

## ATTACHMENT B - PROGRAM DESCRIPTION

### 1. Executive Summary

A successful approach in improving the overall business environment and including micro and small enterprises (MSEs) in the growth of export-oriented value chains, needs to penetrate ongoing policy dialogues and industry discussions that are traditionally the realm of big business and Brazilian government. Actions must be associated with tangible benefits to large and small firms in export-oriented industries in Brazil's Northeast.

This program is designed to build on that success, moving from a project-led to an industry-led value chain approach. The program presents a comprehensive set of activities organized into four main components:

1. Partnerships. We have designed a series of activities which will add dynamism to the Steering and state-level Committees: including private sector and university representatives, adding deeper technical content to the meetings, and developing a sustainable learning forum. Results: create a network of Brazilian and international experts that will continue to advance the Program's development goals in the medium- to long term.
2. Addressing Policy Constraints. The centerpiece of the reform initiative is a state-level policy forum to be launched in Ceará. We will work with key stakeholders from the state government and business leaders to build an inclusive policy forum where policies for improving MSE competitiveness are formulated. Results: forward at least two proposals for policy and/or administrative reform and expand experience to other states (Bahia and Pernambuco). The reforms forwarded will generate tangible benefits to firms.
3. Improving Access to Finance. Develop innovative solutions to facilitate MSE access to existing credit lines, with the intent of leveraging BNDES credit line *Empresa Ancora* and create a credit auction with partners. Results: increased capacity of development finance institutions to work with MSEs.
4. Value chain activities. For each industry, we will work with stakeholders to develop a common vision on their global competitiveness and how to improve it. The process of moving toward these goals will be private-sector led – by lead firms, MSE organizations, and large input suppliers. We will move away from direct firm-level assistance and rely on local development partners to implement needed upgrading strategies.

In swimwear, the program will strengthen links to firms based in Brazil's Southeast fashion center, especially targeting Southern fabric suppliers, currently considered the Achilles heel of the Northeast value chain. Results: Improved cooperation between input suppliers and Northeast MSE manufacturers, via value chain finance, improved delivery times, or arrangements for MSEs to source smaller quantities of fabrics.

The Brazilian honey sector faces an urgent global enabling environment challenge: ensuring adequate quality control in response to the EU embargo. By offering technical expertise to Northeast testing facilities, the Program and its partners will be positioned to advocate for a compliance regime that works for exporters of all sizes. Results: It would be a substantial victory for small honey producers to even be considered in these negotiations. Should we succeed, this case could influence similar negotiations on other products to follow, such as dairy and meat products.

The Brazilian cashew industry must improve overall productivity at the processing and production levels, or lose market share to Asia. The Program will use small-scale successes in improving MSE productivity to bring the state government, large processors and international buyers to the table. Results: Get large processors, buyers, and other partners to make similar investments in MSE productivity, using a commercial rationale and on a larger scale.

The Institutional Team and Management Structure is comprised of the following institutions: the Brazilian Foundation for Export Research (FUNCEX) is going to serve as the prime implementer. FUNCEX brings an unrivaled 30 years of export and trade expertise to the Program. Responsible for project management, FUNCEX will also provide team leaders for the three of the four activity components. Consulting firm DAI is a world leader in policy reform, public-private partnerships, value chain development, and development finance and will contribute an international MSE expert to the team. TransFair USA, the only third-party certifier of Fair Trade products in the United States, brings its unique experience in trade-related technical assistance to Latin American MSEs and a coffee value chain specialist.

## **2. Program Narrative**

### *PROGRAM APPROACH*

Brazil is known for its broad industrial base and sophisticated financial system. Yet, a third of the country's population lives in poverty, and Brazil has one of the world's highest rates of income inequality. Inequality is found within regions and between them—GDP per capita in the more developed Southeast is 2.5 times that of the Northeast. The poor, rural Northeast also contrasts sharply with the modern agribusiness sector in the Center-West region, which has been driving Brazilian economic growth and foreign trade in recent years.

This diversity brings challenges to the design of public policies in Brazil. Some issues—such as a high tax burden, poor transport infrastructure, and an inefficient court system—affect the whole country, though to varying degrees. Others, like slow port service or inadequate testing facilities for agricultural products, are most evident at the state or sector level. Diversity also means that the mere concept of a multi-sectoral or national development effort in Brazil engenders difficult complexities. Many challenges can be effectively overcome by first taking a regional or sectoral approach.

All of the problems noted above are well-identified. Most already have one or more champions, in the form of research and advocacy institutions like the National Confederation of Industries (CNI), state industry federations, the Brazilian Small Business Promotion Agency (SEBRAE), the Brazilian Exporters Association (AEB) and private think tanks. All of these institutions seek to stimulate private sector growth and represent important partners for the USAID program.

There is another important actor: the large and complex public sector. Government actors are present at every level and committed to Brazil's development. Yet, establishing a dialogue with them takes time. USAID began to see the fruits of such an investment during the first phase of the USAID/Brazil MSE Trade-Led Growth Program. The program will build on these relationships, relying heavily on the presence of local partners throughout the Northeast region.

## TECHNICAL APPROACH

Economic growth can contribute to poverty reduction - under certain conditions. Ironically, in economies with high inequality such as Brazil, growth may actually increase poverty. One way to achieve a more equitable distribution of benefits is to promote the growth of industries that employ large numbers of micro- and small enterprises. This will work only if small firms and the industries they populate can compete on the global playing field that is today's economy. Competing globally doesn't just mean the bar is raised in terms of quality, efficiency, or creativity; it means the mindset with which firms approach competition must change. For example, small cashew processors in Northeast Brazil are not just competing against their neighbors, the large processors on the coast of Ceará; they are competing collectively as part of the Brazilian cashew industry against Vietnam, India, and Africa.

Given this context, support at the industry or value chain level is likely to yield bigger impacts than support to individual firms. Doing this involves a series of steps, beginning with the selection of industries which have growth potential, employ large numbers of the poor (usually via microenterprises), and offer opportunities for intervention.

