

**DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK**

**B R A Z I L**

**PROGRAM FOR THE DEVELOPMENT OF INDUSTRIAL DISTRICTS**

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DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK  
MULTILATERAL INVESTMENT FUND

**BRAZIL**

**PROGRAM FOR THE DEVELOPMENT OF INDUSTRIAL DISTRICTS**

**(TC-01-09-00-5-BR)**

**DONORS MEMORANDUM**

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## ANNEXES

Annex IV-1      Logical framework (summary)

## ABBREVIATIONS

APEX	Agência de Promoção de Exportações [Agency for the Promotion of Exports]
CESI	Committee on Environment and Social Impact
CTCC	Centro de Tecnologia do Couro e do Calçado [Leather and Footwear Technology Center]
IDB	Inter-American Development Bank
MIF	Multilateral Investment Fund
PEU	Program executing unit
PROMOS	Milan Chamber of Commerce
SEBRAE	Serviço Brasileiro de Apoio às Micro e Pequenas Empresas [Brazilian Microenterprise and Small Business Support Service]
SENAI	Serviço Nacional de Aprendizagem Industrial [National Industrial Training Service]
SMEs	Small and medium-sized enterprises

## PROGRAM FOR THE DEVELOPMENT OF INDUSTRIAL DISTRICTS

(TC-01-09-00-5-BR)

### EXECUTIVE SUMMARY

<b>Requester and executing agency:</b>	Serviço Brasileiro de Apoio às Micro e Pequenas Empresas [Brazilian Microenterprise and Small Business Support Service] (SEBRAE)	
<b>Financing:</b>	MIF (Facility III-A)	US\$2,075,000
	SEBRAE:	<u>US\$2,030,000</u>
	Total:	US\$4,105,000
<b>Calendar for execution:</b>	Execution period:	36 months
	Disbursement period:	42 months
<b>Beneficiaries:</b>	Small enterprises producing goods and services.	
<b>Objectives:</b>	The objective of the program is to help increase the competitive capacity of the small enterprises (SEs) that produce goods and services in the selected industrial districts. The program would initiate actions to strengthen business cooperation, help mitigate basic obstacles confronting the SEs and the productive work force, taking advantage of business opportunities related to existing technological capacity and applying lessons derived from international experience.	
<b>Description:</b>	The program is structured into four components: (i) strengthening industrial district dynamics; (ii) information and market access; (iii) organization of production; and (iv) access of small enterprises to international markets.	
<b>Special contractual conditions:</b>	Conditions precedent to the first disbursement: (i) selection of a program technical manager; (ii) appointment of members of the program management committee; and (iii) implementation of the Operating Regulations.	
<b>Exceptions to Bank policies:</b>	None.	
<b>Social and environmental impact:</b>	The program was reviewed by the Committee on Environment and Social Impact (CESI) on 26 April 2002, and its recommendations were incorporated into the document.	

## I. COUNTRY AND PROGRAM ELIGIBILITY

- 1.1 At its meeting held on 16 September 1994, the Donors Committee declared the Federative Republic of Brazil eligible for all forms of financing provided for under the Multilateral Investment Fund (MIF). The program meets all the eligibility criteria for financing through Facility III-A, whose strategic orientation is to identify and support projects with the following features: (i) innovation; (ii) demonstration effect; (iii) financial and economic sustainability; (iv) collaboration/participation of local beneficiaries; and (v) contribution of critical resources to achieve results in small enterprise development initiatives. This program is also in keeping with the MIF focus on production chain clusters.

## II. BACKGROUND

### A. Industrial districts

- 2.1 In the Brazilian economy, small and medium-sized enterprises (SMEs) represent approximately 98% of the total domestic business activity. They create jobs for some 60% of the urban population (45% of the formal work force), and account for more than 20% of gross domestic product (GDP). The country also has significant concentrations of production. Beyond the traditionally more industrialized states, the presence of sectoral clusters has been discerned in traditional sectors but with significant levels of competitiveness. In many instances these are small companies located in less developed states or microregions. The enterprises that form these clusters show certain levels of productive specialization and cooperation among themselves, even if they do not have the network of relationships and level of integration that distinguish the organization of production of the so-called “industrial districts.” The industrial district experience most widely recognized on an international level is that of Italy (Box II-1).

#### BOX II-1

##### Concept of the Italian industrial district

The nature of the Italian industrial district can be described as follows: (i) adhesion to dynamic markets and thus to the process of sustained growth; (ii) good product offerings (attention to requirements, quality, price); (iii) specialization in the production chain and excellence in specialization; (iv) relatively quick and unhampered establishment of support institutions and service providers attending to the various needs of the SMEs in the district; and (v) establishment of enterprises in related sectors (machinery, accessories, etc.), which contribute to the competitive advantage with *ad-hoc* solutions. These features provide a broad definition of the “industrial districts” as networks of horizontally and/or vertically integrated enterprises located within a specific geographic area. In this regard, for example, the production chain is a characteristic of the industrial district; however it is not always enough to have a production chain in a specific area for it to be considered a district. It is the collaboration among enterprises and the common strategic definition that distinguish it as a district.

