

**INNOVATING,
GAINING MARKET SHARE
AND FOSTERING
SOCIAL INCLUSION
SUCCESS STORIES
IN SME DEVELOPMENT**



UNITED NATIONS

ECLAC



IDB



Organization of
American States

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American States

Alicia Bárcena
Executive Secretary

Antonio Prado
Deputy Executive Secretary

Mario Cimoli
Chief, Division of Production, Productivity and Management

Ricardo Pérez
Chief, Documents and Publications Division

This document was prepared by officers of the Division of Production, Productivity and Management, the Economic Development Division, the Social Development Division and the Special Studies Unit of the Economic Commission for Latin America and the Caribbean (ECLAC) and the ECLAC office in Washington, D.C.; staff members of the Department of Economic Development, Trade and Tourism, the Department of Sustainable Development, the Department of Social Development and the Trust for the Americas of the Organization of American States (OAS); and officers of the Integration and Trade Sector, the Inter-American Investment Corporation, the Multilateral Investment Fund and the Science and Technology Division, the Financial Markets Division, and the Meso-America Project of the Inter-American Development Bank (IDB).

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Foreword

This document represents a contribution made by the Tripartite Committee comprising the Organization of American States (OAS), the Inter-American Development Bank (IDB) and the Economic Commission for Latin America and the Caribbean (ECLAC) to the fourth Ministerial Meeting of the Pathways to Prosperity in the Americas Initiative, in Santo Domingo, on 5 October 2011.

This initiative for promoting growth and prosperity provides a forum for countries to learn from each other's experience and for them to share lessons learned and best practices as they seek to put broader opportunities within the reach of everyone in the region. Fourteen Western Hemisphere countries are participating in the initiative: Canada, Colombia, Costa Rica, Chile, Dominican Republic, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Peru, the United States and Uruguay.¹

OAS, IDB and ECLAC have supported this process since its launch in 2008. Against this backdrop, this document sets out lessons learned and success stories, both in the region and elsewhere, concerning the thematic areas identified as priorities for the initiative. These priorities include promoting the development of micro-, small, and medium-sized enterprises by supporting, among other things, their productive linkages and their access to credit and the global market; facilitating trade; training a modern labour force; and developing sustainable business practices.

This document seeks to put these experiences at the service of the countries participating in Pathways to Prosperity in the Americas as they work to improve the living standards of their citizens. It is not an exhaustive recounting of success stories. Instead, it highlights those cases that stand out for their potential impact, their replicability in a variety of socio-economic and cultural contexts, their economic efficiency or their capacity to promote sustainable development. Moreover, the cases selected for this document are not confined to lessons learned in the countries participating in the initiative. The review cast a broader net, pinpointing replicable best practices in the member countries of the participating institutions and in the rest of the world as well.

¹ Belize has made a request to join the Initiative but no decision yet been taken in this respect at the time of writing.

The spotlight is on small and medium-sized enterprises that are putting these best practices to work. The topics are arranged as they relate to the dynamics of those enterprises, affording particular attention to the lessons learned from their experiences. Focusing on SMEs provides an appropriate mix of information linked directly to the areas in which they are key players: production growth, innovation and social inclusion.

The document does not claim to provide an extensive look at the subject matter but rather calls policymakers' attention to case histories and experiences that warrant detailed consideration as they design strategies, lines of action and instruments for their countries.

I. Productive linkages for SMEs

1. Micro- and small and medium-sized enterprises in Latin America: participation in the economy and sectoral breakdown

- Micro- and small and medium-sized enterprises (MSMEs) play a key role in the economy, accounting for more than 90% of the number of companies in the region. Depending on the area of the economy, their contribution varies widely—from significant in terms of employment, to far less so in production and very small in terms of exports. The fact that they contribute more to employment than to output is indicative of relatively low levels of productivity. Their limited contribution to exports shows their marked orientation toward the domestic market and their dependence on the dynamics of domestic demand. Their output is therefore determined to a large extent by employment and wage levels in the economy as a whole.
- Within the industrial structure, small and medium-size enterprises (SMEs) account for a relatively larger proportion of production and sales in the larger countries of the region because the indivisibility of some productive activities increases the minimum efficient plant size. In smaller economies, then, large enterprises usually produce a significant proportion of the consumer goods that carry the most weight in the industrial structure.
- The countries can be divided into three groups, based on the relationship between the size of their economies and the sectors in which most SMEs operate. In the larger countries with the most highly developed industrial structure (Argentina, Brazil and Mexico), SMEs are concentrated in the food, textile and garment-making, chemicals and plastics and metallurgical industries. In medium-sized economies (Bolivarian Republic of Venezuela, Chile, Colombia, Ecuador and Peru) SMEs operate principally in the food and chemical industries. Unlike the first group, they have only a scant presence in the metallurgical sector. In the smaller countries (Costa Rica, Nicaragua and Uruguay), SMEs tend to be clustered in the food industry.
- The large proportion of SMEs operating in the food industry reflects their tendency to specialize in labour-intensive sectors with natural competitive advantages and small economies of scale. Because these activities are chiefly oriented toward domestic markets, direct exports are small.
- Adding microenterprises as a policy focus has expanded the universe of small players and made it more complex and diverse, encompassing both subsistence microenterprises and dynamic medium-sized enterprises that sometimes venture into the export markets. This diversity can be seen in the low relative productivity of smaller enterprises compared with large ones. While microenterprise productivity in the countries of Latin America is barely 3% of the level posted by larger enterprises, in advanced countries such as France smaller enterprises are 70% as productive as large companies (ECLAC, 2010, table III.7).
- The productive environment in which SMEs operate has also been made more complex as economies have become more open and international competition has increased, alongside high prices for primary goods and heavy demand for imported products. In 2002-2008 the region's exports rose at an annual rate of 1.5%, while the annual rise in imports was 15.5%, outpacing the rate for any other region and exceeding GDP growth as well. These shifts in trade flows are closely linked to trade liberalization which has advanced with the signing of free trade agreements and the deepening of subregional trade integration schemes.
- Such diverseness has made it very difficult to fashion relatively homogenous policies and apply them to such a varied group of agents. There is therefore a need for programmes, instruments and intervention modalities that take these differences into account.

■ **Table I.1 ■**
Latin America (4 countries): share in employment, GDP and exports, by size of enterprise^a
(Percentages)

| | Microenterprises | Small firms | Medium-sized firms | Large firms |
|------------|------------------|-------------|--------------------|-------------|
| Employment | 30.4 | 16.7 | 14.2 | 38.7 |
| GDP | 7.3 | 9.8 | 11.4 | 71.5 |
| Exports | 0.2 | 1.8 | 6.4 | 91.6 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC).

^a Argentina, Brazil, Chile and Mexico. The table shows the percentage distribution of employment, GDP and exports of each type of firm with respect to the total number of firms in the formal sector. The figures are simple averages calculated on the basis of official data. The classification of firms by size corresponds to the definition employed by development institutions in each country.

2. Experiences of successful linkaging

- Experience with productive linkage projects to make SMEs more competitive by means of partnerships and other types of cooperation, studied by Dini, Ferraro and Gasaly (2007), was summarized in research conducted in the framework of a joint project involving the Multilateral Investment Fund (MIF) of the Inter-American Development Bank (IDB) and the Division of Production, Productivity and Management of the Economic Commission for Latin America and the Caribbean (ECLAC). The study found that development projects yielded outcomes in two areas that are relevant for policymaking: promoting innovation and access to more demanding markets.
- The projects reviewed were in several sectors of activity in 11 countries of the region (Argentina, Brazil, Colombia, Costa Rica, Dominican Republic, Ecuador, Guatemala, Mexico, Nicaragua, Peru and Uruguay). These experiences vary in terms of target sector, ranging from primary production (goat production chains in Córdoba (Argentina) and Isabella grapes in Colombia), agro-industry chains (dairy products in Nicaragua and agribusiness in Costa Rica), traditional manufacturing sectors (garments and furniture in Brazil, Dominican Republic and Ecuador), extractive industries, tanneries, handcrafts and even information and communications technologies.
- The results show how associative arrangements can meet qualitative and quantitative targets. Innovation led to new products and processes, new productive chain functions and even institutional innovation and new avenues for coordination. Access to markets generated economies of scale and scope by creating new marketing and negotiation capacities for small producers, enabling them to formalize relationships with their clients and intermediaries and enter more demanding markets. All of these capacities have significant positive externalities for SME production.
- An examination of this group of projects reveals two other interesting outcomes. The first has to do with initiative sustainability, that is, strategies to ensure that activities continue beyond the operating phase of each project. Results vary on the basis of the specific strategic approach, i.e. networks, clusters or territorial development. It usually takes more than four years to ensure the sustainability of a project. This leads to the second, more conceptual, outcome, involving three types of action. These can be summarized as networks (collective action among enterprises), clusters (collective action among enterprises in the same productive sector with the intervention of support institutions) and territorial development programmes (collective action among different agents, enterprises and public and private institutions with a territorial focus). Depending on what the actions emphasize, outcomes vary in terms of project maturity time, the actors involved, governance mechanisms, appropriability of outcomes and generation of externalities. These differences in type of outcome can be useful for formulating an integrated productive development strategy that fosters enterprise competitiveness through productive integration.

Table I.2
Latin America: MIF projects reviewed

| Number | Project | Subproject | Main activities |
|--------|---|--|--|
| 1 | Productive chains in Córdoba, Argentina | Information and communications technology chain Goat farming chain | Support for the competitive development of electronics and software productive chains and for goat farming. Outcomes in terms of generation of collective services, savings through joint purchasing of raw materials, technological innovation and market development. |
| 2 | Wines from Uruguay | Export wine growers | Involved principal growers and exporters of fine wine, seeking to promote positioning in international markets. |
| 3 | Isabella grape project Cali, Colombia | Cluster of Isabella grape growers | Grouped more than 200 growers of Isabella grapes in the Cali area. They established more formal relationships with more demanding markets and with large agribusinesses, created a tracking and information system to improve coordination among growers and strengthened their bargaining power with clients. |
| 4 | SME networks, Guanajuato, Mexico | Tanneries Ceramics | The purpose of the project is to boost the productivity and economic performance of MSMEs in the State of Guanajuato through collective action aimed at introducing and strengthening process and product innovation, creating value chains and coordinating groups of enterprises in the leather, footwear, textile supply and decorative ceramics sectors. Noteworthy among the outcomes is the business development achieved by some tanneries. |
| 5 | Nicaragua project | Dairy product cluster | This initiative is part of a larger project funded by an Austrian cooperation programme and focused on developing competitiveness in 11 clusters: Among the outcomes are improvements in technology and management at dairy co-ops, infrastructure programmes (roads and rural electricity) and training for local institutions involved in coordination. |
| 6 | Atuntaqui project, Ecuador | Garment-making cluster | Two years into the project in Atuntaqui, it had spurred technological development at garment-making enterprises, helping bring in new machinery, improving productive organizations and creating and consolidating service centres. It also supported participatory strategic planning in conjunction with the Latin American and Caribbean Institute for Economic and Social Planning (ILPES) and ECLAC. |
| 7 | Business networks in Peru | Networks of garment-making enterprises | The purpose of the project is to promote the competitiveness of SMEs engaged in garment-making in Gamarra (Lima), by creating and consolidating business networks. The first phase of the project launched 10 networks, some of which have undertaken significant joint action enabling them, among other things, to reach productive cooperation agreements with large corporate clients and jointly promote their products. |
| 8 | APL Brazil | Nova Friburgo, Rio de Janeiro (undergarments) Ubá, Minas Gerais (furniture) San Antonio de Padoa, Rio de Janeiro (rock and ornamental stone) | The general aim of the project is to promote the development of SMEs, production efficiency, competitiveness, and strengthening business cooperation. With this operation, the Multilateral Investment Fund (MIF) and the Brazilian Micro and Small Business Support Service (SEBRAE) seek a significant demonstration effect for developing instruments that support SME development. The specific goals are (i) put in place stable business cooperation initiatives; (ii) achieve technological improvements of the sector selected in each area; and (iii) boost the internationalization of SMEs. |
| 9 | INCAE project, Guatemala | Agribusiness | The purpose of this project is to improve the competitiveness of Central American SMEs in the primary sectors through local partnership initiatives in several countries. |
| 10 | Regional crafts project Guatemala, Honduras and Nicaragua | Handcrafts Handcrafts | The goal is to help boost the competitiveness of micro-producers in Guatemala, Honduras and Nicaragua, specifically by integrating 1,000 micro-producers into international chains of decorative items and high-value-added-design furniture. Among the achievements of the first phase was the transfer of designs and technical assistance from the end clients to the network of local artisans. |
| 11 | Networks project, Dominican Republic Furniture network | Garment-making network Furniture network | This project seeks to boost the competitiveness of MSMEs in Santiago de los Caballeros by establishing a productive integration programme in the furniture and garment-making sectors that will help improve productivity. Furniture enterprises have created a partnership system enabling them to participate in bidding, purchase inputs and obtain technical assistance as a group. |
| 12 | CENTRIS project, Tijuana, Mexico | Assorted | The purpose of this project was to spur SME competitiveness by promoting collective action for developing new enterprises. |

Source: Economic Commission for Latin America and the Caribbean (ECLAC).

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3. Partnership support programmes in Chile

- After partnership projects for development (PROFOS) were pioneered in the early 1990s to develop and consolidate horizontal relationships among SMEs, by the second half of the decade the trend was to integrate supplier enterprises in productive chains in order to improve and stabilize their relationships with larger enterprises (Supplier Development Programme, or PDP). Soon after, integrated territorial programmes (PTIs) sought to strengthen institutions by developing productive chains in a certain area.
- These three instruments are the substantive part of productive partnership policy in Chile. Between 2000 and 2009 they reached some 23,000 beneficiaries. More than half were SMEs, which also received nearly 50% of the funding. Microenterprises also accounted for a significant share, especially in terms of the number of beneficiaries (43%) as the Supplier Development Programme expanded into agriculture, and, to a lesser extent, in terms of funding (27%). Overall funding (public and private) for these instruments increased by 62% between 2000 and 2007, with private contributions rising from 36% of the total to 41%.
- These programmes reduced information asymmetries by improving SME access to training, technology, markets and information on financing. Transaction costs were brought down by joint action in networks or actions that cut some production costs. Promoting consultancy activities also improved SME productivity and competitiveness. The PROFOS helped make participants more productive, and these gains were sustained over a medium-term horizon.
- As public funds combined with a growing share of private financing, the geographic scope broadened, administrative costs were covered and the programme was extended throughout the country thanks to a network of intermediary operating agents. This consolidated trust between the public and private sectors, to the benefit of improved SME competitiveness.

- Economic agents acknowledge the positive impact of productive linkage instruments between SMEs and the improvement of the business environment following the development of networks with public funds, the use of instruments that are consistent over time, the growing involvement of enterprises and co-financing from the private sector.

■ Table I.3 ■

Chile: productive linking policies by type of instrument, by size, 2007

(Number of beneficiaries and percentages)

| Instrument/Beneficiaries | Micro | Small | Medium | Large | Total |
|--------------------------|-------|-------|--------|-------|-------|
| PROFO | 284 | 772 | 198 | 49 | 1 303 |
| PDP | 3 013 | 2 630 | 374 | 216 | 6 233 |
| PTI | n.a. | n.a. | n.a. | n.a. | n.a. |
| Total | 3 297 | 3 402 | 572 | 265 | 7 536 |
| Percentage by size | 43.8 | 45.1 | 7.6 | 3.5 | 100.0 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the Development Department of the Production Development Corporation (CORFO).

■ Table I.4 ■

Chile: transfer of public funds to enterprises, by instrument and size, 2007

(Millions of Chilean pesos and percentages)

| Instrument/transfer of funds by enterprise size | Micro | Small | Medium | Large | Total |
|---|---------|---------|--------|-------|----------|
| PROFO | 675.0 | 2 355.8 | 523.4 | 118.3 | 3 672.5 |
| PDP | 2 230.3 | 2 274.8 | 456.7 | 520.3 | 5 482.1 |
| PTI ^a | | | | | 1 467.3 |
| Total | 2 905.3 | 4 630.6 | 980.1 | 638.6 | 10 621.9 |
| Percentage by size | 31.7 | 50.6 | 10.7 | 7.0 | 100.0 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the Development Department of the Production Development Corporation (CORFO).

^aThe PTIs do not report on enterprises on the basis of size.

4. The experiences of Rafaela municipality in Argentina

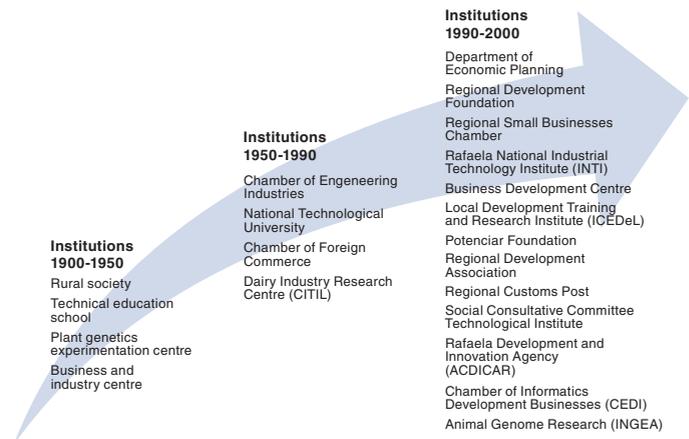
(a) Successful network for the long haul

- Rafaela, a production pole in west-central Santa Fe province in Argentina is a shining example of productive development and cooperation between institutions. Over the past two decades, Rafaela (located in a traditionally productive region with a rich labour history) has put in place a set of policies for promoting production and development in the area based on capacity building, institutional strengthening and networking among actors.
- A strong business tradition and dynamic involvement of the private sector, plus well-designed and active public policies, is forging a solid public-private institutional framework. New supporting organizations were created in the 1990s as the local government took on a new role, implementing new management methods and encouraging joint action to define and execute SME-related policies.
- At first, the effort centred on transforming public administration and strengthening the institutional fabric that binds the public and private sectors together, based on business services. A subsequent phase involved starting to develop the area, with a focus on productive chains. The locality is now working on deeper action to boost productive, organizational, institutional and environmental innovation.
- After first transforming institutional roles and spheres of action, the current goal for the area is to stress networks as ways to encourage and catalyse local economic development

initiatives. This new approach seeks to spur the interactive flows that can link knowledge producers (both in the area and elsewhere) to knowledge users while preserving one of the region's most valuable assets: a climate of trust, dialogue and cooperation among actors.

■ Diagram I.1 ■

Argentina: building and developing a public-private institutional system supporting the productive sector



Source: Economic Commission for Latin America and the Caribbean (ECLAC).

(b) An agent to drive achievements: the Rafaela Development and Innovation Agency

- The Rafaela Development and Innovation Agency (ACDICAR) played an important role in establishing an inter-agency network which, in turn, helped to drive the development of the municipality. ACDICAR is supported by the IDB/MIF Territorial Competitiveness Programme, geared towards promoting the competitive advantages of central Santa

Fe province (Argentina). It supports enterprises and their most relevant productive links, and strengthens public and private institutions that promote the productive system.

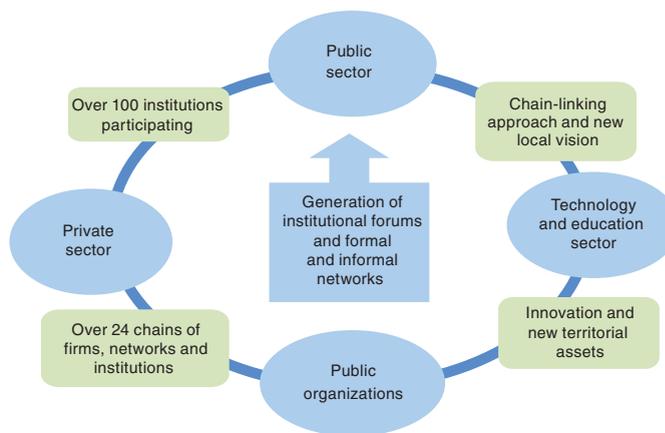
- The agency embarked on this initiative through an alliance led by the Rafaela municipality and the local Business and Industry Centre representing the private sector. These agents

are executing a process that is building a large network of public and private institutions in the region.

- This intervention has led to changes that are deepening achievements in productivity and competitiveness in the region, based on innovation and such pillars as
 - the link between the public, private, educational and scientific-technological sectors;
 - the new relationship between cities and productive actors;
 - business network and productive chain initiatives; and
 - the generation of new capacities through ongoing human resource training.
- The project is geared towards building competitiveness and improving the international positioning of agrifood and engineering clusters, by diversifying the region’s production and exports, embedding new technologies and knowledge into productive linkages and facilitating public-private collaboration for enterprise development.
- Four years after the launch of the agency, more than 100 institutions (with varying degrees of commitment and contribution) are participating in lines of action, working tables and joint spaces created to spur development. All of this started with a new look at the local reality, with actions linked to the environment and the green economy,

the territory’s information systems and the development of human resources to address new challenges by creating new capacities.

