

TECHNICAL COOPERATION PROFILE

NOVEMBER 13, 2008

I. BASIC PROJECT DATA

Country/Region:	Brazil.
Program Name/Number:	Trade and Investment Development Program for Brazilian Border Territories. BR-T1123
Team Leader/Members:	Fabrizio Opertti (INT/INT), Team Leader; Victoria Florez (INT/INT); Pablo Garcia (INT/INT); Matías Bendersky (ORP/ORP); Eduardo Sierra Gonzales (CSC/CBR), Rodrigo Beraldo, (LEG/SGO) and Cecilia Seminario (INT/INT).
Date of Request:	October 8, 2008.
Beneficiary:	Brazilian sub-national government will benefit directly from this project. Brazilian border neighbor countries will be indirect beneficiaries of the project.
Executing Agency:	The Inter-American Development Bank, through Integration and Trade Sector.
Amount and Source of Funding:	IDB: Markets and Governance for Poverty Reduction Trust Fund (KMG): US\$ 400.000 Total: US\$ 400.000
Technical and Basic Responsibility:	The Inter-American Development Bank, through its Integration and Trade Sector.
Tentative dates:	Approval by INT Manager October 30, 2008

II. BACKGROUND AND PROBLEM STATEMENT

- 2.1 Brazil is composed of 26 States (and one Federal District) and is one of the countries with the most Municipalities in the world with 5560, of which 588 belong to the border range region, approximately 27% of the total national territory. Brazilian sub-national governments enjoy a considerable amount of autonomy gained with the Federal Constitution that came into effect in 1988. The new Constitution decentralized the responsibilities and resources of sub-national governments and strengthened the policy making role of States and Municipalities. Irrespective of their size, it gave them the same responsibilities and authority for public investment and implementation of economic and social programs. Therefore, local economic strategies, policies, and programs have a tremendous impact in the Brazilian economy.
- 2.2 The region composed by the Municipalities located in the border range has been generally characterized for being economically weak, marked by the difficulty to access to public goods and services and has been historically abandoned by the state. In the past years, the economic and social development of the Municipalities and States in this border range region has become one of the Brazilian government's priorities. In this context the government has encouraged the development of policies and programs targeted at these regions to improve their well-being, combat inequalities and strengthen their institutions. Moreover, the

strengthening of border regions and its sub-national governments, including the Amazon, the central region and MERCOSUR border region configures itself as an opportunity to acquire the competitiveness needed for sustainable development.

- 2.3 Albeit the federal policies, the development of trade promotion and competitiveness policies and programs at the sub-national level is essential considering that it is at the sub-national level where daily business opportunities are created and where exports are promoted and investments are received. In this sense, it is very important that municipalities can count on concrete and practical mechanisms to increase local economic development, directed at effective employment generation and improvement of the living conditions of its citizens. Furthermore, sub-national governments lack forward strategies, policies and/or regulations favoring economic development of Micro Small and Medium Enterprises (MSMEs)¹. These shortcomings in local policies could be attributed to a lack of support, training and technical assistance at the sub-national level. For the most part, sub-national governments in Brazil are interested in reaping the potential benefits of supporting MSMEs, particularly in the positive impact on employment and poverty reduction.
- 2.4 There is still a critical need for sound local policies that support the internationalization of MSMEs. Brazilian exports in the past four years have increased 22.9%, thanks to the export oriented focus of companies of all sizes, yet between 2005 and 2006 the number of MSMEs exporting companies decreased while larger companies continued to grow in terms of exports. Sub-national government institutions need to design strategies that foster international trade and create forward and backward linkages between MSMEs and larger size companies. Policies of this nature promote job creation, reduce poverty, increase productivity, improve managerial and export capacity of MSMEs, and have numerous additional spillovers including a more favorable and attractive environment for investment.
- 2.5 This project aims to spur economic development and reduce poverty in Brazil by stimulating trade-led MSMEs' growth and employment, improving sub-national institutions' policies and strategies oriented to MSME trade-led growth and enhancing public/private sector understanding of the benefits of international trade and Foreign Direct Investment (FDI). Thus, the proposal combines the technical design of an integral border development program with a pilot project aimed at generating "learning by doing" tangible effects.
- 2.6 **Bank Strategy.** The project is consistent with the guidelines established in the IDB Country Programming Document for Brazil, which highlights under the priority areas for the Bank to focus cooperation activity in: productivity for small and medium-sized enterprises, poverty reduction, income distribution and

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

institutional strengthening with emphasis on sub-national governments. Moreover, the project is also well aligned with the objectives of the Markets and Governance for Poverty Reduction Trust Fund as it will use innovative strategies to promote trade, job creation and poverty reduction through institutional strengthening, supporting sub-national governments in the design and development of international insertion strategies for MSMEs.

