine markets through the La Plata river basin,¹ and has access to the Atlantic and Pacific Oceans through the Andean countries over the South Interoceanic Highway Corridor.²
- 1.2 The territory along the Brazilian border with Paraguay and Bolivia is quite extensive and very diverse: dry and natural (the Paraguay River with the Pantanal Biome), facilitating interaction and exchange, especially in services and trade. "Twin" cities—urban centers face-to-face on either side of the border—have been developed in these two areas. In particular, this project will focus on the area around the cities of Ponta Porã, (Brazil) and Pedro Juan Caballero (Paraguay) on Brazil's border with Paraguay; and on the area around the cities of Puerto Suárez (Bolivia) and Corumbá (Brazil) on Brazil's border with Bolivia.³
- 1.3 The proposed project is aligned with the Border Region Development Program of the Brazilian Ministry of Integration, which pursues priority regional development actions and crossborder projects in partnership with neighboring countries of South America to facilitate regional integration.⁴
- 1.4 **Sociodemographic aspects.** Over the last 60 years, the population of the state of MS has increased nearly tenfold, far above the fourfold increase in the population of Brazil. This is due to the wave of immigration from bordering states and countries, transforming MS into a decongestion point for states such as São Paulo

¹ The world's fifth largest watershed, covering a significant part of Argentina, Brazil, Bolivia, and Uruguay and the entire country of Paraguay (Link to map [La Plata River Basin](#)).

² This route is an integration and development hub involving Brazil, Bolivia, Peru, Chile, Argentina, and Paraguay.

³ The team has limited the project's target area to those two territories, given their greater economic uniformity and development potential according to the sector diagnostic assessments already done on the Brazilian side (e.g., forest planting management, SEBRAE/ Sustainable Tree Crop Program (STCP)) and on the Paraguayan side (Tourism Master Plan, Ministry of Tourism (SENATUR)). Other "twin" centers along the Paraguay-Brazil border are: Salto de Guaira, Belha Vista, Ipe-Jhu, Capitán Bado, and Carmelo Peralta in Paraguay; and Mundo Novo, Bela Vista, Paranhos, Coronel Sapucaia, and Porto Murtinho on the Brazilian side (link to [map](#)).

⁴ The project proposal has been shared with the Bolivian and Paraguayan authorities and private sector representatives, who have confirmed the region's interest in this project; in Bolivia: Ministry of Foreign Relations, PROBOLIVIA, PROMUEVE BOLIVIA, and the Chamber of Industry and Commerce (CAINCO); in Paraguay: Centro Integral de Apoyo a las Micro, Pequeñas y Medianas Empresas [Integral Support Center For Micro, Small and Medium-sized Enterprises] (CIAMP), Servicio Nacional de Promoción Profesional [National Professional Promotion Service] (SNNP), and the NGO Centro de Informaciones y Recursos para el Desarrollo (CIRD).

and Paraná.⁵ A second noteworthy aspect is the high percentage of poor population in this border region.⁶ This situation is even more serious in Bolivia and Paraguay because their border regions are less developed, with fewer basic services, making the activation of sustainable mechanisms for access to basic services, employment and business development more urgent.

- 1.5 **Productive structure.** Like most of the state of MS, this border area is known for beef cattle farming, a sector that creates relatively few jobs and increases income concentration. Moreover, the intensive industrialization of the 1990s—based on proximity to large consumption and production centers and the abundance of mineral resources and raw materials—has transformed the state’s productive structure. The most significant productive clusters in the border region can be grouped into four supply chains being developed on both sides of the border: Foods, with specific emphasis on beef, pork, and poultry production; Forestry, focusing on pulp for cellulose and civil construction (on the Brazil-Paraguay border) and wood for power generation (charcoal); Mining, with a focus on mineral extraction/processing and iron and steel production (Bolivia and Brazil); and Tourism, which cuts across several different lines of trade and services (Bolivia, Brazil and Paraguay).⁷ Ecotourism potential is provided by Bonito and Pantanal, while the Pantanal/Pacific highway joins the local tourist routes to the main gateways to Machu Picchu in Peru. In addition to the aforementioned supply chains, regarded as emerging, other sectors are also conducive to economic development in the territories.

B. Opportunities and challenges for crossborder business development

- 1.6 In order for MSEs also to profit from the relative economic uniformity of these border regions and the competitive advantages they offer, they need to increase in scale by joining together or integrating into value chains. This business partnering can be developed as part of the technological, organizational, and product quality standardization process. The border regions exhibit several positive factors for achieving greater integration:

⁵ According to the Instituto Brasileiro de Geografia e Estatística [Brazilian Geography and Statistics Institute] (IBGE), in 2007, 29.2% of the population residing in the state were not natives of MS (Pesquisa Nacional por Amostra de Domicílios [National Household Sample Survey] (PNAD 2007), and 60% came from those two states; in the last 7 years, 242,000 migrants moved from São Paulo, and 145,000 from Paraná.

⁶ A great number of the municipalities in this area of MS have low revenues and municipal GDP growth below the state average. Política Nacional de Desenvolvimento Regional [National Regional Development Policy] (PNDR), Ministry of Integration.