- 2.2 The Serviço Brasileiro de Apoio às Micro e Pequenas Empresas [Brazilian Microenterprise and Small Business Support Service] (SEBRAE) has carried out a process of identifying and selecting various cases of productive concentration in small enterprises in order to identify production organization situations similar to those of an “industrial district.” From 24 proposed *clusters* in different sectors and geographic regions of Brazil, SEBRAE has selected seven to be analyzed in greater depth by independent consultants, so as to greatly reduce the number of options and assess the actual feasibility of a pilot project to support development in these areas.
- 2.3 The selection process was based on various criteria, aimed at facilitating the execution of a project to support the development of an integrated system of small businesses. The most relevant factors considered are:
- a. **Political-institutional aspects:** (i) SEBRAE’s presence in the area; (ii) favorable institutional environment; (iii) interest on the part of the state government; (iv) local private-sector agency to lead the process jointly.
  - b. **Socioeconomic aspects:** (i) demand for business, technological and marketing support services; (ii) level of participation of small enterprises; (iii) sectoral concentration in the target region; (iv) culture of cooperation among enterprises; (v) development impact potential; (vi) economic impact of the sector in the area and the region; (vii) regional infrastructure; (viii) linkage between SMEs and technological institutions; (ix) potential for disseminating the industrial district model in other regions of Brazil; (x) incentives to attract investment and regional development; (xi) environmental sustainability; (xii) capacity to generate employment and income.
- 2.4 This process, with the support of research work from local and international experts, has made it possible to select three regions/sectors.
- a. **The Nova Friburgo Lingerie Industry Corridor (Rio de Janeiro)**, which has a share of approximately 20% of the domestic production of lingerie with nearly 600 formal and informal production establishments.
  - b. **The Campina Grande Leather Goods and Footwear Corridor (Paraíba)**, which currently comprises 147 registered enterprises and 468 informal enterprises, for a total of 615.
  - c. **The Paragominas Wood Products and Furniture Corridor (Pará)**, which has 70 units made up of small and medium-sized enterprises, 90% of which have been informally established.

## **B. Development of the industrial districts and the MIF’s role**

- 2.5 The areas analyzed represent evolving situations with industries that have a strong sector orientation. Similarly, in these three cases, there are clear competitive



advantages and great potential for growth, as well as opportunities for added value on the local level. However, the heavy presence of one industrial sector or even an instance of mono-production (Nova Friburgo) does not mean that it is an “industrial district,” in the sense used to describe productive development in Italy.

- 2.6 In the selected cases, the major weak points among the small enterprises are fairly uniform, as follows: limited access to financial and nonfinancial services, principally to markets; difficulty in defining a production strategy at the product/sector level, which would allow for better business positioning; limited management ability on the part of entrepreneurs, which is reflected in excessive vertical integration and limited business cooperation; a low technological level; and unsatisfied demand for support services, among others.
- 2.7 The selection of the three corridors would be an excellent experience for the MIF, since each one has a different level of development, as well as a different geographical location. Given the size of Brazil, this could result in significant regional dissemination, allowing enterprises that improve their competitiveness by adopting advanced technologies and management to a successful “*sorpasso*”. Furthermore, these three activities—wood products/furniture, leather goods/footwear, and lingerie—are also carried out in other parts of the country that could make use of the achievements of this pilot program in the future.
- 2.8 Similarly, the implementation and strengthening of a district dynamic may arise from the entry of *catalyzing factors* into the local system. Among these are the presence of an *anchor enterprise*, i.e., a larger-scale enterprise that may be able to open up new markets, or disseminate new technologies and thereby open up new markets. In this regard, the program must be coordinated with ongoing specific and complementary initiatives, in particular those involving promoting access of the small enterprises in the selected areas to international markets. With this in mind, SEBRAE is also sponsoring, along with the program, an agreement with the Agency of the Milan Chamber of Commerce (PROMOS), which will promote the formation and continuous updating of an “*opportunities matrix*.” This matrix would contain requirements and offers for possible technical solutions (services and instruments applicable to the various production areas), and would make it possible to select the best business opportunities for the Brazilian enterprises involved in this program, as well as other areas of SEBRAE, and foreign companies. (The SEBRAE-PROMOS Agreement is available in the RE1 files.)
- 2.9 Through this program, and in collaboration with SEBRAE, the MIF will be supporting the competitive development of these enterprises in the selected areas. Under the program, the business sector will be mobilized to achieve concrete productive objectives through greater collaboration among businesses and a common strategic definition, thereby reinforcing economic potential on the regional level. It is felt that the impact of these factors could be even broader if they lead to an imitation effect among enterprises and facilitate the use of new technologies and

access to new markets. The program would develop activities to strengthen business cooperation, help mitigate the basic obstacles confronting small enterprises and the productive work force, taking advantage of business opportunities related to natural resources or existing technological capacity and the lessons of international experience.

