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MULTILATERAL INVESTMENT FUND**

REGIONAL

**REGIONAL FACILITY FOR INNOVATION IN TRADE INFORMATION
SERVICES FOR SMEs
(RG-M1218)**

DONORS MEMORANDUM

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PROGRAM SUMMARY

In the last two decades Latin American and Caribbean countries have signed many Free Trade Agreements (FTA), which have resulted in overall positive business effects in the Region and sustainable income growth. Benefits from FTAs have been usually appropriated by large enterprises, which have experienced positive effects in exports' volume, productivity, innovation and sustainable income growth with eventual positive effects in their supply chains. However, direct participation of SMEs in countries' exports still remains a challenge.

The *problem* the program intends to address is that SMEs in the LAC region are not taking full advantage of export opportunities offered by FTA due to the dispersion and complexity of the available information on trade preferences and technical requirements. The non-existence of an integrated source with information about countries' trade preferences and non-tariff requirements that is easy to access and to understand represents, for SMEs, a key barrier in the identification/evaluation of potential export opportunities. For leading export promotion organizations, this information failure causes inefficiencies in the advisory service that they provide to SMEs in term of costs and time, which limits the number of SMEs that could benefit from their services.

The program will support public and private organizations in the Region by co-financing projects that will develop innovative and efficient advisory services for SMEs. This way, the program will generate affordable export advisory services for SMEs while promoting a fairer and diversified participation of SMEs in country exports.

The *impact* of the program is to contribute to increasing export-ready SMEs' exports. To this end, the program result will be to grant access to an integrated, "user-friendly" Trade Information Services Tool where information about trade preferences, rules of origin, phytosanitary requirements, and environmental regulations will be organized and presented in formats easy to access and understand by SMEs.

Indicators of the program success include: (i) 1,000 export-ready SMEs participant in the Program accessing international markets; (ii) 1,500 SMEs with diversified exports; (iii) Previously mentioned SMEs with 10% increase in export revenues; (iv) 10,000 SME have used the Trade Information Services for SMEs platform; (v) 20% reduction in the time required by participant organizations to provide information about export opportunities to SMEs; and (vi) 10 SME export promotion organizations interested in adopting the Trade Information Tool.

The program *contributes to achieving the MIF mission and objectives* through the development of the private sector: according to recent trade studies¹, there is evidence of the effect of exports on business innovation and productivity. It is the first project on SME innovation, technology and internationalization, a potential line of work under the Access to Markets and Capabilities Unit.

In terms of *knowledge*, two business solutions will be tested: a) a trade information services tool,

¹ Trade and Innovation, OECD Trade Policy Working Papers, No. 135

which will be disseminated throughout LAC in partnership with a network of SME export promotion organizations; and b) a Results Information System, which will allow SME export promotion organizations to periodically assess the effectiveness of the exports advisory services that they provide. Also, the best practices and lessons learned from the program and its individual projects will become a valuable input for similar organizations in the Region interested in adopting the solutions developed by the program.

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ABBREVIATIONS

AMC	Access to Markets and Capabilities
CAF	Corporación Andina de Fomento (Andean Development Corporation)
CEPAL	Comisión Económica para América Latina y el Caribe (Economic Commission for Latin America and Caribbean)
EA	Executing Agency
ECR	Export Concentration Ratio
EPO	Export Promotion Organization
FTA	Free Trade Agreement
GDP	Gross Domestic Product
HS	Harmonized Commodity Description and Coding (also known as Harmonized System)
IDB	Inter-American Development Bank
LED	Local Economic Development
MCIT	Ministry of Trade, Industry and Tourism, Republic of Colombia
MIF	Multilateral Investment Fund
SME/s	Small and Medium Enterprise/s
PEU	Project Execution Unit
PGC	Project General Coordinator
PROEXPORT	Fideicomiso de Promoción de Exportaciones (Export Promotion Trust Fund).
PSR	Project Status Report
RED	Regional Economic Development
REDIBERO	Red Iberoamericana de Organizaciones de promoción del Comercio Exterior (Latin American Network of Export Promotion Organizations)
RIS	Results Information System
TPO	Trade Promotion Organization
UNDP	United Nations Development Program
US ITC	United States International Trade Commission
WTO	World Trade Organization

GLOSSARY

Country Economic Openness	Concept that explains why an economy may be vulnerable to external economic shocks (as reflected by losses in export revenues and growth slowdowns). The scale of impact depends largely on the degree of concentration of a country's export portfolio.
Export Concentration	Concept that reflects the degree to which a country's exports are concentrated on a small number of products or a small number of trading partners.
Export Concentration Ratio	The most commonly used measure of export diversification, also known as the Herfindahl-Hirschmann ² index, which is a measure of the degree of export concentration.
Export Diversification	Concept that describes the change in the composition of a country's existing export product mix or export destination ³ . For many developing countries, and as part of an export-led growth strategy, export diversification is conceived as the progression from traditional to non-traditional exports.
Export Promotion Organization	Organization whose main objective ⁴ is to help (potential) exporter's find markets for their products, as well as provide them with a better understanding of products demanded in different export markets.
Free Trade Agreement	Treaty (such as NAFTA) between two or more countries to establish a free trade area where commerce in goods and services can be conducted across their common borders, without tariffs or hindrances but (in contrast to a common market) capital or labor may not move freely. Member countries usually impose a uniform tariff (called common external tariff) on trade with non-member countries.
Gross Domestic Product ⁵	Aggregate measure of production equal to the sum of the gross values added of all resident institutional units engaged in production (plus any taxes, and minus any subsidies, on products not included in the value of their outputs). The sum of the final uses of goods and

² *Towards Human Resilience: Sustaining MDG Progress in an Age of Economic Uncertainty. Export Dependence and Export Concentration*, p. 44. UNDP 2011.