⁷ Large companies operate in the border region, such as the Vale mining company (which also bought the Rio Tinto facilities), Vetorial Siderurgia (which acquired the MMX metals facilities), and Jindal Steel & Power; food producers such as Gravetal (oils and flours) and Sadia (which was recently bought by Perdigão, becoming the world’s largest food producer); agroenergy companies such as Louis Dreyfus and Bunge (ethanol, sugar, and power); Votorantin and Itacamba in cement; and smaller reforestation companies.

- a. Integration initiatives already well underway, such as the joint projects between cities in the three countries, many with public and private participation.⁸
 - b. The presence of large anchor companies in several sectors that leverage the competitive advantages provided by the availability of natural resources;
 - c. Budding environmental awareness. Preventive action initiatives indicating that interest in environmental management is also shifting among SMEs.⁹
 - d. Integration and planning experience in service offerings in MS, particularly involving the largest entities—SEBRAE; the Mato Grosso do Sul Federation of Industries (FIEMS) (which provides the services of Instituto Euvaldo Lodi (IEL)), the National Industrial Education Service (SENAI); the Industry Social Service (SESI); and the state government through the Department of Production. This initial collaboration has made it possible to avoid an overlap of initiatives and to increase the impact of the promoted initiatives, as in the case of the SEBRAE-IEL joint project to develop suppliers for the forestry chain, specifically in paper and cellulose production
- 1.7 However, at the same time, there are **constraints on the development of the region and the MSEs**, the most significant being:
- a. The technological lag of small businesses throughout the border region, but particularly on the Paraguayan and Bolivian sides. This problem, reflected in the low quality of goods and services produced, limits the MSEs' opportunities to join the large companies' supply chains.
 - b. The presence of poor population segments with low literacy levels, especially on the Bolivian and Paraguayan sides, as well as the low density of formal enterprises, making it more difficult to integrate these regions' economies and increase production and local employment.
 - c. The lack of support services for MSE development in Paraguay and Bolivia, which are only partially supplied by SEBRAE/MS through its offices in Corumbá and Ponta Porã, but currently lacking an opportunity to adapt offerings to the more specific needs of the beneficiaries in the neighboring countries.

⁸ Environmental safety and conservation programs led by the municipalities of Ponta Porã (Brazil) and Pedro Juan Caballero (Paraguay), along with the NGO Paz y Desarrollo: (i) dissemination of good practices in solid waste management; and (ii) preservation of water supply systems and conservation of two ecological corridors, as well as the management plan for five environmental conservation areas (Ponta Porã/MS, Antonio João/MS, Bela Vista/MS, Caracol/MS, and Porto Murtinho/MS) and two parks, Bella Vista/Paraguay and Cerro Bravo/Paraguay.

⁹ One example is the initiative of the Corumbá Association of Metallurgical, Mechanical and Electrical Material Industries, which organized a group of 15 companies to help small enterprises adjust to the law on environmental licenses.

- 1.8 Many of these factors are related to the partnering and coordination efforts needed both in MS—for efficiency and impact gains—and among institutions in the three countries in order to better integrate the supply of services and relevant business and international trade issues. Other factors related to violence or illegal activities in the border area pose a risk for the project; however, there are clear policing initiatives on the part of the authorities in all three countries.

C. Rationale and additionality

- 1.9 Small businesses have very low productivity levels reflected in low wages, further widening the social gap that has been a byproduct of Mato Grosso do Sul's accelerated industrialization process. In the border region, these factors are amplified by the population's precarious living conditions and scarcer services, support institutions, and development tools, especially in Paraguay and Bolivia.
- 1.10 On the other hand, the MS border region presents opportunities for productive development based on economic integration that can facilitate MSE development, increased employment, and the economic inclusion of lower income sectors. By making investments on both sides of the border, the large companies avail themselves of the border region's competitive advantages, capitalizing on the presence of similar natural and environmental resources on both sides of the border and on MS's economic infrastructure and location, which allows the area to serve as a product redistribution center for midwestern and northern Brazil and the bordering countries. These conditions justify the efforts needed to promote a deeper development process for this region, strengthening economic integration and facilitating the development of MSEs and the integration of lower income sectors into the formal economy by developing supply chains and other intercompany collaboration initiatives.
- 1.11 In this context, the MIF, along with SEBRAE Nacional and the SEBRAE office in Mato Grosso do Sul, propose to lead a process of coordination and development of tools and initiatives to support MSE competitiveness in all three countries. Because the border region context creates specific difficulties, and even solid institutions such as SEBRAE have difficulty operating at the international level since they are national entities, the MIF's participation will be essential for strengthening or implementing specific, uniform initiatives in the selected regions, facilitating dialogue among the various public and private entities that support small businesses in the three countries.¹⁰
- 1.12 Moreover, the MIF can contribute important knowledge and experience regarding projects to develop dynamic competitive advantages at the subnational level. This project is part of the "Local Competitiveness" cluster, and the first in the cluster to focus on a border region, taking on the challenge of working in areas straddling more than one country.

¹⁰ Thus, the MIF's contribution will principally finance activities in Bolivia and Paraguay.