Implementing a value chain intervention involves building a competitive strategy that advances the industry as a whole. Such a strategy must include a road map showing how to get there, built with the participation of key players in the value chain, both private and public. Based on this reasoning, the program addresses the following elements:

- a) Positioning the value chain in the global context. This means understanding the demands of the end market and knowing the requirements of the international business environment. Can industries with large number of MSEs afford to comply with standards, take advantage of trade openings, position themselves in growth channels? If so, how?
- b) Promote a favorable business environment at the national level. In Brazil we know that many legal, regulatory, and enforcement obstacles exist, but need to organize the when, how, and by whom.
- c) Strengthen relationships between firms in the value chain. In Brazil this means promoting stronger large-small and Northeast-South linkages, and working to develop supporting markets (financial services, training, technical assistance, logistics).

USAID/Brazil's Economic Growth Strategic Objective is clear about the results it would like to achieve. Our experienced team acknowledges this orientation and understands what it will take to deliver results. Using a value chain approach, we address the key policy and technical constraints that are impeding improved competitiveness of MSEs. It is an integrated approach. We will implement value chain activities that address specific sectoral constraints while working on broader policy and finance issues effecting the business environment as a whole. It will be led by industry players—private and public. Our team will directly implement only selected activities, facilitating the implementation of others in collaboration with partners (see table 2).

Table 1 - Partner institutions committed to the USAID-Brazil Micro and Small Enterprise Trade-Led Growth Program

International and National Institutions	Regional and Local Institutions	Business and productive associations, private companies and local projects
APEX CNI* CIN* IEL SEBRAE* SENAI Ministry of Agriculture EMPRABA* BNDES Banco do Brasil ABDE* Instituto Biodinamica World Bank IADB IFC	Government of Ceará ADR Maciço Baturité EMATERCE DESENBAHIA PromoBahia SECT	FIEC CIC SINDICAJU ABEMEL CBA Floramel AAPI CANPIL Casa APIS APL Uruguai

\*Institutions with regional projects or offices.

#### Partner Institutions's Contributions

- ADR Maciço (Regional Development Agency of Maciço de Baturité) – Ceará  
US\$ 16,264
- Embrapa Tropical Agroindustry – Ceará  
US\$ 30,204
- SEBRAE BA (Bahia State Unit of the Brazillian Small Business Agency) – BA  
US\$ 350,000
- Prefeitura Municipal de Ocara – Ceará  
US\$ 9,480
- Transfair USA  
US\$ 151,502

Activities are organized into four components that are intimately related to each other: (i) strengthening partnerships; (ii) addressing policy constraints; (iii) improving access to finance, and (iv) improving value chain competitiveness (see Table 2). The partnership component is presented up front, as we consider it fundamental to the Program's success and the backdrop to all the other activities.

The program will be managed from FUNCEX offices in Rio de Janeiro. However, it will have a strong presence in Bahia, Ceará, Piauí and Brasília, where the COP and senior consultants will spend a significant amount of their time. The program team will count on its partners to help it set up an office branch in each of the localities mentioned above.

The Brasília office will have a particularly important role in the technical aspects of program management; being close to client and main partner institutions will ensure efficient communication and exchange. The program's administrative-financial functions, however, will continue to be managed from the Rio offices.

The following table summarizes the program's components, outcomes and activities. With regard to component four, Improving Value Chain Competitiveness, it is worth noting that the program will target the value chains more strategically, positioning the program team as facilitators of value chain development rather than simply technical assistance providers. More direct investments will be made by local partner institutions.

Table 2 - Components Summary

USAID's Strategic Objective: Promote increased participation of Brazilian MSEs in global markets.						
Component 1: Strengthening Partnerships	Component 2: Addressing Policy Constraints	Component 3: Improving Access to Finance	Component 4: Improving Value Chain Competitiveness			
<b>Goal</b>						
Fortify the relationships that are fundamental to the Program's sustainability	Advance regulatory reform at the state level (Ceará)	Develop innovative solutions to facilitate MSE access to existing credit lines	Develop a common vision on their global competitiveness and how to improve it			
<b>Possible Outcomes</b>						
			<b>Swimwear</b>	<b>Honey</b>	<b>Cashews</b>	<b>Coffee</b>
Creation of an articulated network of experts that will continue efforts to improve MSE growth at the Program's end	Introduction to the relevant decision-making bodies at least two proposals for policy reform and expansion to other states	Leverage BNDES credit line <i>Empresa Ancora</i> and create a credit auction with partners.	Achieve higher quality, product differentiation and external exposition	Sustainable increase in market access and export services	A cycle of continuous improvement in productivity and quality	Commercial linkages between coffee producers from Bahia, Café Bom Dia and US retailers (e.g Walmart)
<b>Proposed Activities</b>						
Prepare transition	Facilitate the establishment of a public-private forum in Ceará	Build value chain finance solutions	Galvanize swimwear fashion show in Northeast; help create market information system at Senai/Cetiqt	Help create market information system at CIN; promote Northeast honey's unique qualities	Improve productivity at producer and processor level ?? Deixa isso?	Identify purchasing requirements of US retailers
Strengthen existing committees	Analyse reform and advocacy options	Create a new financing model for MSEs via state-level Development Agencies	Promote vertical and horizontal linkages between fabric producers and garment producers, and between those and embroiderers	Promote vertical linkages between small producers and regional private processors and exporters	Promote vertical linkages between small producers and private processors and exporters	Promote vertical linkages retailers (Walmart), roasters (Café Bom Dia) and producers
	Expand to other states		Facilitate creation of first swimwear class at fashion institute in Salvador; facilitate workshops and trainings	Bring together private sector leaders to discuss the MAPA plan for quality control	Introduce sizing selection techniques	Improve quality; comply with organic and fair trade requirements
			Facilitate development of collection; marketing material, process standardization	Facilitate improvement of productivity and harvest techniques; develop management capabilities; acquisition of certificates; increased rastreability; separation of floradas	Partner with seedling suppliers to disseminate dwarf cashew tree	
				Facilitate technical assistance to improve Embrapa's laboratories	Assist exporters to structure financial services to small suppliers	
					Upgrade quality (HACCP) and earn price premium (organic); develop management capabilities	
<b>Resources</b>						
André Urani STTA	Ricardo Markwald Mansueto Almeida STTA	Alexandre Darzé STTA	Rachael Botelho STTA	Maurilo Almeida STTA	Hugo Figueiredo STTA	Beat Gruening STTA

## ACTIVITIES

This section presents a set of interventions for the USAID/Brazil Micro and Small Enterprise Trade-Led Growth Program. Activities are described under each of the four components; the timeline for each is depicted in the Implementation Plan section.