³ *Ali, Alwang and Siegel, 1991.*

⁴ Lederman et al., 2006: *Export promotion agencies: What works and what doesn't*. World Bank Policy Research Working Paper.

⁵ As defined by the United Nations. Source publication: *SNA 1.128 and 2.173-2.174.*

	services (all uses except intermediate consumption) measured in purchasers' prices, less the value of imports of goods and services, or the sum of primary incomes distributed by resident producer units.
Harmonized Commodity Description and Coding (Harmonized System)	The Harmonized Commodity Description and Coding System – commonly known as the Harmonized System or HS ⁶ - is an internationally standardized nomenclature for the description, classification and coding of goods. It is developed and maintained by the World Customs Organization (WCO).
Market failure	Economic term that encompasses a situation where, in any given market, the quantity of a product demanded by consumers does not equate to the quantity supplied by suppliers. This is a direct result of a lack of certain economically ideal factors, which prevents equilibrium.
Non-tariff barriers	Nontariff barriers include quotas, levies, embargoes, sanctions and other restrictions, and are frequently used by large and developed economies.

⁶ Dayong Yu, 2008: *The harmonized system - Amendments and their impact on WTO members' schedules*. World Trade Organization, Economic Research and Statistics Division.

**INNOVATION IN TRADE INFORMATION SERVICES FOR SMEs
(RG-M1218)**

I. EXECUTIVE SUMMARY

Country/Region	Regional.
Executing Agencies:	The Inter-American Development Bank (IDB) will be the executing agency for Component I and III of the Program. Individual projects to be funded through Component II, will be executed by applicant institutions from Latin American and the Caribbean region.
Beneficiaries:	The direct beneficiaries will be over 10,000 SMEs based in Region that will be able to identify export opportunities accessing the Trade Information Services platform. Additionally, 1,000 export-ready SMEs will access international markets and 1,500 SME already exports will diversify their export in terms of products or target markets. Individual projects' executing agencies will benefit also for the reduction in their export advisory services' time and costs.
Financing:	MIF: US\$ 4,300,000 (50%) IDB/INT US\$ 1,300,000 ⁷ (15%) Counterpart: US\$ <u>4,300,000</u> (35%) Total: US\$ 8,600,000 (100%)
Objectives:	The expected impact of the Program is to contribute at increasing beneficiary export-ready SMEs exports. The expected result is to generate innovative Trade Information Services that will facilitate SMEs' identification of export opportunities.
Execution timetable:	Execution Period: 60 months. Disbursement period: 66 months.
Special contractual conditions:	The conditions for first disbursements of individual projects will include: (i) selection of the project coordinator, and (ii) MIF acceptance of the Operating Regulations document.
Environmental and social review:	The project was reviewed, cleared and classified as "C" in ESR 38-12 of September 20, 2012.
Exceptions to Bank policy	None.

⁷ IDB/INT in-kind contribution for the Program

II. BACKGROUND AND RATIONALE

A. The problem of SMEs accessing affordable information about export opportunities

- 2.1. In the last two decades Latin American countries have signed many Free Trade Agreements (FTA). FTAs have resulted in positive business effects in the region in terms of balance of trade, productivity and sustainable income growth⁸. Lower tariffs have been historically associated with both a larger number of products exported and a higher probability by firms of exporting a particular product or diversifying their export portfolios⁹.
- 2.2. Benefits from FTAs in LAC have been predominantly appropriated by large enterprises and associated with traditional exports (oil, commodities, staple products, etc.), representing between 76% and 90% of total exports in LAC countries. In addition to the effect of the FTAs on exports' growth, large enterprises have also become more innovative, and productive, with positive effects in their supply chains. However, although SMEs comprises more than 94%¹⁰ of LAC businesses, their direct participation in countries' exports still remain marginal¹¹, even although international markets represent considerable opportunities for their products.
- 2.3. Latin American and Caribbean countries have historically lagged both in the SME contribution to exports, and the diversification of their exports of non-traditional products. Despite the increasing opportunities offered by FTAs in recent decades, most economies in the region still show considerable opportunities for improvement in their SME export performance. The high level of export concentration and the traditional lag of SMEs in export performance represent vulnerabilities in the region's pursuit of sustainable economic growth. Recent figures by the United Nations Development Program show the Export Concentration Ratio (ECR) for Latin America and the Caribbean rose by 61% during the period 1995-2008. As of 2008, LAC presented the fourth highest regional degree of export concentration (0.14, after Africa's 0.48, CIS' 0.34 and Pacific Island States' 0.22).
- 2.4. SME exporters have shown a high degree of vulnerability in export markets. For SMEs, both geographic and product diversification of exports increase the chances of remaining an exporter. Indeed, exporting to a larger number of countries and, in particular, having a less concentrated distribution of exports across countries, decreases the risk of exiting foreign trade more than exporting a larger number of products or having a more balanced

⁸ See, among others, Frankel, Stein, and Wei (1996) "Regional Trading Arrangements: Natural or Supernatural?" *American Economic Review*, 86:2, 52-56

⁹ Volpe, C. and Gómez, S. (2008): *Trade policy and export diversification. What should Colombia expect from the FTA with the United States?* Inter-American Development Bank.

¹⁰ Trade and Integration Sector of the Inter-American Development Bank.