■ **Diagram I.2** ■
Argentina: organizational chart of the Rafaela development and innovation agency



Source: Economic Commission for Latin America and the Caribbean (ECLAC).

5. Local productive clusters: the experience of SEBRAE in Brazil

- The most extensive example of support for local productive clusters in Latin America is in Brazil, where a domestic policy was designed and implemented to promote productive linkages. The policy is part of a domestic strategy for productive development. Execution is well-funded, and it provides extensive geographic and sectoral coverage.
 - Local productive clusters are Brazil's version of the industrial districts and clusters that have been reviewed in the literature on organizing SME production and on local development. They have been tailored to production conditions in Brazil and to the historical and institutional characteristics of each locality. They are groups of the economic, political and social agents present in a territory in which specific productive activities take place, both independently and jointly. Clusters are characterized by the grouping of specialized enterprises, with a strong SME presence, belonging to the same productive sector. They involve suppliers of raw materials and other inputs and services, as well as public and private institutions that support productive development by means of human resource training, financing and technical assistance for associative activities.
 - Clusters represent a new modality of action on themes related to productive development and industrial policy, with measures for promoting innovation and access to markets that stress participation by microenterprises and small enterprises and their integration in productive chains. This policy arises from the need to integrate actions with similar goals carried out by different public agencies, seeking to avoid duplicating instruments and actions.
 - A Permanent Working Group was set up under the supervision of the Ministry of Development, Industry and Foreign Trade (MDIC), with more than 30 public and private institutions involved in supporting SME development. This group coordinates actions at the national level among actors linked to local productive clusters. It identifies and addresses their needs, drawing on existing support instruments or generating promotion projects in the framework of each cluster's strategic development plan designed by its steering committee.
 - During an initial phase (in 2004), nearly 450 local productive clusters linked to different economic activities were identified.
- The Brazilian Micro and Small Business Support Service (SEBRAE), which operated in more than half of them, developed an intervention methodology based on best international practice. Subsequently, 955 local productive clusters were identified, including consolidated and incipient experiences and those with development potential. These clusters encompassed a wide variety of areas, from farming to mining, tourism and traditional, labour-intensive and capital-intensive manufacturing to innovative and technology-intensive sectors. There is, therefore, broad sectoral coverage and a wide variety of activities in various stages of maturity and development.
- In an initial stage, SEBRAE authorities knew that the local productive clusters were a useful tool for institutional development, with significant synergy effects between development institutions. By 2005 each local development cluster agreement in which SEBRAE was a participant also had support from at least seven other institutions. The other partners matched each real spent by SEBRAE with an additional 2.5 reals.
 - One frequently-noted problem with the cluster policy is the large number of goals involved. These goals include reducing social and regional inequalities, encouraging technological innovation, modernizing the productive base, increasing employment and income levels, reducing the microenterprise and small enterprise mortality rate, improving school attendance and training, increasing competitiveness and productivity and boosting exports. It is even harder to gauge their real potential for coordinating instruments aimed at promoting the development of SMEs: they are so new that there are few evaluations of their impact.
 - Brazil's experience with local productive clusters is rich and diverse, and it shows that the country's heterogeneous production system is more than able to design and implement convergent policies among institutions, stressing coordinated action to leverage synergies and generate greater benefits for enterprises. Local productive clusters are therefore a space for linking productive development policies spanning sectors, technology and support for SMEs.

6. The Small Business Development Center (SBDC) model: technical assistance based on academia-government-enterprise partnerships

- The United States' Small Business Development Center (SBDC) model links the higher education sector with all levels of government to serve the micro and small business sector. It is the largest and most successful small business assistance network in the United States, with more than 1,100 centres and 750,000 small business clients per year. In 2009, SBDC assisted small enterprises in creating and retaining over 166,826 jobs, starting 12,773 businesses, generating US\$ 7.2 billion in new sales and obtaining US\$ 3.3 billion in financing. The SBDC network generated over US\$ 560 million in federal and state tax revenues in 2009, resulting in a return of US\$ 2.87 for each dollar invested.
- The model is being adapted and replicated in the countries of Latin America. The Mexican Association of SBDCs has 101 centres; in 2009 it assisted more than 32,000 small enterprises and created and retained 12,000 jobs. In El Salvador in 2010, 172 professionals were trained in the model and the 10 first business development centres (CDMYPEs) were launched. Colombia has embarked on a series of pilot projects. SBDCs provide long-term, confidential and free business consulting and training assistance services for SMEs that range from start-up assistance, business development, technology, government contracting and international trade. The centres also provide SMEs with assistance in manufacturing, financial assessments, marketing and human resources.

■ **Diagram I.3** ■
United States: operational chart of a small business development center



Source: Institute for Economic Development, University of Texas at San Antonio.

- SBDC Global, launched by the International Trade Center at the University of Texas at San Antonio, is the first-ever trade platform that links small business clients from the United States, Mexico, El Salvador and Colombia SBDC networks for bilateral trade opportunities. The OAS General Secretariat has facilitated the sharing of experiences and lessons learned from this best practice and other successful models among the countries of the Americas.

7. A recent public-private partnership experience: micro and small enterprise development centres in El Salvador

- In August 2010 an agreement was signed that launched the pilot plan for a public/private partnership between the Government of El Salvador, universities, nongovernmental organizations and local actors to create micro and small enterprise development centres (CDMPYMES). The agreement was signed by the National Commission for Micro and Small Enterprises of El Salvador (CONAMYPE) as part of the Ministry of Economy, universities, NGOs and local actors that will operate five pilot centres.
- These centres have two goals. The first is to make business and support services more readily available to micro and small enterprises and, in general, to an array of productive cooperation arrangements and partnerships by operationalizing new technology transfer mechanisms, production management and organization techniques and financing. The second is to build entrepreneurial capacity and train human resources. Several economic sectors have been identified as priorities: agribusiness, food, textiles and garment-making, chemicals and pharmaceuticals, information and communication technologies, tourism, construction and handcrafts.
- The principal services offered by this new initiative are business advice, specialized technical assistance, general and specialized training, cooperation with other funds or programmes for supporting micro and small enterprises, and support for partnerships, productive linkages and supplier development.

■ Table I.5 ■

El Salvador: instruments used by micro and small enterprise development centres

| |
|---|
| Development fund for entrepreneurs and regional incubator enterprises |
| Training, advice and technical assistance fund (DINAMIZA) |
| Handcraft development fund |
| Business process centre |
| Enterprise packages for formalization |
| Services for using information and communications technologies |
| Local and regional market development funds |
| Financial advice |
| Business cooperation and enterprise creation |

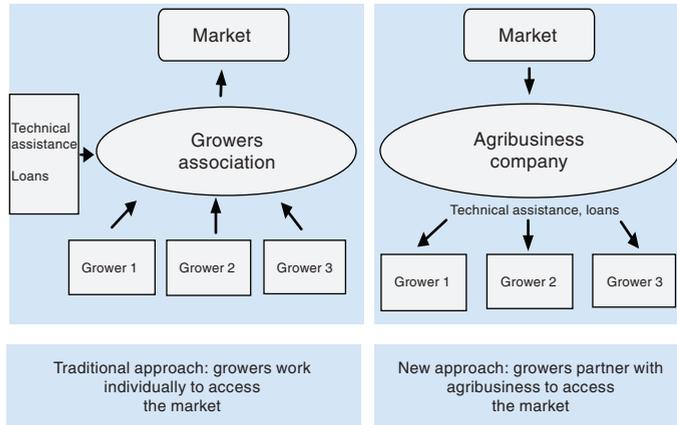
Source: National Commission for Micro and Small Enterprises of El Salvador (CONAMYPE).

8. Productive linkages in the agricultural sector: new business models to boost social integration

- New business models are being developed in several countries of the region, seeking for agribusiness enterprises to partner with supplier microenterprises. The goal is to generate business that benefits communities and low-income persons as well as agribusiness, in a win-win situation for both links that brings low-income peasant families into new productive activities. Because these business initiatives can recover their initial costs and become self-financing solutions, they can grow and spread beyond the limited possibilities of traditional corporate philanthropy projects.
- One linkage model is found in the supplier programmes (PDPs) developed in Mexico and Chile in the late 1990s. In both countries these programmes span all productive sectors. But they are especially well suited for agriculture, where producers and agribusiness supply requirements are highly atomised.
- In Chile, the PDPs are run by the Production Development Corporation (CORFO), a public agency that provides subsidies to agribusinesses to fund their operations. The methodology involves performing a diagnostic review and drawing up a work proposal (six months), followed by technical assistance provided by buyer companies. This stage can take three years and includes field visits, meetings and inspections. In addition to playing an active role in the technology transfer process, agribusinesses and markets that purchase raw materials help make productive chains more efficient. By creating stable, contractual relationships between buyers and their suppliers, they generate mutually beneficial links of trust that favour specialization and productive complementation. Between 2002 and 2007, CORFO financed 150 PDPs involving 3,800 suppliers.
- In Mexico, PDPs are managed by the Secretary of Economy in conjunction with the local office of the United Nations Development Programme (UNDP) and the National Chamber of Manufacturing Industries (CANACINTRA). As it does in Chile, this instrument seeks to identify and boost the competitiveness of a wide range of microenterprises and small and medium-sized enterprises in order to bring them into value chains driven by agribusinesses (referred to as “driving-sector companies”). One feature of Mexico’s PDP is the two-way relationship between driving-sector companies and microenterprises in that the latter enter as suppliers and distributors of the driving-sector company (forward and backward linkages). Participants receive economic support to finance consultancies for designing and implementing supplier development programmes and business networks and for obtaining funding from guarantee funds administered by development banks and CANACINTRA. Participants also receive support from the Secretary of Economy in addressing problems with the three levels of government (federal, state and municipal), complying with pertinent government agency rules and regulations. Between 2003 and 2008 the programme integrated 1,600 supplier microenterprises.
- Mexico’s experience is being replicated in El Salvador, coordinated by the Chamber of Commerce and Industry of El Salvador with support from the United Nations Development Programme and the Inter-American Development Bank. Plans are for an initial phase of the programme to work with six driving-sector companies and some 60 suppliers. A second phase will work with 18 driving-sector companies and 180 suppliers. While this is presently a private-sector initiative, the Ministry of Economy has confirmed its interest in supporting the initiative and continuing it over time if the outcomes are replicable. Another interesting experience is with the nongovernmental organization FINTRAC in Honduras and El Salvador with the support of the United States Agency for International Development (USAID) and the Millennium Challenge Corporation (MCC). This linkage involves more than 500 small farmers and FINTRAC, for exporting high-value vegetables to the United States. The Productive Partnerships Support Project run by Colombia’s Ministry of Agriculture and Rural Development with support from the World Bank points in the same direction: between 2010 and 2015 the project will finance 300 partnerships and reach 23,300 small farm families.

■ Diagram I.4 ■

A new productive approach



Source: Economic Commission for Latin America and the Caribbean (ECLAC).

- One last variation on this approach is the Inclusive Business experience being promoted by Ecuador's Ministry of Agriculture, Livestock, Aquaculture and Fisheries. In this case, the goal is to promote contracts for purchasing raw materials in addition to implementing credit and technology transfer programmes.
- Besides boosting productivity, these partnership arrangements have significant potential for increasing small farmers' income and reducing rural poverty because they have overcome the traditional approach followed by farming in Latin America, where growers organized on their own (albeit with support from the State) to obtain new technologies and access the market. While this approach is still valid in the most remote rural areas, the years have shown that it has significant limitations in that it is very difficult for peasants to organize and gain a market foothold. The Inclusive Business approach has been officially recognized by the United Nations as a positive exercise on the road to achieving the Millennium Development Goals.

9. A small tourism enterprise project: STEP Caribbean

- The Small Tourism Enterprise Project (STEP) delivers business development training, promotes technology adoption, creates mechanisms for joint promotion and facilitates communication and the sharing of best practices among small tourism enterprises and small hotels of 75 rooms or less in the Caribbean. Participating countries include all Caribbean States except for Haiti.
- The project's major accomplishments have been to use web portals to offer instruments that help strengthen hotel management and operational procedures, plus a programme for showcasing the 13 STEP Caribbean destinations and the small hotels affiliated with the programme. STEP also delivers internationally recognized or certified tools and programs: more than 2,000 small hotel employees at 228 establishments have been certified by the American Hotel and Lodging Association's Education Institute (AHLA-EI). The programme also delivers environmental training (it has trained personnel from over 140 enterprises) and has established walk-in resource centres.
- The STEP Caribbean model has been extended to the STEP Central America project. Participating countries include Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama. This project supported the creation of the Central American Federation of Small Hotels (FCAPH), which has more than 800 members. Activities have focused principally on the use of digital technologies to strengthen regional integration. Its portals host toolkits for capacity building and training, and the project is on social networks like Facebook and Twitter. This initiative has been extended to other SMEs through a joint effort with the Central American Tourism Integration Secretariat (SITCA).
- The STEP South America project utilizes the same model. This initiative was launched in 2008 as a four-year project designed to boost the development of tourism and provide participative support to small tourism enterprises in the subregion. Chile, Colombia, Ecuador, Peru and Plurinational State of Bolivia are also participants in the STEP Andes initiative. More than 300 small and medium-sized hotels participate in the project, which operates websites and is, like the previous project, on social networks.

10. Streamlining application procedures in order to cut costs

- Experiences with programmes for streamlining procedures for the establishment of small and medium-sized enterprises (SMEs) and for reducing obstacles to their incorporation and operation prove that it is feasible to implement horizontal public policies at the national and local levels. These are low-cost programmes which yield substantial results since they help to create a healthier business climate and improve the efficiency of public institutions.
 - An analysis by Castillo and others (2007) of experiences and case programmes for streamlining application procedures shows that this type of initiative can help to improve the business climate and can enhance SME competitiveness. Re-engineering of administrative processes means that a new institutional culture must be generated to improve the way public institutions operate and ensure closer coordination between the different areas, greater transparency and continuous improvement processes.
 - Significant externalities are generated; in particular, it is possible to identify the administrative reform needed at the national level and to determine what other areas of public performance linked to corporate activity need to be redesigned. In addition, there is a strong demonstration effect. On the one hand, these programmes can be applied to other municipalities and national Governments; on the other, such processes can be extended and applied to other areas of public administration, for example, for granting of building permits and registry services.
 - Where streamlining programmes can be brought together under a national programme, the reforms introduced have an even greater impact and projects can effectively have a wider coverage. For example, in the past 10 years, the Programme for streamlining procedures (SIMTRA), which the Foundation for Economic and Social Development (FUNDES) has used for over 100 projects in Latin America, has met three success indicators: reducing the time spent on a procedure by 80%, reducing paper work by up to 50% and halving the number of trips that have to be made to a public office (Sancho and Segura, 2011).
- Cheaper and more expeditious procedures foster business competitiveness*
- Procedures for setting up a new company in Latin America and the Caribbean are lengthier and more complicated than in other regions of the world. The vast majority of companies in question are micro and small and medium-sized enterprises (MSMEs). Thus, setting up and registering a company in Latin America in 2010 called for an average of 9 procedures, compared with just 5.6 procedures in the countries of the Organization for Economic Cooperation and Development (OECD). A Latin American entrepreneur had to wait 56.7 days to start up his/her business, while less than 14 days were needed in the industrialized countries. For example, in the United States, the process takes 6 days, in Canada 5 and in Australia only 2.
 - The difference in waiting and processing times has an adverse effect on business costs, which, as a percentage of per capita income, proves to be seven times higher than in OECD countries. Despite the efforts made in some countries, these values show the huge handicap that SMEs in the region have to deal with compared with international best practices.
 - This asymmetry in the number of procedures, time and costs involved in setting up and registering a business must be overcome and SMEs must place this objective at the top of their agenda. In this way, a sounder business environment can be created, MSMEs can be brought into the formal sector and reforms in public administration can be introduced and its efficiency enhanced.

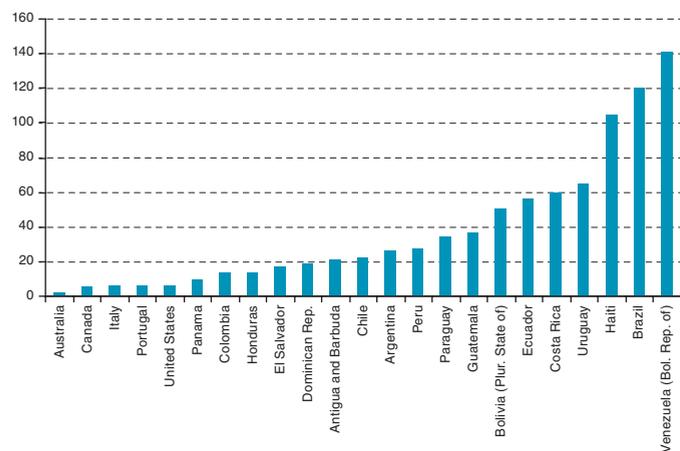
■ **Table I.6** ■
Cost of setting up a new business, 2010

| Region | Number of procedures | Time spent (days) | Cost (percentage of per capita income) |
|--|----------------------|-------------------|--|
| Latin America and the Caribbean | 9.3 | 56.7 | 36.2 |
| Sub-Saharan Africa | 8.9 | 45.2 | 95.4 |
| Middle East and North Africa | 8.1 | 20.0 | 38.0 |
| Europe and Central Asia | 7.8 | 39.0 | 27.1 |
| East Asia and the Pacific | 7.8 | 39.0 | 27.1 |
| South Asia | 7.1 | 24.6 | 24.5 |
| Organization for Economic Cooperation and Development (OECD) | 5.6 | 13.8 | 5.3 |

Source: World Bank, *Doing Business 2011*, 2010.

■ **Figure I.1** ■

Time spent on procedures for setting up a new business, 2010
(Number of days)



Source: World Bank, *Doing Business 2011*, 2010.

SIMPLES - a differentiated tax system for micro and small enterprises (MSEs) in Brazil

- Established in 2007, the Integration system for payment of taxes and contributions by micro and small and medium-sized enterprises (MSMEs) (SIMPLES Nacional or Súper SIMPLES, is a standardized regime for the collection of federal, state and local taxes and contributions which gives micro and small enterprises (MSEs) access to a more straightforward, less expensive and more efficient tax system. It replaces the outdated regime, known as SIMPLES Federal, in which the central Government and each state used its own system. The new regime, under which the central Government coordinates a single collection scheme, encompasses a broad spectrum of taxes and contributions.
- Existing legislation exempts MSEs from all other contributions instituted by the Federal Government, including the autonomous social services (S system), made up of the National Service for Industrial Learning (SENAI), National Service for Commercial Learning (SENAC), Industry Social Services (SESI), National Service for Rural Learning (SENAR) and the Brazilian Support Service for Micro and Small Enterprises

(SEBRAE). This legislation also reduces the ancillary fiscal obligations to be paid by MSEs and allows for the deduction of taxes paid in advance and of the tax on services (ISS) withheld at source. Lastly, by reducing export tariffs, it enables MSEs to improve their competitiveness vis-à-vis medium-sized and large enterprises, which do not enjoy this advantage. Overall, the accounting and fiscal management costs of micro and small enterprises are reduced.

■ **Table I.7** ■

Features of the national SIMPLES tax system

| |
|---|
| This is an optional system and companies can decide whether or not to opt for it |
| Once it has been adopted, the taxation system cannot be renegotiated during that calendar year |
| The taxes are collected through a single tax collection document |
| An electronic system is made available to MSEs for calculating the monthly payment amount |
| A single, simplified declaration is presented with socio-economic and tax information |
| It cuts back on red tape |
| It generates employment and reduces the size of the informal sector by lowering the operating costs of MSEs |

Source: Economic Commission for Latin America and the Caribbean (ECLAC).

- The lower tax burden, together with the simplification of the procedures that arise from the implementation of the national SIMPLES system, provides a strong boost to MSE growth and has helped to reduce the high failure rate, which is often attributed to the high tax and financial costs that these enterprises have to bear. According to information from the Inland Revenue Office (Secretaría de la Dirección General Impositiva), in the three months following the launch of the programme, almost 3.2 million MSEs opted for this system (Crocco and Santos, 2010).