### Component 1: Strengthening Partnerships

This component represents an investment in relationships that are fundamental to the program's viability, and will ease the transition from the first to the second phase. Expected outcomes include the creation of a network of Brazilian and international experts that will continue to advance the program's development goals in the medium- to long term.

This component is particularly important because it will determine how the program should intervene at the local and national level, especially in Brasília. On the one hand, it is a goal to maintain the consultative committees that were set up during phase 1 and which have proven themselves efficient. On the other hand, we will provide technical expertise and facilitate access to national-level networks to local institutional partners who will be directly involved in each of the program's components. Finally, we will have at least one, if not more, *in loco* representatives, whose profile and skills sets will reflect the activities being implemented in that particular state.

#### *Activity 1. Prepare Transition*

In order to ensure a smooth transition, the recipient will implement a series of activities between October-December 2006, establishing a direct relationship between the activities of the previous USAID program and the new one. The recipient will explain the scope of the new program to current stakeholders, determining which interventions should continue and which local partners will lead them.

#### *Activity 2. Strengthen existing committees*

Formed at the request of USAID/Brazil, the Steering Committee was designed to foster coordination with institutional partners and knowledge exchange. Similar fora established at the state level in Bahia, Ceará and Piauí proved to be valuable and will be reinforced during phase two.

By including private sector players and universities (see box), the recipient will inject new perspectives and technical content to these committees. The recipient will encourage subcommittees on specific topics so that participants can show their strengths. The idea is to create a permanent discussion forum where MSE competitiveness and business environment initiatives are formulated, eventually assuming a leadership role in Brazil on these issues.

The program aims to work in close collaboration with USAID partners such as APEX, CNI, SEBRAE and the IDB. FUNCEX currently has projects with APEX, CNI and the CIN Network (the Exporters Catalogue) and projects with national and regional SEBRAEs and is in constant contact with these institutions.

### Component 2: Addressing Policy Constraints

There is little doubt that regulatory burdens and high administrative costs are major barriers to enterprise development and economic growth in Brazil. The list of constraints is long: rules

concerning the opening and closure of enterprises, heavy taxation on labor, taxes on input purchases, difficulties in receiving duty drawbacks, lengthy procedures to register an export operation and the complexity of opening a trading company. National institutions already have their own agendas for regulatory reform, including issues relevant to trade and MSEs. The AEB, FUNCEX and CNI have analyzed and listed the main obstacles for exporting firms; SEBRAE has developed and advocated for the “Law for Micro and Small Enterprises”; the Ministry of Industry and Foreign Trade (MDIC) has been working on the “National Program of Public Management and Debureaucratization” under which it has been simplifying processes and rules for export. USAID recently co-sponsored a World Bank “Doing Business” survey in 12 Brazilian states.

In sum, efforts to understand and rank the main regulatory constraints for enterprises are underway. However, the gap between knowing what is needed and doing what it takes to get there remains a problem: this is the opportunity for USAID/Brazil MSE Trade-Led Growth Program.

The goal is to advance regulatory reform on the state level where relationships with local actors can be more cost-effectively leveraged to achieve results in the short-term. The state of Ceará has been chosen to pilot this intervention. The opportunity to work with the Government of Ceará provides an entry point for later work involving other Northeast state governments, such as Bahia and Pernambuco, already engaged in a joint reform process.

Ceará was chosen because it has an institutional environment where exporting is valued and promoted; has worked to achieve its strong export performance; the State Government has shown interest in working towards improving its business environment, and three of the value chains that will be addressed in the program represent important industries in Ceará. The recipient recognizes the risk of focusing on one state. It is an objective to reduce this risk by involving early on the other two aforementioned states. Nonetheless, the recipient understand this risk is real and should be monitored throughout the program’s implementation. The program will be open to revisiting this strategy should it be necessary.

Also as part of component 2, the recipient will develop a toolkit for estimating the costs of regulatory compliance. FUNCEX will develop and test a set of tools that will help enterprise development projects provide value chain participants and reformers with data-based arguments for advocating changes to the regulatory environment. Ultimately, this set of tools will contribute to the work currently being done by USAID/Brazil, as well as support USAID missions around the world in the integration of policy-level work into their enterprise development efforts.

*Activity 1: Facilitate the creation of a public-private policy forum in Ceará.* The recipient will identify entities and institutions from the public and private sectors that are willing to champion policy reform. Likely candidates are the Foreign Trade Committee, the Secretariat of State Production, Centro Industrial do Ceará (CIC) and FIEC. The recipient will develop case studies of the state’s successful regulatory reforms to date, highlighting key actors, key success factors, missed opportunities and pitfalls.

The recipient will meet with each institutional stakeholder to understand individual agendas and then facilitate dialogue among the different players to establish a common agenda validated and appropriated by all. The recipient will support empirical research and benchmarking of national and international best practices related to the issues on the common agenda. The recipient will also participate actively in meetings, determining responsibilities, setting goals, hiring specialists, planning the agenda and sending meetings reports to all stakeholders to keep them

engaged. The recipient will also coordinate efforts with other USAID-funded projects including the study on the impact of transportation and logistics constraints to Ceará's exports, which is being developed by Carana Consulting in partnership with COPPEAD.