¹¹ See Volpe, et al. (2010) *Odyssey in International Market: An Assessment of the Effectiveness of Export Promotion in Latin America and the Caribbean*. Inter-American Development Bank: Washington, DC; as well as associated background working papers for Chile, Argentina, and Costa Rica

export bundle¹². Based on these considerations, over the last few years several LAC countries have established programs aimed at supporting the expansion of SME's export activities. Emerging initiatives in Latin America, such as the National Strategic Export Plan of Peru 2003¹³, are focusing countries' efforts on boosting a nationwide export-oriented growth based on SMEs non-traditional exports, and a supply of goods and services based on improved competitiveness, export diversification and high value added¹⁴. Additionally, increasing SMEs' participation in countries' exports will generate benefits at both firm and country levels. Recent trade studies show evidence of the positive effects of exports at the firm-level in terms of sustainable income growth, innovation, and productivity. At the country level, SMEs' exports contribute to reducing the risks associated with high export concentration levels.

- 2.5. Many SMEs in the region have remarkable export potential. FTAs have been demonstrated to be valuable sources of export opportunities that will allow export-ready SMEs to identify markets for their products and SMEs' exporters, to consolidate opportunities by diversifying their exports in both markets and products. However, identifying these opportunities is challenging for SMEs. FTA information is dispersed, complex, and requires understanding/correlating multiples articles and annexes. This makes it very difficult for SMEs to identify by themselves the available trade preferences and to understand the technical requirements in terms of rules of origin and safety and environmental regulations (Non-Tariff Barriers). Hiring export consultant services to help them in the identification of export opportunities is not possible in many cases because of the high costs of these specialized services.
- 2.6. Lack of information may negatively affect trade and thereby productivity and economic growth¹⁵. Most recent evaluations on promotion of SME export in LAC point that in spite of the opportunities offered by FTAs, the lack of available, affordable and timely information is one the key barriers to SMEs' export participation¹⁶. These findings are especially supported by research on the degree of capitalization of export opportunities offered by regional integration and trade preferences in the USA, Europe and Asia¹⁷. To overcome this problem virtually all countries around the world, including those in Latin American and the Caribbean, have addressed information barriers by implementing public policies, in most cases by establishing specialized export promotion organizations. Although export promotions organizations in the region have different objectives, budget,

¹² Volpe, C. and Carballo, J.: Survival of new exporters in developing countries: Does it matter how they diversify?. Inter-American Development Bank.

¹⁴ Volpe and Carballo (2008) assessed the effects of export promotion activities in a middle-income developing country, Peru, over the period 2001–2005, with the result that firms are likely to face more severe informational problems when they attempt to enter new export markets or to sell new products abroad than when they pursue expanding exports of goods they have already been trading and/or to countries that are already among their destination markets.

¹⁵ Volpe, C: Odyssey in International Markets. An Assessment of the Effectiveness of Export Promotion in Latin American and the Caribbean.

¹⁶ Chistian Volpe: Odyssey in International Markets (2012)

¹⁷ Several survey-based empirical studies on the impact of alternative trade barriers in the United States, Europe, and newly industrialized Asian countries indicate that lack of information is one of the most relevant export barriers, both in terms of frequency of occurrence and degree of severity.

modes of operation and services they all face the same problems when supporting SME in the process of identifying international markets for their products.

- 2.7. During the preparation phase of this program a prospective survey was carried out to validate the need for the information services to be developed and provided by the program. From the public side, representative export promotion organizations participated in the survey. This group was integrated by PROCOMER (Costa Rica), PROMEXICO (Mexico), PROEXPORT (Colombia), PROMPERU (Peru) and PROCHILE (Chile). From the private sector side, the Cámara de Industria, Comercio, Servicios y Turismo de Santa Cruz - CAINCO and Confederation National of Industry - CNI (executors of the European Commission Program to support the internationalization of SMEs in Latin America AL-INVEST) were part of the sample. The results of the survey confirmed participant organizations' need for having a single integrated source with all trade information fully integrated and easy to access and understand, and that the services to be developed by this program is both unique and valuable. They all agreed that having this source will reduce considerably their response time to SMEs, which currently could take between 3 weeks to 2 months, allowing them to increase the numbers of SMEs they serve. They also coincided on the need for improving their mechanisms for assessing the effectiveness of the trade information services that they provide to SMEs.
- 2.8. Results of the survey also identified several countries currently concentrating efforts on increasing SMEs participation in exports. These countries' private and public organizations that promote SMEs' exports have expressed their interest in using the Trade Information Tool for SMEs to be delivered in the context of this program as key component of the export advisory services that they offer to SMEs. Some of these countries include Bolivia, Brazil, Chile, Colombia, Costa Rica and Peru. In the case of Colombia, the recent entry into force of the FTA with the US has generated a queue of export-ready SMEs interested in taking advantage of new trade preferences. Additionally, PROEXPORT has recently developed a state-of-the-art information system for export-ready SMEs that will complement and reinforce the information services developed by this program.
- 2.9. In consideration of this diagnosis, the problem the program intends to address is that SMEs in the region are not taking full advantage of export opportunities offered by FTAs due to the inadequacy and high costs of information on trade preferences and associated technical requirements. In designing the program lessons learned from some of the Trade and Investment projects supported by the MIF were taken into consideration, especially "Helping Small and Medium-Sized Exporters to Capitalize on Trade Agreements – ATN/ME-8974-CH" and the Program "Comprehensive support to SMEs to facilitate their access to the US Market - ATN/ME-10510-CO". Also, some lessons from the practitioners that participated in the survey were contemplated. Those include: (i) engagement of existing public and private sector organizations that promote SME development in the project contributes to rapidly expanding its benefits and reaching sustainability; and (ii) economic viability and sustainability of services is directly associated with the achievement of business returns. These lessons have been fundamental to the design of the program and for the pilot projects to be supported.