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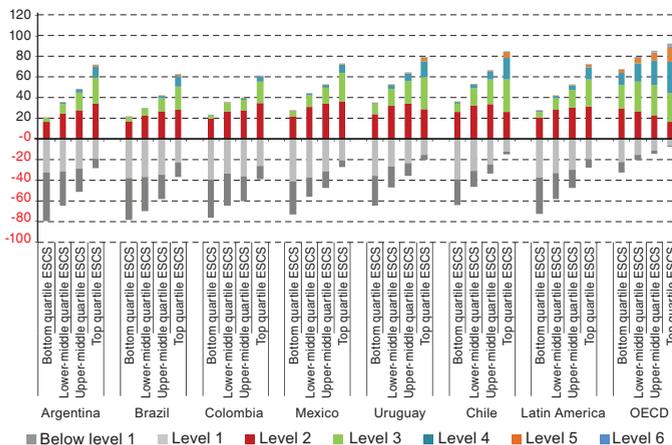
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II. Preparing a modern labour force

1. The foundation: quality education with broad coverage

- Although there have been advances in primary education, education system coverage in the region is inadequate, especially at the preschool level and in secondary education. Graduation from the latter is, generally speaking, essential for developing the knowledge and skills that a modern labour force requires. International tests, which have shown less than satisfactory outcomes in the participating countries of Latin America, reveal serious education quality problems. The assessments show that the education systems are highly segmented and that there are large gaps in outcomes among students from different social groups. This favours the productive insertion of young people from wealthy households and puts obstacles in the education path for those from poor households, thus reinforcing the intergenerational transmission of inequality.

Figure II.1 ■
Latin America: distribution of levels of performance on the PISA science assessment for 15-year-old students by index of family economic, social and cultural status, 2006^a
 (Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Social Panorama of Latin America 2010*, Santiago, 2011. United Nations publication, Sales No. E.11.II.G.6.

^a The distribution of performance levels in Latin America and in the Organization for Economic Cooperation and Development (OECD) refers to the simple average of the weighted mean national achievement levels of the countries participating in PISA 2006.

- The regional agenda is, to a large extent, a double one because the unresolved issues of the twentieth century (coverage, access, timely progression and completion of education cycles) are compounded by the great challenge of the twenty-first century: how to narrow the digital divide and improve the quality of education to address the new formative requirements of the knowledge society.
- The rates of return on education rise along with years of schooling, but the biggest leaps are upon completing secondary school, upon beginning tertiary education and, above all, upon completing tertiary education. Education levels being equal, the rates of return (measured by labour income) are lower for females than for males, and they are lower for informal workers than for formal workers. This is tangible evidence of the patterns of exclusion existing in the workplace.
- Preschool life is one of the keys for closing divides. Several countries are extending the early childhood period and innovating for it. One example is Chile's Growing Together system, which seeks to take the most advantage of the developmental potential of girls and boys at this stage in their life cycle. Other countries are expanding their networks at the pre-kindergarten and kindergarten level.
- In order to improve education system coverage, especially for low-income households, many countries of the region have set up conditional cash transfer programmes (such as Bolsa Família in Brazil and Opportunities in Mexico). These are powerful tools for breaking the cycle of poverty from one generation to the next, by investing in particular in health and education services for children in the most vulnerable populations. Noteworthy among measures to improve the quality of education are extending the school day and enhancing the teaching staff by updating their knowledge and skills.
- Through the Opportunities programme, funded by the Inter-American Development Bank (IDB), 5 million families have received support and the methodology of these operations has been further developed, including its extension to vulnerable groups in urban areas. Alternative management

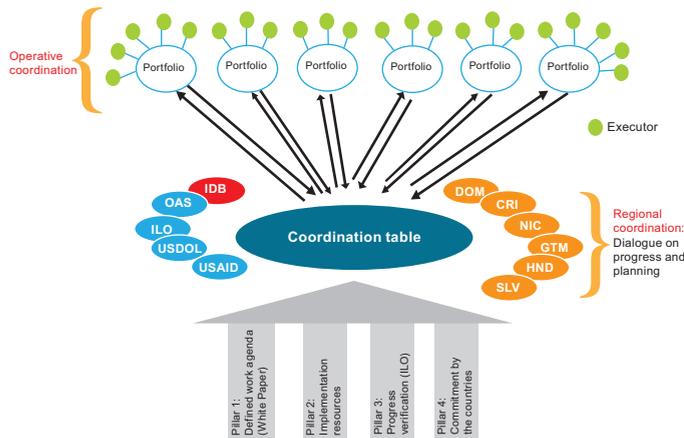
and assistance models for urban areas are being developed and their impact evaluated, with regard to the operational components of the programme and capacity-building in education, health and nutrition for poor families. The IDB has worked on a framework for incorporating beneficiaries living in urban areas, the prescription of nutritional supplements to enhance the potential impact on beneficiaries' nutrition, models for identifying beneficiaries and the definition and supervision of evaluation matters.

- Another key mechanism is to bring information and communications technologies into the education systems. One example is the Education Connect programme ("Plan Ceibal") implemented in Uruguay with the support of the IDB. This forms part of the One-Laptop-Per-Child scheme. The programme's aims include improving the quality of education by incorporating technology, narrowing the digital divide that holds back students in primary and secondary schools and developing a collaborative culture among teachers, schools and families.

2. Coordinating labour cooperation under the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR)

- The countries of Central America, as well as the Dominican Republic, requested support from the Inter-American Development Bank for fulfilling the labour commitments made under their free trade agreement with the United States. In an initial stage, the Inter-American Development Bank financed a report with recommendations concerning the measures that each country –and the region as a whole– should take to improve labour law compliance and enforcement. The report is known as the White Paper.

■ **Diagram II.1** ■
Coordination of labour cooperation under CAFTA-DR



Source: Inter-American Development Bank (IDB).

- The countries used the White Paper to pinpoint six priority areas that their efforts should target. Compliance policies were implemented within this framework. A tracking system operated by the International Labour Organization (ILO) was agreed in order to monitor progress in these areas. After the countries adopted the recommendations, several donors (including the Inter-American Development Bank and the Government of the United States) embarked on the task of designing a multi-year portfolio of cooperation interventions funded with more than US\$ 100 million.
- IDB actions under this mechanism made it possible to coordinate the efforts of a large universe of donors (World Bank, United States Agency for International Development, United States Department of Labor, Organization of American States, International Labour Organization, United Nations Development Programme and International Finance Corporation, among others), working in various capacities to implement the recommendations. This facilitated cooperation work in two dimensions. In the operating dimension, this action made it possible to effectively and efficiently cross-check information at the project component or subcomponent level and to contact executing organizations in the field. As a result, complementarities between projects were identified, thus avoiding duplication and leveraging cooperation. In the dialogue dimension, a group of countries and donors was established to regularly review achievements and improve the interventions from a conceptual and operating point of view, based on national political and social realities.

3. Strengthening the institutional capacities of ministries of labour: the Inter-American Network for Labor Administration

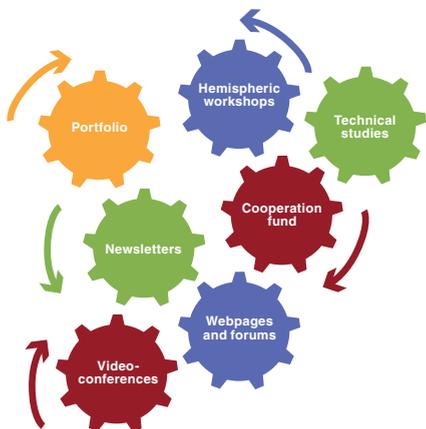
- The Inter-American Network for Labor Administration (RIAL) is the cooperation and technical assistance mechanism of the Inter-American Conference of Ministers of Labor (IACML) of the Organization of American States (OAS). It was created in 2005 in order to strengthen the human and institutional capacities of the ministries of labour through an integrating mechanism for dissemination of knowledge and experiences.
- The RIAL is as a system comprising complementary and mutually reinforcing tools: portfolio of programmes, hemispheric workshops, technical studies on priority issues, a cooperation fund for bilateral technical assistance, technical studies, newsletters, web pages and virtual forums. It is coordinated by the Department of Social Development and Employment (DDSE) of the Executive Secretary for Integral Development (SEDI) under the direction of the General Secretariat of the OAS. As technical

secretariat of the IACML, it receives collaboration from the International Labour Organization and other international organizations. Workers and employers participate through the Trade Union Technical Advisory Council (COSATE) and the Business Technical Advisory Committee on Labor Matters (CEATAL).

- RIAL's star tool is its bilateral cooperation fund, which facilitates bilateral cooperation and direct technical assistance between ministries of labour through study tours and visits by experts. One of the fund's strengths is that the content of each cooperation activity is defined in accordance with the needs and interests of the participating ministries.
- After five years in operation, the RIAL has posted promising, concrete results in the ministries. These include changing internal procedures, drafting legislative projects, adding new management tools, developing new products and creating and redesigning functions and structures.

■ Diagram II.2 ■

Inter-American Network for Labor Administration (RIAL)



Source: Organization of American States (OAS).

■ Box II.1 ■

The RIAL in numbers

- 714 officers from ministries of labour trained
- 64 COSATE and CEATAL representatives trained
- 15 hemispheric workshops conducted on priority labour administration issues (such as employment services and labour inspections)
- 56 bilateral cooperation activities undertaken and 5 scheduled
- 126 programmes of the ministries of labour included in the portfolio
- 16 international organizations participating
- 27 research centres and NGOs involved
- 33 OAS member States participating

Source: Organization of American States (OAS).

4. Vocational training and qualification: the Chilecalifica experience

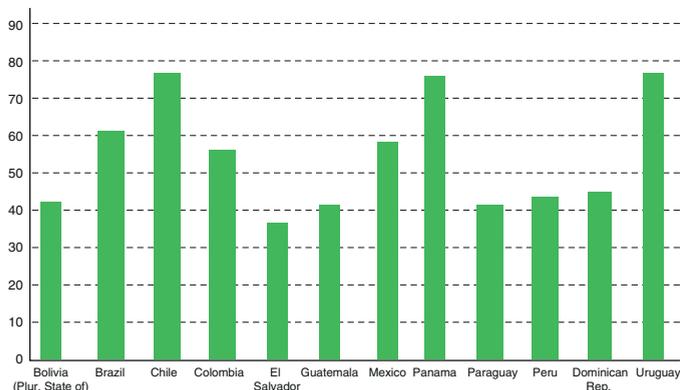
- Rapidly changing technologies and markets are leading businesses to demand more highly –and diversely– skilled labour. Workers also have a wide variety of training needs. Institutions in charge of technical and vocational training should therefore develop programmes that meet the needs of both.
- One institution that is taking these needs into account is the public programme called Chilecalifica. Like others in the region, it is following a strategy of continuing education. Its goals therefore include developing a modular training system for individuals to acquire new knowledge and skills at periodic intervals throughout their working life. Chilecalifica has introduced a competencies certification system that recognizes skills and knowledge acquired both inside and outside the formal vocational training system and is seeking to develop a continuing education strategy. It is operated by a tripartite commission with representatives from the public, private and labour sectors.
- Weaknesses in general education (such as dropping out of school early) often hinder access to training programmes and to better jobs. For this reason, Chilecalifica includes an adult education component with modalities for completing basic and secondary education. It also carries out literacy campaigns and has an information system providing students, workers and employers with guidance on the changing labour market. A key component is integration with an intermediation system promoting labour market transparency and hence access to potential vacancies for qualified individuals.
- Thanks to a project carried out by Chilecalifica, the National Training and Employment Service (SENCE) and Fundación Chile, 18,827 workers were certified between 2003 and 2007. These workers were from the tourism, gas and electricity, export agriculture, viticulture, food, metallurgical, logistics and transport, fisheries and aquaculture sectors, and, starting in 2003, the mining sector. Evaluators and certifiers in all of the participating sectors were trained. High-quality materials for beneficiaries and attendees at demonstrations were designed and distributed, and a registry with background information on pilot project beneficiaries was opened.

5. A key component: formalizing the labour relationship

- A formal labour contract is essential for access to good jobs and for modern labour relations. But in many of the countries of the region, a high percentage of workers lack the benefits of labour formality.
- Many enterprises, especially the smaller ones, do not have sufficient productive capacity to shoulder the cost of formalizing their workers. For this reason, productive development programmes for micro, small and medium-sized enterprises are important, as are programmes for formalizing them with, for example, special tax schemes. Many countries are making an effort to formalize labour relations at enterprises with no productive obstacles to doing so. And they have increased the number of labour inspectors and site inspections to verify compliance with existing regulations.
- New guidance in this area is being applied. There is often a preference for improving information and advice for enterprises rather than fining them for the first infraction. In such cases, and above all for SMEs, informational courses provide an opportunity to come into compliance with existing regulations. Case studies in Brazil show that lasting compliance with regulations is often achieved at enterprises that were formerly out of compliance. This outcome is the result of combining worker protections with incentives for increasing enterprise productivity and efficiency. Legal and technical advice provided by labour inspectors to enterprises played a significant role in this regard, although in several cases this was combined with sanctions for former noncompliance.

■ Figure II.2 ■

Latin America (12 countries): wage workers with formal contracts
(Percentage of total wage workers)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the countries.

6. An initiative for informal workers: the Portal do Empreendedor Individual in Brazil

- The Government of Brazil set up the “Portal do Empreendedor” (Entrepreneurs Portal) in 2008. This offers special conditions for informal workers to regularize their situation as individual entrepreneurs. One of the advantages is that workers are able to join the National Register of Legal Entities (CNPJ) and therefore open a bank account, apply for loans and issue invoices. The entrepreneur is eligible for the differentiated tax system (SIMPLES Nacional) and is exempt from the following federal taxes: corporate income tax (IRPJ), contribution for the social integration programme (PIS), contribution for funding social security (COFINS), tax on manufactured goods (IPI) and social contribution on net profits (CSLL). Registration also offers the following benefits:
 - Free company registration;
 - Municipal operating licence available to download at no cost;
 - Reduced costs when hiring an employee, owing to a discount on social security contributions;
 - Less bureaucracy, because only a single tax return is required each year;
 - Formation of consortiums in order to buy and sell as a group;
 - Access to social security for the entrepreneur and family (assistance in the event of illness, accident, retirement, maternity, etc) for a set monthly amount.
- A total of 81,620 new individual entrepreneurs registered in the system in January 2011—an increase of 200% over the same month of the previous year. This means that by the end of the first month of this year, Brazil had achieved 16.3% of its target of regularizing 500,000 entrepreneurs nationally in 2011. Around 900,000 new entrepreneurs have regularized their situation since the introduction of this initiative.

7. Social dialogue: a tool for modern labour relations

- Social-labour dialogue can take place at the enterprise, sector, economy or global level. It can be bilateral (between one or more enterprises and organized workers) or three-way, if it includes the public sector.
- The integration of global markets and growing consumer demand (both in terms of products and in terms of the environmental and labour conditions in which the productive process takes place) highlight the importance of complying with existing regulations and improving labour institutions. To cite an example, pressure from unions and social movements concerning overexploitation frequently observed in sugar cane production in Brazil, plus business sector concern that complaints about working conditions in the sector could hamper the establishment of ethanol as an international commodity, led to negotiations to define labour practices in the sector (Basaldi, del Grossi and Brandão, 2010). As a result of the three-way negotiations, a national commitment to improve working conditions in the sugar industry was signed. Signing the commitment was voluntary, but a high percentage of sugar and alcohol producing companies did so.
- Under the agreement, labour contracts must be signed by the employer, without intermediaries. Migrant workers are to be hired through the Public Employment System (whose services must be expanded) instead of through traditional intermediaries. The mechanism for payment is also to be made more transparent, with the price to be paid for a certain volume of sugar cane cut to be set in advance. Workplace health and safety issues were improved, as were other areas related to transportation and meals. It was agreed to bolster collective bargaining, and a tripartite commission for monitoring compliance with the agreements was created.

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III. International insertion and trade facilitation

1. Investing in the internationalization of SMEs

- As administrator of the Multilateral Investment Fund (MIF), the Inter-American Development Bank developed the MIF trade and investment cluster in order to boost the growth, revenues and productivity of companies in the region by increasing their participation in international trade and investment. The cluster is formed of 25 MIF projects, and a fund of over US\$ 40 million is available to support SMEs. Almost 50,000 SMEs have received assistance and 1,385 companies have already begun to export overseas, not to mention those who may be in a position to do so in the near future.
- The impact of the MIF trade cluster has been considerable. The “System for Facilitating Access to International Markets by Small and Medium Rural Producers” provided services to 129 SMEs. Through the programme, 90 business plans were drawn up, 22 associations were created, 90 market-, company- or product-development projects were run, and 41 quality standards were implemented. As a result, the producers (over 50% of whom belonged to an association or cooperative) gained access to international markets. In addition, approximately 4,000 producers participated in

workshops and training activities. As part of the “Helping Small and Medium-Sized Exporters to Capitalize on Trade Agreements” project, a test was developed to measure the export potential of these companies, based on 12 factors. The test uses information provided by the firms and the final presentation was agreed through a joint public-private process. Thanks to the technical assistance provided within the framework of the project “SME Products in East Asia”, 55 business operators successfully gained access to that market. Their products were primarily exported to China and Hong Kong Special Administrative Region of China (40%) and Japan (25%). Other markets such as Malaysia, Indonesia, Republic of Korea, Singapore and Thailand also received exports, but in lower quantities. The food and beverages, leather and medicines and cosmetics sectors were the main beneficiaries. Through the project “Market Access and Integration Through Technical Standardization” SMEs benefited from technical standardization in non-traditional areas, such as food security, sustainable forest management, software quality, information security and social responsibility.

■ Table III.1 ■

Argentina, Colombia and Uruguay: SMEs that exported thanks to overseas trade projects, 2009

(Number of companies and percentages)

| Project | Number of companies that exported | Logical framework goals | Percentage achieved |
|---|-----------------------------------|-------------------------|---------------------|
| Fundación Fortalecer, Argentina | 65 | 54 | 120.4 |
| EMPRETEC, Uruguay | 400 | 1 000 | 40.0 |
| Fundación CANE, Argentina | 71 | 70 | 101.4 |
| Corporación Colombia Internacional (CCI) | 5 | 32 | 15.6 |
| Exports by post, Postal Union of the Americas, Spain and Portugal (UPAEP) | 844 | 150 | 562.7 |
| Total | 1 385 | 1 306 | 106.0 |

Source: Inter-American Development Bank (IDB).

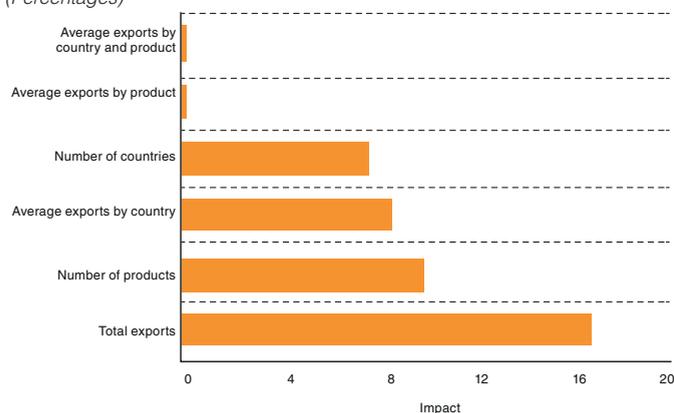
- A number of lessons may be learned from this cluster. First, forming partnerships with stable and quality institutions produces better results and ensures the sustainability of the projects. Second, investment by the SMEs increased as market prospects opened up. The quantity and quality

of technical services, which had given cause for concern in some projects, have also improved, thanks to a better supply —a consequence of both the projects and increased demand from the companies themselves.

2. The importance of export promotion

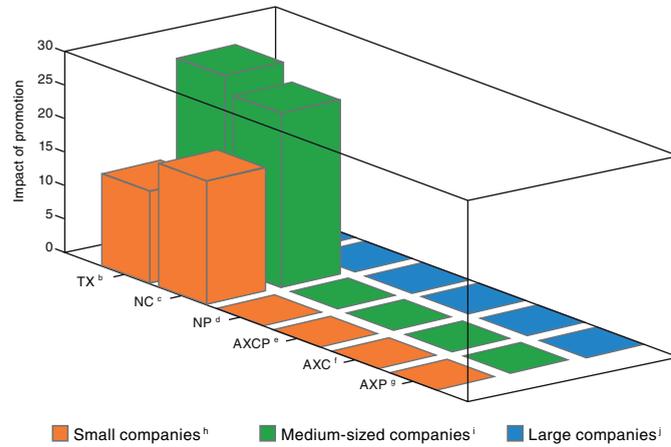
- Despite progress in information and communications technologies, the lack of information still severely handicaps companies seeking to operate in international markets. Furthermore, the investments that firms must make to gather all the information required for exporting may yield relatively low returns, given that other companies may derive benefit from the same information, and as a consequence these investments may be low from a social point of view. Thus, lack of information may adversely affect trade, and thereby productivity and economic growth. For these reasons, firms trading overseas may need help from the public sector either directly or in the form of export promotion organizations. Despite their importance, there is little evidence on the effectiveness of these organizations. With a view to determining the effectiveness of these export promotion tools, the Inter-American Development Bank conducted a study to see whether the resources assigned had a positive impact on exports.
- The report *Odyssey in International Markets: An Assessment of the Effectiveness of Export Promotion in Latin America and the Caribbean* examined export promotion organizations in more than 30 countries and regions and assessed the impact that trade promotion has had on countries and firms' exports, using econometrics and data sets. Findings reported in this study suggest that (a) firms' exports have become far more diversified, particularly in terms of the range of destinations and to a certain extent, the number of products exported; (b) the impact is most evident for exporters selling solely differentiated goods; (c) the smallest firms and those with limited experience in foreign markets have benefited more; and (d) with regard to support strategy, providing full support throughout the export process seems to be more effective than isolated actions (such as fairs or missions). In conclusion, the report points out where further research could provide deeper insights into the relative merits of interventions of this nature.