II. OBJECTIVE AND DESCRIPTION

A. Objectives

- 2.1 The project's general objective is to promote the sustainable, integrated economic development of the two selected border regions of Brazil with Bolivia and Paraguay, taking their border status as an opportunity to expand productive relationships.¹¹ The specific objective is to foster the competitiveness of micro and small enterprises (MSEs) in these areas, facilitating their integration into supply chains and networks with large anchor companies.

B. Description

Component 1: Network creation and capacity development

- 2.2 The objective of this component is to develop local capacity and coordination between institutions and between companies, reinforcing implementation of the project's more specific components. It also includes activities related to the creation and maintenance of the Local Steering Committees (LSCs) made up of the project's various stakeholders (see paragraph 4.6). The following activities will be supported:
- a. diagnostic assessment of the selected border regions and mapping of institutions, including a better definition of the business services market, the demand, and the businesses' needs;
 - b. training and technical assistance for the technical teams from public and private institutions of the regions in such areas as: (i) local economic development, to equalize language and knowledge; (ii) design and management of productive development projects; and (iii) strategic and participatory planning.
 - c. support for the creation of business networks, horizontally integrating groups of enterprises, as well as facilitating their incorporation into specific value chains. To achieve this, the component will train network facilitators who will work to raise awareness, build confidence, and manage the enterprise networks.

Component 2: Access to business development services

- 2.3 The objective of this component is to strengthen and adapt the service offerings to MSEs, particularly those that have created networks or joined the project's priority supply chains. The idea is to put the business service offerings on both sides of the border on an equal footing through an Integrated Service Center (virtual environment), possibly enhancing their quality and efficiency, as well as the level of the businesses' access to them. The following activities are planned:

¹¹ This project will focus on the areas around the cities of Ponta Porã (Brazil) and Pedro Juan Caballero (Paraguay); and the cities of Puerto Suárez (Bolivia) and Corumbá (Brazil).

- a. Development and transfer of training and technical assistance products and methodologies based on SEBRAE's experience and adapted to local circumstances, according to the needs and features of the border region's businesses.
- b. Implementation of business services, giving priority to the training and technical assistance activities included in the action plans of the business networks developed in Component 1, and those intended for companies in the value chains served by the project. This also includes the deployment of basic business services (financial and production management, human resources, etc.).
- c. Economic inclusion and employment for the most vulnerable sectors. The project will support training and awareness actions such as events, basic employment courses, and technical training courses. Activities will include training initiatives aimed specifically at the indigenous population, so that they can also take advantage of the opportunities associated with the integration process and the opening of broader markets.

Component 3: Support for development of sustainable and innovative business projects

- 2.4 The objective of this component is to promote innovation at companies belonging to the priority productive sectors, as well as the strengthening of value chains.¹² A grant facility will be created to finance specific training and technical assistance projects for the businesses and/or support them in the preparation of larger-scale innovation projects so that they can access any available public funds.
- 2.5 The grant facility's beneficiaries will be collective projects of businesses, with preference given to joint proposals by enterprises from at least two countries relating to the priority productive sectors and supply chains. Project selection will be by a Technical Committee created by the countries involved, consisting of up to five professional staff from public or private sector institutions, based on the following criteria: (i) the proposal must be innovative for the region in question; (ii) it must have significance beyond the beneficiary companies; (iii) the beneficiary companies must contribute at least 30% of the proposed project's budget; and (iv) they must request a maximum support of US\$30,000. The Committee may support more expensive projects, provided that they have significant impacts in one of the following areas: local development (understood as crossborder regions), development of competitive advantages, and/or job creation.

¹² For the purposes of this project, innovation is understood to mean any cost/benefit related change implemented in an enterprise or value chain at the organizational, production, product, service, or process level that impacts the productive practices of the regions. Considering the territories' relative technological lag, the innovation promoted will largely be the transfer of best practices from other regions, generally in more developed countries.

Component 4: Development of public goods

- 2.6 The objective of this component is to improve conditions for the development of productive activities in the selected regions. Specific initiatives will be promoted that contribute to the development of competitive advantages, such as a system of economic information useful for the enterprises' decision-making¹³ or improvement in the registration of enterprises to bring them into the formal economy, simplification of customs processes, and initiatives for development of cultural assets and environmental conservation.
- 2.7 The initiatives to be financed will be identified during execution and selected by the Local Steering Committees. To be considered, initiatives must have the support of three entities (institutions and/or companies), which will contribute 30% of the total budget needed to conduct the initiative, while the counterpart will contribute up to US\$50,000, and no more than 70% of the total cost of each one. The initiatives must meet the following criteria: (i) they must have strategic value for the region's productive development; (ii) they must be collectively useful to a larger number of beneficiaries; (iii) they must be sustainable; and (iv) they must be capable of obtaining counterpart contributions from other public or private institutions.