B. Additionality of the MIF/IDB intervention

- 2.10. MIF additionality in this program is given by providing the market with a Trade Information Tool for SMEs that will contribute to a fairer and more diversified participation of SME in country exports. This platform will be the only integrated source, “user-friendly” Trade Information Services platform available in the Region where information about trade preferences, rules of origin, phytosanitary requirements, environmental regulations, etc. will be organized and presented in formats easy to access and understand by SMEs. While there are other sources of elements of this information set, such as the SICE system of the OAS, the online data of ALADI, and the various tools available from the International Trade Center, none has the both the required level of data integration to serve the purposes of contributing to the generation of comprehensive, efficient and affordable export advisory services offers for SMEs in the Region. This way, the program will provide SME with trade information that would be otherwise unaffordable for individual SMEs while promoting a more efficient market functioning.
- 2.11. MIF non-financial additionality in this project is given by the fact that the project addresses a market failure and that the program provides very specific value-added: (i) the program will bring to the market and put into value a tool developed by IDB/INT (INTradeBID) that was not adapted to resolve information asymmetries by SMEs’, thus contributing to the fulfillment of the operational mandates of both IDB/INT and MIF; (ii) it will make available in the market a tool that will allow SMEs to easily identify export opportunities, which is aligned with IDB/INT and MIF mandates; and (iii) the tool developed by the IDB-group will provide services otherwise costly or unaffordable by individual SMEs.
- 2.12. IDB/INT additionality is based on: (i) the sector’s broad experience in export promotion and expertise developed through rigorous analysis of the performance of export promotion agencies in countries of Latin America and the Caribbean. IDB/INT’s *Odyssey in Global Markets* report, highlights IDB/INT’s evidenced-based approach to advisory services to export promotion agencies; and (ii) the detailed trade and integration databases developed for the sector. The INTradeBID System includes vast amounts of data on trade and trade policies, enabling the identification of the tariffs and regulations applicable to the trade of any good between any two countries of the region.
- 2.13. **Contribution to the MIF mission and agenda.** The program contributes to achieving MIF mission and objectives through the development of the private sector. According to available statistical data, SMEs exports are accountable for a significant share of GDP growth and employment generation. The program is the first project on SME innovation, technology and internationalization, potential line of work under the Access to Markets and Capabilities Unit.
- 2.14. In terms of *knowledge*, the program will be aligned with the Regional Economic Development Topic’s knowledge strategy, focused primarily on generating systemic

impact for the private sector. Two business solutions will be tested by the project: a) a trade information services tool, which will be disseminated throughout LAC in partnership with a network of SME trade promotion organizations; and b) a Results Information System, which will allow SME trade promotion organizations to periodically assess the effectiveness of the exports advisory services that they provide. Also, the best practices and lessons learned from the program and its individuals projects will become a valuable input for similar organizations in the Region interested in adopting the solutions developed by the program.

III. OBJECTIVES AND DESCRIPTION

A. Objectives

- 3.1. The expected impact of the Program is to contribute at increasing beneficiary export-ready SMEs exports. The expected result is to generate innovative Trade Information Services models that will facilitate SMEs' identification of export opportunities.

B. Components and activities

- 3.2. The Program has the following components: (i) Development of SME Trade Information Services; (ii) Selection and Funding of Pilot Projects; and (iii) Establishment of Program foundation for expanding its benefits in the Region.

Component I. Development of SME Trade Information Services (MIF: US\$ 785,000; INT: US\$ 500,000, Counterpart: US\$ 450,000)

- 3.3. The *objective* of this component is to develop trade information services to facilitate the process for identifying and evaluating SMEs' new export opportunities. These information services consider two main elements: (i) the Trade Information Tool, a "user friendly" system with trade information organized and presented in formats easy to use by SMEs; and (ii) the Results Information System, to assess the effectiveness of the services provided.
- 3.4. The *Trade Information Services Tool for SMEs* will provide information on export opportunities for SMEs' products. It will be a unique user-friendly system that will integrate in one site all available information regarding potential importer countries, their trade preference opportunities and non-tariff barriers for any specific product. This system will include FTA information available on the INTradeBID system, developed by INT, and additional information will be integrated according to the results of the diagnosis study to be conducted to identify SMEs' and export promotion organizations' further information needs. This additional information might include extra-region FTAs' information and non-tariff barriers such as consumer protection, environmental regulations, and commercialization requirements (i.e. packing, labeling, presentation, etc.). Other trade information services developed by the individual pilot projects financed by the Program and considered of interest for all users might be also incorporated in the

system.

- 3.5. The **Results Information System** will allow determining the effectiveness of the Trade Information Services Tool. To this end, the tool will be related to country firm-level export results. The design of the Results Information System will consider measuring two level of indicators: (i) the standard indicators, pre-defined for the Program to measure its contribution to SMEs' exports (i.e. SMEs' new markets or products); and (ii) specific indicators to be defined for each pilot project to be financed by the Program, according to executing agencies and countries' strategies and priorities (see Component II). It will also have the required flexibility to be able to interface with assessment procedures existing in the export promotion organizations and with each country's firm-level export result information/statistics.
- 3.6. The **activities** considered in this component include: (i) perform diagnosis study to identify the information services/existing trade information sources/services/statistics to be incorporated in the tool to satisfy SMEs and EPOs information requirements. Also it will be determine the set of indicators, measurement procedures and information needs to assess trade information services effectiveness; (ii) design Trade Information Services Tool and the Results Information System considering the required flexibility to ensure their possible interfacing/adaptation to specific pilot project requirements; and (iii) develop, integrate and test the Trade Information Services Tool and Results Information System.
- 3.7. The **expected results** of this component are: (i) diagnosis Study results specifying export information requirements and inventory of the available sources; (ii) set of indicators for measuring Trade Information Services impact and measurement procedures; (iii) Trade Information Tool Design including, among others, the proposal for the integration of INTradeBID and other information sources, front end component, training, tutorial and support services, update/maintenance processes, interoperability framework between the platform and export promoting organizations' information systems and countries' firm-level export result information/statistics; (iv) Trade Information Tool for SMEs and Results Information System operational; and (v); 10.000 SMEs will have used the Trade Information Services platform for SMEs.

