

**PILOT PROGRAM FOR NEW EXPORTERS (NEX)**

**(TC-98-04-30-4-UR)**

**EXECUTIVE SUMMARY**

**EXECUTING AGENCY:** EMPRETEC, Uruguay

**END-BENEFICIARIES:** Small enterprises

**OBJECTIVES:** The program's objective is to provide assistance and training in export techniques to small Uruguayan enterprises that are potential new exporters. The program will identify small enterprises with export potential and will support them in acquiring skills for managing foreign trade activities. To that end, it will provide assistance and training in identifying export supply; determining export potential; managing information, which will include information related to the ISO 9000 and ISO 14000 certification processes and others; implementing import and export procedures; and aspects such as transportation, design, costing, insurance, subcontracting, trade missions, trade fairs, and exhibitions.

<b>FINANCING:</b>	Modality:	Grant:
	Executing agency:	US\$380,000
	MIF (Facility III-A):	<u>US\$610,000</u>
	Total:	US\$990,000

**SPECIAL FEATURES:** Prior to the first disbursement: hiring of the Program Director. The Business Promotion Consortium of Catalonia (COPCA) has a network of business promotion centers (CPNs) in 33 countries. EMPRETEC has preselected COPCA since it offers the methodology required for the program, and its costs compare favorably with those in the market (see paragraph 8.1).

A revolving fund will be set up for disbursement of 10% of the Bank's financing.

**EXCEPTIONS TO POLICY:** None.

## I. COUNTRY ELIGIBILITY

- 1.1 Uruguay was declared eligible to receive MIF financing on October 6, 1993.

## II. BACKGROUND

### A. Export development

- 2.1 In the eighties, a new relationship arose between exports and local supply and between imports and total demand as industry exhibited a greater degree of openness. The direction of that change advances the market positioning of agro-exports and of resource-based manufactures. In fact, in sectors with no foreign trade, some industrial segments have geared their domestic supply strongly toward exportation. However, in some exporting industries, the opposite phenomenon is occurring as an equal proportion of domestic demand is supplied using imported goods.
- 2.2 Successful Uruguayan manufacturing enterprises have become exporters through a series of productive and business strategies aimed at reducing production costs and making the product they are supplying stand out. In this way, they capture part of the foreign market. This strategy has enabled them to maintain a strong export performance, which has brought them into a virtuous circle of stronger growth, greater productivity, increased competitiveness, and, again, increased growth. A group of enterprises that export manufactured goods has successfully followed this path, without the intervention of an active industrial policy. Moreover, these strategies would appear to have a strong development potential since they are well suited to resources and constraints in the Uruguayan economy.
- 2.3 Most of the country's export business has been concentrated in the largest companies, with the 20 largest exporters accounting for 70% of total exports, and smaller firms (5 to 49 employees) for 17%. These small companies numbered over 6,000, representing 25% of the total (1988, Centro Económico).
- 2.4 With regard to aspects of trade, another central point in consolidating an export process is the establishment of channels for marketing products and supplying inputs. Although some enterprises display a coordinated series of marketing elements, such as after-sales services that differentiate the product supplied, foreign trade requires a very close relationship with the purchasers, which in order to be successful requires the development of a specialized structure.

- 2.5 The COMISEC/IDB-EU-UNDP Program (702/OC-UR and ATN/EC-4103-UR) identified support for the globalization of Uruguayan enterprises as a sector strategy to follow. Within this framework, the process of opening up the economy and the growing globalization of competition are motivating many Uruguayan enterprises to make changes to adapt themselves to the new export environment. Even enterprises that are not necessarily going to export want to have an "international vision" to defend their markets.
- 2.6 The process of formulating globalization strategies must lean towards developing the following areas, among others: the formation of marketing consortia or enterprises, attendance at international fairs, the establishment of information infrastructure, and the establishment of cooperation agreements with foreign entities and training programs for experts and entrepreneurs. The latter emphasize assimilation processes within the businesses, strategic alliances, the design of trade strategies, and the globalization of competition, for the purpose of fostering an international trade presence for Uruguayan enterprises.