Component 5: Monitoring, lessons learned, and dissemination of outcomes

- 2.8 The objective of this component is to record, evaluate, disseminate, and develop a method for replication/expansion of the experience. The following activities will be supported: (i) creation and maintenance of a monitoring system (including the baseline survey), based on SIMPLEd;¹⁴ (ii) seminars and events to disseminate experiences; (iii) attendance at outside events where the experience can be disseminated, and other experiences learned; and (iv) documentation of experiences for better dissemination and adaptation.
- 2.9 **Expected outcomes.** Among the most significant outcomes will be support for 680 microenterprises and small businesses located in the border regions of Mato Grosso do Sul, Brazil, with Bolivia and Paraguay (at least 40% of the beneficiary companies will be located in Bolivia and Paraguay).¹⁵ In addition, the project will support the development of sustainable integration initiatives in the three border areas; capacity building for technical assistance to MSEs on the Bolivian and Paraguayan sides; and the crossborder development of three supply chains.
- 2.10 **Sustainability.** The project's sustainability will be ensured in two ways. The first involves positive economic outcomes achieved, and relates to making the MSEs more competitive through the creation of horizontal business groups or networks

¹³ The development of an economic information system for the territories is an activity that has already been selected for financing, taking advantage of the results of the analysis included in Component 1. This system is expected to be useful as a guide for the offering of business services, local public policy and the productive sector itself.

¹⁴ SIMPLEd is a monitoring system developed for "Promotion of Local Competitiveness" cluster projects.

¹⁵ Once the baseline is set, the targets for each country will be adjusted.

and their incorporation into value chains. The second relates to the development of border regions as a favorable climate for doing business. In this second case, sustainability will be ensured by continuing the most significant initiatives to support the MSEs by the region's public and private institutions, in this case led by SEBRAE/MS.

III. COST AND FINANCING

- 3.1 The project's total cost will be US\$2,834,000, approximately one third of which will be a nonreimbursable contribution by the MIF (US\$1,000,000). The executing agency will be responsible for the counterpart resources (US\$1,834,000).¹⁶

Project Cost Table

Budget categories	MIF	Local contribution	TOTAL	%
Component 1: Network creation and capacity development	323,700	365,800	689,500	24.3%
Component 2: Access to business development services	201,700	586,400	788,100	27.8%
Component 3: Support for development of sustainable and innovative business projects	221,400	217,400	438,800	15.5%
Component 4: Development of public goods	121,500	148,000	269,500	9.5%
Component 5: Monitoring, lessons learned and dissemination of outcomes	5,700	117,000	122,700	4.3%
Project coordination	-	399,400	399,400	14.1%
SUBTOTAL	874,000	1,834,000	2,708,000	95.6%
<i>Percentage</i>	<i>32%</i>	<i>68%</i>		
Midterm and final evaluations	30,000	-	30,000	1.1%
Audits	15,000	-	15,000	0.5%
"Promotion of Local Competitiveness" cluster activities	25,000	-	25,000	0.9%
Contingencies	51,000	-	51,000	1.8%
MIF Impact Evaluation Account	5,000	-	5,000	0.2%
TOTAL	1,000,000	1,834,000	2,834,000	100%
<i>Percentage</i>	<i>35%</i>	<i>65%</i>		

IV. PROGRAM EXECUTION

- 4.1 The project funds will be managed and expended by Serviço Brasileiro de Apoio à Micro e Pequena Empresa de Mato Grosso do Sul [Brazilian Microenterprise and Small Business Support Service of Mato Grosso do Sul] (SEBRAE/MS), a private, nonprofit entity that promotes the competitiveness and sustainable development of microenterprises and small businesses.

¹⁶ Of the local contribution, US\$100,000 is part of an agreement with the German Agency for Technical Cooperation (GTZ).

- 4.2 **Execution structure.** The project structure will be based on central coordination by a Board of Directors and a Project Management Unit (PMU), and coordination in each territory by a Local Steering Committee (LSC) and a Local Execution Unit (LEU).
- 4.3 The main duty of the **Board of Directors** will be to set project strategy and provide general oversight of its execution. It will have a maximum of nine members, including representatives from SEBRAE/MS, SEBRAE Nacional, the governments of Mato Grosso do Sul, Bolivia, and Paraguay, and one representative from each of the Local Steering Committees. The Board of Directors will meet every six months and be responsible for: (i) approving the project's annual work plan (AWP), budget, and annual report; (ii) supervising progress and results, and proposing corrective measures when necessary; (iii) validating the selection processes for the initiatives included in Components 3 and 4; and (iv) facilitating the solution of problems that interfere with execution, including dispute settlement.
- 4.4 The **Project Management Unit (PMU)** will consist of a professional team selected by SEBRAE/MS and headed by a Project Manager, who will work for the project full time and report directly to the Executive Board of SEBRAE/MS, based on the decisions of the Board of Directors. The responsibilities of the PMU will include: (i) ensuring compliance with the action plans; (ii) coordinating overall project management; (iii) facilitating the exchange of experiences between the territories; (iv) supervising the work of the Local Execution Units (LEU) and local operations managers; (v) preparing the project's technical and financial reports; and (vi) processing disbursements.
- 4.5 For execution of the activities in Bolivia and Paraguay, SEBRAE/MS will enter into agreements with subexecuting entities to establish the **Local Execution Units (LEUs)**.¹⁷ These entities will be trusted and recognized by the local stakeholders, and have the minimum required infrastructure and counterpart funding or fundraising capacity. For Paraguay, this entity is the NGO Centro de Informaciones y Recursos para el Desarrollo (CIRD). For Bolivia, selection of the entity is part of a process of interaction with local private and government institutions.¹⁸ The LEUs will support the PMU in executing activities in their geographical areas of operation. In addition, the LEUs will ensure that the capacities developed and the products and methodologies transferred are implemented at local institutions.
- 4.6 Through the PMU and the LEUs, the project will support the creation of **Local Steering Committees (LSCs)** as the result of progressive involvement of the relevant local public and private institutions. The municipios, entities representing

