

BRAZIL

**TRADE AND INVESTMENT DEVELOPMENT PROGRAM FOR
BRAZILIAN BORDER TERRITORIES**

(BR-T1123)

PLAN OF OPERATIONS

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INFORMATION AVAILABLE IN THE INT/INT ARCHIVES

EXECUTION:

ANNEX II Terms of Reference
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1793313>

ACRONYMS AND ABBREVIATIONS

| | |
|-------|---|
| BDS | Business Development Services |
| FDI | Foreign Direct Investment |
| IDB | Inter-American Development Bank |
| INT | Integration and Trade Sector |
| MTP | Trade and Poverty Trust Fund |
| MI | Ministry of Regional Integration |
| MSMEs | Micro Small and Medium Enterprises |
| PDFF | Programa de Desenvolvimento de Faixa de Fronteira |
| SEZ | Special Economic Zones |
| SWOT | Strengths Weaknesses Opportunities and Threats analysis |

I. EXECUTIVE SUMMARY

| | | | |
|---|--|-------|---------|
| Beneficiary: | Brazil. | | |
| Team Leader/Members: | Fabrizio Opertti (INT/INT),Team Leader; Victoria Florez (INT/INT); Elisa Botero (INT/INT); Pablo Garcia (INT/INT); Matías Bendersky (ORP/ORP); Eduardo Sierra Gonzales (CSC/CBR); Rodrigo Beraldo (LEG/SGO) and Cecilia Seminario (INT/INT). | | |
| Executing Agency: | The Inter-American Development Bank, through the Integration and Trade Sector. | | |
| Target beneficiaries: | Brazilian sub-national governments and MSMEs will directly benefit from this project while Brazil’s neighbor countries will benefit indirectly. | | |
| Source of Funding: | IDB: Trade and Poverty Trust Fund (MTP) | US\$. | 330.000 |
| | Local: | US\$. | 0 |
| | Total: | US\$. | 330.000 |
| Objectives: | The overall objective of the project is to contribute to the creation of trade and investment-related employment opportunities in Brazilian border territories through technical support to and institutional strengthening of States and Municipalities in the design and development of export promotion and investment attraction strategies to promote MSMEs access to global markets. | | |
| Execution timetable: | Execution Period: | 12 | months. |
| | Disbursement Period: | 18 | months. |
| Special Contractual Conditions: | None. | | |
| Exceptions to Bank Policies and Procedures: | None. | | |
| Environmental and Social Review: | ESR reviewed the profile of this operation on October 27 th , 2008 and classified it as category “C”. Given the nature of the Technical Cooperation, no further action is required | | |
| Coordination with other Official Development Finance Institutions: | None. | | |

II. BACKGROUND AND JUSTIFICATION

A. Background and problem statement

- 2.1 Brazil is comprised by 26 States and one Federal District, and it is one of the countries with the most Municipalities in the world¹. There are 588 Municipalities along the border lines of the country, representing approximately 27% of the total territory. Brazilian sub-national governments enjoy a considerable amount of autonomy gained with the Federal Constitution of 1988. The Constitution decentralized responsibilities and resources in benefit of sub-national authorities, strengthening the policy-making role of States and Municipalities. States and Municipalities alike received autonomy in investing and implementing economic and social programs.
- 2.2 Municipalities located in the Brazilian frontiers have been generally characterized as being economically weak due to limited access to public goods and services; they've also been historically neglected by the Federal Government. However, in the past years, the economic and social development of these Municipalities has become a priority for the Federal Government. It has encouraged the development of policies and programs aimed at improving the well-being and strengthening the institutions of border-line Municipalities.
- 2.3 Consequently, the Secretary of Regional Programs of the Ministry of Regional Integration (MI) designed the Border Range Program (Programa de Desenvolvimento de Faixa de Fronteira- PDFF). The PDFF aims at promoting and developing border-line regions and sub-areas - including the Amazon, the central region and MERCOSUR- by combating inequalities and boosting social and economic development of Municipalities and States. The Program is an innovative regional approach to development of local strategies seeking to promote the competitive insertion of these regions in the global economy.
- 2.4 The PDFF is structured in four general areas: (i) institutional strengthening, (ii) integrated economic development, (iii) citizenship; and (iv) regulatory framework. The Program's main focus is local economic development in the context of cluster development, investment promotion and international insertion programs, as well as technical training for entrepreneurs, and MSMEs, among others.
- 2.5 In this context, developing trade promotion and competitiveness policies and programs at the sub-national level is crucial. It is at the local level where daily business opportunities are created, exports are generated and investments are received. Municipalities need to have the appropriate technical tools that will allow them to further economic development, boost employment generation and improve the living conditions of their citizens.
- 2.6 At the present time, sub-national governments in the border-line regions of Brazil lack forward strategies, policies and regulations favoring the economic development and internationalization of MSMEs. This can be attributed to poor

¹ Brazil has a total of 5,560 municipalities.