*Activity 2: Analyze reform and advocacy options.* In order to determine the best way to achieve effective reforms related to each issue, the recipient will hire specialists to analyze alternatives, identify the relevant government entities and lobby representatives at the state and local level. While the focus will be at the state-level (particularly Ceara), the recipient may decide to investigate national issues when deemed appropriate from a technical and strategic standpoint. The recipient may also want to investigate policy issues in more than one state. This approach will be pursued as we develop a toolkit for estimating the costs of regulatory compliance in select value chains, for instance. To ensure that proposals will not stall or be tabled, the recipient will establish a rotating group of forum members to closely accompany the reform process. This monitoring will include periodic meetings with the relevant government institutions and/or elected representatives in order to accelerate reform.

*Activity 3: Expanding to other states.* The recipient will to share the policy experience with other states seeking to improve their business environment. Ceará has already instituted an informal exchange of information on this topic with the state governments of Bahia and Pernambuco, and we can help formalize this network. The timeline for this expansion should depend on the results achieved in Ceará. The recipient will include representatives from Bahia and Pernambuco in Ceara's policy forum, and as results become apparent, work with them more intensely to bring the forum's lessons to their states.

The program will involve very early on government representatives from Bahia and Pernambuco in the activities that will take place in Ceará. The program aims to leverage existing relationships between these three states, using the activities in Ceará as a pilot, to be subsequently applied to other states. In this expansion phase, the role will be to disseminate lessons learned and successful practices.

### Component 3: Improving Access to Finance

Banco do Brasil, BNDES, Banco do Nordeste and many commercial banks already offer a range of financial products targeting MSEs, especially potential exporters. Still, MSE exporters face major financial constraints. These constraints are due to other problems, like high transaction costs for financial institutions and standardized credit analysis that is inappropriate for small firms. In the Northeast, these problems are exacerbated by the lack of medium-sized banks specialized in small enterprise credit (present in the South). Improving access to finance for Brazilian MSEs is not about creating new products! It requires finding a cost-efficient way for banks to obtain reliable information on MSEs, in order to take advantage of existing credit lines.

Two activities will be carried out to this end: (i) building finance solutions within the value chain and (ii) introducing a credit auction via state development agencies. Implemented in partnership with the BNDES, the Brazilian Association of Development Institutions (ABDE) and Desenhahia (a state-level Development Agency), these activities have the potential to significantly increase access to credit by MSEs. BNDES and Desenhahia are both interested in the interventions described below; ADBE has already submitted a formal letter of commitment.

#### *Activity 1. Building value chain finance solutions*

The recipient's experience has revealed that there are exciting finance opportunities to be had by linking large anchor firms (clients or suppliers of MSEs) to MSEs, using the BNDES' credit



line *Empresa Ancora* (anchor firm). This solution capitalizes on the knowledge firms in the same value chain have about one other, facilitating the question of credit analysis. Specific value chain finance opportunities include: expanding on the partnership we are currently developing with the largest Brazilian trading company, Cotia Trading to offer working capital to small firms in export industries beyond cashews; building on Transfair's partnership with the large roaster Café Bom Dia to offer finance to Bahian coffee producers, and recruiting Southeast-based fabric suppliers to offer working capital to Northeast swimwear manufacturers.

The recipient is attuned to concerns regarding the feasibility of successfully working with BNDES within the program timeframe. However, BNDES is one of the founding partners of FUNCEX. In the meeting of FUNCEX's Advisory Council held in July, BNDES representative Paulo Ferracioli, special advisor to the current vice-president, Armando Mariante, expressed interest in learning more about the USAID/Brazil Trade-Led Growth Program. In addition, during its phase 1, USAID worked in partnership with BNDES, and the latter has shown interest in broadening this collaboration. Nonetheless, the recipient is open to revisiting this strategy, should it present obstacles that would impede expected results. The recipient should also be open to investigate other finance-related activities and tools such as the application of USAID's Development Credit Authority (DCA) partial guarantee mechanism.

*Activity 2. A new financing model for MSEs via Development Agencies*

This activity introduces an innovative new tool: the credit auction. A pilot will be implemented with Desenbahia and, if successful, can be replicated in other state development agencies. The successful implementation of a credit auction in Bahia could have a considerable multiplier effect.

This activity will rely heavily on support from ABDE, the institution that first pioneered this innovative mechanism. In the course of extensive conversations held with ABDE, it was suggested to implement this activity with Desenbahia, in light of the good relationship the team has with that institution, and also because Desenbahia has informally expressed their interest in participating in it. Moreover, the current ABDE president is also president of Desenbahia, which we expect to facilitate the project's development. However we are open to revisiting this strategy, should it present obstacles that would impede expected results.

Credit auction facilitates MSE access to credit by promoting competition among financial institutions. The system operates on a virtual platform where MSEs can negotiate with banks offering credit based on their receivables. A major advantage of this model is that it involves building a positive database shared by all the financial agents involved, thus reducing the perception of risk that comes with working with MSEs and, consequently, increasing credit supply while reducing its cost. Our partner ABDE has pioneered the use of the credit auction model - originally formulated in Mexico - with the State Development Agency of Espírito Santo.

The model was first implemented in Espírito Santo as part of a capacity building program for small firms supplying goods to large companies with state-wide coverage. Once qualified as reliable, high-quality suppliers, the firms received assistance to improve their financial management. Qualified firms were put into a database made available to financial institutions interested in offering credit, facilitating the credit analysis process. The recipient will take advantage of the lessons learned from this experience to facilitate the introduction of the credit auction tool in the Northeast. This activity will include training courses for Desenbahia staff and adaptation of Desenbahia's internal regulations to facilitate implementation.

This component will be led by Mr. Eduardo Guimarães, former president of Banco do Brasil and BANESPA.