¹⁷ The SEBRAE/MS agreement with the subexecuting agencies will establish whether, based on their capacity, they can receive funds from the contribution and carry out procurement and contracting under the supervision and at the risk of SEBRAE/MS.

¹⁸ SEBRAE Nacional and SEBRAE/MS have met on several occasions with Bolivian government and private sector entities in order to move forward in this identification process. The entities being evaluated at this time are CAINCO and the Fundación Trabajo y Empresa [Work and Enterprise Foundation].

the private sector, and anchor companies involved in the project may participate in these Committees,¹⁹ which will be responsible for local organization of the project, promoting it in the region, and strengthening its activities. Consequently, they will have to coordinate with the PMU.

- 4.7 **Disbursements.** In addition to meeting the requirements of the General Conditions of the Technical Cooperation Agreement and the Bank's standard procedures for the disbursement of nonreimbursable technical cooperation operations, project disbursements will be contingent upon the achievement of milestones, which will be set and agreed between the executing agency and the MIF during the AWP approval process along with their means of verification, which will be verified according to the agreed means. The resources will be disbursed by the procedure of advance of funds to the executing agency (revolving fund of 15% of the MIF contribution). Achievement of milestones does not exempt the executing agency from responsibility to meet the project's objectives according to the logical framework. The first advance of funds to the executing agency will be subject to the conditions established in the executive summary. The MIF may recognize against the local contribution up to US\$50,000 equivalent in expenses incurred prior to approval, but after the operation's eligibility date (19 August 2009), to finance the startup of the project management bodies, their training, and other expenses related to project startup, provided that procedures established by the Bank have been followed.
- 4.8 **Procurement and contracting.** The executing agency will procure the goods and services and contract the consulting services included in the project in accordance with Bank policies (documents GN-2349-7 and GN-2350-7, or their revised versions) and the MIF guidelines, as well as the Procurement Plan. Before project contracting and procurement begins, the executing agency will submit the Procurement Plan to the MIF for consideration, and this plan will be reviewed and updated on a six-monthly basis. Given that the executing agency received a rating of **low risk**, contracting and procurement will be subject to **ex post** review on an **annual** basis. The application and frequency of these reviews may be modified by the MIF during project execution (ex post on an annual basis, in this case) based on the findings of reviews and/or subsequent institutional assessments during project execution. If the agreement with the subexecuting agency establishes that the subexecuting agency will conduct contracting and procurement, SEBRAE/MS will be responsible for their supervision.

V. MONITORING AND EVALUATION

- 5.1 **Project status reports.** The executing agency will be responsible for delivering project status reports (PSRs) to the MIF within 30 days after the end of each six

¹⁹ Currently, the following companies have expressed a willingness to participate: Votorantim Cimentos (Corumbá, BR) and Bunge (Ponta Porã, BR); Gravitel (Puerto Suarez, BO) and Shopping China (Pedro Juan Caballero, PR).

- month period, or more frequently, and on such dates as the MIF may determine with advance notice of at least 60 days to the executing agency. These reports will follow a format previously agreed upon with the MIF and will contain information on project execution, milestones met, and completion of project objectives as stated in the logical framework and other operative planning instruments. The PSR will also describe project issues encountered during execution and outline possible solutions. Within 90 days after the end of the execution period, the executing agency will deliver a final PSR to the MIF that highlights results achieved, the sustainability plan, and lessons learned.
- 5.2 **Financial supervision.** The executing agency will establish and assume responsibility for maintaining effective financial accounts, internal control mechanisms, and record-keeping systems for the project, consistent with MIF accounting and auditing rules and policies. Given that the executing agency received a rating of **low risk**, the MIF will engage independent auditors to audit the financial statements prepared at the **end of project execution** by the executing agency, and supporting documents for disbursement requests will be subject to ex post review on an **annual basis**. The application and frequency of these reviews may be modified by the MIF during project execution based on the findings of reviews and/or subsequent institutional assessments during project execution.
- 5.3 **Evaluations.** Two evaluations will be conducted by independent consultants selected and contracted by the MIF, chargeable to the operation. The midterm evaluation will be done once 50% of the resources have been disbursed, or after 24 months of project execution, whichever occurs first; and the final evaluation, 90 days before the end of the execution period. The terms of reference for these evaluations will be prepared by the executing agency and approved by the MIF. The midterm evaluation will address the following, among other issues: (i) the effectiveness of the actions taken and the degree of completion of programmed activities and targets, along with changes in the logical framework indicators; (ii) the progress and effectiveness of the activities at the level of the two territories, including the training and activation of the LSCs; (iii) the creation of networks between enterprises and between enterprises and institutions; and (iv) the actions of the LEUs, including in relation to capacity implementation at local institutions. Based on the midterm evaluation and the six-monthly reports, the MIF, together with the PMU, may determine whether the project should be reformulated, suspended, or canceled. The final evaluation will include an analysis of outcomes achieved and examine the following: (i) the sustainability of the actions undertaken; (ii) the degree of fulfillment the project's purpose and objectives; (iii) the beneficiary public, with particular reference to the effectiveness of economic inclusion actions; (iv) the impact of the actions taken to incorporate the MSEs into networks and value chains; and (v) the projects that have generated the greatest value and can be replicated at other locations.
- 5.4 At least three months prior to the end of the project execution period, the executing agency will organize a **closing workshop** with the participation of Bank/MIF staff,