Component II: Selection and Funding of Pilot Projects (MIF: US\$ 1,920,000; INT: US\$ 100,000; Counterpart: US\$ 1,750,000)

- 3.8. The **objective** of this component is to develop pilot projects that will test/demonstrate in different contexts the impact of the Trade Information Services at increasing SMEs' exports. Through these projects, public and private organizations that promote SME exports in the Region will innovate in the provision of export advisory services using the Trade Information Tool to support their objectives, business models, and countries' priorities.
- 3.9. The "proof of concept" of the Trade Information Services is expected to be developed by

PROEXPORT – the Colombian export promotion agency-. To this end, PROEXPORT and a sample of client Colombian SMEs would test the delivery of the export information services, and the functional and technical design of both the Trade Information Tool and the Result Information Systems. PROEXPORT has been a technical partner to the MIF and to INT during the technical preparation of this program. The “proof of concept” developed with PROEXPORT would build upon PROEXPORT’s recently developed state-of-the-art information system for SMEs, which has the potential to complement and reinforce the information services developed by this program; as well as its a fully-deployed client-relations-management system (CRM), which would eventually serve as a bases for the RIS. PROEXPORT makes an interesting case to test the effectiveness of the Trade Information Tool for SMEs both because of its extensive experience/constant innovation in providing export advisory services for SME and because of the recent ratification of several FTA, including the FTA between Colombia the US, which is expected to increase significantly Colombian SMEs’ potential and interest to export.

- 3.10. A minimum of four additional pilot projects will be financed by the Program. The projects’ period of execution will be three years maximum. An additional result of this component will be a new version of the Trade Information Tool enhanced with new information services developed by the pilot projects and considered of common interest to all users. Additionally, best practices and lessons learned generated by the projects will become a valuable input for similar organizations interested in adopting the Trade Information Services in the Region.
- 3.11. **Eligible Institutions.** Eligible institutions must have proven experience in providing export advisory services to SMEs, managing similar projects financed by multilateral organizations, and partnering with public and private-sector organizations. Examples of these organizations are the members of the Red Iberoamericana de Organizaciones de Promoción del Comercio Exterior (REDIBERO), and the AL-INVEST Hubs in the Region (the executors of the European Commission Program to support the internationalization of SMEs in Latin America). INT will be fundamental in the promotion of the Program financing facility in the Region.
- 3.12. **Project Selection.** The selection of the projects will be a two-step process. Interested institutions invited to participate in the program will first submit project ideas for assessment through the MIF on-line application systems. The Program Steering Committee members will review project ideas based on the criteria for selecting institutions and projects defined in the program Operating Regulations. Project ideas must highlight, among others: (i) institution’s problem/opportunity related to export information failure; (ii) enabling conditions in terms export dynamics and favorable forecasts; (iii) proposed innovative use of the Trade Information Services; (iv) project costs and counterpart contribution (amount, source); project results/impact/indicators at SME, institution, and country level; and (v) project sustainability/scale-up plan. If the project idea is approved by the Steering Committee, project documents will be prepared (project proposal, logical framework, detailed budget, Diagnostic of Executive Agency Needs (DNA), Quality for Effectiveness in Development (QED), milestone table, project plan, and procurement plan) and submitted to the Environment and Social Review (ESR),

Project Design Review (PDR), and Quality and Risk Review (QRR). Executing Agencies are responsible for providing counterpart financing between 40% and 60% depending on the country of implementation. A non-objection letter from the corresponding beneficiary country will be also required before submitting the project to approval.

- 3.13. ***Delegation of authority for project approval.*** The Program recommends the delegation of authority in the MIF General Manager for the approval of the pilot projects. This proposition is supported in the following reasons: (i) the potential projects' executing agencies have previous experiences executing INT or MIF projects; (ii) project proposals will be evaluated and selected by the Steering Committee based on the defined selection criteria (see paragraph 5.5); (iii) all projects will use the Trade Information Services for developing innovative export advisory service models for SMEs; (iv) and the maximum MIF contribution for each project is US\$ 350,000.
- 3.14. ***Eligible Costs.*** MIF and counterpart resources within individual pilot projects will be used to cover the costs of the required activities to reach project outcomes and impacts. These costs may include: (i) costs associated with the customization of the Trade Information Services; (ii) training activities and materials; (iii) purchase of software licenses, and minor computing equipment (not to exceed 30% of the project total budget); and (iv) additional consulting services required to carry out effective project monitoring and dissemination activities. Auditing costs will be covered with MIF resources. Costs for project administration (coordination and logistics) are mostly financed as counterpart funding.
- 3.15. ***Intellectual Property.*** The IDB/MIF has a commitment to its member countries to make public and promote the use of materials generated during the implementation of the projects it finances and seeks to replicate. For this reason, software components, communication and knowledge products, and any other material developed within the project will be the property of the IDB/MIF. Nevertheless, the MIF and the Executing Agencies may agree, on a case by case basis, on mechanisms to allow the Executing Agencies the use of these materials as a means of contributing to the achievement of the project's objectives and sustainability.
- 3.16. The ***activities*** considered in this component include: (i) program promotion to motivate the submission of project ideas; (ii) selection and approval of pilot projects; and (iii) execution of pilot projects.
- 3.17. The ***expected results*** of this component include: (i) 5 public and private export promotion organizations use the Trade Information Services to improve their advisory service models for SMEs; (ii) 2.500 SME participant in the pilot projects (500 per pilot project); and (iii) best practices and lessons learned from the individual projects, which will become a valuable input for similar organizations in the Region interested in adopting the Trade Information Services developed by the program. .