B. The proposed program

- 2.7 The business development strategy paper for Uruguay identifies the need to support private sector development from the perspective of the competitiveness of business and small and medium-sized enterprises (SMEs). The paper states that as a result of progress on trade liberalization and integration in MERCOSUR, SMEs generally are facing the growing demands of foreign markets and, in particular, competition in the domestic market. The report stresses that the limited international experience of SMEs is a major weakness, particularly considering the shortcomings of the institutional system with regard to technical support and business management, information, and trade and export advisory services.
- 2.8 In order to help overcome the aforementioned shortcomings, it is proposed that a Pilot Program for New Exporters (NEX) be conducted through the Asociación Empretec Uruguay (EMPRETEC). The program will identify small enterprises with export potential and will support them in acquiring skills for managing foreign trade activities. Moreover, the program will improve local capacity to continue supporting other enterprises. To that end, training will be given in identifying export supply; determining export potential; managing information, which will include information on the ISO 9000, ISO 14000, and other certification processes; implementing import and export procedures; and aspects such as transportation, design, costing, insurance, subcontracting, trade missions, trade fairs, and exhibitions.
- 2.9 EMPRETEC determined that to conduct the program there had to be a methodology targeted to assisting SMEs, to work individually with each enterprise and tailor solutions to the difficulties that the

particular company faced in order to be able to export. In addition, the organization selected from among the candidates had to be one that could help position the enterprise in international markets, drawing on a structure or a network of specialized contacts in place.

- 2.10 With this in mind, EMPRETEC proposes using a methodology for commencing foreign trade operations which was developed by the Consorcio de Promoción Comercial de Cataluña (COPCA), established in 1987 as a service center for the globalization of enterprises. COPCA also has offered its network of business promotion centers (CPNs) in 33 countries to support the execution of the program.
- 2.11 The Bank has financed other programs in Uruguay that have components supporting the development of the country's exports, such as the farm modernization and development program (1036/OC-UR) and the program to boost the competitiveness of small agroenterprises (ATN/ME-5754-UR). The proposed program would complement those programs, and the eligibility criteria for the selected enterprises will ensure that they do not receive support from the other Bank programs.

### III. OBJECTIVE AND PROGRAM COMPONENTS

#### A. Objective and description

- 3.1 The program objective is to provide assistance and training in export techniques for small Uruguayan enterprises having export potential. The programs calls for training EMPRETEC, trainers, entrepreneurs, and business consultants on the methodology implemented by COPCA, for the execution of a complete NEX cycle. The entrepreneurs may be new exporters or enterprises that have experienced problems and stopped exporting or are passive exporters. The enterprises selected can use COPCA's business promotion centers (CPNs), and EMPRETEC will organize missions and attendance at trade shows, jointly with the enterprises, to support their export activity and increase the program's chance of success.
- 3.2 The program entails a change in the mentality of enterprises that, although they have export potential, are not able to tackle the international market alone. This situation may be due to factors such as a lack of information; absence or mistrust of specialized technical assistance; lack of knowledge of the channels for accessing foreign markets; or inappropriate use of human resources. The methodology selected facilitates this change in mentality by raising management awareness and training human resources. To that end, external advisors are hired and paid by the enterprise.

B. Components

- 3.3 The methodology calls for the implementation of a program that promotes, firstly, the incorporation of enterprises into the closest international markets, without losing sight of other potential markets, through the components described below. In order to be implemented, they require administrative support to meet management and secretarial needs, and the infrastructure necessary for operation, and program promotion, documentation, and publications.

