

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK  
MULTILATERAL INVESTMENT FUND

**REGIONAL  
(BRAZIL, CHILE, AND PERU)**

**BEYOND EXTRACTION:  
ECONOMIC OPPORTUNITIES IN MINING COMMUNITIES**

**(RG-M1300, BR-T1337, CH-T1174, PE-T1359)**

**DONORS MEMORANDUM**

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Under the Access to Information Policy, this document is subject to public disclosure.

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**PROJECT SUMMARY**  
**BEYOND EXTRACTION: ECONOMIC OPPORTUNITIES IN MINING COMMUNITIES**  
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The reality throughout Latin America is that communities with extractive operations are not leveraging the full potential that these operations can offer. Direct opportunities are relatively limited in terms of employment, and the same is true for the creation of businesses around the provision of strategic goods or services, since they are highly specialized. This leaves a segment of the population with unmet expectations of prosperity. Public entities may be limited in their ability to manage royalties and transfer payments in the local communities, worsening this sense of missing out. In the absence of direct benefits that are widely distributed and received, protests by the community are common, sometimes leading to the temporary interruption of mining operations. The cost to the mining sector and national economies in Latin America can be substantial. To avoid this situation, which benefits none of the parties, communities, local governments, and local firms must work together, align expectations, and take advantage of the economic development opportunities that an extractive operation can represent.

Accordingly, this program proposes coordinated, strategic investments to build capacity in the local institutional ecosystem, in order to promote access to markets and bring inclusive prosperity to mining communities. These actions will leverage the synergies created by AngloAmerican's mining investments in Brazil, Chile, and Peru and its partnership with TechnoServe Inc. to realize the growth potential of the host communities during the extraction cycle.

One way the MIF seeks to promote innovation with scale is through strategic collaboration with companies that are integrating social and/or environmental concerns with their business strategy. In the extractive sector, companies are increasingly trying to align their own needs with those of the community, in order to create value beyond what they extract, developing voluntary investments as a way of promoting sustainable economic development in the communities where they operate. This value-creation approach, brought together with the many active oil and mining operations throughout Latin America, provides a unique opportunity to maximize the long-term benefits that can flow from large extractive investments.

The program offers an interesting opportunity for the MIF to collaborate with a mining corporation, in order to address demand for **new models of partnership between large private investments, society, and the public sector** that bring tangible, strategic benefits contributing to sustained development in the communities around the large extractive operation.

## **ANNEXES**

Annex I	Logical Framework
Annex II	Summary Budget

## **APPENDICES**

Proposed resolution
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## **ABBREVIATIONS**

CRF	Corporate Results Framework
DNA	Diagnostic needs assessment
OMIL	Oficinas de Intermediación Laboral [Labor Intermediation Offices]
SMEs	Small and medium-sized enterprises
TNS	TechnoServe Inc.

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**EXECUTIVE SUMMARY**

<b>County and geographic location</b>	<p>Brazil: Municípios of Conceição do Mato Dentro, Serro, Dom Joaquim, and Alvorada de Minas in the state of Minas Gerais.</p> <p>Chile: Municipios of Colina, Lo Barnechea, and Til Til in the Santiago Metropolitan Region and the municipios of Los Andes, Calle Larga, San Esteban, and Rinconada in the Valparaíso Region.</p> <p>Peru: Moquegua region.</p>		
<b>Executing agency:</b>	TechnoServe Inc. (TNS), acting through its offices in Brazil, Chile, and Peru.		
<b>Coordination with other donors/Bank operations:</b>	Work is being done in coordination with the Office of Outreach and Partnerships (ORP) and the Energy Division (INE/ENE), which is leading the Bank's framework for action with the extractive sector, since this program is an example of what the IDB Group can offer for the economic development of the areas of influence of extractive projects.		
<b>Direct beneficiaries:</b>	The proposed program has two main groups of target beneficiaries: (i) micro, small, and medium-sized enterprises; and (ii) the local young adult labor force. The program will also build local public and private capacity as a means of achieving the desired outcomes and ensuring their sustainability. The logical framework provides a breakdown of the number of beneficiaries by country.		
<b>Indirect beneficiaries:</b>	Residents of the municipios where the program will be implemented.		
<b>Financing:</b>	MIF contribution (nonreimbursable technical cooperation):	US\$1,980,000 (Brazil US\$960,000 Chile US\$370,000 Peru US\$650,000)	34%
	Counterpart:	US\$3,865,210 (US\$1,731,230 US\$863,620 US\$1,270,360)	66%
	<b>TOTAL BUDGET</b>	<b>US\$5,845,210</b>	<b>100%</b>
<b>Execution and disbursement</b>	36 months execution, 42 months disbursement.		

**period:****Special contractual clauses:**

As conditions precedent to the first disbursement for each of the projects in this program, the following will occur, satisfactory to the Bank: (i) the project coordinator will be engaged for the respective country; (ii) the annual work plan (AWP) and procurement plan for that country will be delivered, detailing activities and time frames, and budgetary and procurement requirements for goods and services; (iii) an agreement will be signed between AngloAmerican and TechnoServe Inc.; and (iv) the terms governing the corresponding executive committee will be established.

**Environmental and social impact review:**

This operation was pre-evaluated and classified in accordance with the requirements of the IDB's Environment and Safeguards Compliance Policy (Operational Policy OP-703). Since the impacts and risks are limited, the proposed category for the program is "C." The Environmental Safeguards Unit (ESG) reviewed the program without comment in June 2016.