sector representatives, and others to be agreed with the MIF, in order to jointly evaluate the outcomes achieved, identify additional tasks to make the project more sustainable, and identify the lessons learned.

VI. BENEFITS AND RISKS

- 6.1 **Benefits.** By the end of execution, the project will have enabled the implementation of technical assistance and training products for Bolivian, Brazilian, and Paraguayan MSEs in the selected regions. It will also have created local organizations for coordination and collaboration between the public and private sectors with the participation of the region's leading companies to promote sustainable development opportunities for MSEs. Lastly, in addition to the outcomes described in paragraph 2.9, the project will have raised the awareness of the stakeholders involved in the decentralization processes, facilitating the sustainability of such processes.
- 6.2 **Risks.** The main risks to this operation are:
- a. Program execution in border regions. The coordination of this program assumes a very important role, because it requires not only the capacity to coordinate different entities and activities, but also to ensure the participation of the most important stakeholders in the development processes in Bolivia and Paraguay, who sometimes are not present in the beneficiary territories and regions. In order to mitigate this risk, the project calls for partnering with local institutions that have been evaluated for their ability to generate the interest of the most significant entities involved in the regions' development processes and policies. Moreover, their efforts to link to national entities have, and will continue to have, the support of SEBRAE Nacional, which regards this project as a pilot crossborder economic integration initiative.
 - b. Sustainability of the implemented initiatives. The project is based on the local entities continuing the MSE support initiatives, utilizing the tools and methodologies developed and transferred as part of execution. To mitigate this risk, Component 1 calls for strengthened training of the local entities' human resources and their progressive involvement in decision-making and conduct of the project in the corresponding region.
 - c. High levels of conflict or violence. In general, border areas are very highly subject to some degree of social instability. Although the project does not include specific activities to mitigate this risk, the focus on developing business institutions and opportunities should help to reduce it. Moreover, during project preparation, the project team confirmed the authorities' commitment to greater control of the region and collaboration between the countries for this purpose, along with a clear commitment to economic and social development.

VII. ENVIRONMENTAL AND SOCIAL CONSIDERATIONS

- 7.1 The project will help to develop economically viable, socially just, and environmentally responsible initiatives based on the delivery of technical assistance to enhance partnering between public and private entities in the border region; strengthen and adapt the service offerings available to the project's priority supply chains; and develop collective initiatives aimed at regional integration of the border. Therefore, the operation is expected to have no adverse environmental or social impact (Category "C").
- 7.2 In selecting the initiatives to be financed under Components 3 and 4, care will be taken to ensure that they comply with the MIF's exclusion list.

**SUPPORT FOR COMPETITIVE INTEGRATION OF THE BORDER REGION
(RG-M1170)
LOGICAL FRAMEWORK**

Summary of objectives	Indicators ¹	Means of verification	Suppositions
GOAL			
To promote the sustainable, integrated economic development of the two selected border regions of Brazil with Bolivia and Paraguay, taking their border status as an opportunity to expand productive relationships. ²	<p>Three years after project end:</p> <ul style="list-style-type: none"> ✓ Four activities financed by the project continue to be executed with third-party funds. ✓ 50% of the public-private partnerships remain in operation. ✓ 50% of the stakeholders recognize that there has been an improvement in the territory's assets. ✓ A 10% increase in the actual median wage offered by the beneficiary enterprises. ✓ A 3% increase in the new jobs created by the beneficiary enterprises. ✓ A 5% increase in the annual billings, for example, generated by the beneficiary enterprises. 	<ul style="list-style-type: none"> ✓ Statistics from national, regional and municipal sources. ✓ The project impact assessment (subject to MIF eligibility). ✓ Baseline established at the end of project execution. 	<ul style="list-style-type: none"> ✓ The macroeconomic and political environment remains stable. ✓ The initiative continues to have the support of the relevant public and private sector entities.
PURPOSE			
To foster the competitiveness of micro and small enterprises (MSEs) in these areas, facilitating their integration into supply chains and networks with large anchor companies.	<p>By project end:</p> <ul style="list-style-type: none"> ✓ 680 MSEs incorporated into supply chains as anchor company suppliers. ✓ 30% of the direct beneficiary enterprises made adaptations or innovations.³ ✓ 150 enterprises show improvement in their processes and products. ✓ Beneficiary enterprises gain four new clients each. ✓ US\$300,000 in additional resources are obtained to meet the project's objectives. ✓ Five activities for improving territorial assets result from the public-private partnership. 	<ul style="list-style-type: none"> ✓ Project status report (PSRs). ✓ Midterm and final evaluations. ✓ Financial reports from the entities. ✓ Monitoring system reports. 	<ul style="list-style-type: none"> ✓ Market and political conditions remain stable for the regions' businesses and institutions. ✓ No interagency power struggles threaten smooth project operations.