IV. PROGRAM EXECUTION

A. Executing agency

- 4.1 EMPRETEC is a civil association legally established in April 1993, which originated in a U.N. program that began in 1989. Its core functions are conducting studies and identifying investment opportunities; implementing activities for business enhancement and for the incorporation and development of enterprises; facilitating relationships between local and foreign entrepreneurs, supporting endeavors and activities that promote innovation, technology, and the optimal use of natural resources, and improving the quality of products and services.
- 4.2 EMPRETEC has an organizational structure that is made up of a director, four coordinators (for the public enterprises, new projects, consulting, and distance education programs), and two

---

B. COMPONENTS

1. Training and Selection (US\$29,400) The activities to be carried out under this component are: (a) Training the NEX-EMPRETEC Director. This training will begin in Uruguay and be complemented by a mission of the Director to complete his/her training in Catalonia, Spain; (b) The selection and training of the advisors that will execute the NEX Program at the enterprise level. Both activities will be carried out by the consultants sent by COPCA to Uruguay. Furthermore, there will be a preselection of enterprises that would be eligible to participate in the program.

2. Execution of the NEX Pilot Program (US\$425,000) This component will conduct training activities for the personnel of EMPRETEC's NEX Program, the advisors, and officers responsible for exports in the enterprises, through the execution of a complete NEX cycle in two groups of 20 enterprises each. To this end, COPCA consultants will travel to Uruguay on three occasions (at the beginning of the diagnostic phase, once the International Promotion Plan (PPI) is prepared, and upon completion of the plan's execution). In executing this component, COPCA's Business Promotion Centers (CPNs) can be used to support market studies and/or to search for optimum distribution channels for the enterprises. This component calls for each of the beneficiary enterprises to use the CPNs for two months. The use of COPCA's network of 33 CPNs gives added value to the project, using a specialized instrument, and producing services that have obtained ISO 9001 certification.

3. Assistance to Enterprises (US\$160,000) The purpose of this component is to continue the activities begun during the execution of the PPI and consists of promoting trade missions and the enterprises' attendance at fairs, as a step in preparation for presenting exhibits thereat, and to markets identified in the PPI. This component is necessary to give continuity to the support for enterprises benefitting from the NEX program, with instruments that help to open and attempt to consolidate specific markets.

---

persons responsible for the Support and Trade Fairs Center and the Support and Credit Center. It has an administrative area employing five persons, assisted by a roster of 18 consultants.

- 4.3 EMPRETEC supported the establishment of 370 new ventures, access to financing for 120 enterprises, promotion abroad of 440 enterprises, technological advisory services for 80 entrepreneurs, and formal ties for 410 enterprises. EMPRETEC has promoted and trained entrepreneurs in foreign trade and has organized a business conference jointly with the Board of Trade. In its work, EMPRETEC has had financial assistance from international organizations such as Agencia Española de Cooperación Internacional, UNDP, and GTZ, as well as revenue from the sale of services and consulting and contributions in kind from Banco de la República Oriental del Uruguay. Its accumulated net worth as of December 31, 1997 was equivalent to US\$231,764.
- 4.4 The advisors selected must be foreign trade experts, specialized by sector, with sound knowledge of business administration, who show the capacity and willingness to support enterprises under the contract conditions proposed by EMPRETEC. To be selected, the enterprises must in principle satisfy the following requirements: (i) they must be new exporters, i.e., have exported only sporadically in the previous three years, accounting for less than 15% of their billings; (ii) they must not be eligible for technical support for farm exports under loan 1063/OC-UR or other Bank projects in this sector; (iii) they may have no more than 100 permanent employees; (iv) they must be current on their tax and social security obligations; and (v) they must be prepared to enter into a formal commitment to participate in the program and take on the cost of hiring an advisor for their company.
- 4.5 The program will be executed over a period of 36 months, and the resources will be disbursed over 42 months. A brief description of the execution phases of the NEX program is in the technical files.