**Unit with disbursement responsibility:**

BR-T1337: MIF/CBR  
CH-T1174: MIF/CCH  
PE-T1359: MIF/CPE

## I. BACKGROUND AND RATIONALE

### A. Diagnostic assessment of the problem to be addressed by the program

- 1.1 The extractive sector makes a significant contribution to GDP and creates jobs in Latin America and the Caribbean. It is a sector with the potential to drive inclusive economic growth at the national, regional, and local level. For example, mining production represents 33% of Brazil's export earnings, and 60% of Chile's. According to the International Labour Office (ILO), in 2011 extractive industries employed nearly 20% of young workers in 18 Latin American countries. The mining sector is also a key generator of indirect economic opportunities, expanding the benefits of the activity to local businesses.
- 1.2 Yet the current reality is that communities are not leveraging the full potential of extractive operations. Direct opportunities are relatively limited in terms of employment, and the same is true for the provision of goods or services. This leaves a segment of the population with unmet expectations of prosperity. Public entities may be limited in their ability to manage royalties and transfer payments in the local communities, worsening this sense of missing out. In the absence of widely distributed direct benefits, the interruption of mining operations is a common result. The cost to the mining sector and national economies in Latin America can be substantial. To avoid this situation, which benefits none of the parties, communities, local governments, and local firms must work together, align expectations, and work on the social license to operate in order to take advantage of the economic development opportunities that an extractive operation can represent.
- 1.3 The **core problem** is insufficient access to markets (for goods and services as well as for labor) in communities with mining operations despite the potential economic opportunities that these operations could provide.
- 1.4 The causes of the problem are:
  - a. Actions at the local level that are generally **short-term initiatives**, not supported by dialogue among the company, the local government, and the community.
  - b. **Limited capacity of local actors** and the need to improve local governance, both public and private.
  - c. Weaknesses in **entrepreneurship and the supporting ecosystem**.
  - d. Mismatch between job **skills and opportunities** available in the communities.
- 1.5 **Proposed intervention.** Instead of isolated actions by the mining company, the model proposes coordinated action to create local institutional capacity that promotes access to markets and brings prosperity to the mining communities. These interventions will take advantage of the synergies created by mining investments, whether in the social supply chain or in human resources, to make the host communities less vulnerable to the extraction cycle.
- 1.6 Since 2011, AngloAmerican has been working with TechnoServe Inc. (TNS) to offer socioeconomic development programs in partnership with other local actors



and institutions in Africa and Latin America. The programs in Brazil, Chile, and Peru in particular have focused mainly on enterprise development, although they also include aspects of local purchasing, development of the youth labor force, and strengthening of local public capacity. The challenge now is to further refine and integrate these different approaches in a coordinated strategic intervention model that adopts the best practices from each approach in a proposed intervention adapted to each community's realities and needs. The proposed program therefore seeks to capitalize this collaboration in Brazil, Chile, and Peru, leveraging the MIF's experience in economic development, value chains, and the economic integration of young people.

## B. Program location and beneficiaries

- 1.7 The proposed program will operate within the area of influence of AngloAmerican's mining operations in three countries—Brazil, Chile, and Peru—as defined below. These areas have been selected both for their impact potential and the learning they can yield, considering the different economic and social conditions and the phase in the cycle of AngloAmerican's investments in each territory.
- 1.8 In particular, developing an understanding of the competitive advantages and market opportunities of the local economy was the first step in formulating the specific activities to be conducted in each community. In all cases, there are limitations on integrating segments of the population into the local economy, when the presence of these large companies could contribute to more inclusive development. These limitations can be summarized as: incomplete information on market opportunities; weak coordination networks; and a limited supply of public goods and services.

	Brazil	Chile	Peru
<b>Name of Mine</b>	Minas-Rio (iron)	Los Bronces (copper)	Quellaveco (copper)
<b>Mine life cycle</b>	Operating in initial stage	Operating	Project at advanced stage
<b>Area of influence</b>	Municípios of Conceição do Mato Dentro, Serro, Dom Joaquim, and Alvorada de Minas in the state of Minas Gerais	Municipios of Colina, Lo Barnechea, and Til Til in the Santiago Metropolitan Region and the municipios of Los Andes, Calle Larga, San Esteban, and Rinconada in the Valparaíso region.	Moquegua region
<b>Population</b>	47,907	344,000	178,600
<b>Density</b>	Principally rural	Principally urban, some rural	Rural and urban
<b>Nearest city, distance</b>	Belo Horizonte, 163 km	Santiago, 65 km	Mariscal Nieto, 40 km Moquegua, 60 km

- 1.9 The municípios of **Conceição do Mato Dentro**, **Alvorada de Minas**, **Serro**, and **Dom Joaquim** in the state of Minas Gerais in Brazil are in the area of direct