¹ Once the baseline is set, the targets for each country will be adjusted.

² This project will focus on the regions surrounding the cities of Ponta Porã (Brazil) and Pedro Juan Caballero (Paraguay); and the cities of Puerto Suárez (Bolivia) and Corumbá (Brazil).

³ For the purposes of this project, innovation is understood to mean any cost/benefit-related change implemented in an enterprise or value chain at the organizational, production, product, service, or process level that impacts the productive practices of the regions. Considering the territories' relative technological lag, the innovation promoted will largely be the transfer of best practices from other regions, generally in more developed countries.

Summary of objectives	Indicators ⁴	Means of verification	Suppositions
COMPONENTS			
COMPONENT 1: Network creation and capacity development Develop local capacity and coordination between the institutions and between companies, thus reinforcing implementation of the project's more specific components.	<ul style="list-style-type: none"> ✓ Number of new participating institutions (one at 12 months; three at 24 months; six at 36 months; eight at project end).⁴ ✓ Number of new participating institutions that contribute resources to the project (one at 12 months; two at 24 months; four at 36 months; five at project end). ✓ Number of activities intended to create or strengthen local capacities (one at 12 months; three at 24 months; five at 36 months; six at project end). ✓ Number of public-private partnerships created or strengthened by the project (two at 12 months; three at 24 months; four at 36 months; five at project end). ✓ Number of beneficiary enterprises involved in partnering activities (10 at 12 months; 20 at 24 months; 30 at 36 months; 40 at project end). ✓ Number of initiatives of business interest implemented (five at 12 months; seven at 24 months; 10 at 36 months; 15 at project end). ✓ Number of activities intended to support the introduction of innovations, adaptations, or similar at companies (three at 12 months; five at 24 months; 10 at 36 months; 12 at project end). ✓ Percent progress on the region's strategic plan (15% at 12 months; 30% at 24 months; 65% at 36 months; 100% at project end). 	<ul style="list-style-type: none"> ✓ PSRs. ✓ Monitoring system reports. ✓ Technical reports from consultant(s). ✓ Midterm and final evaluations. ✓ Reports from technical roundtables on tourism and production. ✓ Proof of establishment of the Local Steering Committees. 	<ul style="list-style-type: none"> ✓ Participating institutions, private enterprises and civil society organizations maintain their commitment to the established objectives.
COMPONENT 2: Access to business development services. Strengthen and adapt the service offerings to MSEs, particularly those that have created networks or joined the project's priority supply chains.	By project end: <ul style="list-style-type: none"> ✓ 20 network facilitators trained. ✓ 10 products and techniques/practices transferred to Bolivia and Paraguay. ✓ Five new products developed. 	<ul style="list-style-type: none"> ✓ PSRs. ✓ Monitoring system reports. ✓ Technical reports from consultant(s). ✓ Midterm and final evaluations ✓ Statistical reports on the production and marketing of products for each value chain promoted. ✓ Baseline. 	<ul style="list-style-type: none"> ✓ The demand for, and prices of, supply chain products do not experience a sharp decline in most of the destination markets. ✓ Participating enterprises have a minimum capacity to implement and finance productive changes based on the technical assistance received.

⁴ Cumulative indicators.

Summary of objectives	Indicators ¹	Means of verification	Suppositions
COMPONENT 3: Support for development of sustainable and innovative business projects. Promote innovation at companies belonging to the priority productive sectors, as well as the strengthening of value chains.	By 24 months: ✓ 10 innovation projects financed by the project. ✓ 15% of the beneficiary enterprises introduced innovations. ✓ 60 enterprises show improvement in their processes and products. ✓ 15% of the direct beneficiary enterprises made adaptations. ✓ Beneficiary enterprises gain two new clients each. By 42 months: ✓ 28 innovation projects financed by the project. ✓ 25% of the beneficiary enterprises introduced innovations. ✓ 150 enterprises show improvement in their processes and products. ✓ 25% of the direct beneficiary enterprises made adaptations. ✓ Beneficiary enterprises gain four new clients each.	✓ PSRs. ✓ Monitoring system reports. ✓ Technical reports from consultant(s). ✓ Records of dissemination actions. ✓ Midterm and final evaluations. ✓ Record of projects submitted.	✓ There are businesspeople and institutions interested in investing in the implementation of innovations.
COMPONENT 4: Development of public goods Improve conditions for the development of productive activities in the selected regions. Specific initiatives will be promoted that contribute to the development of competitive advantages.	During execution, and by month 24: ✓ The database that has been developed is consulted 50 times a month, allowing adjustments in service offerings and integrated attention, as well as in local policy, education networks, and productive sector strategy. By 24 months: ✓ One initiative for developing public goods in addition to the information system financed by the project. By 42 months: ✓ Five initiatives for developing public goods financed by the project. ✓ Five activities intended to strengthen the regions' goods.	✓ PSRs. ✓ Monitoring system reports. ✓ Technical reports from consultant(s). ✓ Records of dissemination actions. ✓ Midterm and final evaluations.	✓ There are businessmen and institutions interested in supporting public-private investments for promoting economic development.
COMPONENT 5: Monitoring, lessons learned, and dissemination of outcomes Record, evaluate, disseminate, and develop a method for the replication/expansion of the experience	By 6 months: ✓ Indicators needed for monitoring identified. ✓ Baseline set. ✓ Monitoring system developed. By project end: ✓ The experience has been disseminated through events, seminars, meetings, etc. to at least 50 regional and national institutions, both public and private.	✓ PSRs. ✓ Monitoring system reports. ✓ Technical reports from consultant(s). ✓ Records of dissemination actions. ✓ Midterm and final evaluations. ✓ Website.	✓ The institutions and beneficiaries are committed to the success and dissemination of the project. ✓ The project achieves visible results and generates interest in other regional and national institutions.