Component III: Establishment of Program foundation for expanding its benefits in the Region (MIF: US\$ 505,000; INT: US\$ 200,000; Counterpart: US\$ 800,000)

- 3.18. The *objective* of this component is to define and implement a region-wide strategy to expand Program benefits in the Region. This component will require that INT, the MIF and the executing agencies of the pilot projects coordinate efforts with effects at Regional level. This will include, among others, the consolidation and dissemination of the generated Program knowledge, results and impacts, and the development and implementation of the business plan to ensure Program expansion and sustainability. Details for the governance and coordination of this Regional component will be described in the Program Operating Regulations. The program marketing strategy will be defined including look & feel and branding strategy for the Trade Information Services, audiences, overall communication strategy, and recommendations/guidelines for the promotion of the RFP considered within Component II. This branding strategy must guarantee a balanced recognition in the market of contributions made by the different partners. The communication strategy, based on Program knowledge, results, and impacts will be focused on demonstrating how the developed Trade Information Services contributes to improving export advisory services' efficiency and to increasing SMEs' export revenues.
- 3.19. The *communication strategy* will consider three action lines: (i) ensure an effective outreach and engagement of the target audiences (i.e. promoters, strategic partners and end users); (ii) position the Trade Information Services as the reference online trade information center for SMEs in Latin America and the Caribbean; and (iii) disseminate the results of the Program. This strategy will be based on a database of region-wide audiences, disaggregated by country/type of actor, and tactics that could most effectively reach and engage each target audience. Actions will be coordinated with INT and pilot project executing agencies.
- 3.20. *Audiences*. The Program will generate results and lessons that are of interest for a wide range of audiences, including export-ready SMEs and SME exporters, public and private export promotion organizations SME associations, American Chambers of Commerce; other multilateral organizations involved in trade promotion, and Ministries of Industry and Commerce. The messages for the audiences will be focused as indicated: (i) for public and private export promotion organization, encouraging the incorporation of the Trade Information Services to improve and assess their advisory services' efficiency and effectiveness; (ii) for export-ready SMEs and SMEs exporters, to identify new export opportunities using the platform, which will be available through SME organization websites; and (iii) for multilateral organizations and Ministries of Industry and Commerce, emphasizing the Trade Information Services' impact on SME export increase.
- 3.21. The *activities* considered in this component include: (i) organize and launch the Trade Information Services network for sharing experiences and to coordinate crowdsourcing efforts to further contribute to increasing SME exports in the Region; (ii) systematize best practices and lesson learned from the Program that will facilitate the adoption of the

Trade Information Services by other institutions; (iii) develop a Program business plan incorporating expansion strategy and sustainability scheme; and (iv) develop and implement program marketing strategy/plan.

- 3.22. The *expected results* for this component include: (i) Trade Information Services network launched conformed initially by the export promotion organizations executing the pilot projects, INT, and the MIF; (ii) program business plan including expansion and sustainability strategies; (iii) 20 SME organizations with links to the Trade Information Services and (iv). 10 SME export promotion organizations interested in adopting the Trade Information Services.

IV. COST AND FINANCING

- 4.1. The total cost of the project is US\$ 8,600,000. Of that amount, the Bank will provide US\$ 5,600,000 in non-reimbursable financing of which the MIF will provide US\$ 4,300,000 in cash and IDB/INT will provide in-kind contributions of US\$ 1,300,000. Local counterpart is US\$ 3,000,000 and will be provided by executing agencies of the pilot projects.

DESCRIPTION	IDB		Local Counterpart US\$	TOTAL US\$
	MIF	INT		
Component I. Development of SME Trade Information Services	785,000	500,000	450,000	1,735,000
Component II. Selection and Funding of Pilot Projects	1,920,000	100,000	1,750,000	3,770,000
Component III. Establishment of Program foundation for expanding its benefits in the Region	505,000	200,000	800,000	1,505,000
Program Administration	450,000	500,000		950,000
Baseline, Monitoring and Evaluation	220,000			220,000
Contingencies	100,000			100,000
SUBTOTAL	3,980,000	1,300,000	3,000,000	8,280,000
Impact Evaluation Account (5%)	220,000			220,000
Agenda Account	100,000			100,000
SUB-TOTAL	4,300,000	1,300,000		8,600,000
TOTAL	5,600,000		3,000,000	8,600,000

- 4.2. *Facility for managing MIF resources.* With the Donor's Committee approval of the Program, a Facility will be created for the total MIF contribution amount of US\$ 4,300,000, as indicated in the table above. Of this US\$ 4,300,000, US\$ 2,550,000 will be available after the Program approval corresponding to the following distribution: Component I: US\$ 785,000; Component II: US\$ 170,000; Component III: 505,000; Program Administration: US\$ 450,000; Baseline Monitoring and Evaluation: US\$ 220,000; Contingencies: US\$ 100,000; Impact Evaluation Account: US\$ 220,000; and Agenda Account: US\$ 100,000. The disbursement period for the facility will be 66

months after its approval date. From the amount allocated for Component II, US\$ 1,750,000 will be used for financing pilot projects. Funds will be assigned to each pilot project after being approved by the MIF General Manager. The maximum amount to be assigned to each pilot project is US\$ 350,000. Their disbursement period will be 40 months after their approval date.