- influence of AngloAmerican's Minas-Rio operation.<sup>1</sup> This traditionally rural area now hosts one of the largest and most complex iron ore mines in the world. The four municipios are undergoing this recent transition and rapid growth in the local population, where the public and private sectors face the challenge of absorbing this change and managing much larger budgets due to royalties and transfers, without necessarily having the management capacity.
- 1.10 AngloAmerican's Los Bronces operation is relatively close to Chile's capital, with the associated advantages for the labor force and business creation offered by that proximity. Small and medium-sized enterprises (SMEs) generally focus on trade and agricultural products, with annual sales of approximately US\$70,000 and an average of 2.66 employees. As a result, they have limited capacity to absorb local labor. However, the proximity of Santiago may also induce the local population, in both the public and private sectors, to leave the area.
- 1.11 AngloAmerican's Quellaveco<sup>2</sup> mine is located in a relatively isolated, rural area of Peru near the city of **Moquegua**. Moquegua's economy is based primarily on mining (copper, silver, gold, and molybdenum). Moquegua is the third largest copper producer in the country. According to the Ministry of Energy and Mines, the region has 25 mining companies: 10 falling under the general income tax regime (large and medium); 4 small; and 11 artisanal mining operations. In particular, this region is home not only to AngloAmerican Quellaveco but to Southern Copper, Cuajone, and part of the Toquepala mine in the province of Mariscal Nieto. There are also a number of mining projects in the region such as Zafranal (Arequipa) and Los Calatos (Moquegua), making the southern region an important mining cluster.
- C. Contribution to the MIF Mandate, Access Framework, and IDB strategy**
- 1.12 **Contribution to the MIF mandate.** The program contributes to the MIF mandate of reducing poverty and vulnerability inasmuch as it will support the development of three intervention models for expanding the local population's economic opportunities.
- 1.13 One way the MIF seeks to promote innovation with scale is through strategic collaboration with companies that integrate social and/or environmental concerns with their main business strategy. In the extractive sector, companies try to align their needs with those of the community, in order to obtain the social license to operate and create value beyond what they extract, developing voluntary investments as a way of promoting sustainable economic development in the communities. This value-creation approach provides a unique opportunity to maximize and consolidate the long-term benefits that can flow from large extractive investments.
- 1.14 This program offers an interesting opportunity for the MIF to collaborate with a large corporation, in order to address the existing demand from the private sector for **new models for a sustainable and inclusive medium- and long-term development strategy** that goes beyond mitigating the risks and impacts of companies by contributing to sustained development in the communities around the large extractive operation. In particular, the program will generate knowledge

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<sup>1</sup> Minas-Rio, engaged in the extraction of iron ore in Brazil, is one of the world's largest mining projects. It is expected to export 26.5 million tons of iron ore via a 525-kilometer mineral pipeline connecting it to the port of Açu in the neighboring state of Rio de Janeiro.

<sup>2</sup> Quellaveco represents one of the largest copper reserves in Peru and in the world.

and lessons learned on how communities can better leverage large investments through socioeconomic development actions.

- 1.15 **Linkage and collaboration with the IDB Group.** This program is in line with the Bank's interest in assisting countries with the challenges and opportunities represented by extractive industries. In March 2016, the IDB approved the **Canadian Facility for the Extractives Sector (CANEF)** (technical cooperation operation RG-X1262), to promote innovative and sustainable solutions generating strategic regional public goods. The project team's ongoing coordination with the Energy Division (INE/ENE), which is responsible for the CANEF facility, will enable lessons learned from the design and implementation of this program to be incorporated into it.
- 1.16 This operation is aligned with the **country strategy with Brazil (2016-2018)**<sup>3</sup> in contributing to the objectives of increasing productivity and competitiveness by recognizing the role of the small business segment in creating jobs and value-added, working to incorporate them into value chains and generate effective knowledge and innovation ecosystems. The strategy also recognizes climate change as a crosscutting issue and identifies fostering green growth by promoting the adoption of sustainable business practices as a priority area for the IDB Group.
- 1.17 The Bank's **country strategy with Chile (2014-2018)**<sup>4</sup> identifies human capital development with emphasis on job training as a strategic pillar. Although Chile has a low unemployment rate, this objective reflects the obstacles to employment faced by certain groups at a relative disadvantage, such as youth and women, who are targeted by this project. Although young people are involved in technical/vocational education, its linkage to the needs of the productive sector is limited.<sup>5</sup> Although women's labor participation has increased in recent years, it remains low in comparison with other countries and uneven considering educational and economic level.<sup>6</sup>
- 1.18 The Bank's current **country strategy with Peru (2012-2016)**<sup>7</sup> identifies as a strategy for increasing the economy's competitiveness encouraging the formation of agglomeration economies in the form of clusters and value chains by overcoming weak communication and collaboration among the multiple sector agents. The new country strategy is now being formulated, and the country development challenges document identifies increasing the economy's productivity as one of the three challenges for achieving sustained growth in Peru.

## II. OBJECTIVES AND COMPONENTS

### A. Objectives

- 2.1 The program's **impact** objective is to increase the socioeconomic benefits for the communities where natural resource extraction operations are located. In terms of

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<sup>3</sup> Document GN-2850, March 2016.

<sup>4</sup> Document GN-2785, September 2014.

<sup>5</sup> MINEDUC 2009 and 2011; OECD 2009.

<sup>6</sup> The labor participation rate among women age 15 and older is approximately 9 points lower than the rate for Latin America (43.4% versus 52.8%). For women between the ages of 15 and 64, the difference compared to the OECD average is almost 8 points (54.7% versus 62.3%).

<sup>7</sup> Document GN-2668, June 2012.

**outcome**, the program will maximize access to the labor and goods and services market based on a sustainable intervention that builds capacity among local public and private actors.