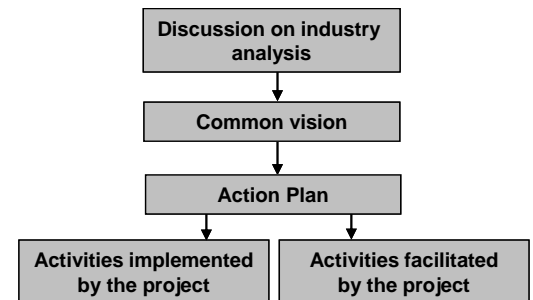
#### Component 4: Strengthening Value Chain Competitiveness

This component will stimulate the sustainable inclusion of MSEs in the global market by supporting four value chains. The recipient will develop three sectors addressed in the previous phase—swimwear, honey and cashew nuts—and include a new sector, coffee (subject to USAID approval and input from the Steering Committee). The decision to maintain swimwear, honey and cashew nuts is based on the intimate knowledge of each value chain acquired over the last two years, and the desire to build on this hard-earned knowledge by broadening program interventions. The recipient has established strong partnerships in each sector, and the second phase of USAID/Brazil’s MSE Trade-Led Growth Program offers the opportunity to harvest the fruits of these efforts.

Activities presented below are specific for each value chain. However, there are some activities common to all. The first is the development of an informal committee composed of the relevant institutions and firms in each sector. Within the framework of this committee an analysis of each sector will be discussed with the objective of establishing a shared vision of the sector and a joint action plan.

The program will play two roles: that of implementer/investor and facilitator. As implementer, we will be responsible for carrying out and funding strategic activities. As facilitator, we will support the local partner chosen to implement the bulk of the value chain activities. Partner institutions are identified in each value chain description. Most have already expressed interest in working in partnership with FUNCEX.

Below we present a list of interventions for each value chain, to be refined and reviewed with USAID and the local value chain partners.

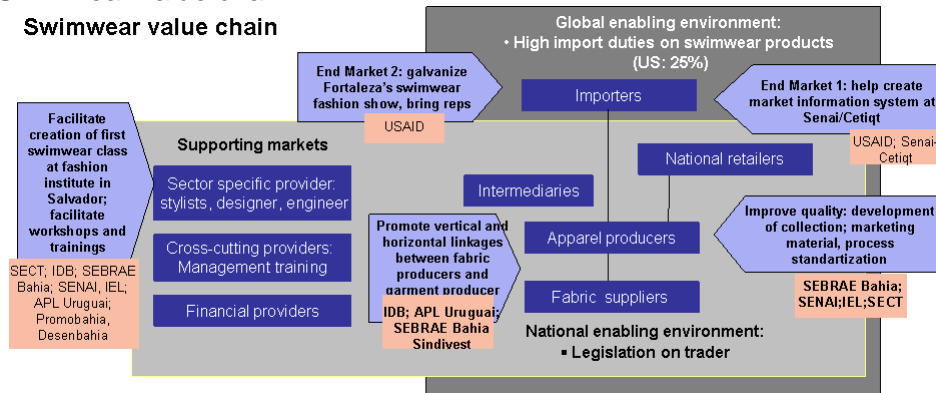


#### **Swimwear**

Many of the factors that make Brazilian swimwear competitive are intangible. Creative designs, unique materials, the association of Brazil with beaches, sun, summer and bikinis all contribute to the emerging “Brazil brand” of swimwear. The Northeast has been relatively isolated from this movement and struggles to compete with low-cost Chinese production. For this reason, the competitive strategy for the sector must focus on product differentiation and excellent quality.

As presented in the figure below, we see the need to develop local supporting markets, create vertical linkages between garment producers and fabric suppliers, and implement upgrading strategies at the producer level. An end market strategy is crucial to make the sector more outward-looking and improve information links to the ever-changing fashion market.

Figure 1 – Swimwear value chain



The project will directly implement the end market strategy detailed below and will facilitate implementation of the other critical activities to be led by local partners.

As part of the end market strategy, the team will contribute to the organization of a fashion event in Northeast (such as *Dragão Fortaleza Fashion*), facilitating sponsorships, recruiting buyer participants, and ensuring representation by firms from Bahia, Ceará and Pernambuco. The team will work closely with APEX, ABIT and fashion professionals from the Southeast with extensive experience producing fashion events. Our partner Senai-Cetiqt will ensure sustainable information flows from the end market by creating an information system based on data made available by worldwide fashion centers (e.g., Worth Global Style Network)..

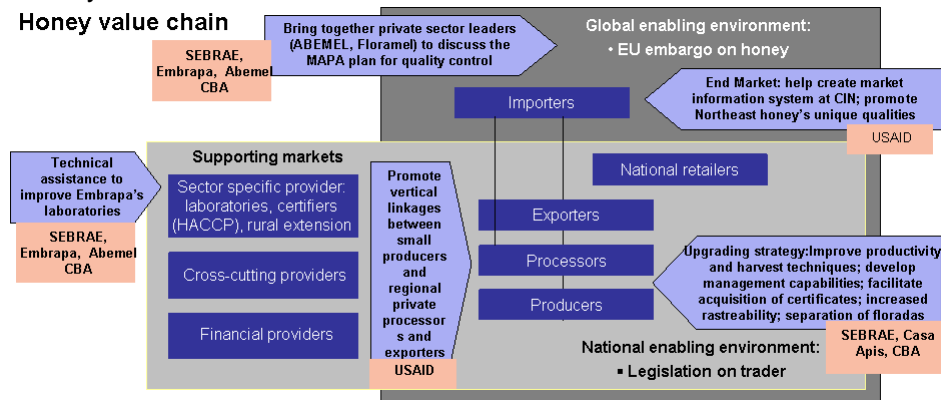
SEBRAE BA, Senai-Cetiqt, SECT (IDB and Government of Bahia Program) will continue to upgrade quality at the firm-level by promoting trainings, workshops and fashion contests, and develop local supporting markets. Critical services include designers, pattern specialists, production engineers, fabric testing and imaging, and market information. Our team will also support the development of a specialized beach fashion curriculum by fashion institute IBModa in Salvador.