■ **Figure III.1 ■**
Peru: average impact of export assistance on beneficiary firms, 2001-2005^a
 (Percentages)



Source: Inter-American Development Bank (IDB), on the basis of the PROMPEX database (now known as PROMPERÚ) and the Superintendency of Tax Administration of Peru (SUNAT).
^a Effects that are not statistically significant were given a zero value.

■ **Figure III.2** ■
Argentina: average impact of export assistance by size of beneficiary firm, 2002-2005 ^a
(Percentages)



Source: Inter-American Development Bank (IDB), on the basis of data from UMCE-SICP, Fundación ExportAR and the Federal Administration of Public Revenues of Argentina (AFIP).

^a The effects (which correspond to the first form of assistance received) are given a zero value if they are not statistically significant.

^b Total exports.

^c Number of destination countries.

^d Number of products exported.

^e Average exports by destination country and product.

^f Average exports by destination country.

^g Average exports by product.

^h 1-50 employees.

ⁱ 51-200 employees.

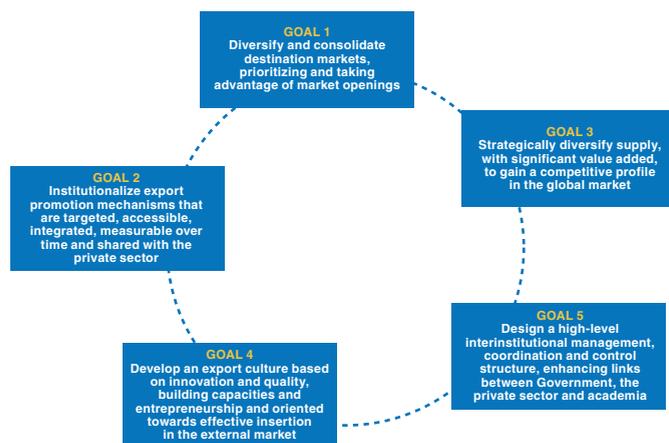
^j Over 200 employees.

3. An integrated export promotion strategy: El Salvador's policy for 2010-2024

- The integrated export promotion strategy adopted by El Salvador for 2010-2024 seeks to encourage change in the country's productive and export structure and to make its exports more competitive by producing high value-added goods and services in the strategic sectors of food agro-industry, information and communications technologies, chemicals and pharmaceuticals, remote business services and tourism.

■ Diagram III.1 ■

El Salvador: integrated strategy goals, 2010-2014



Source: Economic Commission for Latin America and the Caribbean (ECLAC).

■ Table III.2 ■

El Salvador: trade agenda targets for 2024

| Target | 2008 | 2024 |
|--|-------|--------|
| Number of exporters ^a | 428 | 1 200 |
| Number of destination markets ^b | 52 | 75 |
| Value of exports (billions of dollars) | 4 500 | 15 000 |
| Number of products ^b | 462 | 750 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information provided by the Ministry of Economy of El Salvador.

^a Exporters with annual sales of more than US\$ 500,000.

^b Destinations and products accounting for more than US\$ 500,000 in exports.

- This strategy is based on five pillars. The first is to design and implement policies for promoting exports, facilitating trade and attracting investments. The second is to encourage innovation in order to boost productivity and competitiveness. The third pillar is to generate decent jobs. The fourth is to strengthen micro, small and medium-size enterprise internationalization ("promote productive inclusion," in the words of the Government). The fifth is to improve trade opportunities emerging from trade accords in force and from the Central American integration process.
- This strategy is built on structural transformation geared towards changing the production vector for exportable goods and services by shifting towards activities with higher technology content and targeting new destination markets and niche markets. This involves active policies for attracting foreign direct investment in strategic sectors; enhancing the investment promotion agency, PROESA; promoting the country brand; and adapting laws and incentives currently in force for enterprises operating in free trade zones to bring them into line with World Trade Organization (WTO) standards. The table below shows export goals for 2024.

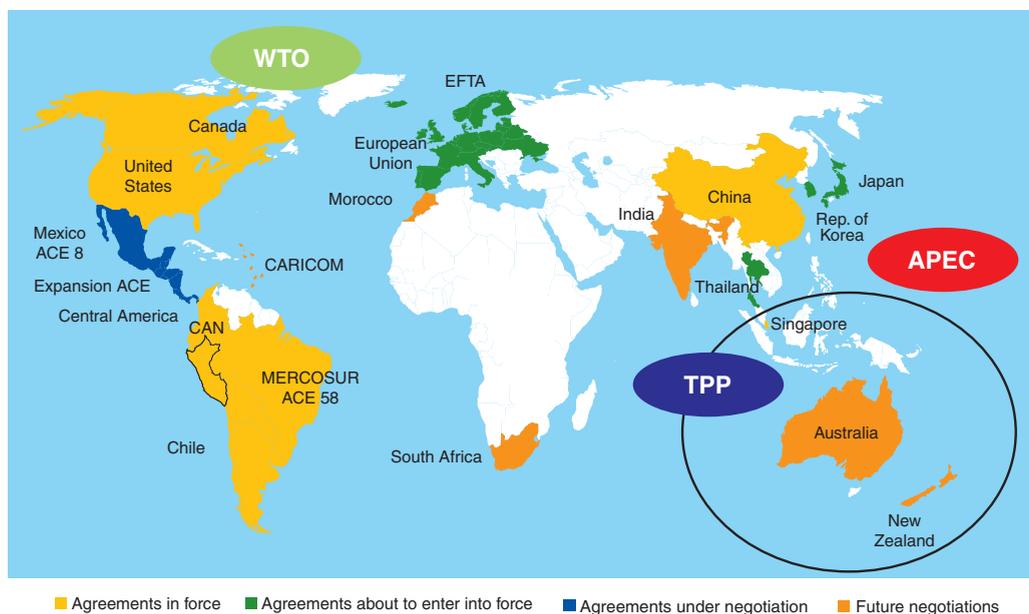
- The fourth strategic pillar is geared towards promoting the internationalization of SMEs by means of such programmes and instruments as recovery of VAT on purchases of machinery; the export guarantee program, which provides complementary facilities for SME applications for financing; investment financing; and the enhancement of supplier and productive chain development programmes and the consolidation of the Trade Processing Centre (CENTRACE).
- To achieve these agenda targets and sustained export growth, El Salvador, with the support of the Inter-American Development Bank, is seeking to implement a programme to support productive development for international insertion, with the following objectives:
 - (a) Increase the volume and diversification of exports and export markets, plus the number of exporting MSMEs;
 - (b) Strengthen the country's institutional presence in terms of trade promotion among the main trading countries;
 - (c) Enhance the government services available to support production sectors in the area of quality and technological innovation;
 - (d) Build institutional capacity for supporting business, attracting foreign investment and export development; and
 - (e) Boost capacity to analyse and execute national trade policy.
- It is hoped that exporting SMEs benefiting from this programme will experience export growth of 5%; that the national export quality and innovation system will develop and be operative; that the basic indicator for trade agreement administration capacity will improve by 29% to reach 681 basis points; and that export and investment development processes will be strengthened via a country brand campaign, a programme for investment managers, tools to develop export sectors and the promotion of a national export culture.
- On the trade promotion side, the aim is to set up and put into practice the economic and trade advisers initiative, in 12 stages. Their mission will be to help identify business, investment, tourism and cooperation opportunities. Each adviser will manage 10 regular trade contacts a year.

4. Trade as the linchpin of development policy: Peru

- Seeking to leverage trade as an engine of growth and sustainable economic development, Peru set out to improve trade policy management as a way to increase and diversify its exports and markets. With support from the IDB, Peru designed an ambitious programme for developing trade policies and assisting with implementation of trade accords, geared towards boosting competitiveness and consolidating Peru's brand as an exporter of value-added goods and services. The goal was to strengthen, diversify and consolidate the country as a key actor in the international markets.
- Institution-building under the programme enabled Peru to develop initiatives in the areas of export culture and decentralization, trade policy and cutting-edge analytical reporting. For example, thanks to support on tariff liberalization and trade openness, Peru now has a network of accords, including bilateral agreements with Canada, Chile, China, Singapore and the United States, and two agreements with regional trade blocs, accounting for some US\$ 20 billion in exports in 2010. Peru has also completed negotiations with the European Union, the European Free Trade Association (EFTA), Japan and the Republic of Korea.
- Thanks to this policy, products from Peru (such as fresh and processed fruits and vegetables, ethnic and gourmet products and organic products) are gaining ground in the international markets. Peru is now the world's largest exporter of asparagus and the top producer and exporter of organic coffee. Other products have also posted significant gains. For example, over 6,000 more tons of grapes are exported, while exports of mangoes have jumped by 127% compared with the previous period.

Map III.1

Peru: trade agreements in force, envisaged and being drafted, 2011



Source: Ministry of Foreign Trade and Tourism of Peru.

Note: ACE: Economic Complementary Agreement.

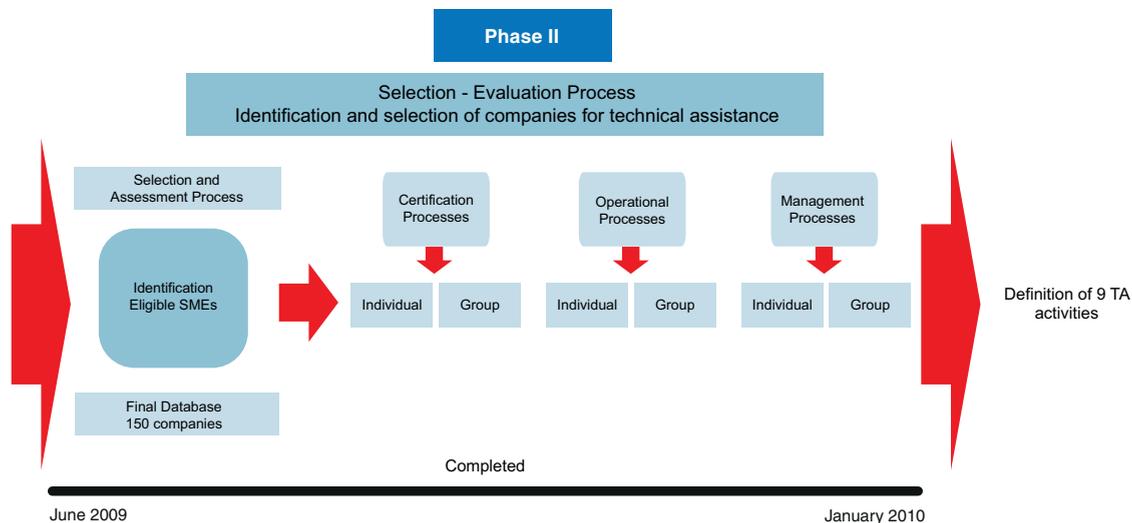
CAN: Andean Community.

5. Promoting SME exports: FINPYME ExportPlus in Guatemala

- FINPYME ExportPlus is an Inter-American Investment Corporation (IIC, part of the IDB Group) initiative seeking to enable SMEs to improve their access to export markets. The program carries out market studies; follows with the selection of companies in strategic sectors that could benefit from the programme; and provides direct technical assistance aimed at disseminating basic information about exporting so that SMEs can increase and diversify their export products and markets.
- The programme is focused on three pillars in order to enhance the capacity of SMEs to compete internationally. The first concerns certifications related to quality standards and agriculture products. The second involves improvements related to a company's internal productive apparatus in order to detect and address deficiencies, thereby improving productivity and delivering better products or services. The third is capacity building in management skills, above all for exports, market analysis, marketing, project management, strategic planning and logistics.
- The FINPYME ExportPlus programme was launched in 2009 in Guatemala as a pilot project. It yielded excellent results, including a high implementation rate (88%) of the knowledge shared through the programme and an increase (50%) in attendees' export capacity. Today, the programme is being extended to other countries in Central America and the Caribbean, such as Bahamas, Barbados, Costa Rica, Dominican Republic, El Salvador, Guyana, Haiti, Nicaragua and Suriname.

■ Diagram III.2 ■

Guatemala: phase II of the FINPYME ExportPlus programme, June 2009-January 2010

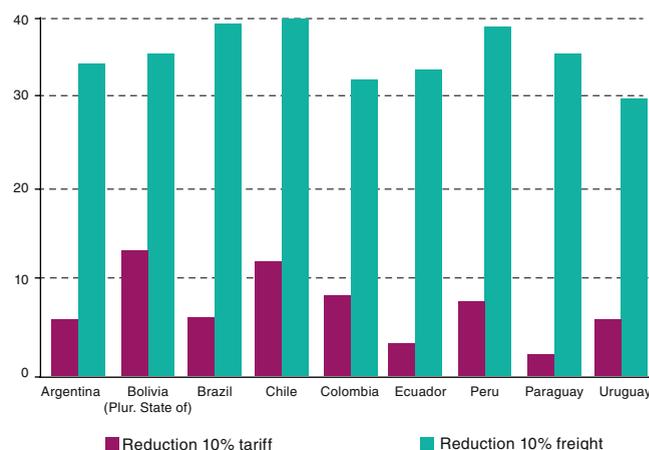


Source: Inter-American Development Bank (IDB).

6. The relevance of transport costs in Latin American and Caribbean trade

- As markets in the region have opened up in recent years, traditional barriers such as tariffs to trade have been lowered. Trade flows have benefited enormously from this. Yet obstacles to the free circulation of goods and factors of production still exist. The Inter-American Development Bank has focused on identifying and measuring some of these obstacles. In particular, it has assessed the relevance of transport costs as a barrier to regional trade. Its analysis confirms that integration agendas need to be more balanced and comprehensive, focusing not only on traditional barriers to trade, but also on costs, such as those relating to transport infrastructure.
- The study *Unclogging the Arteries: The Impact of Transport Costs on Latin American and Caribbean Trade* calculates that the positive effects on the volume of intraregional trade and trade diversification for all countries in the region of reducing transport costs by 10% would far exceed the gains from a corresponding reduction in tariffs by every country. Specifically, such a reduction would generate an average expansion in intraregional exports of around five times and an average increase in the number of products the region exports of nine times that of a comparable reduction in tariffs. Figure III.3 presents, for selected Latin American countries, an estimation of the average percentage variation in exports in all sectors resulting from a 10% reduction in transport costs and a 10% reduction in tariffs. These figures are based on estimates calculated using a specification that includes the fixed effects for the importer, exporter and the year (excluding the United States), and taking 2004 as the reference. Exporting countries are shown along the horizontal axis.

■ **Figure III.3** ■
Latin America (9 countries): average variation in exports, 2004
 (Percentages)



Source: Inter-American Development Bank (IDB), *Unclogging the Arteries: The Impact of Transport Costs on Latin American and Caribbean Trade*, Washington, D.C., 2008.

- This result is not surprising, given the progress made by Latin American countries over the past two decades on intraregional trade liberalization and the limited investment in infrastructure, especially in cross-border foreign trade projects.

7. The Pacific Corridor in the Meso-American region: an example of integration strategy

- The “acceleration plan” for the Meso-American Pacific Corridor is an example of an integration strategy. It is notable for its strategic importance, its novel concept and high-level political support, following a recently renewed commitment to integration from the heads of State in the Meso-American subregion (Mexico and the countries of Central America).

■ Map III.2 ■

The Pacific Corridor: a new approach to integration in Central America



Source: Inter-American Development Bank (IDB).

- Linking seven countries and carrying 95% of intraregional land traffic, the Pacific Corridor is the backbone of Meso-American trade. It is 3,200 kilometres long, and is the shortest route between Puebla (Mexico) and Panama City. Current travel conditions are far from ideal, however, with an average speed of only 17 kilometres per hour and delays at border crossings. The aim of the acceleration plan is to provide the region with a state-of-the-art corridor, by working both to improve physical infrastructure (hardware) and to enhance regional coordination on trade facilitation policies and regulatory frameworks (software).
- The plan has three goals: (a) boost regional competitiveness by reducing transport costs and time; (b) facilitate access to markets and the integration of export value chains; (c) promote regional economic integration through cooperation and development mechanisms.
- To achieve these goals, the plan has three components:
 - Transport (hardware): This consists of investing in suitable road maintenance and upkeep, optimizing infrastructure at border crossings, and giving full attention to the problem of road safety.
 - Trade facilitation (software): This consists of expanding the International Transit of Goods (TIM) system, introducing the Authorized Economic Operator (AEO) programme, developing one-stop trade shops and furthering their regional interoperability, and taking action to boost security and control borders.
 - Effectiveness and sustainability: The plan includes activities to help create consensus and regional institutions, build local capacity, and develop and monitoring effectiveness indicators.
- Preliminary feasibility estimates indicate that the plan will involve an overall investment of between US\$ 1.5 billion and US\$ 1.8 billion. Investments will focus on projects for adapting, maintaining, special upkeep of and putting into operation road sections, executed according to the uniform technical specifications agreed in the International Network of Meso-American Highways (RICAM) Memorandum of Understanding. This is associated with investments in trade facilitation programmes that are compliant with World Customs Organization (WCO) standards.
- The Inter-American Development Bank submits progress updates to the Committee on Promotion and Financing of the Mesoamerica Project. In conjunction with other regional and multilateral institutions offering loans and technical assistance, it provides technical support to the Council of Finance Ministers of Central America, Panama and the Dominican Republic (COSEFIN), which helps link national agencies in this sector that are responsible for investment in road infrastructure and trade facilitation.

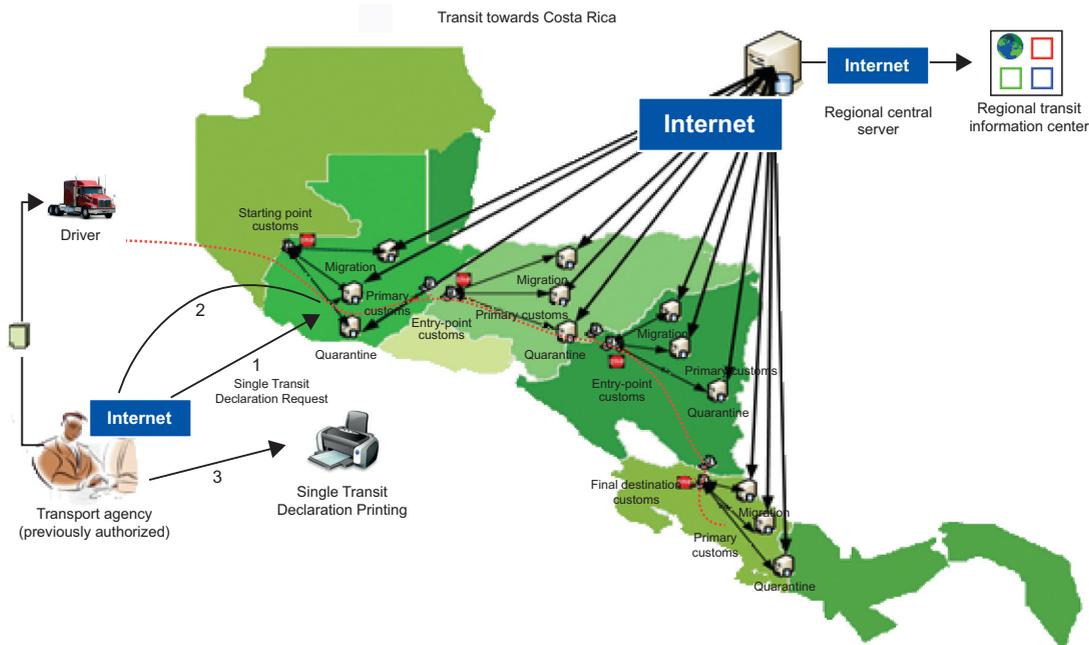
The electronic International Transit of Goods (TIM) system

- One of the programme’s achievements is the electronic TIM system, which has improved goods clearance by harmonizing procedures and combining information and certification in a single electronic document. Its success has sparked interest among neighbouring countries looking for ways to make their customs systems more efficient. The presidents of the

member States of the Mesoamerica Project have agreed to implement the system in Costa Rica, Guatemala, Mexico, Nicaragua and Panama. This will therefore help achieve the Project’s objectives, contribute to a regional integration initiative and facilitate the design, funding and execution of regional integration projects in Central America.