- 4.3. **Execution and disbursement period.** The project execution and disbursement period will be 60 and 66 months respectively.
- 4.4. **Project sustainability.** The project's sustainability will be based on: (a) *Technical sustainability*: INT has expressed commitment to continue supporting the maintenance, upgrade and upgrade of the INTradeBID database; (b) *Institutional sustainability*: This will consider two levels: (i) FOMIN/IDB level: being supported by the IDB/MIF provides credibility and trust to the SME trade information services platform; and (ii) Public and private export promotion organizations, which already are positioned and recognized for their work in promoting exports in the Region; (c) *Financial sustainability*: To be determined as part of the Business Plan for the Program to be developed in the context of the Component III. Potential alternatives might include: (i) fees from EPOs for maintenance services related to the integration with their systems of the Trade Information Tool and the RIS; (ii) online advertisements and/or sponsorships by disinterested private sector parties.

V. EXECUTING AGENCY AND EXECUTION MECHANISM

A. Executing Agencies

- 5.1. The Bank will be the executing agency for the facility. The Trade and Integration Department (IDB/INT) and the MIF Headquarters will join efforts for the supervision of the facility. Pilot projects financed through Component II will be executed by Executing Agencies (EA), which might be members of the Red Iberoamericana de Organizaciones de Promoción del Comercio Exterior (REDIBERO), the AL-INVEST Hubs or organizations that promote SMEs' exports in the Region. A Program Coordinator will be hired for the overall management of the Program and the coordination of all Program activities.
- 5.2. The roles and responsibilities for the execution of the program have been defined according to the core competences of the actors involved. In Component I, INT will provide its technical expertise gained with the development and management of the INTradeBID system. For Component II, the EAs will contribute to the program with their knowledge and hands-on experience in providing trade information services for SMEs. In Component III, the MIF will contribute with its capacities to consolidate and disseminate the knowledge generated by the program, implementing a communication strategy aimed to scale-up program benefits in the region. The Program Operating Regulations will include details about the interaction among the MIF, INT and the EAs in order to ensure the necessary coordination for reaching Program results and impact.

B. Execution Mechanism

- 5.3. The *Governance Structure of the Program* is composed by three levels: (i) Program Steering Committee; (ii) Program Coordinator; and (iii) Country Pilot Projects.
- 5.4. The *Program Steering Committee* will provide strategic direction, guidance, and support to overcome Program challenges and to ensure its success. It will be integrated initially by INT and MIF/AMC. Representatives from the EAs will become members once their agreements with the IDB for the execution of the pilot projects have been signed. The Program Coordinator will act as Executive Secretariat to ensure linking Program strategic direction and implementation. The Program Steering Committee will: (i) define the Program's vision and strategy; (ii) select the Program Coordinator; (iii) promote the Program among potential eligible institutions for pilot project execution, and evaluate and select pilot projects; (iv) help to build alliances among key public, private and civil society stakeholders; and (v) review Program bi-annual reports. The governance for this committee will be defined in the Program Operating Regulations document. During the first year of Program implementation, the Program Steering Committee members will meet quarterly or with the frequency they consider necessary via virtual communication tools¹⁸. This committee will also meet in person at least once a year.
- 5.5. The *Program Coordinator* will be responsible for the management of the Program as a whole and for coordinating and monitoring all activities to ensure the achievement of goals and objectives. The Program Coordinator will report to the Steering Committee. His/her responsibilities include among others; (i) ensure that Program progress is on track to achieve agreed upon objectives and milestones; (ii) supervise the preparation of pilot project documents; (iii) provide support to pilot projects; (iv) prepare and execute annual work plans; (v) design operating procedures; (vi) ensure counterpart financial support for all Program activities; and (vii) prepare Program financial and technical reports for submission to the Steering Committee. Because of the relevance of the information technology component of the program, an IT committee will be support Program execution. This committee will be coordinated by INT staff member expert on the INTradeBID platform and IT representatives from the EAs. This committee will report to the Program Coordinator and will provide advice in matters related to the development, integration, interoperability, interfaces, update/ maintenance, and security of the several platforms supporting the services developed by the Program. Also a Trade Specialist from INT will validate platform content adequacy and reliability.
- 5.6. **Pilot Projects.** The pilot project will be selected as indicated in Component II. Selected projects' documents must be prepared in compliance with MIF procedures. For each project a logical framework will be prepared including impact, results, component and activities indicators compatible with the ones defined for the Program. Pilot projects documents will be reviewed by ESR, PDR and QRR before being submitted for MIF General Manager approval (see paragraphs 3.11, 3.12 and 3.13). Once the projects are

¹⁸ Telephone, VoiP, Videoconference, between others.

approved, the executing agencies will sign separate agreements with the IDB for the execution of the pilot projects. Each executing agency must provide counterpart funds as indicated in the agreement.

VI. MONITORING AND EVALUATION

A. Program Monitoring and Evaluation

- 6.1. **Monitoring.** The Program Coordinator will be responsible for presenting to the MIF the Project Status Reports (PSR) for the Program within 30 days after the end of each semester. The PSR will contain information on the progress of Program and completion of objectives as stated in the logical framework and other operational planning tools. The PSR will also describe issues encountered during execution and outline possible solutions. Within ninety (90) days after the end of the execution term, the Program Coordinator will submit to the MIF a Final Project Status Report (Final PSR) which will highlight results achieved, project sustainability, evaluation findings, and lessons learned.
- 6.2. **Evaluations.** The Program will be subject to a *midterm evaluation* to be carried out 30 months after the first disbursement or after 50% of the MIF resources have been disbursed, whichever occurs first. This evaluation will measure: (i) progress in achievement of results; (ii) difficulties encountered in project execution and corrective actions; (iii) soundness of the baseline and monitoring and evaluation system; and (iv) lessons learned and recommendations from Program implementation and pilot projects. In measuring these factors, the indicators given in the Logical Framework will be taken into consideration. The *final evaluation* of the Program will be conducted when 90% of MIF resources have been disbursed or three months before the last disbursement. This final evaluation will summarize the findings of the Program and all individual project evaluations and will answer relevant questions such as: Did the Trade Information Services contribute at increasing SME exports? Was its impact more considerable on new SME exporters or diversifying SMEs' exports? Was its impact higher on diversifying SMEs' export in term of markets or products? What proportion of the countries' SMEs exports increase is related to FTAs' opportunities? How the Trade Information Services impacted the advisory service offers to support SMEs in the identification of export opportunities? Is the Result Information System effective in measuring the effectiveness of the export opportunities identification services based on the Trade Information Tool? Was the Program marketing/communication strategy effective in terms of both SMEs and export promotion organizations?