### III. THE PROGRAM

#### A. Objectives

- 3.1 The objective of the program is to help increase the competitive capacity of small enterprises producing goods and services within the selected industrial districts. Box III-1 summarizes the strategic and operational guidelines drawn from various studies, proposals and interviews with the main actors in the program (businesses, boards of trade, public and private institutions, universities, etc.).

<b>BOX III-1</b>	
<b>General Guidelines of the Program</b>	
a.	<b>Participation of the private sector.</b> The private sector will have a major role in executing the program. Private services will be used for technical assistance and training for the enterprises.
b.	<b>Institutional coordination.</b> The program will help link institutions and programs that provide support services to the enterprises; existing programs will be matched to demand.
c.	<b>Demand-driven approach.</b> Market indicators will be prioritized to guide application of program instruments.
d.	<b>Free access to services.</b> Free access will be provided to all services, without the need to follow a given sequence, provided that the viability of the business project has been verified.
e.	<b>Encouraging associations.</b> The development of associations will be promoted through various operational strategies and mechanisms.
f.	<b>Additionality.</b> Resources will be invested in business development projects that show the possibility of achieving results that would not occur or would be hampered without the program.
g.	<b>Sustainability.</b> Program actions should be able to continue once Bank financing resources have been used up.
h.	<b>Environmental conservation and worker protection.</b> Given concern about the impact of production activities on the environment, information will be provided on programs, suppliers and consultants specializing in “clean” and more efficient production processes from the perspective of energy and raw material inputs, as well as worker health and safety.

- 3.2 The specific objectives are: (i) to improve the local response capacity in support of competitive development of enterprises, both among institutions and entrepreneurs, on the basis of cooperation among businesses; (ii) to facilitate the enhanced competitiveness of enterprises, through market access and identification or strengthening of appropriate channels; (iii) to support reorganization of small enterprise production, thereby improving competitiveness; and (iv) to promote the entry of the most dynamic enterprises into the domestic and international markets.

## **B. Components**

- 3.3 The program seeks to apply the lessons learned from some international experiences in establishing industrial districts and will focus on training suitable human resources, fostering cooperation among businesses and facilitating market access. The proposed program has been structured into four components.

### **Component 1. Strengthening “industrial district” dynamics (US\$432,000 MIF; US\$404,000 SEBRAE)**

- 3.4 This component seeks to stimulate and promote the participation of private enterprises in program execution, as well as strengthen the local capacity of the institutions involved in industrial district management and dynamics. The main activities are: (i) **awareness-building and business promotion:** to reinforce business collaboration through the development of regional dynamics that support the collective efficiency of the district; (ii) **business clustering:** to undertake actions focused on creating and implementing clusters and synergies among businesses, such as consortia (for exporting, credit access, certification), business condominiums and service cooperatives; and (iii) activities promoting the **regional standardization, trademarks and stamps.**

### **Component 2. Information and market access (US\$1,014,000 MIF; US\$827,000 SEBRAE)**

- 3.5 The goal of this component is to reinforce the link between the productive sector with the greatest presence in each region and the domestic and international market and make it more efficient. The activities would vary according to the region and the strengths and weaknesses of each case, and could include curriculum design and training for marketing channels; support for the introduction of quality standards (ISO and other systems of environmental management - SMA) into the businesses and eventual introduction of trademarks on a regional level, technical design of products, etc. This also includes: (i) **market strategy:** given regional diversity, there is a clear need to design individual plans for each district, establish strategic partnerships, and continually adjust the program to the constant changes in the sectors; (ii) **pilot and demonstration activities in the market:** based on knowledge gleaned from the market strategy activity, pilot activities to develop new markets will be proposed for the three districts, including: (a) selection of

enterprises; (b) business plan development; (c) logistics; (d) training; (e) implementation for at least three operational groups per district; and (f) business cooperation; **(iii) strategic design:** this activity is divided into four subactivities: (a) awareness-building, promotion and communication; (b) training in design and promotion of products and services; (c) integration and strengthening of the design infrastructure; (d) trademark strategy—implementation or improvement of a quality assurance system. Specific activities will be undertaken to promote technology transfer, as well as training programs in the design management field. In order to advance the stated goals, the proposed program will undertake additional activities with regard to the courses involving SEBRAE participation, such as the SEBRAE design program, and the support for competition and technological dissemination program, as well as center, hub and laboratory infrastructure in the areas of design (Núcleo de Apoio ao Design [Design Support Center] (NAD) - Nova Friburgo), and the Centro de Tecnologia do Couro e do Calçado [Leather and Footwear Technology Center] (CTCC) - SENAI Campina Grande (Serviço Nacional de Aprendizagem Industrial - National Industrial Training Service), among others. In this way the program will be able to fill the technological gaps, thereby addressing business demand.