■ Map III.3 ■

Single customs procedure for goods in international transit



Source: Inter-American Development Bank (IDB).

- With the support of the IDB, the TIM system is now in place at the Amatillo border crossing between El Salvador and Honduras, which has the highest volume of trade transactions in Central America. Goods now take 8 minutes on average to cross the border, versus 62 minutes previously —a reduction of 87%. There are also far fewer administrative procedures to complete. However, trade facilitation cannot take place without giving equal consideration to security matters.

Trade facilitation and security go hand in hand: the Authorized Economic Operator (AEO) programme

- An authorized economic operator is a reliable and secure economic operator that has been accredited and certified by a customs authority following an audit of the organization and its processes, management, financial statements and compliance with a number of security standards.

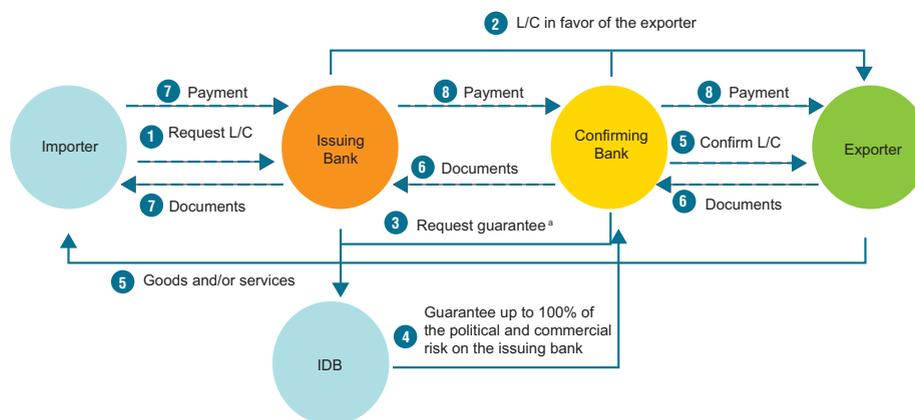
- Certification reduces the time and cost of goods transit and customs procedures. Moreover, the certification process provides an opportunity to improve economic operators' processes and practices, thus helping to boost their efficiency and effectiveness. The benefits can extend to all operators in the logistics chain and include:
 - (a) Simplified customs procedures and brief declarations of exit and entry of goods;
 - (b) Fewer physical and documentary checks;
 - (c) The relevant checks can be carried out on the operator's premises;
 - (d) Priority clearance and fast lanes;
 - (e) Financial advantages in the payment of taxes and tariffs;
 - (f) Reduced time and costs, and greater competitiveness in foreign markets;
 - (g) A seal of approval confirming the operator is reliable and secure.
- The Inter-American Development Bank has supported several countries in Latin America in implementing AEO programmes. The project is currently focusing on customs offices in Colombia, Paraguay, Peru, the Dominican Republic and Uruguay. An innovative methodology has been used, consisting of regional workshops for the working groups at each customs office and regular information exchanges, with technical assistance and support from the Spanish Tax Administration Agency.

8. Trade finance facilitation

- The recent economic crisis served as a reminder of the importance of international trade flows, access to liquidity and the strength of the financial sector for economic growth. The IDB's Trade Finance Reactivation Programme (TFRP), approved in 2003, helped the countries of Latin America and the Caribbean respond quickly to the crisis. The TFRP recognizes the importance of multilateral development bank support to mitigate volatility in international capital flows. It is an essential tool to complement other instruments in support of trade and regional integration. The IDB capitalized on the support and know-how of the European Bank for Reconstruction and Development's (EBRD) Trade Facilitation Programme (TFP), which has engaged in similar efforts since 1999.
- The TFRP aims to strengthen financial capacity on the supply- and trade-related infrastructure side, given the crucial role that international trade plays in a downturn to foster growth, create jobs and promote income equality. The TFRP increased correspondent credit lines for issuing banks; enhanced SME access to trade financing; strengthened intraregional transactions; and provided technical assistance in trade finance to banks and their SME importer and exporter clients.
- The Trade Finance Facilitation Programme (TFFP) is a component of the TFRP. This mechanism is a fast-disbursing vehicle that provides guarantees and loans enabling importers and exporters to reduce systemic and transaction risks, access new capital sources and strengthen competitiveness. The programme issues guarantees in order to cover confirming banks' trade finance risk and to provide trade finance loans to issuing banks in the region so that they can finance export and import clients.
- The TFFP granted loans designed to increase liquidity by directly funding clients' trade activities, while its guarantees enabled the network of issuing banks to access a larger number of international confirming banks. The TFFP has built a network of 72 issuing banks in 19 countries, 73% of which count SME lending as their main business focus. Through this network, the programme is now present in 53 countries worldwide with 240 confirming banks belonging to 88 banking groups.

■ Diagram III.3 ■

Trade finance facilitation



Source: Inter-American Development Bank (IDB).

^a Any bank (issuing or confirming) may request a guarantee.

9. Maximizing trade opportunities: intellectual property value capture

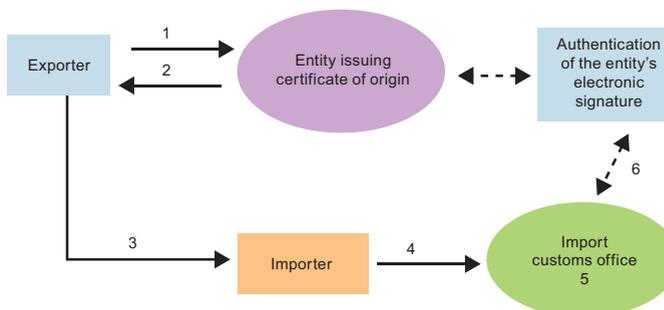
- Intellectual property export strategies implemented to help micro, small and medium-sized enterprises capture the intangible value of their products and services have proven successful in allowing MSMEs to increase their revenues and opportunities to enter international markets. A good example is the NGO Light Years IP, which enabled African farmers to increase their income by combining high-quality products with intellectual property tools to manage their brand.
- The OAS General Secretariat in association with Light Years IP, Caribbean Export and the Caribbean Chamber of Industry and Commerce (CAIC) is executing a pilot project aimed at replicating and disseminating in the subregion successful intellectual property export strategies based on training, technical assistance, product research and design and implementation of intellectual property business strategies. The main objectives of the project are:
 - To increase awareness and resources of producers, MSMEs, and communities, including indigenous groups, in order to obtain export income;
 - To keep MSMEs and communities, including indigenous groups, in sectors with export potential, better informed of the use of intellectual property strategies to enhance the intangible value of their products;
 - To enhance the technical and institutional capacity of entities dealing with intellectual property exports in order to recognize the value of intellectual property and take advantage of trade agreements.
- These are the goals of the pilot project Caribbean Intellectual Property Value Capture Export Project (2008-2011). A group of regional stakeholders (CAIC, Caribbean Export, the Office of Trade Negotiations of the Caribbean Community (CARICOM) Secretariat, the Organisation of Eastern Caribbean States (OECS) Secretariat Export Development Unit, Light Years IP and the OAS General Secretariat) selected three products/countries with the most potential to demonstrate the results of intellectual property value capture strategies. They are Grenadian nutmeg, West Indian Sea Island cotton (Barbados, Jamaica, Saint Kitts and Nevis) and a product to be confirmed in collaboration with Belize.
- These products were selected taking into account their genuine distinctiveness, a wide disparity between market price and export price and their potential for entering the supply chain. Another consideration was their social impact, particularly poverty alleviation and the empowerment of women. A publication titled *IP Value Capture: Caribbean Opportunities for Higher Income* was launched in April 2010 to support the expansion of trade opportunities for MSMEs in the Caribbean and enhance their competitiveness in search of more sustainable economic growth. In the next phase of the project, the goal is to conduct feasibility studies on designing business strategies in consultation with stakeholders, and to expand the project to other countries and sectors in Latin America.

10. Digital certification of origin

- Rules of origin have moved up on the trade policy agenda as the countries of Latin America and the Caribbean negotiate more preferential trade agreements and raise their international trade profile. This is also a key subject for the trade facilitation agenda. The Inter-American Development Bank has taken significant action concerning rules of origin, including negotiation capacity and institution building in the countries of the region. This action has impacted trade facilitation and the promotion of opportunities to enter markets.
- In so doing, the IDB has supported the countries in implementing digital certificates of origin and storing them in databases. Among the expected outcomes are:
 - Facilitate and streamline trade
 - Reduce errors and make it impossible to alter or falsify certificates
 - Build risk analysis and verification of origin capabilities
 - Further the interoperability of one-stop trade shops
- Along these lines, the IDB has executed pilot projects that will facilitate the issuance of digitally signed certificates of origin by producing exporters, importers and certifiers; the authentication of certificates and signatures; storage on import customs office databases; and the viewing and authentication of certificates and signatures by customs officials. The first model, between Chile and Colombia, is up and running. Colombia has already issued 11,000 digital certificates under the bilateral agreement. Other pilot projects are in the works in Central America.

■ Diagram III.4 ■

Simplified representation of digital certification of origin



Description of process:

- 1 = Certificate of origin signed electronically by exporter.
- 2 = Certificate of origin signed electronically by entity.
- 3 = Certificate of origin sent by email to the importer (signed electronically by the exporter and entity).
- 4 = Certificate of origin (3) sent by the importer to the import customs office.
- 5 = Authentication of the certificate/its format.
- 6 = Authentication of the electronic signature of the official employed by the entity.

Source: Inter-American Development Bank (IDB).

11. The growing importance of triangular and South-South cooperation: a cooperation programme among Chile, Paraguay, and the United States Agency for International Development (USAID)

- Both the design and the execution modalities of this programme were defined by the three Governments involved, in view of the priorities set out by the Government of Paraguay in its social development policy proposal for 2010-2020: “Paraguay for all”, and in the Strategic Framework for Agriculture, 2009-2018. Chile’s contribution, focused on sharing experiences, technical assistance and institutional capacity-building, was made via a partnership between Chile’s Agency for International Cooperation and the United States Agency for International Development (USAID); it included three projects under the Paraguay Produces programme. The three projects involved enhancing internal controls at the National Customs Service of Paraguay, supporting family farm policy design and enhancing the trade information system at Paraguay’s export promotion agency (REDIEX).
- The third project entails strengthening REDIEX, the official export promotion agency created in 2004. The agency operates as part of the organic structure of the Ministry of Industry and Trade. It has eight sector desks dealing with some 30 business associations and, directly, with 20 businesses.
- REDIEX lacks systematic information on exportable supply, especially regarding the number of potential products, amounts and volume, required features and standards and the number of potential exporters. This weakness in the system is keeping REDIEX from institutionalizing its knowledge through its network of beneficiaries inside and outside Paraguay, and it is hampering learning about the organization itself.
- Addressing this limitation calls for a strategy to learn more about the supply of registered exporters and to use information and communications technologies (ICTs) for sharing tools. This involves developing a web-based system to facilitate dialogue among exporters and stakeholders, so that information (currently fragmented and in the possession of individuals rather than entities) can be managed like an institutional asset.
- The project falls under the Economic and Social Strategy Plan (PEES), which traces back to the National Export Plan and complements the current effort in partnership with the IDB and the initiatives launched with USAID (Paraguay Produces, and Paraguay Sells). Against this backdrop, the Ministry of Industry and Trade and, specifically, REDIEX are working to improve competitiveness and the business and investment climate so as to better place the country in the international markets and set the stage for boosting exportable supply.
- REDIEX’s counterparty in the project is PROCHILE, a government agency tasked with promoting Chilean exports. It has a recognized capacity for managing information and for using ICTs in foreign trade. The project will draw on technical assistance from PROCHILE to build institutional and technical capacities at REDIEX, working together to expand and organize the export supply to promote products and services and thus generate foreign exchange and jobs. Another goal is to improve the information service for REDIEX export clients, spotlighting existing and potential exportable supply and delivering market information and intelligence to exporters. This will enable REDIEX to:
 - Build an export supply registry for Paraguay with information from the sector desks, with breakdowns by area, by the ecological value of the products and by type of beneficiary.
 - Generate sector studies and develop a methodology for regularly updating registries of exporters.
 - Have a market intelligence and trade promotion network abroad, comprising trade offices, embassies and consulates. To this end, a registry of actors will be set up and a market intelligence training plan will be designed and executed.
 - Have an improved website highlighting the export supply and helping to show exporters how to take advantage of trade opportunities. This will involve building a directory of businesses, with customs statistics.

12. Trade facilitation: what's on the agenda

- Trade facilitation is a must for the regional integration of Latin America and the Caribbean, both inside the region and with the rest of the world. Regional trade has surged, thanks, to a greater or lesser extent, to the varying degrees of trade integration in the subregions. And many countries have made efforts to tap into global trade flows by, among other things, signing trade or partnership agreements with countries outside the region. In many cases, tariffs are no

longer the biggest obstacle to progress in this area. Other factors have emerged, such as customs procedures, sanitary and phytosanitary requirements and technical trade barriers. These slow the efficient flow of goods, unnecessarily adding to logistics and transaction costs. Improving these processes can expedite cross-border trade, make trade operators more competitive and promote regional integration.

■ Table III.3 ■

Latin America and the Caribbean: areas of action to facilitate trade

| | |
|--|---|
| Registry documents and customs formalities | <ul style="list-style-type: none"> Coordination of formalities, documentation and valuation Processes for storing and standardizing certificates Common e-systems and application of new technologies Design of one-stop shops and "paperless trade" mechanisms |
| Sanitary and phytosanitary measures | <ul style="list-style-type: none"> Standardization of national requirements and consistency with international standards Approval of quarantine formalities and accreditation of laboratories Cooperation and training in compliance with health and biosafety requirements |
| Technical trade barriers | <ul style="list-style-type: none"> Agreements on commercial implementation of issues such as labelling, environmental standards, national content, technical inspections and security Certification systems: accredited laboratories and personnel for testing and for issuing certificates required for trade |
| Access to markets | <ul style="list-style-type: none"> Support for businesses to comply with standards and rules for access Regional mechanisms for settling disputes Approved formalities and national and regional one-stop shops Deepening service agreements such as for professional services and transport |
| Transport | <ul style="list-style-type: none"> Support for regional integration projects, especially for regional interconnection and infrastructure Promotion of intermodal transport projects and complementary means of transport Improvements to air and port services, including service and inspection efficiency and security |
| Investments and financial issues | <ul style="list-style-type: none"> Repatriation of capital, insurance and investment protection agreements Subsidies and mechanisms for attracting investors Measures related to managing foreign currency |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), "Trade facilitation and Central American integration: Customs modernization", *FAL Bulletin*, No. 222, Santiago, Chile, February 2005; and International Trade Centre (ITC), "Business and the WTO negotiations on trade facilitation", *Technical Paper*, No. BAS-05-34.E, Geneva, United Nations Conference on Trade and Development (UNCTAD)/World Trade Organization (WTO), 2005.

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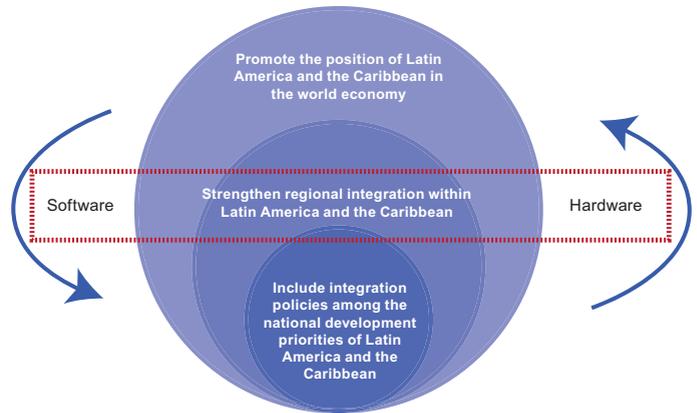
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13. New regional and global integration strategies

- The changes seen in the world economy over the last decade, which have been amplified by the recent financial crisis, have served as a reminder of how important it is for the strategies that countries adopt to position themselves in the world economy to take account of regional integration and cooperation and the incorporation of integration policies into national development strategies. The new approach to integration should be broad and comprehensive. In order to achieve this, it is vital to consider both the “software” and “hardware” components of integration, that is, policies and regulatory frameworks, on the one hand, and regional infrastructure, on the other. Investment in integration is a key tool and, in conjunction with other instruments, supports trade facilitation and regional integration.
- Implementing this new approach will not be easy as it involves coordinated efforts between countries and reaching consensuses on regulatory frameworks and policies. Nevertheless, with the right incentives, it will be possible to find ways to overcome such obstacles. Those incentives could take the form of financial instruments (sovereign-guaranteed loans for policies and investments, non-sovereign-guaranteed loans, guarantees to the private sector and non-reimbursable technical cooperation) and non-financial instruments (support for strategic initiatives, applied research, policy dialogue, capacity-building and the prioritizing of integration projects). Institutions such as the Asian Development Bank and the European Investment Bank already offer these products. The integration approach will gain ground in the next few years; indeed, on the back of its recapitalization, the IDB has set itself the goal of allocating 15% of its loan portfolio to regional and global integration projects.
- The steps taken to make progress towards regional integration can be prioritized as follows: (i) hardware (sustainable regional infrastructure for transportation, energy and telecommunications); (ii) software (facilitation and promotion of trade and investment, financial integration, productive integration, migration and integration of labour markets); and (iii) functional cooperation (harmonization of regulations and standards, social protection and health, climate change and natural disasters, border development, science and technology, and other areas in which regional collective action can add value to national interventions).

■ Diagram III.5 ■

Latin America and the Caribbean: integration strategy levels and areas of action



Source: Inter-American Development Bank (IDB).

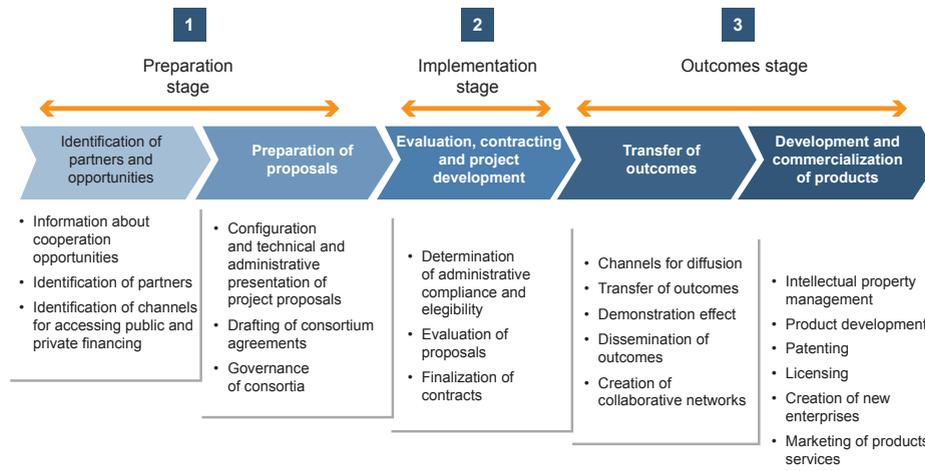
IV. Technological modernization and innovation

1. Regional policy dialogue on international technology cooperation

- In order to be more competitive in the global markets, the economies of Latin America and the Caribbean must keep up with competitors who are developing ever more complex products and processes. Meeting this challenge will require capacity-building in relation to a wide range of competencies, as well as research, development and innovation efforts. Generally speaking, these activities are not accessible to isolated enterprises and there is therefore a need for cooperation between technology centres and companies, especially small and medium-sized enterprises. Furthermore, this cooperation should be extended to take advantage of the experiences of different countries. However, countries in the region have paid little attention in their innovation policies to the technology development opportunities offered by international cooperation within the region or with more developed geographical areas.
- In order to address this problem, the Inter-American Development Bank (IDB) organized a meeting entitled “Regional Policy Dialogue on International Technology Cooperation” in Buenos Aires in November 2010. At the meeting, representatives from 15 countries discussed good practices for supporting international technology collaboration projects involving companies that had developed or commercialized products from the outcomes of research, development and innovation. The participants also shared experiences of companies from the region that had taken steps towards the internationalization of technology — a key aspect of any comprehensive globalization strategy.
- As a result of the meeting, those responsible for policies on technology development and innovation gained a better understanding of the importance and impact of supranational cooperation and how to incorporate the internationalization of technology into national innovation policies. In addition, the IDB drafted a guide containing good practices for the promotion of international technology cooperation, to be used as a reference in public policymaking. The guide puts forward recommendations on how to help companies to identify international cooperation opportunities and potential partners, to prepare specific proposals, to implement cooperation projects and to commercialize their outcomes, with a particular emphasis on the protection of the intellectual property rights stemming from the fruits of that cooperation.