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, considering the potential gains in terms of employment creation and poverty reduction.

- 2.7 There is still a critical need for sound and integrated regional and 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 exports of larger companies continued to grow. 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.
- 2.8 This project seeks to improve the policies and strategies at the sub-national level, dealing with MSME trade-led growth and enhance the understanding of public/private stakeholders of the benefits of international trade and Foreign Direct Investment (FDI). This project includes the technical design of a border development program to support the export promotion and investment attraction initiatives aligned with the goals set forth in the PDFF. It also includes a pilot project -with a “learning by doing” approach-, aimed at generating tangible and demonstrative effects through public-private collaboration and technical training.

B. Relation with Bank Strategy

- 2.9 The project is consistent with the guidelines established in the Bank’s Strategy with Brazil (GN-2327-1), which highlights productivity for small and medium-sized enterprises, poverty reduction, income distribution and institutional strengthening with emphasis on sub-national governments as priority areas for the Bank’s intervention. Moreover, the project is also well aligned with the objectives of the Trade and Poverty Trust Fund as it will use innovative strategies to promote trade and job creation through institutional strengthening of sub-national governments in the design and development of international insertion strategies for MSMEs.

III. PROGRAM DESCRIPTION

A. Program goal and purpose

- 3.1 The overall objective of the project is to contribute to the creation of trade and investment-related employment opportunities in Brazilian border territories through technical support to and institutional strengthening of States and Municipalities in the design and development of export promotion and investment attraction strategies to promote MSMEs access to global markets.
- 3.2 The specific objectives are the following: (i) support the international 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 order to generate trade and investment-related employment opportunities.

B. Components

1. Component I. Brazilian Border Territories' Development Program.

3.3 This component consists in the design of a regional and local economic development Program ultimately aimed at creating trade and investment-related employment. The Program would include the technical design of the following activities to be subsequently developed and applied in the three sub-areas of the Brazilian border range region: the Amazon, the central region and MERCOSUR:

- a. **Investment attraction.** This activity consists in the development of strategies and plans to assess the opportunities and obstacles to attract FDI and promote its diversification and growth. It includes: (i) A detailed SWOT analysis to identify and validate the strategic sectors for FDI attraction in the different sub-regions; (ii) Design of a detailed business plan for the implementation of regional and/or state-level international campaigns, promoting and showcasing the competitive advantages offered by the strategic sectors identified in the SWOT; (iii) Design of a detailed business plan for the participation in selected trade and investment fairs, including specialized technical assistance before, during and after the conclusion of the fairs; (iv) Design of a detailed business plan for the implementation of reverse trade missions; and (v) Design of a detailed business plan for the contracting of FDI pre-feasibility studies in the selected strategic sectors (i.e., multi-modal logistics platforms, industrial and technology parks, Special Economic Zones, etc.).
- b. **Programs to improve MSMEs international competitiveness and linkages to large corporations.** The project will support the design of action plans aimed at improving the capacity of MSMEs to increase and diversify exports and their ability to participate in linkages with large corporations. It includes: (i) Design of region-specific programs aimed at MSMEs internationalization through exports and linkages to large corporations, including design of “matching grant” instruments in order to provide business development services to MSMEs², institutional mechanisms for implementation, dissemination strategies, amongst others; (ii) Design of the methodology for the implementation of an information system that will comprise timely and accurate market information and services of relevance for MSMEs, including relevant trade and investment statistics, electronic channels for dissemination of services, on-line technical training tools, etc; and (iii) Identification of potential suppliers and linkages between MSMEs and large corporations in each of the three abovementioned border regions in the areas of finance, production, marketing, administration, quality and environmental systems, amongst others.

²

Areas included could be quality and productivity certification processes, promotion of business associations, management and information systems, marketing campaigns, environmental management, trade facilitation programs, among others.