Finally, the program will work with SECT to strengthen vertical linkages in the value chain, by bringing northeastern manufacturers in contact with southeastern fabric producers to explore and implement commercial solutions to the current problems arising from unequal power relationships.

### **Honey**

Northeast honey's competitiveness in external markets is related to the product's natural characteristics: most importers are aware that honey from Northeast Brazil is an organic product, residue and antibiotics-free. Yet, as shown in the figure below, several issues need to be addressed to improve the industry's competitiveness: responding to global enabling environment requirements; promoting upgrading strategies at the processor and producer levels; developing an end market strategy, and promoting vertical linkages between processors and traders.

Figure 2 – Honey value chain



The program team will directly implement the end market and vertical linkage activities, and will facilitate implementation of the other critical activities to be led by local partners.

Building on the successful phase one experience with *Canalexport* (a Northeast trading company) the recipient will continue to strengthen vertical linkages between honey processors in Piauí, Ceará, and Bahia and traders. The recipient will seek sector-specific trading solution for the honey value chain, fundamental for increasing access to market information and new markets, improving communication across channels, improving sales management and reducing risks.

The program team will also support CINs in the development of a sector-specific end market information service. Key content will include world prices for bulk and bottled honey, conventional and organic prices, events expected to affect competitor behavior (i.e. China, Argentina, specialty honey producers), events altering the functioning of distribution channels, and updates on regulatory issues such as the required laboratory testing.

In order to achieve competitiveness, upgrading activities are needed at the producer level. To achieve this goal, the project will coordinate efforts with Casa Apis, a large multi-donor effort currently underway in Piauí which aims to increase incomes earned by honey producers through a variety of mechanisms, including technical assistance for MSE producers and processors to increase productivity and quality.

The whole Brazilian honey sector faces an immediate global enabling environment challenge: responding to the EU embargo by ensuring quality control. In order to maintain their export licenses, honey exporters of all sizes will be asked to periodically submit their honey to over 100 separate laboratory tests. The cost of testing is high and must be borne by the exporter; what's worse, the Brazilian laboratory system is lacking capability. The Ministry of Agriculture's current plan is to divvy up the testing among various laboratories, and to operate a national lottery system where honey exporters will be selected for testing up to once a month. Considering the small volume being exported by producers in the Northeast the current plan will place an unfair burden on small producers from the region. There is a concrete opportunity to participate in the discussion at the state level, and a need for technical expertise to support Northeast laboratories.

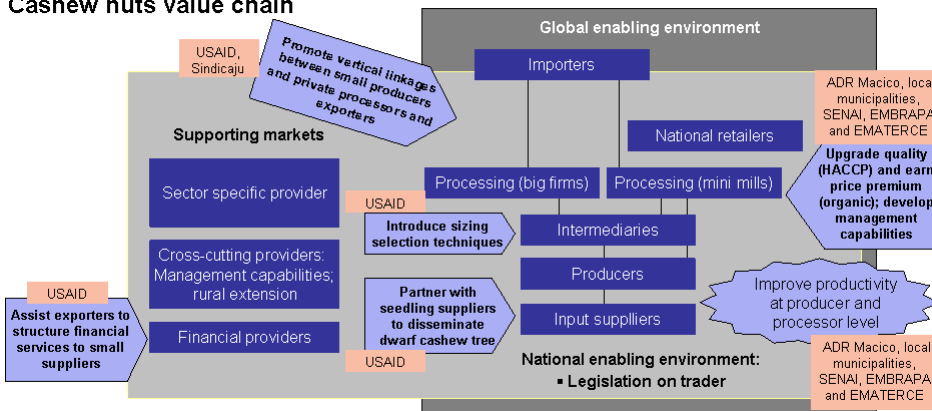
### **Cashew nuts**

The Brazilian cashew industry has been declining in competitiveness relative to its Asian competitors (Vietnam and India). Brazil must improve productivity at the processing and

production levels (upgrading strategies), or the country will rapidly lose market share. Yet, even with potential productivity gains at the processor level in the medium-term (4-5 years), there is no guarantee that producers will benefit. There is an urgent need to redesign relations in this industry, promoting vertical linkages between small producers and big processors, between small producers and intermediaries, and small processors and traders. There is also a need to improve supporting services like finance and rural extension and establish new, innovative end market solutions.

Figure 3 – Cashew nuts value chain

**Cashew nuts value chain**



The project will directly implement the vertical linkages activities detailed below, and will facilitate implementation of the other critical activities to be led by local partners.

In partnership with SEBRAE and EMATERCE, the team will work with processors and intermediaries to strengthen vertical linkages, by introducing weighing and sorting techniques allowing small landholders to earn a premium for quality. Additionally, in partnership with BNDES, Cotia Trading, and other interested intermediaries, we will help structure and facilitate additional resources for new value chain finance solutions linking small processors and traders.

The program will facilitate discussions to develop and promote an industry competitiveness agenda. This can be done by continuing a state-level dialogue that has begun under the current project. It will be necessary to promote individual meetings with key stakeholders: large processors, small processors, producer groups, state-level ministries and development agencies. The recipient will work to ensure that small producers benefit from productivity improvements

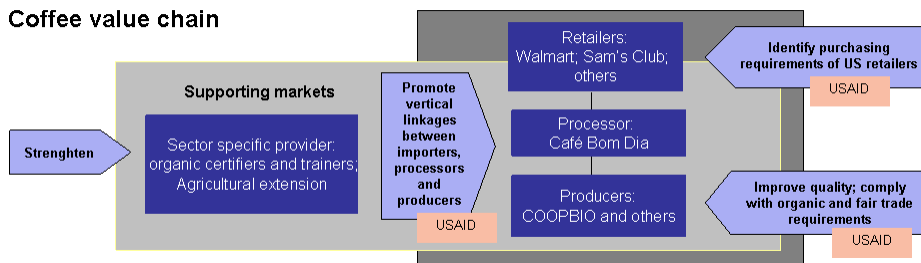
The Program will support the implementation of upgrading strategies by SEBRAE, SENAI and EMBRAPA. Improvements at this level could enhance quality of the product and add value to the price. The upgrading initiative will serve as a laboratory for testing solutions to industry-level problems. The team will continue efforts initiated during the first phase to upgrade production via organic certification, compliance with HACCP standards, improved pruning techniques, and traceability. Partnerships with a private input supplier, Vale Verde, and other nurseries will serve to stimulate the introduction of the dwarf cashew tree.