■ Diagram IV.1 ■

Management and follow-up of the international technology cooperation process



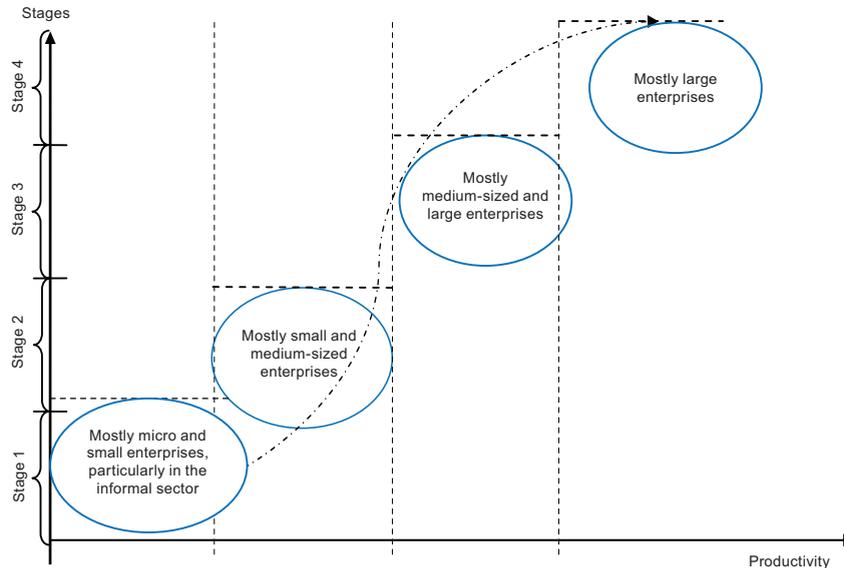
2. The link between export success, innovation and social impact

- In 2008, the Inter-American Development Bank (IDB) and the Foundation for Economic and Social Development (FUNDES), with the support of a multidisciplinary group of researchers, carried out a study to analyse the relationship between export performance, social impact and innovation in more than 400 SMEs in Argentina, Chile, Colombia and Costa Rica. Surveys were conducted and eight case studies were published.
- The study revealed a positive link between innovation and export success. Successful export SMEs invest more effort in innovation activities, obtain more significant outcomes (both quantitative and qualitative) and develop enhanced technology-related competencies. This conclusion has at least two policy implications: (i) supporting or financing innovation activities can lead to greater export capacity among companies; and (ii) that support would be more effective if it was allocated to strengthening complementary activities, rather than isolated actions. Policies should therefore focus on obtaining more resources for innovation, which should then be allocated to interrelated activities.
- The case studies suggest that the following sequence of events takes place: innovation-exports (export success)-innovation. This process is set in motion when the companies reach a certain level with regard to technology and develop an innovative activity that allows them to break into external markets. The successful companies are, in general, those that take advantage of the experience they gain from operating in those markets, which are more demanding than domestic markets, to guide and increase their capacity for innovation. This sequence of events makes it possible to conclude that programmes supporting the internationalization of companies that focus on the promotion of exports would gain from fostering capacity for innovation, as companies would thus achieve a more diversified and sustainable market position.
- The results support the hypothesis that successful export companies have a larger social impact than companies whose export performance is weaker. Three elements point to this: export SMEs provide their employees with better working conditions; they have more and better quality connections with other local agents; and they make greater efforts to preserve the environment. This is another argument in favour of policies to promote exports, since exporters with diversified markets that manage to maintain their external market presence over the long term also generate positive social effects.

3. Information and communications technologies in the SME business model

- There are four stages on the road to incorporating information and communications technologies (ICTs) into the business dynamic. At first, businesses encounter obstacles in accessing these technologies. Second, the focus shifts to basic information generation and management. Third, that information is analysed for decision-making purposes. And fourth, these technologies are leveraged and merged into organization and production, moving innovation forward. This process brings constant increases in productivity, which is the foundation for competitiveness and higher wages.
- In the countries of Latin America and the Caribbean, most enterprises are in one of the first two stages. They either lack the minimum requirements for setting out on this path to change, or they have not made enough progress. Very few SMEs reach the last two stages, in which the efficient use of ICTs boosts growth, productivity and, thus, wages.
- With enterprises at so many different stages in the process of incorporating and disseminating ICTs, policies geared towards incorporating these technologies in SMEs must take account of this and address the specific issues that each kind of enterprise faces.

■ Figure IV.1 ■
ICT incorporation and productivity



Source: Economic Commission for Latin America and the Caribbean (ECLAC), *ICT for growth and equality: renewing strategies for the information society* (LC/G.2464), Santiago, November 2010.

4. Reducing the cost of ICT access for SMEs: cloud computing

- Cloud computing replaces the cost of investing in information processing systems with a flow of regular payments for the lease of processing, storage and transport services. There are three kinds of service, depending on their focus on infrastructure, on the platform or on software. With cloud computing, applications are stored on computers owned by third parties for Internet hosting, or on private networks. Access is via web browser, telephone or other Internet access device, just as if the programme were installed locally. This can cut hardware, software and data distribution costs, which is particularly important for SMEs.
- Most users and businesses can access the software online and share information through remote-server networks, instead of depending on the tools and information stored in their own equipment. Millions of users utilize such services when they communicate over social networks or by e-mail, chat rooms, Internet telephony and blogs.
- In addition to these services, there is a wide array of more advanced cloud computing classed by Jordán, Galperin and Peres (2010) as:
 - Delivering processing, storage and other services flexibly and in keeping with user needs;
 - Payment for use only, at published prices, with no contracts or use time commitments;
 - Use of the provider's distributed infrastructure;
 - Ability to install any application, using the platform and programming model that the user wants;
 - Supply of collection, database management and other modules on a pay-as-you-go basis.
- As more services become available in the cloud, the requirements in terms of operating system functionalities and equipment processing capacity will diminish. This will substantially cut the cost of access to the advantages that incorporating computer systems hold for businesses, particularly for SMEs. The savings come from drastically lower investments in equipment and servers, and less space and electricity requirements for operating them. There is also a significant decrease in the cost of purchasing software licences and in staffing for managing and maintaining equipment and systems. The percentage of Latin American businesses that are using or considering using a cloud service jumped from 9% in July 2010 to 14.5% in January 2011, according to International Data Corporation (IDC) estimates.

■ Table IV.1 ■

What cloud computing offers

| | |
|------------------------------|---|
| Service-based | Consumer needs are no longer tied to the purchase of fixed assets; these are owned by the service provider. |
| Scalable and flexible | Scaling of on-demand services, where resources can be added or removed as necessary. |
| Shared | Services share resources to leverage economies of scale. |
| Measured on the basis of use | Service-use indicators allow for multiple payment modules. |
| Internet technologies | Services are delivered with Internet indicators, formats and protocols. |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of [online] www.gartner.com.

- The cost of services is determined by intensity of use, depending on the kind of activity the business is engaged in. This yields greater savings for sectors that make relatively less intensive use of installed capacity. By contrast, if they had to purchase the equipment and related facilities, the cost would not be affected by the degree of use.
- Cloud services involve large volumes of bidirectional traffic, so mass access would require reliable broadband connections and a virtually symmetric ratio between download and upload speeds. It bears repeating that the cost of service in the countries of the region must come down if SME use of them is to become widespread.

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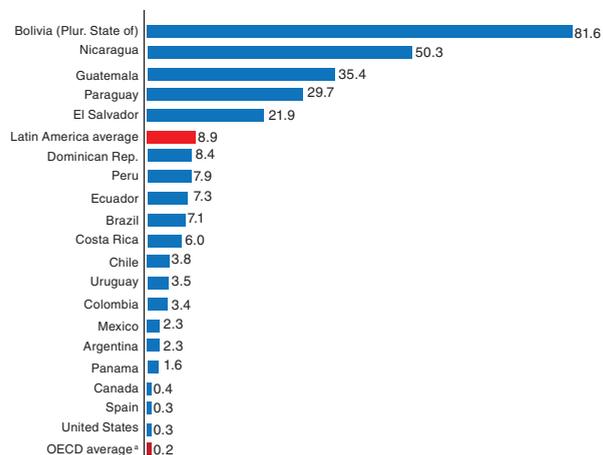
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5. Regional dialogue on reducing the cost of broadband

- One of the key factors in the low broadband adoption rate among households and micro and small enterprises in Latin America is the high cost of service. Much of that cost comes from depending too much on international connections for Internet communications, particularly in South America, where 80% to 90% of Internet traffic is routed over those connections. These costs can account for as much as 40% of the price for the user.
- Data from the ECLAC Regional Broadband Observatory show that in advanced countries the cost of 1 Mbps is less than 1% of per-capita income. But in Latin America and the Caribbean it is, on average, nearly 9%, and can even top 80%.
- Against this backdrop, ECLAC, with the support of the Office of the Under-Secretary of Telecommunications of Chile, proposed the creation of a space for regional dialogue for the countries to share knowledge, experiences and approaches for the development of integration policies and mechanisms geared towards achieving mass broadband access, bringing down prices by reducing the use of international connections.
- The Regional dialogue on reducing the cost of broadband brought together representatives from nine ministries of telecommunications in Lima in November 2010. A prior event was attended by representatives from the major telecommunications operators, digital solutions providers and regional institutions, such as Global Crossing, Oi, Telebras, Telefónica TWIS, América Móvil/TELMEX, Latin American and Caribbean Internet Addresses Registry (LACNIC), Ibero-American Association of Research Centres and Telecommunication Enterprises (AHCIET), Ecuador's Corporación Nacional de Telecomunicaciones (CNT), Uruguay's Administración Nacional de Telecomunicaciones (ANTEL) and RedCLARA. Ten countries from the region (Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Paraguay, Peru, Plurinational State of Bolivia and Uruguay) are participating in the Dialogue. This initiative has significant potential for regional integration based on the development of broadband network infrastructure.
- A working group is preparing a study on identifying and implementing Internet traffic exchange points (IXPs) and coordinating the deployment of fibre optic connections between countries in the region. The study will seek to identify mechanisms for integrating existing networks by making more intensive use of regional IXPs and reducing the use of international connections. This will lower broadband costs and open opportunities for smaller enterprises.

■ Figure IV.2 ■

Latin America and the Caribbean and Organization for Economic Cooperation and Development (selected countries): cost for 1 Mbps of download speed as a percentage of per capita GDP, April 2011^a
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Regional Broadband Observatory.

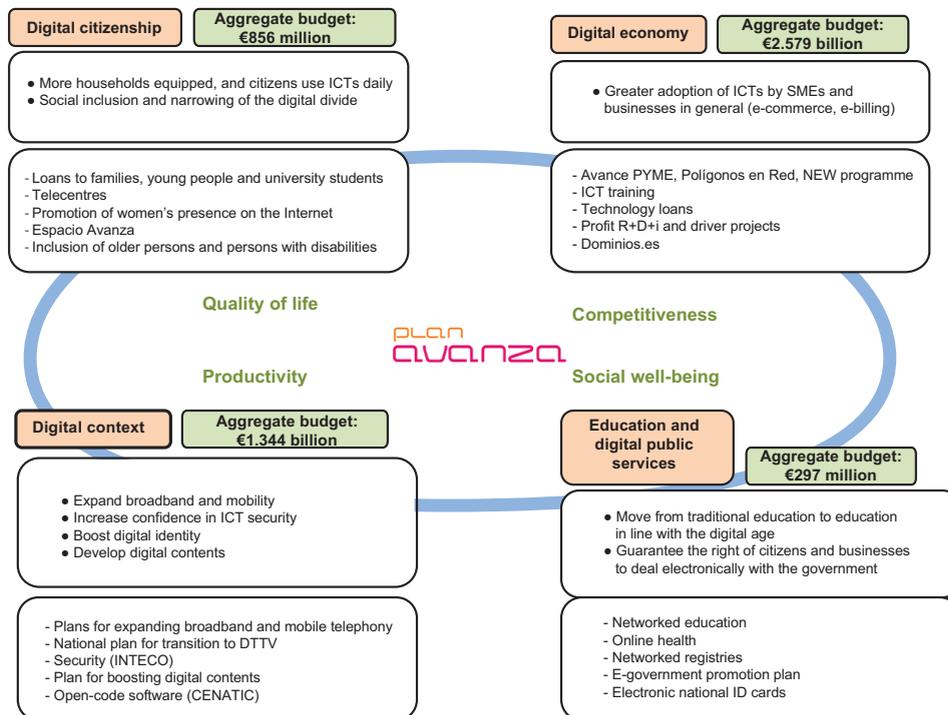
^a The countries included in the OECD average are Australia, Austria, Belgium, Canada, Denmark, Germany, Spain and the United States.

6. An example of ICT integration in the productive sector: Spain's Avanza Plan

- ICTs as a tool for social integration and for improving the quality of life are high on the digital agendas of the countries of Latin America, but less attention is being paid to their impact on economic development. Policy design is less heedful of issues linked to the productive sector, such as e-commerce and hardware industry supply development.
 - In the countries of the European Union, the approach to the economic and social dimensions tends to be more integrated. Spain's strategic digital plan (Plan Avanza 2) combines two dimensions. The first is the interconnection of its four
- key areas of action: citizens, economy, infrastructure and public services. The second gives priority (mainly in terms of budget allocation) to the economic area in view of its impact on competitiveness, and to infrastructure because of its repercussions for productivity.
- The economic area (support for SMEs, professional training, technology loans and research, development and innovation) received 51% of the plan's aggregate budget of 5.076 billion euros for 2005-2008. Of that total, 27% went to infrastructure (broadband access, digital security, digital identity, and content and open-code software development).

■ Diagram IV.2 ■

Spain: the four pillars of the Avanza Plan

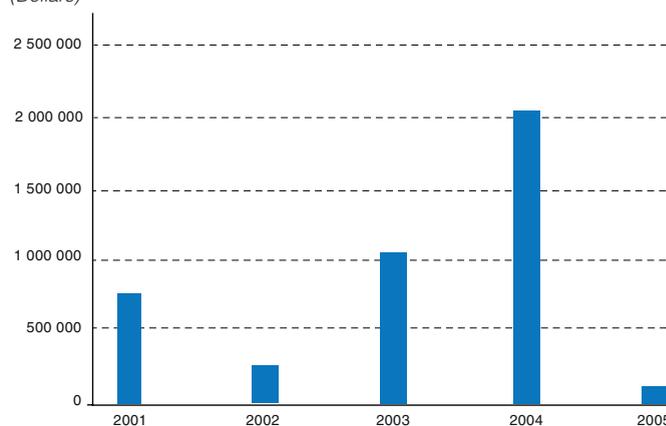


Source: Government of Spain, Office of the Secretary of State for Telecommunications and the Information Society, "Agenda Digital de España, Plan Avanza 2", 28 January 2009.

7. Developing suppliers of high-tech multinational companies

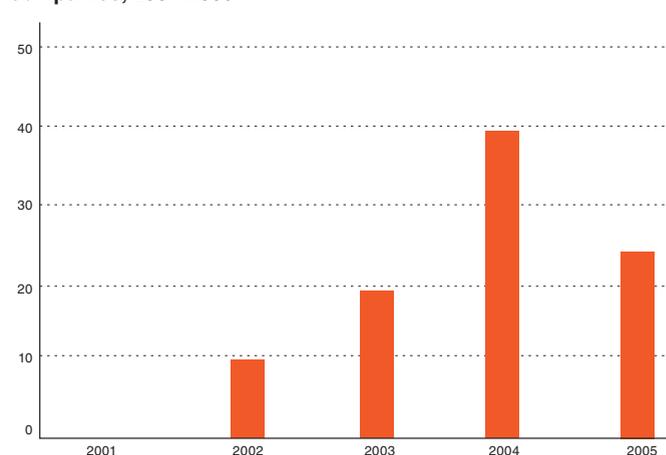
- Since the 1990s Costa Rica has followed a policy for attracting foreign direct investment (FDI), principally from the high-tech medical and electronics industry. But by 1999 such companies were sourcing just 7% of their inputs in the Costa Rican market. To spur the development of local suppliers, a project for developing suppliers of high-tech multinational companies was launched to increase the domestic value added of these companies' products and thereby enhance the competitiveness of supplier SMEs. The goal was to improve the technological and productive capacity of SMEs to the point that they could provide inputs and services for high-tech multinational products and compete globally.
- The project has three components: Component I (Pilot Procurement Programme) focused on developing a methodology for linking SMEs and high-tech multinationals and on executing technical assistance and training programmes for SMEs. The target for this component was to make 45 successful contacts: 10 in the first year, 15 in the second and 20 in the third. Component II (Comprehensive Information System) was geared towards implementing an information system that would allow entities involved in the procurement process to obtain the data they needed to meet their goals. This system would contain information on supply and demand among SMEs, high-tech multinationals and supporting institutions. And Component III (Domestic Supplier Development Office, "Costa Rica Supplies") supported the creation of an entity specializing in domestic procurement to ensure institutional continuity and the domestic nature of the project.
- The project led to 99 successful contacts, which is similar to the number of new business operations thanks to Costa Rica Supplies, totalling nearly US\$ 5 million. Fifty-eight SMEs have participated in these contacts, of a total of 674 that expressed interest.

■ **Figure IV.3** ■
Costa Rica: value of new business, 2001-2005
(Dollars)



Source: Inter-American Development Bank (IDB).

■ **Figure IV.4** ■
Costa Rica: number of successful contacts as a result of the project for developing suppliers of multinational companies, 2001-2005

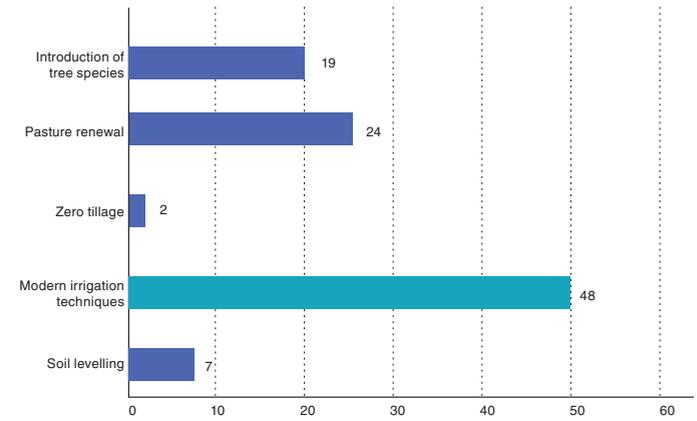


Source: Inter-American Development Bank (IDB).

8. Project to support competitive agribusiness transition

- The agricultural sector accounted for 11.2% of the Dominican Republic's GDP in 2000 and is one of the country's principal economic activities. Farm production in the Dominican Republic ranges from traditional export crops (sugar cane, coffee, cocoa and tobacco) to non-traditional export crops (bananas, fruits, vegetables, yams and cassava) and to traditional crops for domestic consumption (rice, vegetables and legumes). Of the latter, rice is the most important; it accounted for more than 40% of the gross value of the sector's output in 2001.
- In April 2002 the Inter-American Development Bank approved funding for the Competitive Agribusiness Transition Support Program (PATCA), implementing a system for encouraging the adoption of technologies that were more advanced than the tools being used at the time. It also proposed upgrading the food sanitation and safety system. The operation was to be complemented by funding to design trade policy reforms and make the requisite changes in how public-sector agribusiness was organized.
- The application of the technologies selected (soil levelling, zero tillage, pasture renewal and others) achieved good outcomes, including increasing rice production to 131,000 110-kilo bags. If 60% of the area planted in rice were to use this technology, production would increase by 31.2%, yielding a 56% internal rate of return (IRR) on the investment. The land used to grow bananas was also used more efficiently. Average productivity nearly doubled, going from 2,400 to 4,500 bananas cut per tarea (0.063 hectares). It was in milk production that the new technologies had the greatest impact on productivity, going from 5.4 litres per cow to 8.9 litres and generating more than US\$ 2 million in additional revenue for the producers.

■ **Figure IV.5 ■**
Dominican Republic: investments by the project to support competitive agribusiness transition up to 2010, by technology type
(Percentages)



Source: Inter-American Development Bank (IDB).