- c. **Strengthening of trade logistics in border territories.** This activity consists in the development of action plans aimed at improving the trade logistics services and infrastructure in border territories. It includes: (i) analysis of the legal framework and assessment of fiscal and financial incentives for special economic zones; (ii) Design of detailed business plans for public/private investment in regional distribution & logistics centers including: centralization of inventory (volume and design flexibility), long term supply joint strategies, strategies for “Just in Time” operations, simplification of administrative procedures, etc; (iii) Design of detailed business plans for development of information technology systems for logistics, including inventory online systems, order tracking, etc; and (iv) Design of detailed business plans for trade facilitation and improvement of customs procedures.
- d. **Entrepreneurship training for new exporters.** This activity consists in the technical design and initial implementation of training programs aimed at promoting entrepreneurship for new exporters. It includes: (i) training programs on the basic skills and requirements to become an exporter, including starting a company, international payments, customs procedures, taxes and tariffs, technical barriers to trade, place-price-promotion strategies, etc; (ii) technical and specialized assistance to provide professional support, information and contacts in specific high-demand export sectors; and (iii) technical assistance to encourage formation of vertical and horizontal export linkages and partnerships.

2. Component II. Pilot Project on trade and investment promotion for social and economic development.

- 3.4 This component consists in the design and implementation of 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:
- a. Design and implementation of a training program for public officials of governmental institutional agencies at the sub-national level, as well private sector entrepreneurs, in the areas of export promotion and investment attraction.
 - b. Design and implementation of an action plan to identify and develop strategic partnerships between sub-national governments, business associations, community-based organizations, entrepreneurs, and academics, amongst others, for purposes of social and economic development.

IV. BUDGET

A. Summary cost table

| Type of Expense (in US \$) | US\$ |
|---|----------------|
| Component I | 225.000 |
| ○ Consultant services for the technical design of the activities to be developed in the Amazon region. | 75.000 |
| ○ Consultant services for the technical design of the activities to be developed in the Brazilian central region. | 75.000 |
| ○ Consultant services for the technical design of the activities to be developed in the MERCOSUR region. | 75.000 |
| Component II | 80.000 |
| ○ Technical assistance/consultancies | 50.000 |
| ○ Training activities | 30.000 |
| Execution | 20.000 |
| Contingencies | 5.000 |
| Total | 330.000 |

B. Description, composition, and sources of funding

- 4.1 The total cost of this project is US \$330.000. The IDB Trade and Poverty Trust Fund (MTP) will grant the total amount.

C. Sustainability

- 4.2 The improvement of sub-national institutions' policies and strategies for MSMEs to boost exports and attract investment, will contribute to economic growth and development through the generation of concrete business opportunities for MSMEs. This in turn can translate in the creation of jobs and in income generation for Brazilian companies and citizens. Furthermore, this Technical Cooperation will contribute to create the technical foundations of the MI's integrated program on export promotion and investment attraction for border-range regions which will be later implemented by the MI itself.

V. EXECUTING AGENCY AND MECHANISM

A. Executing agency

- 5.1 This project will be jointly executed by the Integration and Trade Sector (INT) and the Country Office in Brazil (CBR). Considering the scope of this project and its strategic relevance, the Bank is the best counterpart for the MI.

B. Executing mechanism

- 5.2 The project team will be responsible for the following: (i) order disbursements; (ii) provide technical guidance and support in the execution of the project's activities; (iii) draft terms of reference; (iv) define the bidding process; (v) evaluate the technical proposals (vi) allocate financial resources according to needs; (vii) maintain close and permanent communication with the Brazilian authorities; among other required to successfully execute the project.

C. Program implementation readiness

- 5.3 The program is ready for its execution, considering that the Brazilian government, through the Ministry of National Integration and its Secretariat of Regional Programs, has formally expressed interest and willingness to provide all the necessary support for its implementation.

D. Execution period and disbursement schedule

- 5.4 The project will be executed over a period of 12 months with a disbursement period of 18 months from the project's eligibility.

E. Procurement

- 5.5 The procurement of goods and services will be carried out in accordance with Bank's policies and procedures set forth in the Policies for the Procurement of Works and Goods Financed by the Inter-American Development Bank (GN-2349-7) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (GN-2350-7).

VI. MONITORING AND EVALUATION

A. Monitoring

- 6.1 The program monitoring will be done through the reports presented at the end of the execution of the activities under each component as well as through the final evaluation which will measure its development impact and outcomes.

B. Technical and basic responsibility

- 6.2 INT will be responsible for the technical and execution aspects of this Project. The Country Office in Brazil (CSC/CBR) will have fiduciary and disbursing responsibility.