## **B. Description**

- 2.2 This program will promote an intervention strategy relevant to the specific conditions and circumstances of each community, to address the local problem, development opportunities, and institutions in each territory, as described below.
- 2.3 In the case of Chile, given the features of the area of influence of Los Bronces and its proximity to Santiago, the intervention focuses on improving the job and self-employment skills of young people and women and strengthening actors in the labor and self-employment market, such as the Labor Intermediation Offices (OMIL) and the Centro Emprendedor [Entrepreneurship Center] in the area of influence.
- 2.4 In Peru, the intervention focuses on strengthening local entrepreneurs to supply certain items (such as construction, transportation, timber, and others) to the mining sector in the Moquegua region, as well as other sectors that benefit from the presence of mining activity (commerce, hotels, and restaurants). Thus, efforts will be coordinated with, and build on, existing programs in the area such as Procompite or those developed by PRODUCE within the area of Emprendedor Peruano [Peruvian Entrepreneur].
- 2.5 In Brazil, the focus is on strengthening public and private institutions to design and implement a business development plan that will help to reduce dependence on mining activity in the municípios of Conceição do Mato Dentro, Serro, Dom Joaquim, and Alvorada de Minas in the state of Minas Gerais.

## **C. Components**

### **Component 1: Strengthening of public and private organizations (MIF: US\$200,364; Counterpart: US\$363,854)**

- 2.6 The **objective** of this component is to identify and strengthen public and private organizations operating in mining areas so they can support development of the communities based on the problems and potential identified in those communities.<sup>8</sup> This component will work with chambers of commerce, producer associations, subnational government entities, technical training providers, social management teams of the collaborating companies, and others.
- 2.7 The **activities** under this component include: (i) analysis of the entrepreneurial ecosystem, labor market participants, and survey of needs and gaps (for Chile and Brazil only), local orientation and market potential of the chains identified (reviewing previous studies); (ii) design a chain development plan that includes human resources training, infrastructure development, production requirements of markets, and other necessary activities to increase productivity;<sup>9</sup> (iii) skills transfer to key actors in the labor and self-employment/first venture market (for Chile only);

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<sup>8</sup> As explained in paragraphs 2.2 et seq., in Brazil the focus is the development of agrifood chains and their access to markets; in Chile the focus is economic participation with special attention to youth and women through employment or self-employment; and in Peru the focus is the development of the small business segment to meet the demand of the local mining cluster and companies in other sectors that benefit from the presence of mining activity (commerce, hotels, and restaurants).

<sup>9</sup> Includes criteria on prioritization of regions within the target area map.

(iv) strengthening of service offerings for entrepreneurial ventures; (v) support for the formation of sector coordination forums and monitoring of the development plan;<sup>10</sup> (vi) creation of an observatory to track sector indicators (employment, sales, markets, and other key data); (vii) local capacity-building in cooperation, territorial planning, conflict management, public procurement, and other areas;<sup>11</sup> and (viii) design of the agency/mechanism for economic and entrepreneurship promotion in the area of influence (for Brazil only).

- 2.8 The **outcomes** of the component are: (a) three reports (one per country) that pull together information on the entrepreneurial ecosystem, the labor market and needs/gaps and identify chains and their market potential; (b) chain development plan (Brazil and Peru); (c) materials to strengthen services offered by job placement agencies (Brazil and Chile); (d) materials to strengthen business development service offerings; (e) creation of a sector coordination forum (for each chain) in Brazil and forums for interagency coordination among public and private actors supporting entrepreneurs in Peru; (f) creation of an observatory to track the sector/chain indicators (only in Brazil) (g) training workshops for local actors (in cooperation, territorial planning, conflict management, public procurement, and other areas (only for Brazil); and (h) economic and entrepreneurship promotion agency/team designed (only in Brazil).

**Component 2: Economic participation of youth and women  
(MIF: US\$218,329; Counterpart: US\$341,010)<sup>12</sup>**

- 2.9 The **objective** of this component is to strengthen the income generation skills of young people and women,<sup>13</sup> working along two lines: their integration in the labor market or entrepreneurship as a self-employment option. This component will take into account the standards developed in the context of the MIF's New Employment Opportunities (NEO) program and will coordinate any activity with that program in Chile. The starting point for this component's activities will be to map the local demand for labor.
- 2.10 The main **activities** under this component are: (i) recruitment and selection of young people and women to participate; (ii) training on employability skills; (iii) recruitment and selection of labor practices mentors; (iv) coordination of labor practices; (v) selection of participants for the self-employment/first venture program; (vi) training on starting the venture; (vii) selection of mentors for entrepreneurs; (viii) implementation of entrepreneurship mentoring program; (ix) visits to monitor participants under a differentiated scheme according to the training received, employment or self-employment (aftercare).
- 2.11 The **outcomes** of the component are: (a) 1,300 participants; (b) 142 labor practices spinoffs at companies; and (c) 320 initial entrepreneurs graduated.

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<sup>10</sup> The observatory also provides for the understanding of demand.

<sup>11</sup> The training plan identifies the content to be developed within the sector coordination forum.

<sup>12</sup> This component only applies to Chile.

<sup>13</sup> Young people have been defined as an age range of 18 to 35, but that target group will be assessed based on the findings of the diagnostic stage and particularly the requirements set by the collaborating companies.