### **Component 3. Organization of production (US\$368,000 MIF; US\$367,000 SEBRAE)**

- 3.6 The goal is to promote greater diversification of production, improve technology and productivity and the quality of finished products, and reduce unit costs in order to ensure the competitiveness of individual enterprises by pressing the competitive advantage of the group of businesses. The main activities will be: (i) **training:** an effort will be made to integrate the training and instruction system of SEBRAE (management, entrepreneurial spirit, association and leadership training), SENAI, technical schools, and research centers; (ii) **technical assistance to improve the reorganization of production:** to support enterprises with projects in technological innovation, in the broad sense, including: (a) transfer of cleaner technology; (b) adaptation of product technologies and productive processes; (c) monitoring and oversight of subcontracting processes; (d) rationalization of the product, as well as of production equipment, production methods and processes, and lay-out.
- 3.7 **Environmental aspects of the wood products and furniture district in Paragominas and the leather goods and footwear corridor in Campina Grande.** Primarily, three measures will be employed to mitigate the environmental risks of the program in Paragominas: (i) use of wood only from legally authorized sources in accordance with forest regulation requirements with regard to obligatory forest replanting; (ii) a training program in forest management for sustainable development, the terms of reference for which are contained in the Operating Regulations; and (iii) monitoring. Box III-2 outlines the mitigation measures. The RE1 files contain a detailed analysis of the environmental aspects of the Paragominas corridor. The leather goods and footwear corridor does not have any

tanneries, and the shoe manufacturers do not generally have environmental pollution problems. However, SENAI's CTCC does have effluent treatment centers that would support the establishment of tanneries, with environmental certification, in the program region. The CTCC will also perform a study to identify the source of the leather used by a sample of enterprises with the goal of educating them in the use of certified raw materials. The region tends to be very warm, and working conditions are therefore very uncomfortable and could be improved with the use of forced-air ventilation and improved factory layouts.

<b>BOX III-2</b>	
<b>Measures agreed to mitigate environmental risks in Paragominas</b>	
1.	The furniture industry will only use wood obtained from legally authorized sources.
2.	The program plans to create training programs in forestry management considering the needs of individual enterprises, such as management of woodlands and forestry certification, appropriate use of industrial waste and occupational health and safety.
3.	The program will undertake monitoring through independent periodic auditing, using three environmental indicators: <ul style="list-style-type: none"><li>• Total area (in hectares) under forest management annually approved by the IBAMA (Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis) [Brazilian Institute for the Environment and Renewable Natural Resources], monitoring of compliance with the reforestation requirement of the municipality of Paragominas and use of wood from legally authorized sources for industries in the project.</li><li>• Area (in hectares) covered by waste wood from the industries within the urban perimeter of Paragominas, which will be measured by using photographs and videos at the start and finish of the project.</li><li>• Number and type of courses to foster sustainable forestry and industrial development; number of graduates each year from the training program.</li></ul>

#### **Component 4. Access of small enterprises to international markets (US\$300,000 SEBRAE)**

- 3.8 This component would provide support to the enterprises that are most dynamic and offer products that are of sufficient quality to satisfy the more distant domestic and international markets. Individual projects and the establishment of consortia will be promoted, a survey will be made of products and markets, financing will only be provided for the preparatory stages of participation in trade fairs and missions within Brazil and abroad, and support will be provided for marketing and advertising activities. This is in addition to the experience gained by SEBRAE with the support of PROMOS in a parallel program and by the Agência de Promoção de Exportações [Agency for the Promotion of Exports] (APEX) for these activities, given that the latter mainly finances small business groups.