Our key partners in this value chain are the state government of Ceará, Sindicaju, FIEC/CIN, ADR Maciço (Regional Development Agency of Maciço), local municipalities, SENAI, EMBRAPA and EMATERCE.

## Coffee

Coffee has been added because of an opportunity to include small Northeast producers into a high-value chain with strong end-market demand. TransFair USA, the only third-party certifier in the United States, has developed a partnership with Brazilian roaster Café Bom Dia and several US buyers to dramatically increase the volume of high-quality Fair Trade Certified coffee produced in Brazil. TransFair's relationship with Wal-Mart and other US buyers will bring total demand for Brazilian Fair Trade coffees to 45 million pounds by 2009, making Brazil the top Fair Trade origin in the world. TransFair also represents a potential commercialization channel for other products from the Northeast, like honey and cashew nuts.

Figure 4 – Coffee value chain



Although Brazil has long been dominant in coffee, providing nearly 30% of the world's exports, its success in the rapidly growing Fair Trade market is very recent. The state of Bahia is the 3<sup>rd</sup> largest *Arabica* producer (a higher quality variety than *Robusta*) in Brazil; the opportunity for Bahian producers is to fill the vast unmet demand for Brazilian Fair Trade organic coffee, which would allow these producers to sell greater volumes and capture both the Fair Trade and organic premium – an increase of approximately 53% over current prices.<sup>1</sup>

## Small-Grant Program Facility

The project includes a small-grant program facility to provide funding for activities that either complement or build on the efforts listed under the four program components. Illustrative small grant activities may include but are not limited to: sponsorship for the participation of local specialists in workshops, trade fairs, and trade missions; sponsorship for a trade event; grant to a local organization for the development of a technical paper or MSE trade project; publication of a report, among others. The resulting small grants activities shall in one or other form contribute to the overall objectives of the USAID/Brazil MSE Trade-Led Growth Program and to the strategic objectives of USAID. Sector-specific consultants may be involved in the decision-making process. Grant requests will be discussed with the USAID CTO for ultimate consensus on release of funding and will be well-documented.

## Knowledge Management

The recipient's knowledge management strategy is closely linked with Component 1: Strengthening Partnerships. The Steering and local committees will play a fundamental role in capitalizing on knowledge gained and making it available to a wider public. As in phase one, we

<sup>1</sup> The Fair Trade organic price is \$1.39. As of this writing, the New York Board of Trade price was \$0.95 for conventional and \$1.01 for organic.

will produce newsletters, reports, articles, interviews, books (in partnership with other institutions) and hold seminars to disseminate knowledge.

In order to meet expected results in terms of transferring knowledge and outreach, the recipient will determine several alternatives to be discussed in greater detail with USAID Brazil:

- Publication of Articles and Studies in General. This will be one of the forms utilized to disseminate the knowledge generated by the project among its different audiences, though FUNCEX's magazine on foreign trade (<http://www.funcex.com.br/rbce.asp>). The *Revista Brasileira de Comércio Exterior* is considered a reference in the field, and plays an important role in fostering debate. Readership is comprised of public institutions, development actors and private firms interested in foreign trade.
- A facilitated discussion forum. We will try to implement, in partnership with the Steering Committee institutions, an online tool that could be called "Animação de Comunidades de Prática", where institutions and exporters of the same sector or value chain can share experiences in the presence of a facilitator. This model is currently being used by institutions like Fundação Dom Cabral.
- Publication of Articles and Studies in General. This will be one of the forms utilized to disseminate the knowledge generated by the project among its different audiences.
- Organization of Workshops. Events would be conducted in partnership with the steering committee and local committees, and with the participation of the private sector and university partners.
- Publication of a book addressing the technical issues raised throughout the program.
- Report to the Government and Society: A specific report will be prepared for the government based on program results, with suggestions for public policies to incite the insertion of Brazilian companies in global markets.

## Results monitoring and evaluation

In the first phase of its MSE Trade-Led Growth Program, USAID conducted an impact assessment comparing program participants before and after interventions to a control group of similar value chains and firms. Because the new approach does not involve direct assistance to firms but rather interventions targeting whole industries, we will evaluate project performance with a rigorous monitoring plan.

The design of a monitoring and evaluation plan begins with the development of a causal model—the path that leads from project activities (inputs) to immediate outputs, from outputs to intermediate outcomes, and from outcomes to the high-level impact sought by USAID/Brazil.

Table 4 presents a draft set of indicators which were developed based on this rationale. In addition to the indicators, table 4 provides their definition, method of data collection, and targets.

FUNCEX recognizes the complexities associated monitoring progress and success in a program of this nature, and will work with USAID/Brazil to further refine this set of indicators, their definition and their targets. As basis for future discussion, we would like to offer the following considerations:

Two types of indicators can be used to measure success of Component 2: Addressing Policy Constraints. The first type is based on achieving steps in a process that will lead to improving the business environment and includes:

- Number of steps advanced towards the Establishment of an Business Environment for MSE in the state level
- Introduction of new legislation into parliament that supports market reform efforts and SME development
- New public-private partnership relationships established

The second type hinges indicators that show results of the implemented activities and improvement to the business environment, for example:

- Reduction in average days of goods in customs
- Decrease in average duration of dispute resolution
- Reduction in export transaction costs

The second type is a better reflection of the program's success, but the indicators can only be defined once the main obstacles are identified and prioritized. Because this must be done in conjunction with public and private actors, the precise definition of indicators would have to wait the development of the Program's work plan.