**Component 3: Development of local suppliers for the mining cluster  
(MIF: US\$161,320; Counterpart: US\$244,080)<sup>14</sup>**

- 2.12 The **objective** of this component is to strengthen the capabilities of businesses and entrepreneurs in sectors with potential to supply companies associated with the local mining cluster. The construction, transportation, and timber sectors have high potential to take advantage of these activities, and additional sectors may be identified during execution.
- 2.13 The main **activities** under this component are: (i) recruitment and selection of participating companies; (ii) training on the preparation of growth plans; (iii) selection of companies for the monitoring module; and (iv) development of capabilities through specialized modules (e.g., occupational safety and health, formal employment: taxes and payroll management, and participation in public and private competitive bidding processes).
- 2.14 The **outcomes** of the component are: (a) 80 companies participating in the supplier development program; and (b) 60 companies meeting the standards required for supplying mining companies (safety, occupational health, taxes, payroll management, and others).

**Component 4: Development of enterprises and improvement in their market access (MIF: US\$649,423; Counterpart: US\$1,747,840)<sup>15</sup>**

- 2.15 The **objective** of this component is to improve market access for entrepreneurs in sectors driven by the presence of mining activity (commerce, hotels, and restaurants) and entrepreneurs in sectors targeting other markets unrelated to mining activity (agrifood and tourism). Special emphasis will be put on the use of new technologies for strengthening aspects of management, access to information, and sustainability. Business development activities will be planned and developed with the involvement of other public and private actors.
- 2.16 The main **activities** under this component are: (i) confirmation of value chains where it makes sense to intervene based on their competitive and job creation potential; (ii) identification of basic and key skills (gap analysis) necessary for the existing entrepreneurial base; (iii) adaptation of existing training curricula to the identified needs; (iv) strengthening of basic and key skills for commerce and hotel ventures; (v) strengthening of basic skills and key skills for livestock and agrifood ventures; (vi) strengthening of partnering for joint purchasing/selling and human resources training; (vii) support for the implementation of growth plans; (viii) development of logistical models for access to other regional and national markets; and (ix) activities for interaction among producers, and between producers and the markets that generate new opportunities for their products.
- 2.17 The **outcomes** of the component are: (a) 360 people trained in basic and key skills for ventures in commerce, hotels, agriculture and livestock, and agrifood as well as in joint purchasing/selling in Brazil; (b) 335 companies trained in Peru.

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<sup>14</sup> This component only applies to Peru.

<sup>15</sup> This component only applies to Brazil and Peru.

**Component 5: Knowledge management  
(MIF: US\$142,293; Counterpart: US\$170,847)**

- 2.18 The **objective** of this component is to systematize, document, and disseminate the experience and knowledge generated in the program, to help replicate actions in other host communities for mining activity. To that end, the project will develop the following **knowledge products** to expand the menu of successful experiences with potential for replication in similar contexts: (i) three case studies and three infographics (one per country); (ii) a fourth case study pulling together the regional experience and reflecting the different combinations of beneficiary profiles and local contexts in the three countries. In addition, each year the executing agency will update the project data sheet (standard provided by the MIF) containing basic information on the project, challenges, the program strategy, and outcomes achieved.
- 2.19 The **activities** will be as follows: (i) development of a communication strategy; (ii) participation in two knowledge events organized by outside parties; and (iii) development of knowledge products for external audiences as detailed in paragraph 2.18.
- 2.20 The following **audiences** have been identified for dissemination and communication of the knowledge and experiences generated by the project: the business units of AngloAmerican and other companies interested in rethinking their social investment approach or expanding their portfolio.
- 2.21 The **outcomes** of the component are 5 countries behind large investments, 10 technical assistance providers/financiers, and 30 representatives of municipal governments or national government agencies receiving the knowledge products.

**D. Project governance and execution mechanism**

- 2.22 The project will be executed under the direction of an **executive committee** in each country and at the regional level, consisting of representatives from the MIF, AngloAmerican, and TechnoServe (TNS). The executive committees will be responsible for preparing strategic guidelines, coordinating interventions under way by the institutions involved, monitoring the program outcomes in each country, proposing adjustment measures when the outcomes being obtained are not as expected, and suggesting new partnerships. The regional executive committee will deal with matters common to the three countries that need to be addressed together. The executive committees will meet periodically, holding at least one regular meeting every six months (i.e., at least two meetings per year). At its first meeting, the executive committee will establish the terms for its operation, which must be approved by the three parties.
- 2.23 TNS will be the entity responsible for promoting and ensuring the effective coordination of this program's principal stakeholders and local partners (corporate partners, enterprise networks, producer associations, local government agencies, knowledge institutions, and other potential partners from the public and private sectors) in collaboration and agreement with the program's main partner, AngloAmerican.
- 2.24 Through its offices in Brazil, Chile, and Peru, TNS will sign three agreements with the Bank for the execution of this program. It will establish an **execution unit** for each country and the necessary structure to effectively and efficiently execute activities and manage project resources. TNS will also be responsible for delivering

status reports on project implementation. The execution units, located in Brazil, Chile, and Peru, will ensure the effective and efficient execution of the project activities. Their responsibilities include formulating the annual work plan (AWP), implementing and monitoring activities, executing expenditures, and accountability to the Bank. Since the activities are different in each country and execution time frames will vary, the monitoring and evaluation systems will be independent but coordinated from Brasília.

- 2.25 The project team members will have an appropriate balance of technical skills in development and business to execute the project successfully. TNS will also be responsible for delivering project status reports (PSRs) to the MIF within 30 days after the end of each six-month period or more frequently, and on dates determined by the MIF, with at least 60 days advance notice to TNS.