B. Procurement and disbursements

- 4.6 Since the executing agency and beneficiaries are private enterprises, with regard to the procurement of goods and services, the provisions on the appropriate use of the contributed funds, eligibility of goods (MIF member countries), and implementation of the rule of economy and efficiency will be applied.
- 4.7 For the planned procurements and hirings, EMPRETEC will use competitive methods, following procedures in tune with market practices and the needs of the entity, and will ensure that prices and terms and conditions are in line with the needs of the program. To this end, EMPRETEC and the Bank will decide on the thresholds and/or cases in which prior nonobjection is to be sought, based on the terms of reference, equipment specifications, and the selection and/or procurement procedures to be followed.

## V. COST AND FINANCING

<b>BUDGET AND SOURCES OF FINANCING</b> (In thousands of US\$)			
<b>ITEMS OF EXPENDITURE</b>	<b>MIF</b>	<b>LOCAL</b>	<b>TOTAL</b>
1. Training and identification	29.4		29.4
2. Execution of pilot program	269.0	156.0	425.0
3. Advisory services to enterprises	80.0	80.0	160.0
4. Evaluation	20.0		20.0
5. Program administration	169.2	144.0	313.2
6. Contingencies	42.4		42.4
<b>TOTAL</b>	<b>610.0</b>	<b>380.0</b>	<b>990.0</b>

- 5.1 The total cost of the program is US\$990,000. The MIF will contribute US\$610,000 in nonreimbursable financing, and EMPRETEC and the enterprises will contribute US\$380,000.
- 5.2 The resources contributed by the MIF will be used to cover COPCA consulting fees; prepare COPCA training and communications materials; pay the salary of the EMPRETEC NEX director (on a diminishing basis over the three years - 100%, 60%, 40%); finance the use of COPCA's CPNs and the companies' costs to prepare for and take part in trade missions and visits to trade fairs, except for the travel and per diem costs for companies participating in the program. The resources contributed by EMPRETEC will be in the form of NEX Department staff hours, plus the general infrastructure cost and the Director's salary (on an increasing basis). The enterprises will pay the fees of the advisors and the cost of travel and per diems for participation in trade missions and visits to trade shows.
- 5.3 Though the project assumes that a percentage of the counterpart contribution will be in the form of enterprises' direct payments to advisors, EMPRETEC will commit itself to the full counterpart, to ensure continuity and completion of the program.

## VI. PROGRAM RATIONALE AND RISKS

- 6.1 The program is justified by two major studies conducted by the Bank - the COMISEC and business development strategy studies mentioned in paragraphs 2.5 and 2.7 of this document. In addition, the programming memorandum points to regaining export competitive-

ness as one of the main challenges facing the Uruguayan economy. The program's chief risk is that enterprises that stand to benefit from it might be reluctant to adopt this export development methodology and assume a portion of its cost because they are unaware of the potential for improving their international competitiveness. However, EMPRETEC has experience, prestige in training entrepreneurs, and is well accepted by and has credibility with small entrepreneurs in Uruguay, so it is expected to generate an adequate response and participation in the proposed program.

## VII. MONITORING AND EVALUATION

- 7.1 The program will be evaluated 18 months after signing of the agreement. The evaluation will examine enterprises that have benefited as of that time, to ascertain the program's impact, satisfaction with the advisory services received, and the contribution of the CPNs, in addition to an overall assessment. A final evaluation of the program, using a similar methodology, will indicate to EMPRETEC the adjustments that are needed, if any, to maintain its training activities or train other new exporting entrepreneurs. These evaluations will be conducted by consultants, in keeping with the terms of reference agreed upon with the Bank.

## VIII. CONSIDERATIONS AND CONDITIONS PRECEDENT TO THE FIRST DISBURSEMENT

- 8.1 In the course of the selection process EMPRETEC examined 10 proposals (eight Spanish, two Uruguayan) and concluded that only COPCA offered the required methodology and demonstrated positive results in applying it. In a February 1998 evaluation of the COPCA NEX program, participating companies rated the program very positively. A copy of the evaluation is in the project technical files. EMPRETEC determined that the cost of hiring COPCA compared favorably with costs in the market. Furthermore, COPCA has offered its network of business promotion centers (CPNs) in 33 countries to support execution of the program.
- 8.2 The findings of the analysis of this operation confirm that incorporating COPCA's proven export development approach will enhance the program's likelihood of success, since that experience will be adapted to the needs of Uruguayan SMEs, while assuring at the same time top-caliber professional and trade support services at market prices. COPCA has carried out similar undertakings in Latin America, specifically in Costa Rica, Peru, and Uruguay, and has shown that it has the requisite capacity and experience.