With regard to the sustainability of the program, this should be measured on the basis of FUNCEX's institutional capacity to provide continuity to the program's activities upon its closure. The following indicators could be used to measure sustainability:

- Capacity to leverage partner resources to develop long term activities
- Establishment of a specialized team capable researching MSE trade-related development issues and implementing similar programs.
- Formal agreements with research institutions to develop new projects



Table 3 – Performance Indicators

Indicators	Unit of measure	Indicator definition	Method of data collection	Target
<b>Component 1 - Partner with key institutions</b>				
IR1 - Cost-sharing from partner institutions (local, national and multilateral)	US\$	Supports received such as human resources, infrastructure, logistic, training, communication and lobby efforts.	Project records.	1,000,000
<b>Component 2 - Addressing policy constraints</b>				
IR2- Number of steps advanced towards the Establishment of an Business Environment for MSE in the state level	Number of steps	Number of steps accomplished at the policy-making level for improving the business environment for MSE. Steps are disaggregated by identification, proposal, development, approval, and enactment.	Project records and interview with partners and public officials	(5,3,2,1,1)
<b>Component 3 - Improve access to finance</b>				
IR3 - Increase in credit access	US\$	Amount of credit facilitated by project activities through access to new credit lines, increase in firms credit limits and advisory services in how to manage new loans.	Project records	1,000,000
IR4 – Number of firms receiving new financial services	#	Number of firms that received credit thanks to program support. Includes firms benefiting directly and indirectly from BNDES <i>firma âncora</i> credit line, credit auctions, or other financing between value chain actors.	Project and financial institutions records	100
<b>Component 4 - Technical assistance to selected value chains</b>				
IR5 - Number of access in the marketing information system	#	Number of internet access in the marketing information system to gather information on marketing	Software records	2,000
IR6 – Number of producers benefited by product and process upgrading efforts	#	Number of producers who were impacted by any project initiative to promote product or process	Project records	1,000
IR7 – Improved vertical relations in the selected value chain	Qualitative	Establishment of a win-win relation among actors in the value chain	Qualitative interviews	n/a
Impact 1 - Annual export growth	Percentage increase over baseline	Annual percentage increase in export sales of target value-chains promoted by project activities. Disaggregated by value chain	Estimation based on the export value by lead firms before and after the project. Cross-check with data from business association	2,000,000
Impact 2 - Employment growth	Percentage increase over baseline	Annual percentage increase in total earnings generated by project enhanced job opportunities	Increase in production value multiplied by an employment factor. Cross-check with data from business association.	10%

3. Implementation plan  
Table 4 – Implementation chart

Activities	Implementers	month																								
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	
<b>Component 1: Strengthening Partnerships</b>																										
Prepare transition	USAID/Brasil Program	■	■	■																						
Strengthen existing committees	USAID/Brasil Program	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
<b>Component 2: Addressing policy constraints</b>																										
Facilitate the establishment of a public-private forum in Ceara	USAID/CIC/FIEC/Foreign Trade Committee	■	■	■																						
Analyse reform and advocacy options	USAID/CIC/FIEC/Foreign Trade Committee											■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Expand to other states	USAID/Brasil Program																									
<b>Component 3: Improving Access to Finance</b>																										
Build value chain finance solutions	USAID/Brasil Program/BNDES/ABDE/Desembahia	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Create a new financing model for MSEs via Development Agencies	USAID/Brasil Program/BNDES/ABDE/Desembahia	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
<b>Component 4: Improving Value Chain Competitiveness</b>																										
<b>General (all value chains):</b>																										
Development of an informal committee	USAID/Brasil Program	■																								
Discussion of industry analysis and building a common vision	USAID/Brasil Program	■																								
Development of a joint action plan	USAID/Brasil Program	■																								
<b>Swimwear</b>																										
Galvanize swimwear fashion show in Northeast	USAID/Brasil Program																									
Help create market information system at Senai/Cetiqt	USAID/Brasil Program / SENAI/Cetiqt																									
Promote vertical and horizontal linkages	IDB/APL Uruguai/Sebrae Bahia/Sindinvest																									
Facilitate creation of first swimwear class at fashion institute	SECT/IDB/Sebrae-BA/SENAI/IEL/APL/Promobahia																									
Facilitate development of collection; marketing material etc	Sebrae-BA/SENAI/IEL/SECT																									
Facilitate workshops and trainings	SECT/IDB/Sebrae-BA/SENAI/IEL/APL/Promobahia																									
<b>Honey</b>																										
Help create market information system at CIN	USAID/Brasil Program																									
Promote vertical linkages	USAID/Brasil Program																									
Bring together private sector leaders to discuss the MAPA plan	Sebrae/Embrapa/Abemel/CBA																									
Facilitate improvement of productivity and harvest techniques etc	Sebrae/Casa Apis/CBA																									
Facilitate technical assistance to improve Embrapa's laboratories	Sebrae/Embrapa/Abemel/CBA																									
<b>Cashew Nuts</b>																										
Improve productivity at producer and processor level	ADR Maciço/Municipalities/SENAI/EMBRAPA/EMARTERCE																									
Promote vertical linkages	USAID/Brasil Program / Sindicaju																									
Introduce sizing selection techniques	USAID/Brasil Program																									
Partner with seedling suppliers to disseminate dwarf cashew tree	USAID/Brasil Program																									
Assist exporters to structure financial services to small suppliers	USAID/Brasil Program																									
Upgrade quality (HACCP) and earn price premium (organic) etc	ADR Maciço/Municipalities/SENAI/EMBRAPA/EMARTERCE																									
<b>Coffee</b>																										
Identify purchasing requirements of US retailers	USAID/Brasil Program																									
Promote vertical linkages	USAID/Brasil Program																									
Improve quality; comply with organic and fair trade requirements	USAID/Brasil Program																									