#### **E. Sustainability**

- 2.26 Sustainability is defined as the ability to expand the benefits generated by the provision of services offered under the program at the local level after program execution is complete. Sustainability is also defined as the continuity of the ventures supported and their ability to access new markets.
- 2.27 The sustainability of the ventures supported depends on the potential to access financial and nonfinancial support services, to continue their growth. For this reason, central elements will be capacity-building in the public and private local organizations. In addition, work will be done to develop a local assistance network that can coordinate the actions of different actors at the local level, so that there will be a more favorable environment for the development of entrepreneurial ventures, and their actions will also contribute to the growth of the ventures supported.
- 2.28 One year before execution is completed, a **sustainability workshop** will be held with all parties involved to identify the measures necessary to ensure the continuity of actions once the project funding has ended. In the case of Brazil, the project will work with the sector coordination forums to identify the sustainability plan.

#### **F. Lessons learned from the MIF or other institutions**

- 2.29 **Market opportunities.** It is crucial to identify what the market demands, so that ventures and their production processes are organized to offer what is required.
- 2.30 **Needs of young people.** It is important to ensure that the pace and content of programs are consistent with the needs, abilities, and interests of young people, including the specific problems faced by young women. For this reason, it is recommended that they be able to actively participate in the design, implementation, and evaluation of activities.
- 2.31 **Business owners appreciate life skills.** Life skills are considered essential for building youth employability. Creative, interactive teaching methods are particularly relevant in learning and practicing life skills.
- 2.32 **Short-term balance and long-term outcomes.** Immediate, tangible benefits in the short term help to keep participants involved and motivated, while at the same time giving them opportunities to work together and generate new recruits. A long-term view contributes to consistency in the development of actions.



- 2.33 **Knowledge of the local productive system and markets.** Enterprise development projects must respond to the local situation, focus on competitive advantages, and take advantage of real market possibilities.
- 2.34 **Promoting coordination among development institutions.** Coordination among existing public and private programs is important, in order to avoid scattered efforts. In addition, building strategic partnerships is essential for putting a systemic approach into practice and increasing the impact.
- 2.35 **Capacity-building.** Building local capacity in municipal governments and private sector organizations fosters long-term sustainability.
- 2.36 **Sustainability of outcomes.** Programs must have a clear exit strategy, the main objective being the long-term sustainability of the intervention's outcomes.

**G. MIF additionality**

- 2.37 The MIF's technical experience in regional economic development, youth employability, entrepreneurship, and initiatives for productive inclusion through value chains will strengthen the program to achieve the best outcomes. The MIF's experience prioritizing the economic sustainability of businesses and interagency cooperation will be decisive for the success of the initiative. In addition, the ability to marshal public and private sector entities and civil society organizations and their credibility will be key to the development of local networks.

**H. Project outcome**

- 2.38 The expected outcomes at the end of the project are: (i) 16 entities will benefit from the project in the three territories, enabling them to increase the quality or quantity of their services (7 in Brazil, 5 in Chile, 4 in Peru, CRF 450300); (ii) number of people who have developed new skills (910 in Chile, CRF 110100); (ii) number of firms that have adopted new practices or technologies (255 in Brazil, 225 in Peru, CRF 230100).

**I. Project impact**

- 2.39 The expected impacts at the end of the project are: (i) percentage of those graduating from employability training with higher income (50% in Chile, CRF 320101); (ii) percentage increase in revenues of the participating companies (20% in Brazil, 15% in Peru, CRF 330100); and (iii) number of net jobs created (15 in Brazil, 72 in Peru, CRF 330300).

**J. Systemic impact**

- 2.40 The project will contribute to developing an economic inclusion methodology that could then be applied not only by AngloAmerican but by other large enterprises in the extractive sector or sectors with similar features, interested in investing in their areas of influence.
- 2.41 The project is expected to contribute to the following systemic impact indicators of the Corporate Results Framework (CRF): 10 key public or private institutions changing or applying new practices based on MIF-sponsored projects or knowledge.

### III. MONITORING AND EVALUATION STRATEGY

- 3.1 **Baseline.** A baseline will be set for use in monitoring the project indicators and evaluating the effectiveness of the services provided to the beneficiaries. TechnoServe Inc. (TNS) will gather baseline data from the beneficiaries and the entrepreneurial ventures through the project management system. The data will be broken down by gender.
- 3.2 **Monitoring.** The indicators will be monitored every six months using each country's monitoring system. This system will be reviewed to check the relevance of adjustments to its indicators during supervision. The indicators included in the monitoring system should cover the following dimensions: incomes, sales, and sustainability of the business and jobs.
- 3.3 In addition to the usual MIF supervision mechanisms led by the local offices in Brazil, Chile, and Peru with the support of the design team, the project will have an expert advisor who will review execution and propose adjustments to the project or to the methodology developed, as necessary.
- 3.4 **Evaluation.** The program will undergo a final evaluation at the level of each country. The results will be used to gauge the impact of the intervention on the beneficiaries, in comparison with the baseline values. Some questions to be included in the evaluation include: (i) Has the methodology proven to be cost effective? (ii) What impact have the program's actions had on beneficiary incomes and market access? (iii) What lessons can be learned from the program for other interventions where large private investments are found? and (v) Can the methodology be transferred to companies responsible for large investments with the materials generated by the program?
- 3.5 Questions will also be included on the project's relevance, efficiency, impact, and sustainability, depending on whether the evaluation is a midterm or final evaluation. In addition to the analysis of the quantitative information and network analysis, the evaluations will include in-depth interviews.
- 3.6 **Closing workshop.** When the time comes, the executing agency will organize a **closing workshop** with other entities involved, to jointly evaluate the outcomes achieved, identify additional tasks to ensure the sustainability of the actions begun by the project, and identify and disseminate the lessons learned and best practices.
- 3.7 **Financial supervision.** TNS has a lengthy track record with the MIF, demonstrating its capacity for managing MIF funds. In this regard, the institutional audit undergone each year by TNS will make special mention of the entity's level of risk for project management in the three participating countries.