Summary of objectives	Indicators ¹	Means of verification	Suppositions
	<p>By 12, 24, 36 and 42 months:</p> <ul style="list-style-type: none"> ✓ Project representatives have participated in at least two events per year to disseminate the project and/or acquire knowledge (national events, project events, cluster events, etc.). ✓ 200 people a year participate in the dissemination events. <p>During execution:</p> <ul style="list-style-type: none"> ✓ The indicators set for monitoring the project's overall and specific advances have been updated every six months. <p>By 42 months:</p> <ul style="list-style-type: none"> ✓ A project documentation paper has been prepared, published, and disseminated to local and regional government officials, the private sector, and civil society. 		<ul style="list-style-type: none"> ✓ The enterprises and/or institutions provide reliable information.

**SUPPORT FOR COMPETITIVE INTEGRATION OF THE BORDER REGION
(RG-M1170)
ITEMIZED BUDGET**

	Budget categories	MIF	Local contribution	TOTAL	%
Component 1: Network creation and capacity development					
1.1	Analysis for mapping institutions, the productive system, the business services market, demand, and the enterprises' needs	37,000	82,000	119,000	4.2%
1.2	Institutional strengthening and support for partnering	264,200	228,300	492,500	17.4%
1.3	Technical assistance for the creation of enterprise networks	22,500	55,500	78,000	2.8%
Subtotal Component 1		323,700	365,800	689,500	24.3%
Component 2: Access to nonfinancial business development services					
2.1	Development of business services in the territories	55,000	123,700	178,700	6.3%
2.2	Implementation of business services	101,000	427,000	528,000	18.6%
2.3	Employability and economic inclusion	45,700	35,700	81,400	2.9%
Subtotal Component 2		201,700	586,400	788,100	27.8%
Component 3: Support for sustainable and innovative business projects					
3.1	Grant fund for innovation	221,400	217,400	438,800	15.5%
Subtotal Component 3		221,400	217,400	438,800	15.5%
Component 4: Development of public goods					
4.1	Information on productive sectors	11,500	18,000	29,500	1.0%
4.2	Initiatives to be identified	110,000	130,000	240,000	8.5%
Subtotal Component 4		121,500	148,000	269,500	9.5%
Component 5: Monitoring, lessons learned, and dissemination of outcomes					
5.1	Initial analysis (supplements Component 1)	500	10,000	10,500	0.4%
5.2	Implementation of a system for monitoring activities and outcomes, including project team training.		14,000	14,000	0.5%
5.3	Monitoring system maintenance		52,000	52,000	1.8%
5.4	Local seminars and dissemination and exchange events		4,000	4,000	0.1%
5.5	Attendance at external events on topics related to the project	2,000	18,000	20,000	0.7%
5.6	Documentation and validation of the experience	3,200	19,000	22,200	0.8%
Subtotal Component 5		5,700	117,000	122,700	4.3%
Project coordination					
	Project Manager		158,400	158,400	5.6%
	Project Manager's travel expenses and per diems		12,500	12,500	0.4%
	Analyst (technical support for management)		144,000	144,000	5.1%
	Analyst (support for accounting and finances)		72,000	72,000	2.5%
	Analysts' travel expenses and per diems		12,500	12,500	0.4%
Subtotal Coordination			399,400	399,400	14.1%
SUBTOTAL		874,000	1,834,000	2,708,000	95.6%
<i>Percentage</i>		<i>32,3%</i>	<i>67,7%</i>		
	Midterm and final evaluations	30,000		30,000	1.1%
	Audits	15,000		15,000	0.5%
	"Promotion of Local Competitiveness" cluster activities	25,000		25,000	0.9%
	Contingencies	51,000		51,000	1.8%
	MIF Impact Evaluation Account	5,000		5,000	0.2%
TOTAL		1,000,000	1,834,000	2,834,000	100%
<i>Percentage</i>		<i>35.3%</i>	<i>64.7%</i>		