9. SMEs in software production and ICT services

- Small and medium-sized enterprises in Latin America have stepped up their participation in local and export markets of software and services related to information and communications technologies (ICTs). There are good policy practices for developing such SMEs in countries with dissimilar market sizes and export strategies. Brazil and Mexico are examples of good practices in countries with large markets. They have developed this industry, initially oriented towards the domestic market and subsequently venturing into export markets. Argentina is one of a second group of countries where the situation is mixed, with medium-sized markets and an ICT industry that serves the domestic and export markets. Uruguay is a small market with a primarily export-oriented software and ICT services industry.
- The development of this industry in Brazil and Mexico and, to some degree, in Argentina, stems from former industrialization strategies promoting specialization in computer and electronics manufacturing. As the hardware and electronics industry shifted to China and other countries in Asia, the major hardware companies with a presence in Argentina, Brazil and Mexico started transforming their manufacturing plants into ICT service centres, leveraging the available infrastructure and skilled human resources. The principal software development and ICT service centres in Latin America are now found in locations that had specialized heavily in electronics. Good examples are Campinas and greater São Paulo in Brazil; Guadalajara and Monterrey in Mexico and Buenos Aires, Córdoba and Rosario in Argentina.
- This development has taken place in a context of public policies for promoting the sector, stressing different approaches to strategy, support programmes and special legislation. Argentina, Brazil and Mexico, as federal States, combine national incentive programmes with benefits offered by individual states or provinces. In all three countries, the states within the federation operate with a certain degree of autonomy for enterprise development; they use tax exemptions and special land agreements and provide infrastructure and subsidies for training.
- The main incentives provided in Brazil are investment- and research-and-development-oriented tax incentives, in addition to facilities for installing businesses in technology parks. Mexico has a national law promoting the export processing (maquiladora) industry. Since 2006 the ICT industry has made use of this law as it expands into the delivery of services.
- Brazil, along with Argentina, has the most highly developed ICT industry promotion policy in the region. Key support for the industry is based on the Information Technology Act passed in 1991 and the 2003 industrial and trade policy guidelines that were deepened in 2008 by the productive development policy. The original purpose of the Information Technology Act was to support the hardware industry, offering tax exemptions to equipment manufacturers investing in research and development. This benefited software companies with hardware operations.
- Mexico, in addition to its software maquiladora service programmes and programmes for supporting innovation and competitiveness, launched the software industry development programme (PROSOFT) in 2002. This programme is coordinated by the Ministry of Economic Affairs. Another goal has been to encourage the creation of public-private coalitions for developing the sector. Among the principal support programmes are financing lines from the State-run development bank Nacional Financiera (NAFIN); programmes for training human resources, promoting exports and attracting investments (MexicoIT initiative); and the development of technology clusters.
- Argentina's policies aimed at promoting the software industry include tax incentives. At the provincial level, tax exemption, infrastructure subsidy and public service programmes have been instrumental in supporting the industry in the cities of Buenos Aires, Córdoba and Rosario. The principal instruments for providing support are the software industry promotion regime adopted in 2004 (which grants capital and income tax benefits) and the Fiduciary Fund for Promotion of the Software Industry (FONSOFT), which provides financing

for research and development projects, human resources training, process improvements and start-ups.

- Uruguay is a special case in that it began to develop the software export industry in the 1990s and has since posted the fastest growth in the region and the best export performance. The policy measures put in place to support

the sector include declaring the software industry to be of national interest, thus exempting export activities from income tax. Other measures include creating free zones like Zonamerica, more flexible labour agreements, financing for research and development projects and support for sector competitiveness programmes.

■ **Table IV.2** ■

Argentina, Brazil, Mexico and Uruguay: policies supporting the ICT industry

| | Support policies | Principal locations |
|-----------|---|--|
| Argentina | Software industry promotion FONSOFT | Buenos Aires, Córdoba and Rosario |
| Brazil | Information Technology Act Industrial and trade policy guidelines (2003) Productive development policy (2008) | São Paulo, Campinas, Porto Alegre and Recife |
| Mexico | Software Industry Development Programme (PROSOFT) Innovation funds Service maquiladoras | Mexico City, Guadalajara and Monterrey |
| Uruguay | Regime supporting the software industry Innovation funds Free service zone | Montevideo and Zonamerica |

Source: Economic Commission for Latin America and the Caribbean (ECLAC).

10. Incentives for promoting science and technology in business: sector-based funds in Brazil

- To address the roadblocks that businesses face in financing their science and technology (S&T) activities, since the 1990s funds have been created to provide financing for them. These funds are the most widely used tool among the countries of Latin America for encouraging enterprise knowledge generation. There are two fund models in use in the region. They differ in terms of how they work,

where the funding comes from, how the beneficiaries can tap them, who is eligible and how the funds are managed and monitored. The Brazilian model takes an integrated approach, mixing elements of supply and demand and thus setting itself apart from the model that is more widely used in the region, which stresses demand.

■ Table IV.3 ■

Latin America: science and technology support fund models

| Type of fund | Features | Weaknesses |
|---|--|---|
| Funds based on demand-side subsidies (Argentina, Chile, Colombia, Costa Rica and Mexico) | <ul style="list-style-type: none"> Funding from governments and international agencies Horizontality Direct allocation to beneficiaries via competitive selection and evaluation | <ul style="list-style-type: none"> Can exacerbate differences between actors: the most proactive actors with the greatest technological capacity are selected, leaving out those most in need of developing this capacity There is no way to keep the funds from indirectly financing non-S&T related activities Awareness policies are needed to promote knowledge and use of the funds |
| Funds based on coordinating S&T supply (schools and research centres) and demand (productive sector) (Brazil) | <ul style="list-style-type: none"> Resources from higher-revenue productive sectors Allocated with a shared strategic vision (scientific community, entrepreneurs, ministries) Sector-based selectivity Promote S&T research via cooperation between universities and businesses | <ul style="list-style-type: none"> Coordination is complex, and there are conflicts of interest between ministries Management conflicts arise because of the high amount of funding |

Source: Economic Commission for Latin America and the Caribbean (ECLAC).

- Between 1997 and 2004, 14 funds for supporting research and development activities were created in Brazil. Twelve were sector-based funds for strategic sectors; two were cross-cutting or multi-sector funds. These funds emerged to address the need to harmonize S&T policy with industrial policy and to make S&T a separate item on the economic policy agenda. This laid the groundwork for the investments in and financing for S&T activities that are crucial for establishing public-private partnerships. Each fund was created by a law earmarking funding to support

S&T activities, out of revenue generated by the businesses operating in these sectors. The resource management system requires that a portion of the revenue from the sectors involved is to be used to develop S&T activities (supply), and that the funds be managed in keeping with a strategic vision (demand) shared by management committees made up of businesses, the scientific community, sector ministries, the Ministry of Science and Technology and the pertinent regulatory agencies.

- Between 2000 and 2007 the technology funds approved financing for 13,435 projects totalling 7.7 billion reais, of which 5.7 billion reais was disbursed. The funds paying out the most were the cross-cutting ones (the infrastructure fund and the Green and Yellow Fund, which promotes cooperation among universities, research centres and businesses) and those targeting the petroleum, energy and telecommunications sectors.
- Experience with funds supporting S&T activities in Brazil shows that they handle a significant volume of resources and encourage businesses, universities, governments at the state level and research centres to work together on planning projects and administering the funds themselves. Although the system has some weaknesses (little evaluation of impact, management issues and overlapping interests that hamper coordination), these funds have been a powerful tool for advancing S&T in Brazil and even including smaller enterprises.

11. Incentives to promote enterprise innovation: the Argentine Technology Fund (FONTAR)

- Enterprise innovation benefits society as a whole. By innovating, companies update the goods they offer or improve their productive processes, which leads to greater diversity and quality of products and services available to the population. Some innovations also increase energy efficiency and minimize the impact on the environment. Innovation is therefore the key to ensuring a solid market share at both the local and international levels.
- Even though the social benefits of innovation are usually wide-ranging, many companies, especially SMEs in developing countries, are reticent to make innovation the main way in which they expand their business because of the uncertainty involved. This makes it difficult to plan and estimate the resources needed to carry out a project, as well as to calculate the rate of return on the investment. In addition to unforeseen technological factors, the volatility associated with the economic context has to be taken into account.
- To attenuate the failures that limit enterprise innovation, the National Agency for the Promotion of Science and Technology of Argentina, through the Argentine Technology Fund (FONTAR), offers different types of instrument (subsidies, loans and tax breaks) to co-finance modernization, innovation and technological development projects in individual companies, productive chains and consortia made up of companies and research and development institutions. Different FONTAR instruments can be combined to finance different aspects or stages of the company's innovation process, from the initial phase of technological development (the costs of research and development, creation of research and development units, development of new products, materials, processes or services, production of samples and prototypes) through to the costs involved in production on an industrial scale.
- FONTAR has received support from the IDB through successive programmes since its inception in 1996. For example, under the third tranche of the Technological Modernization Programme (2006-2010), FONTAR supported more than 1,500 SMEs through loans and non-reimbursable grants to carry out modernization and technological innovation processes. That support totalled more than US\$ 180 million (US\$ 107 million was allocated to long-term loans and US\$ 74.3 million to non-reimbursable grants).
- According to a study by the National University of Quilmes, the companies that received support from FONTAR achieved significant outcomes in terms of new or improved products and processes, human capital development and innovation capacities. For example, 68% of the companies surveyed reported having achieved product innovations while 51% had innovated their processes; almost 30% recorded innovations in both products and processes. As a result of those innovations, sales had risen, their products were better quality and their costs had fallen.

12. Transferring innovation and technology to industry: Technology Innovation Centres in Peru

- The network of Technology Innovation Centres (CITE), attached to the Ministry of Production of Peru, is a policy instrument designed to improve companies' innovation capacities and boost their productivity and competitiveness through the provision of technology services, such as specialized technical assistance, training, quality control of inputs and products, computer-assisted design and environmental management. Over the last decade, several of the Centres have become drivers of enterprise innovation in their areas and are a significant public-policy instrument for facilitating technology transfer. The IDB has provided support to the Centres through a science and technology loan programme and has carried out several case studies on this initiative.
- The Centres connect agents from the innovation system to value chains (producers, suppliers and marketing companies, regulators, laboratories, among others). One of their tools is the introduction and dissemination of standards as a way of improving how the chain works and introducing innovations and technology into sectors that are lagging behind in that regard. Two examples of the Centres are the Technology Innovation Centre for Wine Production (CITEvid) and the Technology Innovation Centre for Leather Goods, Footwear and Associated Industries (CITEccal).
- CITEvid has made a fundamental contribution to the growing pisco industry in Peru, supporting the definition of the product and production standards and the introduction of technology. This was instrumental in registering pisco's appellation of origin and led to its expansion as an export product. Techniques for the sustainable management of pisco grape crops, laboratory testing, vineyard design and assistance in relation to technology, sales and exports have enabled this industry to leap forward in terms of the quality, sophistication and variety of the product and the volumes sold.
- CITEccal was the catalyst for the introduction, adoption and dissemination of standards among numerous shoe companies, which had long been working in isolation without any form of coordination, compatibility or specialization in their production activities. The introduction of standards has made it easier to modernize the industry, with new groups specializing in areas that were previously neglected, such as design and the management of suppliers to improve leather supplies. This has boosted productivity and innovation, creating the conditions for the introduction of technologically advanced machinery, whose use was previously rare or non-existent.

13. Successful regional cooperation: the School for Policymakers in Science, Technology and Innovation

- The School for Policymakers in Science, Technology and Innovation, held by ECLAC with support from the German cooperation agency GTZ, is a major public policy initiative in the sphere of science, technology and innovation. The first session of the school, held in Santiago in 2010, brought together high-level government officials, representatives from ministries, agencies and science, technology and innovation councils responsible for designing and implementing science, technology and innovation policies in Argentina, Brazil, Chile, Costa Rica, Cuba, Ecuador, Mexico, Nicaragua and Uruguay. The School provided the attendees with an opportunity to discuss and share experiences on current topics and the main challenges that the region faces in terms of science and technology policy.
- The initiative owes its success to high participant involvement and to the dialogue between institutions and agencies. This created a space for interaction, exchange and learning for science, technology and innovation policymakers and managers, with specific impacts that are beginning to be seen.
- The immediate assessment of the School for Policymakers was very positive. Nearly 80% of the participants said that the course was relevant for the work they do. More than 90% said that the experience was very useful for better understanding policy models and instruments for promoting innovation, science and technology in their countries.
- The school also led to the development of proposals for technical cooperation between participating countries and institutions. After an initial stage in which the institutions worked to identify common issues, progress was made on defining spaces for cooperation and project proposals were drafted, discussed and agreed by the participants. Two examples that were singled out for responsiveness and commitment during negotiations among the countries were the bilateral cooperation agreements on nanotechnology and air and space engineering announced by the Governments of Brazil and Costa Rica, and the proposal submitted to the Union of South American Nations (UNASUR) for establishing a Network for Evaluating the Social Impact of Science, Technology and Innovation in Latin America in a joint effort by ECLAC and the Governments of Chile, Cuba and Uruguay. Table IV.4 summarizes some of the project proposals developed during the school.
- The outcomes of the school have been recognized in various regional forums on innovation, and it was cited as an example of successful regional technical cooperation that should be ongoing and expanded to other countries and regions.

■ Table IV.4 ■

Cooperation projects developed at the School for Policymakers in Science, Technology and Innovation

| Topic | Countries and institutions |
|--|--|
| Nanotechnology | Brazil and Costa Rica |
| Space engineering | Brazil and Costa Rica |
| Network for Evaluating the Social Impact of Science, Technology and Innovation in Latin America | Chile, Cuba, Uruguay and ECLAC |
| Energy, specifically oil, natural gas and renewable energies | Brazil, Mexico and Uruguay |
| Regional System of Evaluators | Argentina, Brazil, Chile, Costa Rica, Cuba, Ecuador, Mexico, Uruguay and ECLAC |
| Exchange of researchers in areas such as agriculture, biotechnology and ICTs | Brazil, Cuba and Mexico |
| Observatory of Good Practices in Innovation Management | All of the participants in the school |
| Strengthening the Regional Dialogue on Science Technology and Innovation that gave rise to the School for Policymakers | All of the participants in the school |
| Exchange of researchers | Ecuador and Mexico |
| Cooperation on tools for popularizing science | Chile, Cuba and Uruguay |

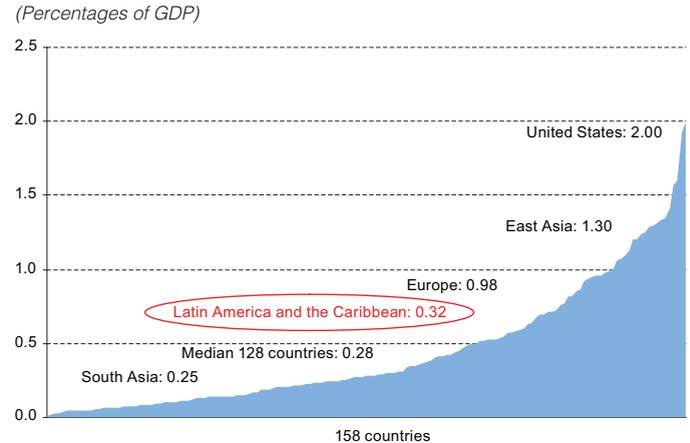
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the School for Policymakers in Science, Technology and Innovation.

V. Credit and financing

1. Improving access to financing

- With few exceptions, financial systems in the countries of Latin America and the Caribbean are not well developed, there is little financial intermediation and households and businesses have inadequate and unequal access to financial services.
- Moreover, there are few financial intermediation instruments, a high concentration in short-term bank financing and segmented credit markets. It is therefore no surprise that one of the main obstacles to enterprise development and entrepreneurship in the region is access to sources of financing, especially in the case of small and medium-sized enterprises.
- In a survey of 600 SMEs in three countries of Central America as part of the joint ECLAC/Spanish Agency for International Development Cooperation (AECID) project (“Financial policies for development: banking and micro-credit”, AEC/08/002), some 57% of the enterprises surveyed reported that they funded their operations with their own resources (the percentage is higher for small enterprises). For enterprises that manage to tap into external financing, the principal sources are banks; these skew towards short-term financing.
- More than two thirds of the enterprises surveyed reported having used their own resources to start up operations. The difficulties in accessing the financial and capital markets mean that the creation of new enterprises depends on the financial capacity of the owners. This results in a suboptimal level of productive enterprise creation and hampers social mobility by limiting business creation to individuals with enough resources of their own.
- Despite the difficulties the countries of the region are having in facilitating access to financial services for households and enterprises, over the past few years new instruments have been developed that have had a positive effect on access to financing for SMEs. One of the features of these policies is that they address financing needs at the different stages of the business development cycle.

■ **Figure V.1** ■
Financial sector lending to the private sector (averages), 1996-2008
 (Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the International Monetary Fund (IMF).

■ **Table V.1** ■
Households using formal financial services by region
 (Percentages)

| Regions | Credit | Savings |
|---|--------|---------|
| Countries of the Organization for Economic Cooperation and Development (OECD) | ... | 90.2 |
| Asia | 8.4 | 37.1 |
| Africa | 4.1 | 22.3 |
| Latin America and the Caribbean | 6.3 | 18.0 |
| Europe (developing) and Central Asia | 5.2 | 17.6 |

Source: L. Tejerina and G. Westley, “Financial services for the poor: household survey sources and gaps in borrowing and saving”, Sustainable Development Department Technical Papers Series, Washington, D.C., Inter-American Development Bank (IDB), May 2007.

2. The Nacional Financiera productive chain programme in Mexico

- In the early 2000s, Nacional Financiera (NAFIN) shifted its goals and began to focus its operations on financing for SMEs. The strategy was based on a broad, low-cost product mix in the framework of the credit and guarantee programme for the private sector. One of the programme components is productive chains, in which large corporations and governmental institutions invite their suppliers (SMEs or individuals) to form a chain. A website is developed for each chain and becomes an e-marketplace for exchanging information, products and services.
- Belonging to a productive chain opens attractive financing options for the participants. One of the instruments created for this purpose is e-factoring, which enables SMEs that are part of a productive chain to obtain financing for accounts receivable via electronic payment of their invoices before they are due. This gives the supplier greater liquidity faster than with traditional factoring, which any enterprise can turn to but which has stricter financial conditions.
- NAFIN provides financing for factoring and operates as an intermediary with other bank and non-bank institutions. The financing is offered in local currency or in dollars, up to 3.26 million UDIs (a monetary unit that is adjusted daily to the consumer price index). Financing terms are between 30 days and 120 days, at an interest rate based on the inter-bank equilibrium rate (TIIE), with no fees.
- This system has been effective to the extent that it promotes competition among intermediaries, favouring SMEs. Posting invoices electronically increases competition and therefore lowers the discount rate for suppliers' accounts receivable. NAFIN encourages small banks and non-bank intermediaries to participate by providing attractively priced funding as a second-tier bank, spurring competition in this segment. This system enables large corporations to enhance their supplier development programmes and allows SMEs to establish credit histories that pave the way to longer-term financing.
- The productive chain programme has successfully simplified the procedures whereby SMEs access credit. The number of enterprises participating and the amounts financed have addressed a critical problem in Mexico: supply chain disintegration.
- During a decade of operations, the programme has been consolidated as an effective liquidity tool for suppliers. By May 2010 more than 10.7 million discounting operations had been executed for a total of 1 billion Mexican pesos (US\$ 77.5 million). There are 584 chains in operation; 39 financial intermediaries are participating and serving 68,000 affiliated suppliers with 10,000 transactions a day. In 2009, the productive chain programme accounted for 75% of NAFIN's tier II financing, far more than the 31% posted when it started in 2002.

3. The BNDES card project in Brazil

- Brazil's National Bank for Economic and Social Development (BNDES), with the support of the Inter-American Development Bank (IDB), delivers a broad range of products to support micro and small enterprises because such enterprises are so important for the local productive fabric and usually face difficulties in obtaining financing. In December 2010, these two institutions signed a conditional line of credit agreement for US\$ 3 billion to channel resources through financial agents accredited by BNDES to finance expansion, installation and modernization projects carried out by micro and small enterprises. The first disbursement of US\$ 1 billion benefited some 100,000 entrepreneurs, mostly microentrepreneurs, in line with the strategies of the Government of Brazil and the IDB to promote sustainable growth with social inclusion.
- The resources are earmarked for financing medium- and long-term lines of credit for intermediary financial institutions. One of the components of this scheme is the BNDES card, created in 2004 to make it easier for MSMEs to access working capital. It is a revolving credit card that a business owner can use to purchase accredited products on the programme's operating portal. Enterprises may also register to use the card for sales. Enterprises that meet domestic content requirements (at least 60%) for their goods or services may register as suppliers under the programme, as may others that meet BNDES requirements for specific items.
- BNDES does not operate the card directly; it is issued by public and private banks. The revolving credit interest rate is set monthly on the basis of national treasury bills. Payment may be made in up to 48 equal instalments. The revolving credit amount depends on the issuer bank's financial assessment of the business owner. The maximum is 1 million reais (US\$ 630,000).
- In 2009 the BNDES card was the most widely used product for supporting MSMEs. Card disbursements totalled 2.5 billion reais (nearly US\$ 1.5 billion), tripling the figure for 2008. At 175,000, the number of operations accounted for 46.2% of total BNDES transactions with MSMEs. Since the card was created, 250,000 of them have been issued and their use has expanded quickly. The number of enterprises making at least one purchase climbed to 72,000 —a 160% increase over the previous year. The number of enterprises making at least one sale doubled, to 11,000. The BNDES card's share of total disbursements to MSMEs has grown substantially over the past few years, from less than 1% in 2004 and 2005 to some 12% in 2009 and 13% in 2010.