### IV. COST AND FINANCING

- 4.1 The project has a total cost of US\$5,845,210. Of that amount, US\$1,980,000 (34%) will be contributed by the MIF, and US\$3,865,210 (66%) by TechnoServe Inc. Much of the counterpart contribution will come from AngloAmerican. The resources will be distributed among the three countries as follows:
  - a. Brazil: MIF US\$960.000; counterpart US\$1,731,230
  - b. Chile: MIF US\$370.000; counterpart US\$863,620

- c. Peru: MIF US\$650.000; counterpart US\$1,270,360
- 4.2 The execution period will be 36 months, and the disbursement period will be 42 months.
- 4.3 **Retroactive recognition of counterpart resources.** Retroactive recognition of counterpart resources is authorized for up to US\$80,000 in expenditures incurred by the executing agency in Brazil since 18 December 2015 (program eligibility date) for: (a) consulting services to analyze the local orientation and the inclusion and market potential, of identified chains; (b) preparation of a preliminary plan for chain development; and (c) support for the formation of sector coordination forums, provided that such expenditures were incurred in accordance with the policies governing this program.

Budget category	MIF	Counterpart	Total	%
Component 1: Strengthening of public and private organizations	200,364	363,854	564,218	10%
Component 2: Economic participation of youth and women	218,329	341,010	559,339	10%
Component 3: Development of local suppliers for the mining cluster	161,320	244,080	405,400	7%
Component 4: Development of enterprises and improvement in their market access	649,423	1,747,840	2,397,263	41%
Component 5: Knowledge management	142,293	170,847	313,140	5%
Administration	268,833	857,526	1,126,359	19%
Strategic and operational support	-	147,684	147,684	3%
Project manager	16,000	417,460	433,460	7%
Regional M&E	-	48,324	48,324	0.8%
Financial and procurement support	95,533	206,566	302,099	5%
Office equipment	27,943	6,769	34,712	0.6%
Travel	17,833	-	17,833	0.3%
Office expenses	111,524	30,723	142,247	2%
<b>Subtotal</b>	<b>1,640,562</b>	<b>3,725,157</b>	<b>5,365,719</b>	<b>92%</b>
Special advisor	39,000	-	39,000	1%
Monitoring and evaluation system	36,740	134,154	170,894	3%
Final evaluation	65,000	-	65,000	1%
Ex post reviews	50,769	-	50,769	1%
Contingencies	147,929	5,900	153,829	3%
<b>Total</b>	<b>1,980,000</b>	<b>3,865,210</b>	<b>5,845,210</b>	<b>100%</b>
%	34%	66%	100%	

## V. EXECUTING AGENCY

- 5.1 The executing agency for this project will be **TechnoServe Inc. (TNS)**. TNS is an international nonprofit organization that develops business solutions for poverty alleviation by connecting entrepreneurs with information, partners, and markets. TNS provides assistance for the creation of competitive enterprises in emerging countries in Africa, Latin America, and India.
- 5.2 With more than four decades of measurable results, TNS's programs are designed to develop the capabilities of people and enterprises locally, strengthen market systems, and facilitate the scalability of emerging industries. The central pillar of its work model for stimulating economic growth with a view to reducing poverty is the

development of high-impact, market-led partnerships for the growth of inclusive value chains and capacity-building at SMEs and the network of financial and business development institutions necessary to develop competitive and sustainable enterprises. TNS designs and implements each program based on the needs and opportunities of the specific area of influence, including the perspective of the local communities that benefit from the program.

- 5.3 TNS has conducted more than 35 business plan competitions and business acceleration and incubation programs in Africa and Latin America. It currently administers economic development and local entrepreneurship programs in Brazil, Chile, and Peru as well as throughout Africa.
- 5.4 TNS has led various supply chain development programs in the region. In 2013, it carried out a supply chain support program in Honduras that was financed by SABMiller and benefited its suppliers. It also established a partnership with Walmart to provide support to its vendors in Mexico, India, and South Africa. These programs benefit thousands of small-scale agricultural producers and small businesses in value chains for coffee, livestock, cacao, and grain in Guatemala, Honduras, and Nicaragua. Worldwide, TNS has worked to jointly design and implement programs with global partners, including Cargill, the Coca-Cola Company, Monsanto, Vodafone, BHP Billiton, Newmont Mines, Rio Tinto, and Standard Bank, linking small-scale producers and small businesses in markets with more equitable conditions.
- 5.5 TNS has more than 10 years of experience as an IDB executing agency.<sup>16</sup> Its work has focused in particular on the design and implementation of enterprise and agricultural value chain development programs, in collaboration with the leading companies in the segment.
- 5.6 In the mining sector, TNS has more than 10 years of experience working in collaboration with the leading mining companies around the world, participating in many different discussion forums on the mining sector and inclusive development (e.g., the World Economic Forum's Responsible Mineral Development Initiative and the Devonshire Initiative). This experience includes current partnerships with AngloAmerican in Chile and Peru, as well as in Brazil. The partnership between AngloAmerican and TNS in different geographic areas creates a network that facilitates the compilation of best practices and results analysis parameters.
- 5.7 **Strategic partner. AngloAmerican** is the program's key strategic partner and cofinancier. More than 75% of AngloAmerican's operations are in developing countries, and it recognizes the need to support sustainable socioeconomic development, both through its activities and independently of them. AngloAmerican has developed a global socioeconomic development strategy that prioritizes support for the public sector and the market. A key aspect of AngloAmerican's focus is to promote progress independently of its presence, so as to generate