- 8.3 A condition precedent to the first disbursement would be the hiring of the program director, whose terms of reference will need to be agreed on with the Bank.

#### IX. FINDINGS OF THE COMMITTEE ON ENVIRONMENT AND SOCIAL IMPACT

- 9.1 At its meeting on May 15, 1998, the Committee on Environment and Social Impact recommended that the project include assistance and dissemination of ISO 9000 and ISO 14000, and other pertinent certification processes.

**PLANNING OF THE PILOT PROGRAM FOR NEW EXPORTERS**  
**(TC-98-04-30-4-UR)**

OBJECTIVE	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS																											
assistance and training in export techniques for small Uruguayan enterprises.	An increase in the number of small enterprises in Uruguay trained in export techniques.	Final evaluation of the program	The country maintains its instrument of support of foreign trade.																											
OPCA methodology to train two groups of small enterprises having export techniques.	Two groups of 20 small enterprises, each trained in foreign trade.	Program evaluations	Availability of financial and technical resources for program maintenance and operation.																											
RESULTS: and identification of pilot program to enterprises of the experience	No. of advisors trained No. of enterprises selected  No. of participating enterprises No. of persons participating  No. of small enterprises trained in export techniques	First evaluation report  Second evaluation report  Results obtained by enterprises																												
Chart of accounts Disbursements Progress reports	<table><tr><th colspan="3">Budget (in thousands of US\$)</th></tr><tr><th>Local</th><th>MIF</th><th>Total</th></tr><tr><td>144.0</td><td>169.2</td><td>313.2</td></tr><tr><td>-</td><td>29.4</td><td>29.4</td></tr><tr><td>156.0</td><td>269.0</td><td>425.0</td></tr><tr><td>80.0</td><td>80.0</td><td>160.0</td></tr><tr><td>-</td><td>20.0</td><td>20.0</td></tr><tr><td>-</td><td>42.4</td><td>42.0</td></tr><tr><td>380.0</td><td>610.0</td><td>990.0</td></tr></table>	Budget (in thousands of US\$)			Local	MIF	Total	144.0	169.2	313.2	-	29.4	29.4	156.0	269.0	425.0	80.0	80.0	160.0	-	20.0	20.0	-	42.4	42.0	380.0	610.0	990.0	Chart of accounts Disbursements  Progress reports	
Budget (in thousands of US\$)																														
Local	MIF	Total																												
144.0	169.2	313.2																												
-	29.4	29.4																												
156.0	269.0	425.0																												
80.0	80.0	160.0																												
-	20.0	20.0																												
-	42.4	42.0																												
380.0	610.0	990.0																												

**PROPOSED RESOLUTION**

**URUGUAY. NON REIMBURSABLE TECHNICAL COOPERATION PROGRAM FOR  
A PILOT PROGRAM FOR NEW EXPORTERS**

**The Donors Committee of the Multilateral Investment Fund**

**RESOLVES:**

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, on behalf of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the Association EMPRETEC of Uruguay and to adopt such other measures as may be pertinent for the execution of the plan of operations referred to in Document MIF/AT-\_\_\_\_\_with respect to a technical cooperation, the purpose of which is to support a pilot program for new exporters.
2. That up to the amount of US\$610,000 is authorized for the purpose of this resolution, chargeable to the Small Enterprise Facility of the Multilateral Investment Fund.
3. That the above mentioned sum is to be provided on a non-reimbursable basis.