<b>BOX III-3</b> <b>Activities under the Memorandum of Intention between SEBRAE and PROMOS (Milan Chamber of Commerce)</b>
<ul style="list-style-type: none"><li>• Organization of missions to Italy.</li><li>• Organization and management of technical visits to Italy.</li><li>• Seminars and events designed to promote the interested sectors.</li><li>• Organization of meetings of businesses with technical agencies (Italy to Brazil and vice versa).</li><li>• Organization of informational/training seminars geared to both Italian and Brazilian institutions.</li><li>• Identification of specific activities of interest to the enterprises (technical centers, consulting firms, export consortia, trade associations, institutions).</li><li>• Activation of information technology (intranet) to allow information flow to the interested businesses and institutions.</li></ul>

## **IV. PROGRAM EXECUTION**

### **A. Executing agency**

- 4.1 The Serviço Brasileiro de Apoio às Micro e Pequenas Empresas [Brazilian Microenterprise and Small Business Support Service] (SEBRAE) is the program executing agency. It is a private, nonprofit institution created by Laws 8.029/90 and 8.154/90 (with implementing regulations through Decree 99.570/90) to support the development activities of small enterprises. The SEBRAE system comprises the national office (SEBRAE-DN) in Brasília, and one SEBRAE agency in each of the country's 26 states.
- 4.2 The program will require the coordinated effort of the agencies involved in business development and modernization in the states where the industrial districts have been identified. In order to organize these efforts, a program management committee will be created, which will meet on a quarterly basis and will be made up of: (a) the program executive director; (b) the SEBRAE Superintendents for Pará, Rio de Janeiro and Paraíba; and (c) a representative from SENAI's national office, representing the Confederação Nacional da Indústria [National Confederation of Industries]. The tasks of this committee will include advising the program executing unit, identifying opportunities for better dissemination of the

program, and reviewing and approving the semiannual progress reports, as well as a midterm evaluation, before the reports are sent to the Bank for nonobjection.

- 4.3 SEBRAE-DN will act in collaboration with the SEBRAE agency in each state and mainly with SENAI, the Secretariats of Science and Technology, and the Secretariats of the Environment and with its affiliate, APEX, created by Decree 2398/97 with the aim of providing support for the export activities of small enterprises. These institutions are recognized on the national level and by the Bank and are considered suitable for participation in the program.

**B. Program executing unit (PEU)**

- 4.4 The International Affairs Unit of SEBRAE-DN in Brasilia would act as the executing unit. Its functions and responsibilities are included in Appendix I (Organizational Structure of the Program) to the Operating Regulations, which is available in the RE1 files. The PEU would be made up of an executive director, who would be SEBRAE'S advisor on international affairs, two assistants, a technical staff member in charge of dissemination and communication, and an administrative secretary, whose remuneration would be charged to the counterpart. MIF funds would be used to retain a technical manager who would be responsible for monitoring joint training activities (including organizing workshops, short courses, and presentations) for each state's local coordinating agencies, supporting the selection of personnel and other specific consulting, making monthly visits and serving as secretary to the management committee.
- 4.5 In each district, SEBRAE coordination with the various agencies involved in the program will require local authorities—technical committees—to ensure that the entire institutional apparatus is being efficiently used in a coordinated way by the program beneficiaries. Local coordinators will also be retained in each district for the program execution period.
- 4.6 The PEU will keep accounting records in accordance with a chart of accounts approved by the Bank. These records will be centrally maintained at SEBRAE-DN in Brasilia. A record will also be kept of all the activities carried out in the districts of Nova Friburgo, Campina Grande and Paragominas, and information contained therein will be passed along to the central accounting office in Brasilia.

**C. Program beneficiaries**

- 4.7 The program will benefit small enterprises in the industrial districts through its training and technical assistance activities. In order to participate in the program, the small enterprises must have legal status and the technical, administrative and financial control organization allowing them to make appropriate use of program support, have up to 100 employees and annual sales (net of VAT) of up to US\$2.9 million, be in existence for at least one year, and agree to share the cost of

services resulting from program activities. Service providers interested in participating in the program must have qualified human resources in terms of technical expertise, experience and quality, be financially sound, and have satisfactorily completed similar work. Projects will be presented through a business plan that will focus on technical, financial, environmental, marketing and legal factors, among others.

**D. Execution and disbursement periods and status of program preparation**

- 4.8 An execution period of 36 months and a disbursement period of 42 months are anticipated. A revolving fund will be created containing 10% of the MIF contribution, representing the minimum required amount to launch the program. A detailed schedule of activities is available in the complete version of the Logical Framework in the RE1 files.
- 4.9 In order to ensure participation in the program design stage, during program preparation the team made two visits to each of the identified districts, where meetings were held with the authorities from SEBRAE and other representatives from each sector, with the aim of obtaining information on the local market and requests for services to support the small enterprises. During this process, a sample of the firms in the sector expressed their willingness to cofinance the program activities.
- 4.10 The project team worked with the counterpart to prepare the terms of reference for selecting and retaining the technical manager, as well as the draft of the Operating Regulations and the logical framework. SEBRAE has already established contact with potential members of the management committee, who have confirmed their interest in participating in the program. The public selection process for the technical manager is already under way. SEBRAE's leadership has expressed complete agreement with the proposed program's scope as reflected in the request for this operation.