B. Pilot Projects Monitoring and Evaluation

- 6.3. **Monitoring.** The MIF Headquarters will monitor and supervise the individual pilot projects financed under Component II with technical support from INT and MIF/AMC. The EA of *each pilot project* will be responsible for presenting PSRs to the MIF within 30 days after the end of each six-month period. These reports will contain information on project execution, milestones met, and completion of project objectives as stated in the

project's logical framework and other operative planning instruments. The PSR will also describe project issues encountered during execution and outline possible solutions. Within ninety (90) days after the end of the execution term, the EAs will submit to the MIF a Final Project Status Report (Final PSR) which will highlight results achieved, project sustainability, evaluation findings, and lessons learned.

- 6.4. **Disbursements by results.** The disbursements of MIF resources for the pilot projects will be contingent upon the achievement of milestones, which will be agreed upon between the MIF and the EAs along with their means of verification. Achievement of milestones does not exempt EAs from the commitment of reaching the project's objectives. Under this modality, disbursements will be made through an advance of funds. Disbursements amount will be determined by calculating the funds necessary to complete the activities and tasks and reaching the agreed upon milestones of a six month period. According to the policy OP-273-2, the EAs' disbursement requests will be reviewed ex-post. The MIF might hire independent auditors to conduct the ex-post reviews of the disbursement processes according to the frequency determined by the DNA results.
- 6.5. **Procurement and Contracting.** For the procurement of goods and contracting of consulting services for the pilot projects, EAs will apply IDB policies (GN-2349-9 and GN-2350-9) and the Operational Guidelines aligned with IDB policies. Before engaging in procurement and contracting for the pilot projects, EAs must submit a Procurement Plan for the first 12 months of the project, which will be updated annually. Procurements and contracting practices will be reviewed ex-ante or ex-post depending of the results of the DNA applied to the EAs. The MIF might hire independent auditors to conduct the ex-post reviews of the procurement processes according the frequency determined by the DNA results.
- 6.6. **Financial monitoring.** EAs are responsible for keeping the projects specific accounts separate from other accounts, registering all transactions financed by the contribution and the counterpart of the project and for maintaining proper internal controls, accounting systems and preparing the required financial reports. Audited financial statements will be required once 90% of the resources have been disbursed. The MIF might hire independent auditors to conduct the pilot project audits.
- 6.7. **Evaluations.** The pilot projects will be subject to: (i) a *midterm evaluation* to be carried out 15 months after the first disbursement or after 50% of the MIF resources have been disbursed, whichever occurs first; (ii) a *final evaluation* when 90% of MIF resources have been disbursed or three months before the last disbursement. The areas to be considered in the scope of the individual projects' evaluations will be determine in a one by one case during the design phase of each project.

VII. BENEFITS AND RISKS

- 7.1. **Beneficiaries.** The project provides the market with a solution that contributes to a fairer

and more diversified participation of SME in country exports. The direct beneficiaries of the project will be: over 10,000 SMEs based in Region that will be able to identify export opportunities accessing the Trade Information Services Tool. Additionally, 1,000 export-ready SMEs will access international markets and 1,500 SME exporters will diversify their export in terms of products and/or target markets.

- 7.2. **Benefits.** Results of this project will enhance the local economic development in the selected territories by contributing to increase SME's export level and diversification. In order to increase the impact of the MIF's intervention and reach scale, it will be important to demonstrate to donors and governments the value of the Trade Information Services and also to motivate other SME export promotion organizations in the Region to become part of the network and to implement export advisory services based on the services developed by the project. The services could be also promoted in other regions of the world where SMEs face similar challenges.
- 7.3. **Potential Risks.** The risks identified for the project are the following: (i) **Technical risks.** Technical incompatibility prevents the linkage between the trade information platform and country export systems, limiting the scope of the results/monitoring system. To mitigate this risk, the software components/interfaces to be developed to link the platforms will be based on protocols and standards that will allow information exchange between diverse platforms; (ii) **Data accessibility risk.** Possible restrictions might arise for accessing firm-level export data from the countries' statistical institutions to measure the effectiveness of the Trade Information Tool. To mitigate this risk confidentiality agreements reviewed by IDB/LEG will be subscribed and other mechanisms will be implemented, such as system audits, to demonstrate that measurement processes will protect SMEs' privacy; (iii) **Scale-up risks.** Export promotion organizations do not have an interest in adopting the trade information services as part of their export advisory services. To mitigate this risk the project communication strategy will highlight platform differentiated functionalities and will include case studies demonstrating platform added value and effectiveness for them (in terms of return on investment) and their clients (in terms of revenue increase).

VIII. ENVIRONMENTAL AND SOCIAL CONSIDERATIONS

- 8.1. This project has been approved by the Environmental and Social Impact Review Secretariat (ESR 38-12) and classified as category "C." ESR has not manifested any additional recommendations regarding the project.