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<sup>16</sup> TNS has served as executing agency for the following projects: Linking Small Women-Owned/Led Businesses to Value Chains in Central America (RG-M1242), executed from Nicaragua; Haiti: Mango as an Opportunity for Long-Term Economic Growth (HA-M1034); Biogas Market Development Program (NI-M1025); Increasing Opportunities for the Majority through Business Plan Competitions in the Andean Region (RG-M1104); Leveraging the Diaspora to Increase Market Opportunities for Small Producers (RG-M1143); Support to Business Accelerator in Patagonia (CH-M1060); and Support for the Competitive Position of Central American Coffee (TC0208023).

knowledge and models that can have a longer-term regional and sector impact. It has experience of long-term collaborations with TNS, CARE, International Alert, Flora & Fauna International, the Development Bank of Southern Africa, UNAIDS, and the Bill and Melinda Gates Foundation. TNS is already working with AngloAmerican at the group level to provide information on how to improve the global approach and offer programs in partnership with other local actors and institutions. AngloAmerican is founding signatory of the 10 principles for mining and sustainable development of the International Council on Mining and Metals (ICMM).

- 5.8 AngloAmerican shares the Bank's long-term perspective and, as a result, the two institutions signed a memorandum of understanding on 23 January 2013 with the objective of collaborating on the promotion of programs and projects for the development of more effective outcomes in line with both institutions' mandates. The Bank has the networks, knowledge, experience, and lending capacity to contribute to the long-term development of communities and countries.

## **VI. PROGRAM RISKS**

- 6.1 The following risks have been identified and considered in the program design:
- a. Internal risks: implementation and monitoring difficulties given the capillarity of the actions undertaken. This risk will be addressed by training local consultants in order to ensure that cooperative ventures and their beneficiaries are monitored effectively.
  - b. External risks: difficulty in forming the strategic partnerships necessary to support the ventures developed. This challenge will be addressed by strengthening and aligning networks of this kind, and ensuring that visions, objectives, and strategies are developed using a participatory approach to encourage ownership of the space among the different interest groups.
  - c. Sector risks: mining sector difficulties that complicate AngloAmerican's operations.
  - d. Risks associated with scaling the program up in the future: AngloAmerican's business units might not have the necessary information to conduct the program by themselves. Thus, throughout execution, the program will work closely with the managers and executives involved in the business units.

## **VII. ENVIRONMENTAL AND SOCIAL IMPACTS**

- 7.1 The program is expected to bring positive social impacts through greater economic opportunities for the local population, as well as activities to develop social capital. According to the Environmental and Social Impact Review, this program is classified as category "C."

## **VIII. ACHIEVEMENT OF MILESTONES AND SPECIAL FIDUCIARY ARRANGEMENTS**

- 8.1 **Results-based disbursements.** The project's disbursements will be contingent on verification of the achievement of milestones, in accordance with the verification methods agreed upon between the executing agency and the MIF. Achievement of

the milestones does not exempt the executing agency from responsibility to comply with the logical framework indicators and meet the project objectives.

- 8.2 Under the risk- and performance-based project management method, project disbursement amounts will be determined according to the project's liquidity needs for a maximum period of six months. These needs will be agreed upon between the MIF and the executing agency and will reflect the activities and costs programmed in the annual planning exercise. The first disbursement will be contingent on achievement of milestone 0 (conditions precedent), and subsequent disbursements will be made once the following conditions are met: (i) verification by the MIF that the milestones have been met, as agreed in the annual planning; and (ii) documentation by the executing agency of 80% of the cumulative advances of funds.
- 8.3 **Financial management and supervision.** Given that the diagnostic needs assessment of the executing agency yielded a low level of need/risk for the financial management section, the supporting documentation for disbursements will be subject to ex post review with annual frequency. The IDB/MIF will engage independent auditors to perform ex post reviews of both procurement processes and supporting documents for disbursements.
- 8.4 **Procurement.** Given that the diagnostic needs assessment of the executing agency yielded a low level of need/risk, the project team has determined that, as established in Appendix 4 of the Bank's procurement policies (documents GN-2349-9 and GN-2350-9), the executing agency, as a private sector entity, will utilize its own procurement methods if compatible with Bank policies. In addition, contracting and procurement for the project will be subject to ex post review with annual frequency. Before project contracting and procurement begins, the executing agency will submit the procurement plan for the corresponding project/country to the MIF. This plan must be updated annually and whenever there is a change in methods and/or the good or service to be procured.
- 8.5 **Intellectual property.** The Bank is the owner of the intellectual property of all works and outcomes obtained under the program. The Bank will grant a free nonexclusive license for noncommercial purposes to the executing agency and to AngloAmerican, covering rights of dissemination, reproduction, and publication of the program's outputs in any media.