**V. COST AND FINANCING**

- 5.1 The total cost of the project is the equivalent of US\$4,105,000. The MIF contribution will be US\$2,075,000, which is nonreimbursable, and SEBRAE will provide US\$2,030,000. The summarized budget is provided below, by component and industrial district (a breakdown of costs can be found in the RE1 files). The MIF contribution will be used to finance: (i) cofinancing for the enterprises to promote the use of training and technical assistance services and participation in business cooperation programs; (ii) fees for the program's technical manager; (iii) fees for local and international consultants; (iv) partial cost of the promotional and marketing campaign; and (v) procurement of software and small supplementary equipment for the production organization component.



TABLE V-1 Summary of costs (in thousands of U.S. dollars)									
COMPONENT	INDUSTRIAL DISTRICT						TOTAL COST		
	Nova Friburgo: Lingerie		Campina Grande: Leather Goods and Footwear		Paragominas: Furniture				
	MIF	SEBRAE	MIF	SEBRAE	MIF	SEBRAE	MIF	SEBRAE	TOTAL
1. Strengthening industrial district dynamics	158	158	149	143	125	103	432	404	836
2. Information and market access	340	340	342	237	332	250	1,014	827	1,841
3. Organization of production	117	117	112	108	139	142	368	367	735
4. Access to international markets	-	100	-	100	-	100	-	300	300
TOTAL	615	715	603	588	596	595	1,814	1,898	3,712
Executive coordination							186	102	288
Evaluation and auditing							75	30	105
GRAND TOTAL							2,075	2,030	4,105

## VI. MONITORING, EVALUATION AND AUDITING

- 6.1 Program execution will be monitored through semiannual activity reports which will contain the following information: (i) technical assistance received by the companies and the results thereof; (ii) training activities performed and the results thereof; (iii) performance indicators based on the logical framework indicators; and (iv) corrective actions taken in the event of failure to meet any of the program objectives.
- 6.2 SEBRAE will send the audited semiannual reports, in accordance with the format agreed to with the Bank, within 60 days of the end of each quarter, and a final report within 60 days of completion of the program execution period. The program will have two external evaluations undertaken by independent consultants contracted by the Bank with MIF funding. The Bank will require consultants retained to present their first evaluation after 18 months or when 50% of the MIF financing has been disbursed and the second evaluation during the last month of the program execution period. The program will be evaluated by the MIF in accordance with the benchmarks for the Improved Competitiveness of SMEs through Networks and Supply Chains cluster.

- 6.3 The executing agency will maintain suitable internal accounting records and financial oversight of the project funds to allow for verification of transactions and to facilitate timely drafting of financial statements and reports. Program files will be arranged so that: (i) the sums received from the various sources can be identified; (ii) project expenses are reported in accordance with the chart of accounts approved by the Bank, with a distinction made between MIF contributions and funds from other sources; and (iii) the necessary details are included to identify goods acquired and services contracted, as well the use of said goods and services. The executing agency will also open separate, specific bank accounts for managing the MIF contribution and the local counterpart funds. It will process disbursement requests and the respective justifications for expenses in accordance with Bank procedures regarding disbursements; and it will submit the final financial statement to the Bank, audited by an independent firm acceptable to the Bank, as well as the semiannual financial reports on the status of the revolving fund.

## **VII. JUSTIFICATION AND RISKS**

- 7.1 International experience shows that strengthening cooperative business ties and the organization of production among enterprises in an “industrial district” has a significant effect in developing the efficiency and competitiveness of the small enterprises. Similarly, networks between enterprises can be strengthened by concrete actions that are generally developed by internal economic and political agents within a given geographical area, and by specialized support institutions.
- 7.2 Three principle risks stand out: (i) that a critical mass of demand will not be generated by large-scale awareness-building. To avoid this, a public procurement process is planned for all activities, thereby providing a great deal of transparency in program administration; (ii) that the program will not be capable of generating an attractive supply of services (defective link between enterprises-SEBRAE consultants). This will be mitigated by retaining specialized consultants and through training courses that will structure activities to generate this supply; and (iii) the environmental risk to the forest district of Paragominas, the mitigation of which has been described in paragraph 3.7 above.
- 7.3 This is a “pilot” program, since it deals with experimental actions to create a special relationship of interdependency and affiliation between the organization of productive systems and the social relationships within a given local culture. The increased competitiveness of the enterprises, through the experience of SEBRAE, and with the support of PROMOS, SENAI, industry federations, APEX and others, is the best guarantee for the program’s sustainability. By introducing these practices, the small enterprises in the industrial districts will be provided with a level of development that is the norm in practically all of the developed countries. These are policies that are recognized and accepted by the World Trade Organization.