III. PROGRAM OBJECTIVE AND DESCRIPTION

- 3.1 The overall objective of the project is to boost economic development at the sub-national level, increase employment and reduce poverty in the Brazilian border territories through institutional strengthening and support to States and Municipalities in the design and development of export promotion and investment attraction strategies to promote MSMEs access to global markets. The specific objectives are to: (i) support the insertion of MSMEs in border regions through increased exports and/or linkages to FDI; and (ii) improve the institutional and technical capacity of sub-national governments in export promotion and investment attraction to accomplish effective social inclusion and employment generation policies.
- 3.2 In order to achieve these objectives, this project will fund the following components:
- 3.3 **Component 1 – Brazilian Border Territories’ Development Program.** The objective of this component is to design a Program with concrete actions aimed at strengthening the current strategy of the government of Brazil to improve the social and economic conditions of the least favored regions along the country’s borders through local economic development initiatives directed at trade and employment creation. The Program would include the technical design of the following activities:
- Investment attraction: strategies and plans to assess the opportunities and obstacles to attract FDI.
 - Programs to improve MSMEs competitiveness and linkages to large corporations.
 - Programs to improve cross-border development and cooperation.
 - Supply chain management programs to strengthen trade logistics in border territories.
 - Entrepreneurship training for new exporters.
- 3.4 **Component II - Pilot Project on trade and investment promotion for social and economic development.** This component aims to design and implement a pilot project in order to strengthen sub-national institutions in charge of promoting exports and investment in the context of local economic and social development. The Pilot Project would include two main areas of intervention, namely training and partnerships:
- Design and implementation of a training program for public officials of

governmental institutional agencies at the sub-national level, as well private sector entrepreneurs, aimed at supporting cross-border development in areas of export promotion and investment attraction.

- Design and implementation of an action plan to identify and develop strategic partnerships between sub-national governments, big business, community agencies, entrepreneurs, and academics, amongst others, for purposes of social and economic development.

IV. COST AND FINANCING

- 4.1 The total cost of this project is US \$400.000 from the Markets and Governance for Poverty Reduction Trust Fund (KMG).

Type of Expense (in US \$)	Total
Component I	250.000
Component II	100.000
Execution	35.000
Contingencies	15.000
TOTAL	400.000

V. EXECUTING AGENCY AND EXECUTION STRUCTURE

- 5.1 This project will be jointly executed by the Integration and Trade Sector (INT) and the Country Office in Brazil (CBR). INT will have the principal technical responsibility and CBR will have the fiduciary responsibility. The hiring of the consultancies will be made in accordance with Bank's policies and procedures (see documents GN-2349-7 and GN-2350-7).
- 5.2 The execution period will be 12 months and the disbursement period 18 months.

VI. ACTION PLAN

- 6.1 The team is advancing in the preparation of the Terms of Reference for the consultancies that will be needed for the execution of the activities. The tentative calendar includes the approval of the Plan of Operations by INT Manager before October 30th, 2008.

VII. ENVIRONMENTAL AND SOCIAL STRATEGY

- 7.1 Due to the studies and other products financed in the proposed operation, the TC will not have direct or negative environmental and social impacts. Based on the *Safeguard Policy Filter Report* (#2008-10224123-2), and *Safeguard Screening Form* (#2008-10224705-2) the TC will not require complementary environmental or social actions and was classified as category "C".

Approved by:

_____(Original signed)_____
Antoni Estevadeordal, Manager INT/INT

_____**Oct. 28, 2008**_____
Date

_____(Original signed)_____
Carlos Hurtado, General Manager CSC/CSC

_____**Nov. 7, 2008**_____
Date