C. Progress and final reports

- 6.3 At the end of the execution of the activities under each component, the project team will present the corresponding reports prepared by consulting firms or individual consultants responsible for the implementation of the activities.

D. Describe the evaluations proposed

- 6.4 The project includes a final evaluation that will measure its development impact and outcomes. The final evaluation will be done once 90% of project resources have been disbursed.

VII. PROGRAM BENEFITS AND RISKS

A. Program benefits and developmental impact

- 7.1 The Program will produce the following benefits: (i) A detailed local development program aimed at encouraging MSMEs access to global markets through export promotion and investment attraction, including a complete technical analysis of strategic variables, financial, institutional and legal requirements necessary for its implementation; (ii) Increased skills and knowledge of local public officials, business people and entrepreneurs on issues related to export promotion and investment attraction as drivers of local economic development; and (iii) A network of strategic partnerships between sub-national governments, business associations, community agencies, entrepreneurs, and academics meant at improving and strengthening trade and investment initiatives at the local level.

B. Target Beneficiaries

- 7.2 Brazilian sub-national governments and MSMEs will directly benefit from this project while Brazil's neighbor countries will benefit indirectly.

C. Risks

- 7.3 There is broad consensus among Federal and Municipal authorities on the need to implement development strategies at the local and regional level. This project will help authorities reach an agreement on the specific activities that need to be undertaken and on the benefits and desirability of trade and investment-led development. The success of this project depends on the active participation of authorities and stakeholders in the performance of the activities described above. The Bank has already secured the commitment of the MI.

VIII. ENVIRONMENTAL AND SOCIAL ASPECTS

A. Date of ESR review

- 8.1 ESR reviewed the profile of this operation on October 27th, 2008 and classified it as category "C".
- 8.2 Given the nature of the Technical Cooperation, no further action is required. The program will finance consultancies and training activities; therefore, no negative social or environmental impacts are anticipated. On the contrary, the project will have a positive social impact as increased exports and investment are key factors for economic growth and job creation.

IX. RECOMMENDATION

- 9.1 Fabrizio Opertti (INT/INT), Project Team Leader, recommends the approval of this technical cooperation and the use of resources from the Trade and Poverty Trust Fund (MTP) for a total of US\$330.000 to finance the above mentioned activities.

X. APPROVAL

(original signed)

Antoni Estevadeordal
Manager, INT/INT

December 17, 2008

Date

Annex I

Procurement Plan

Trade and Investment Development Program for Brazilian Border Territories (BR-T1123)

| Ref. No. | Description and type of the procurement contract | Estimated Contract Cost (CAN\$ 000) | Procurement method1 | Review (ex-ante or ex-post) | Source of financing and percentage | | Estimated Dates | | Status (Pending, in process, awarded , cancelled) | Comments |
|---|--|-------------------------------------|---------------------|-----------------------------|------------------------------------|-----------------|--|------------------------|---|----------|
| | | | | | IDB % | Local / Other % | Publication of Specific procurement notice | Completion of contract | | |
| Procurement of consultant services | | | | | | | | | | |
| | 1. Consulting Services | | | | | | | | | |
| | o Senior consultant for activities in the Amazon region | 75,000 | CQS | Ex-ante | 100% | - | N/A | N/A | Pending | |
| | o Senior consultant for activities in the Brazilian central region | 75,000 | CQS | Ex-ante | 100% | - | N/A | N/A | Pending | |
| | o Senior consultant for activities in the MERCOSUR region | 75,000 | CQS | Ex-ante | 100% | - | N/A | N/A | Pending | |
| | o Technical assistance consultancies | 50,000 | CQS | Ex-ante | 100% | - | N/A | N/A | Pending | |
| Procurement of works and goods (& other services) | | | | | | | | | | |
| | 2. Training activities | | | | | | | | | |
| | o Logistics and travel expenses | 30,000 | Shopping | Ex-ante | 100% | - | N/A | N/A | Pending | |
| | 3. Execution expenses | | | | | | | | | |
| | o Logistic support for execution | 20,000 | Shopping | Ex-ante | 100% | - | N/A | N/A | Pending | |

¹ **Consulting Firms:** **QCBS:** Quality- and cost –Based Selection; **QBS:** Quality Based Selection; **FBS:** Selection under a Fixed Budget; **LCS:** Least-Cost Selection; **CQS:** Selection based on the consultant’ Qualifications; **SSS:** Single Source Selection. **Individual Consultants:** **NICQ:** National Individual Consultant selection based on Qualifications; **IICC:** International Individual Consultant selection based on Qualifications