- 7.4 In the strengthening of business management, training activities and technical assistance to the enterprises will represent indirect funding sources for the program. Businesses will contribute 10% for the activities' costs during the first year, which proportion will increase progressively until reaching 40% in the third year. The RE1 files contain the principal aspects of the eligibility memorandum as well as reference to further clarifications of same.

## **VIII. SOCIAL AND ENVIRONMENTAL ASPECTS**

- 8.1 SEBRAE, in providing technical support services for the small enterprises related to production processes, will promote the adoption of measures to neutralize negative environmental impacts. Topics relating to occupational health and worker safety will also be addressed. The program execution monitoring reports will contain an evaluation of the actions developed with regard to the environment, especially in the district of Paragominas, where only legally authorized wood must be used, and training in forest management will be fostered so as to increase the number of trained technical personnel in this area. (The minutes of the CESI of 26 April 2002, with recommendations and amendments included in this document, can be found in the RE1 files).

## **IX. CONDITIONS PRECEDENT TO FIRST DISBURSEMENT**

- 9.1 The conditions precedent to the first disbursement are presentation to the Bank's satisfaction of: (i) evidence of the selection of a technical manager for the program; (ii) evidence of appointment of members to the program management committee; and (iii) implementation of the Operating Regulations.

## **X. EXCEPTIONS TO BANK POLICIES AND PROCEDURES**

- 10.1 No exceptions to Bank policies and procedures have been considered.

## LOGICAL FRAMEWORK

### PROGRAM FOR THE DEVELOPMENT OF INDUSTRIAL DISTRICTS IN BRAZIL (TC-01-09-00-5-BR)

#### (SUMMARY)

SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<b>GOAL</b>			
Help increase the competitive capacity of small enterprises producing goods and services in the selected industrial districts.	Increased competitiveness of small enterprises.	<ul style="list-style-type: none"> <li>– Production and sales indicators of the small enterprises in these industrial districts.</li> <li>– Company surveys and ad hoc studies.</li> </ul>	<p>Industrial district regions deploy development strategies that combine production and export diversification with systematic value added to production and export of goods.</p> <p>It is possible to increasingly incorporate the industrial districts into national efforts for entrepreneurial, technological and export development.</p>
<b>PURPOSE</b>			
<p>Provide new impetus for innovation and technological development in industrial districts by deploying programs to:</p> <p>(i) improve local performance capacity for the competitive development of enterprises, both for institutions and entrepreneurs, on the basis of cooperation among enterprises;</p> <p>(ii) facilitate increased competitiveness of enterprises, through market access and the identification and strengthening of appropriate channels; and (iii) support reorganization of production within the small enterprises, thereby boosting their competitiveness.</p>	<p>Increased investment of industrial districts in science and technology, particularly in the productive sector.</p> <p>Increase in the number of enterprises that regularly undertake innovative actions in technology and marketing.</p> <p>Increased number of professionals and technical experts involved in innovative activities and marketing.</p>	<p>Development of Total Productivity Factor (TPF).</p> <p>Statistics on foreign trade and science and technology spending.</p> <p>Surveys of enterprises and ad hoc studies.</p>	<ul style="list-style-type: none"> <li>– Direct SME beneficiaries participating in the process and allocating resources.</li> <li>– Heightened level of entrepreneurial culture and leadership.</li> <li>– Steady market growth.</li> <li>– Public policies that are suitable for SMEs and for regional development.</li> <li>– Institutional and infrastructure support.</li> <li>– Use of clean technologies.</li> </ul>

SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<b>SUBPROGRAMS:</b>			
<b>SUBPROGRAM 1: Nova Friburgo Lingerie Industrial District</b>			
<b>GOAL</b>			
Provide new impetus for innovation and technological development in the lingerie industrial district by deploying programs to: (i) improve local performance capacity for the competitive development of enterprises, both for institutions and entrepreneurs, on the basis of cooperation among enterprises; (ii) facilitate increased competitiveness of enterprises, through market access and the identification and strengthening of appropriate channels; and (iii) support reorganization of production within the small enterprises, thereby boosting their competitiveness.	<p>Number of enterprises involved in the subprogram.</p> <p>Mechanisms have been disseminated and promoted in the industrial district to stimulate district dynamics: aggregation structures have been created or bolstered (service centers, credit consortia, export and certification consortia).</p> <p>Pilot actions have been designed and implemented to strengthen relations with the market and with channels to increase demand for merchandise in the industrial district.</p>	<p>Results and records of events and participation in training.</p> <p>Contracts signed by consortia.</p> <p>Statistical data.</p>	<ul style="list-style-type: none"> <li>– Availability of qualified personnel.</li> <li>– Heightened level of entrepreneurial culture and leadership.</li> <li>– Steady market growth.</li> </ul>
<b>PURPOSE</b>			
Identify and prioritize a group of actions to serve as a foundation for designing and implementing programs, which would represent the backbone for long-term technological and productive development, with an emphasis on the design and marketing of lingerie products.	<p>Identification of a group of clearly specified and prioritized economic-technological parameters in accordance with preestablished criteria.</p> <p>Building of consensus among industrial district actors regarding these priorities.</p>	<p>Working groups with ample participation by industrial district actors.</p> <p>Surveys and other reference documents.</p> <p>Midterm and final reports.</p>	<p>Consensus in the industrial district regarding the need to have a long-term vision for technological and commercial growth.</p> <p>The actors in the industrial district are disposed to cooperate, build consensus and legitimize the defined priorities through participatory processes.</p> <p>The industrial district has the necessary technological, entrepreneurial and governance capacity to create a prospective vision regarding its technological and commercial development.</p>

SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<b>SUBPROGRAM 2: Leather Goods and Footwear Industrial District in Campina Grande</b>			
<b>GOAL</b>			
Provide new impetus for innovation and technological development in the leather goods and footwear industrial district by deploying programs to: (i) improve local performance capacity for the competitive development of enterprises, both for institutions and entrepreneurs, on the basis of cooperation among enterprises; (ii) facilitate increased competitiveness of enterprises, through market access and the identification and strengthening of appropriate channels; and (iii) support reorganization of production within the small enterprises, thereby boosting their competitiveness.	<p>Number of enterprises involved in the subprogram.</p> <p>Mechanisms have been disseminated and promoted in the industrial district to stimulate district dynamics: aggregation structures have been created or bolstered (service centers, credit consortia, export and certification consortia).</p> <p>Pilot actions have been designed and implemented to strengthen relations with the market and with channels to increase demand for merchandise in the industrial district.</p>	<p>Results and records of events and participation in training.</p> <p>Contracts signed by consortia.</p> <p>Statistical data.</p>	<ul style="list-style-type: none"> <li>– Availability of qualified personnel.</li> <li>– Heightened level of entrepreneurial culture and leadership.</li> <li>– Steady market growth.</li> </ul>
<b>PURPOSE</b>			
Identify and prioritize a group of actions to serve as a foundation for designing and implementing programs, which would represent the backbone for long-term technological and productive development, with an emphasis on the design and marketing of leather and footwear products.	<p>Identification of a group of clearly specified and prioritized economic-technological parameters in accordance with preestablished criteria.</p> <p>Building of consensus among industrial district actors regarding these priorities.</p>	<p>Working groups with ample participation by industrial district actors.</p> <p>Surveys and other reference documents.</p> <p>Midterm and final reports.</p>	<p>Consensus in the industrial district regarding the need to have a long-term vision for technological and commercial growth.</p> <p>The actors in the industrial district are disposed to cooperate, build consensus and legitimize the defined priorities through participatory processes.</p> <p>The industrial district has the necessary technological, entrepreneurial and governance capacity to create a prospective vision regarding its technological and commercial development.</p>

SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<b>SUBPROGRAM 3: Wood Products and Furniture Industrial district in Paragominas</b>			
<b>GOAL</b>			
Provide new impetus for innovation and technological development in the wood products and furniture industrial district by deploying programs to: (i) promote the competitive development of enterprises, both for institutions and entrepreneurs, on the basis of cooperation among enterprises; (ii) facilitate increased competitiveness of enterprises, through market access and the identification and strengthening of appropriate channels; and (iii) support reorganization of production within the small enterprises, thereby boosting their competitiveness.	<p>Number of enterprises involved in the subprogram.</p> <p>Mechanisms have been disseminated and promoted in the industrial district to stimulate district dynamics: aggregate structures have been created or bolstered (service centers, credit consortia, export and certification consortia).</p> <p>Pilot actions have been designed and implemented to strengthen relations with the market and with channels to increase demand for merchandise in the industrial district.</p>	<p>Results and records of events and participation in training.</p> <p>Contracts signed by consortia.</p> <p>Statistical data.</p>	<ul style="list-style-type: none"> <li>– Availability of qualified personnel.</li> <li>– Heightened level of entrepreneurial culture and leadership.</li> <li>– Steady market growth.</li> </ul>
<b>PURPOSE</b>			
Increased development and technological innovation in wood products and furniture as a tool for enhancing competitiveness, by increasing the quality of products and processes, design and marketing, introducing added value and developing local capacity in this area.	<p>Training in neglected areas.</p> <p>Implementation of standards for quality, industrial design and marketing activities.</p> <p>Strengthening of public capacity to support development and technological innovation in wood products and furniture.</p>	<p>Database from state institutions for economic development.</p> <p>Surveys of enterprises and ad hoc studies.</p>	<p>The area institutions consider development of forests and wood products and furniture a priority.</p> <p>There exists a need and demand for productive solutions based on improved design.</p>