■ Table V.2 ■

Brazil: Total credit disbursements by type of borrower, and BNDES card disbursements

(Millions of reais)

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|----------|----------|----------|----------|----------|----------|----------|
| MSMEs | 6 227.3 | 7 781.6 | 8 107.7 | 12 127.3 | 17 631.4 | 18 866.2 | 37 232.9 |
| Individuals | 6 351.1 | 3 880.3 | 3 009.6 | 3 939.2 | 4 214.8 | 5 052.7 | 8 439.7 |
| Total | 12 578.3 | 11 661.9 | 11 117.4 | 16 066.5 | 21 846.2 | 23 918.9 | 45 672.6 |
| BNDES card | 12.1 | 71.7 | 225.2 | 509.2 | 845.7 | 2 478.6 | 4 314.0 |
| Percentage of disbursements to MSMEs (percentages) | 0.2 | 0.9 | 2.8 | 4.2 | 4.8 | 13.1 | 11.6 |

Source: National Bank for Economic and Social Development (BNDES), Annual Report 2009 and operating statistics [online] www.bndes.gov.br.

4. Financing for innovation: the Innova Chile programme

- In 2005, the Production Development Corporation (CORFO) created the Innova Chile programme by merging existing initiatives to promote innovation and entrepreneurship. The programme is set up in four business areas: pre-competition innovation, business innovation, technology dissemination and transfer, and entrepreneurship. The programme seeks to make the economy more competitive by promoting and facilitating innovation and technology transfer at the enterprise level and by stimulating and strengthening entrepreneurship and the national innovation system.
- Support for innovative entrepreneurship is based on tools such as business incubators, corporate enterprise development, seed capital for innovative enterprises, angel investor and risk capital networks, support for the enterprise environment and attraction of global entrepreneurs. To do so, CORFO has an array of instruments targeting links in the innovative entrepreneurship chain, from business creation to enterprise consolidation.
- Incubators guide and advise entrepreneurs on how to turn their ideas into businesses. Different lines of financing provide support for setting up, strengthening and operating business incubators. At least 19 institutions have promoted nearly 500 enterprises over the past four years.
- The purpose of these incubators is to create and promote innovative, successful enterprises that can be financially viable and self-sustaining upon graduation. Delivering this support has involved providing selected resources and services, including searching for investors, generating sustainable business models, searching for clients and investors and improving access to international networks.
- At the outset, entrepreneurs received seed capital in the form of a non-reimbursable subsidy from Innova Chile for defining, designing and starting up innovative business projects with high growth expectations. The system has operated with sponsors that have, since the beginning, helped with more than 850 projects. According to a 2008 evaluation, nearly 60% of the projects reviewed generated effective sales in project year one, with an average sales growth rate of 44% over the ensuing four years. Each enterprise receiving support created an average of eight jobs, 63% of which were stable ones.

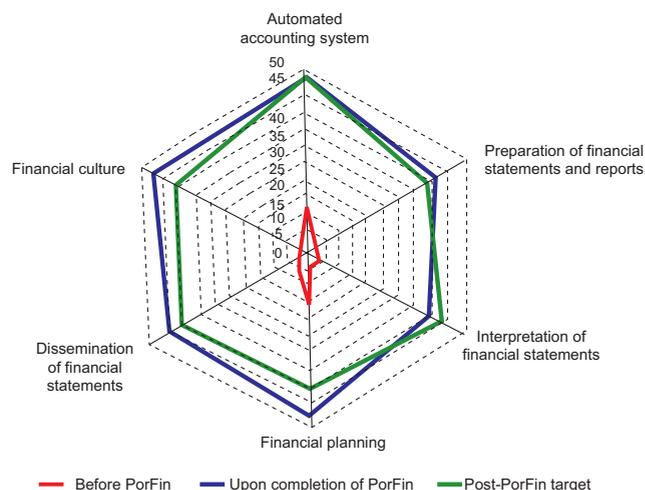
5. New enterprise creation support

- Many countries in the region have programmes to promote the creation of enterprises and of independent jobs. In Colombia, the National System for Enterprise Creation and Incubation was created under the leadership of the National Learning Service (SENA). Incubators speed up the process of creating, growing and consolidating innovative enterprises by developing entrepreneurship capacities. They are not-for-profit organizations in the form of three-way partnerships between the public, private and educational sectors. Among the partners and sponsors of these institutions are training institutions (technical, technological and university), public and private companies, local governments (provincial and city), guilds, chambers of commerce and, in some cases, labour unions.
- Colombia's Enterprise Fund finances entrepreneurship projects for apprentices, university fellows (in the last year of their course) and professionals who received their first degree no more than two years prior. The fund supports productive projects that combine new enterprise development with the knowledge acquired by the entrepreneurs during their training. It facilitates access to capital by making it easier for the beneficiaries to obtain the resources they need to start up new productive units. Business plans can be submitted individually or through associations made up mainly of apprentices.
- Along the same lines, Peru's Integrated Collective for Development (CID) promotes job creation by young entrepreneurs, particularly in poor strata of the population. This not-for-profit organization stresses the development of business competencies among young people and promotes an environment that favours the emergence of entrepreneurs. It has developed a new intervention methodology that has been applied in Peru and in other countries of the region (Dominican Republic, El Salvador, Honduras, Nicaragua and Paraguay). Young people enter the programme, which lasts an average of six months, through open, public calls for candidates. The services delivered involve business management training; advice on marketing, costs and finance, taxes and compliance; participation in local fairs; and access to seed capital and to a guarantee fund. The programme has been rated favourably in terms of sustainability over time, job and income generation and compliance.
- Experience in these cases shows that training for entrepreneurs should not focus only on developing a business perspective. Skills like leadership and problem-solving are also pertinent to the productive process and in interactions with clients, suppliers and the authorities.

6. Strengthening financial management at organizations of small rural growers

- The project for strengthening financial management at organizations of small rural growers (PorFin), for which the Inter-American Development Bank has committed US\$ 1,570,000, is based on the premise that social enterprises need financing to consolidate their own development and to have positive effects for their members. Because inadequate financial management keeps these enterprises from accessing credit, improving it can help them obtain financing and boost their competitiveness and the quality of the services they provide their members.
- Thanks to PorFin, 45 small growers' organizations (co-ops and associations) have automated, efficient accounting systems, financial planning for their business and an enhanced financial culture for their management and shareholders. This enables them to make appropriate decisions through the dissemination of financial information. There are 10 documented success stories of enterprises that have diversified their sources of financing. And four organizations have "graduated" and now have access to commercial credit. Some of the valuable sustainability lessons learned from this project are set out below.
 - The ongoing evaluation methodology, internalization of lessons learned into the methodology, reality checks and systematization of the entire process constitute knowledge and tools that can be transferred to similar projects or initiatives.
 - The sustainability of impacts at beneficiary organizations is uneven, depending on the degree of internalization of processes, habits and tools. It is also affected by turnover among the organizations' representatives (delegates or managers).
 - Organizations that have felt the demonstration effect of access to financing are more likely to sustain the changes made. But this sector is still very vulnerable.
 - The regional financial system is not meeting the demand for credit by such enterprises or by the rural sector. Its structures and its credit evaluation, approval and management processes are not suited to the economic reality of many of these social enterprises.

■ **Figure V.2 ■**
Improvements obtained through the PorFin project^a
 (Number of companies)



Source: Inter-American Development Bank (IDB).

VI. Social innovation and responsibility

1. Corporate social responsibility: greater involvement through public-private alliances

- In the context of corporate social responsibility, public-private alliances are part of a development strategy through which the State stimulates, using a regulatory framework, a form of corporate development that responds to the needs of local communities, guarantees minimum standards and reduces the opportunities for doing the type of business that has a negative impact on society. Regulation based on this approach to corporate social responsibility can stimulate innovation and entrepreneurship.
- One indicator of progress in relation to corporate social responsibility in Latin America is the growing number of SMEs endorsing the United Nations corporate social responsibility initiative, the Global Compact, going from 188 in 2004 to 1,500 in 2010. Four variables have been identified to measure the progress made in relation to corporate social responsibility: policy design; drafting of regulations and standards; support for sustainability; and indicators of achievement.

■ Table VI.1 ■

Public-private corporate social responsibility initiatives with a focus on sustainability

| Policy design | Drafting of regulations and standards | Sustainability support measures | Indicators of achievement |
|---------------|---|--|--|
| Argentina | Congressional corporate social responsibility initiative (2010) | <p>Cooperation and technical assistance agreement: programme giving SMEs access to business opportunities related to government procurement</p> <p>The local network of the Global Compact has doubled the number of businesses (both public and private) that have embraced the principles of the Global Compact</p> <p>Programmes on strategic priorities (six programmes) within the framework of the productive development policy: expansion of exports, strengthening of MSMEs, regionalization, productive integration with Latin America, integration with Africa and sustainable development)</p> | |
| Brazil | <p>The Ethos Institute launched a framework of corporate social responsibility indicators to be used as a model by other organizations in Latin America and the Caribbean. The Institute is working with businesses to achieve the Millennium Development Goals</p> <p>Petrobras adopted ISO 26000 on social responsibility</p> | <p>The Brazilian Global Compact network announced the expansion of its network to other countries.</p> <p>Agreement between the Ethos Institute and the Global Reporting Initiative to strengthen sustainability reporting in Brazil and in Latin America and the Caribbean</p> <p>Proposal by the Ethos Institute to guarantee the transparency and sustainability of the tendering process for the infrastructure works to be carried out for the FIFA World Cup 2014 and the Olympic Games 2016</p> | |
| Chile | The Domestic Tax Service (SII) relaunched the Social Corporate Tax Responsibility (RSET) programme, which incentivizes the businesses making up the supply chains of large and medium-sized enterprises to pay their taxes online and to implement e-billing | <p>The Embassy of Canada in Chile will launch a handbook on the mining industry in Chile (2011)</p> <p>The National Council of the Mining Cluster seeks to identify areas of the industry that would benefit from research and technological innovation</p> <p>The National Council for Innovation is a public-private entity that promotes innovation in science, human resources and development</p> | <p>A growing number of Chilean mining companies are adopting performance indicators such as the Global Reporting Initiative</p> <p>Multinationals in Chile, such as Walmart, are adapting their corporate sustainability practices and have started to report on the social impacts of their activities in the country</p> |

Table VI.1 (concluded)

| Policy design | Drafting of regulations and standards | Sustainability support measures | Indicators of achievement |
|---------------|--|---|--|
| Colombia | Colombia Crece: productive transformation | <p>The Colombian Corporate Council for Sustainable Development (CECODES) seeks to improve quality of life and promote the responsible use of natural resources</p> <p>The University of the Andes conducted a survey of 20 SMEs participating in a programme to promote corporate social responsibility in the export textile sector</p> <p>The Association for the Development of Microenterprise fosters the development and growth of these businesses</p> | The District Environmental Excellence Programme (PREAD) has recognized 58 businesses in Bogota for demonstrating a positive impact on their district and achieving significant goals in relation to environmental sustainability |
| Costa Rica | National Consultative Council on Social Responsibility of Costa Rica (CCNRS) | <p>The Global Compact is seeking to increase the number of large businesses participating in the Compact and endorsing the initiative's sustainability principles</p> <p>The Peñas Blancas pilot programme of the ICE Group is made up of a series of projects on sustainable development in relation to agriculture, forestry, society, education and environment</p> | |
| Peru | <p>National Strategic Export Plan (within the framework of the National Export Plan)</p> <p>Corporate Solidarity Programme (within the framework of the Cooperation Fund for Social Development (FONCODES))</p> | <p>Since 2011, businesses that are involved in Perú 2021 have been able to report on their corporate social responsibility activities using indicators designed by the Ethos Institute</p> <p>The launch of the Ethos-Perú 2021 indicators marked the introduction of a single standard for measuring corporate social responsibility in Peru and eight other countries in Latin America</p> | |
| Mexico | <p>The Grand Jalisco Alliance: forum for citizen participation that connects the Government with different sectors to achieve the strategic goals set forth in the state's development plan</p> <p>The Minister of Labour and Social Security announced the creation of the Corporate Social Responsibility Committee to coordinate public policy with policies on corporate social responsibility</p> | <p>The Technological Institute of Monterrey held the inaugural Green Businesses Expo, which contributed to the development of a social and environmental responsibility framework. Under this framework, the Institute, ECLAC and the Organization of American States (OAS) signed a cooperation agreement to promote corporate social responsibility in the region through events such as the Green Businesses Expo</p> <p>The Development Portal is a technological platform that helps communities, organizations and individuals to come together, share ideas and work together to reduce poverty and the digital divide</p> | |
| Ecuador | | In 2010, the Ecuadorian Consortium for Social Responsibility (CERES) launched the Ethos indicators of corporate social responsibility; the monitoring of corporate social responsibility is facilitated by specific indicators that reflect the situation in Ecuador | |

Source: Economic Commission for Latin America and the Caribbean (ECLAC).

2. A study in success: the ECLAC-Kellogg project

- The contest “Experiences in Social Innovation in Latin America and the Caribbean” has been organized by ECLAC since 2004 with the support of the W.K. Kellogg Foundation. The aim of the contest is to identify, analyse, recognize, disseminate and promote the creative replication of innovative projects in areas such as education, health, youth programmes, social responsibility, volunteer work, income generation, and rural and agricultural development in all of the countries of Latin America and the Caribbean. Innovation has been defined as new forms of management, administration and services, as well as new, cost-effective activities that are replicable elsewhere and that foster social capital, productivity and service quality to the benefit of socially vulnerable population groups.
- Projects are identified by means of a yearly social innovation contest that is widely publicized throughout the region. Five rounds have been held so far, with more than 4,800 submissions of socially innovative projects across the region. Over the years, desk and field evaluations have yielded 72 finalists and 25 winning projects.
- In 2010 and 2011 the project is using special events, virtual forums and publications to disseminate and promote the creative replication of successful projects submitted in previous rounds of the contest. The “creative replication” initiative has been linked to the drive for more inclusive public policies. Some examples are:
 - A model for early childhood care developed by the Peruvian NGO Taller de los Niños as part of its Growth and Collective Development project, which was incorporated into national public policy (2005).
 - A work plan for Amazonia applied by the Centre for Advanced Strategic Social and Environmental Promotion Studies (CEAPS) in Brazil, which is now being used throughout that area of the country (2005).
 - The Community Defence Councils: a Community Response to Domestic Violence model is now public policy in the Department of Cusco in Peru and is being applied by a group of community defenders in the Bolivarian Republic of Venezuela (2006).
 - To serve socially vulnerable youths, the Government of Costa Rica will implement the system developed by Caja de Compensación Familiar de Antioquia (COMFAMA)’s Fénix Programme in Colombia (2006).
 - The Student Lodgings in Families programme in the Plurinational State of Bolivia is public policy in more than eight municipalities in northern Potosí (2007).
 - The Social Observatory in Maringá, Brazil, has been replicated in more than 35 cities across the country (2009).
- To continue to feed public policy with lessons learned from successful social innovation projects, and to boost their multiplication effect, it is important to continue to identify new, sustainable projects and deepen the channels for disseminating “creative replication”. Social innovation is to social development what technological innovation is to productive development. They complement each other, improving both productivity and the quality of life.

3. Social innovation in Haiti in poor and extremely poor population groups: *Lèt Agogo*

- The Haitian project *Lèt Agogo* (milk in abundance, in Creole) won first prize in the 2005 round of the ECLAC-Kellogg Foundation contest “Experiences in Social Innovation in Latin America and the Caribbean”. This project was the idea of a group of small farmers without property titles practicing low-productivity cattle-raising in the locality of Limonade and living in conditions of high social vulnerability.
- The programme seeks to improve family living standards by making their cattle-raising activities profitable, thus reducing imports and improving food security. The project has been led by a Haitian NGO, VETERIMED, with support from Oxfam International, the Catholic Organisation for Relief and Development Aid (CORDAID) and Veterinarians without Borders. Work begins with a participatory diagnostic review to identify solutions for the main problems impacting production. Barriers to greater productivity (such as lack of property titles and problems in marketing milk) are identified.
- Support from government institutions is then mobilized and land tenure regularized. A micro-dairy owned by the farmers is installed, and coordinated action is taken to address the lack of services and infrastructure for dairy operations in the area. To achieve a demonstration effect, operations must show that the animals owned by the group of farmers are indeed a profitable investment. This combination of factors yields positive synergies: improved fodder species, access to water (with wells designed by a local farmer) and animal health, thanks to training. The result is increased productivity, job creation and higher family income. The initiative is then replicated and expanded.
- In 2010 there were 30 micro-dairies processing 7,500 litres of milk a day. Some 2,500 farmers belonged to the network; many of them working at the micro-dairies. Some were even veterinarian agents recognized by the authorities. The project has generated some 250 new jobs in the participating communities; many of these jobs are held by women. The initiative increased the farmers’ income as well as local milk production, and it brought down the end price of milk and milk products.
- The initiative leveraged synergies and showed that it is possible to increase productivity and income in severely underdeveloped sectors while improving food and nutritional security.

4. Empowering women entrepreneurs: Vital Voices Global Partnership

- Mentoring programmes have a recognized impact in empowering women leaders of micro, small and medium-sized enterprises, as demonstrated by projects carried out by Vital Voices Global Partnership. A good example is the FORTUNE/United States State Department Global Women's Mentoring Partnership, which delivers a month-long mentorship programme in the United States for businesswomen.
- The OAS General Secretariat, in association with Vital Voices Global Partnership, is implementing and funding a pilot project called Support to Vital Voices Latin America and Caribbean Business Women Network. The project seeks to reproduce and disseminate in Central America successful mentorship assistance provided in other parts of the world to women-led MSME exporters. It facilitates the transfer of experiences and knowledge from successful women entrepreneurs in Central America to women-led MSMEs with potential to participate in value chains. The goal is to
 - develop MSMEs that will become competitive value chain suppliers of successful larger firms led by women, through mentoring and targeted technical assistance. The main components of the project are:
 - Mapping of successful women-led firms in two Central American countries, including those that are already exporting successfully and have potential to integrate MSMEs into their value chains.
 - Mapping of women-led MSMEs with potential to be value chain suppliers.
 - Baseline and needs assessment of at least two firms per country, in order to determine technical assistance needs.
 - Mentoring by successful women entrepreneurs, and targeted technical assistance to help prepare selected MSMEs to integrate competitively into value chains.
 - In February 2011, successful women-led firms were identified in Guatemala and Nicaragua that meet the first two requirements.

5. Competitiveness Programme for Developing Textile Artisan Export Associations in Cusco: gender equality, entrepreneurship and inclusion

- The Competitiveness Programme for Developing Textile Artisan Export Associations in Cusco seeks to train producers and entrepreneurs in information technology, business management, technological innovation and design. It also guides the implementation of associative models that will enable them to deal with commercial operators in the domestic and international market.
- The project has benefited 425 textile artisans belonging to five associations in rural areas of Cusco. Some 91% are women, most of whom are speakers of Quechua. The project has significantly changed the role that women play in the association. Women are now involved in the entire productive process chain and even, in some cases, in marketing their products.
- Among the project's other achievements are innovative, export-oriented products, processes and manufacturing techniques, and the establishment of a brand owned by the beneficiaries (KAMAQ). The first step has been taken to create public-private partnerships for promoting exports from the Cusco region, with associations of producers and textile artisans with leadership skills and entrepreneurial vision.
- More than 250 designs were developed under the programme, 100 of them for marketing purposes. The designs were implemented under the supervision of experienced designers. More than 110 artisans took part; they also received training in how to read and prepare technical specifications and meet other requirements for producing handcrafted textiles. This was complemented by participation in international fairs that led to nearly 140 direct contacts with potential domestic and international clients.

■ Table VI.2 ■

Peru: associations participating in the Cusco Competitiveness Programme

(Percentages and number of people)

| Association | Rurality index (Percentages) | Women (Percentages) | Beneficiaries (Number of people) |
|---|---------------------------------|------------------------|-------------------------------------|
| Lares District Association of Artisans (ADAL) | 73 | 100 | 104 |
| Ccatca Artisans Network | 87 | 84 | 94 |
| Chinchero Rural Artisans Network | 72 | 78 | 45 |
| Pisac Artisan Producers Network | 64 | 90 | 58 |
| Central Association for Traditional Southern Andes Artisans "Inkakunaq Ruwaynin" | 61 | 93 | 124 |
| Total | 75 | 91 | 425 |

Source: Inter-American Development Bank (IDB).

6. Associations and inclusive trade: organic quinoa producers cooperative in Puno (Peru)

- For small farmers, organizing in associations or cooperatives is often the most effective way to participate competitively in international trade. The association of organic quinoa producers of Cabana in the Puno region (Peru)—organized as the Cabana Agroindustrial Cooperative (COOPAIN) in 2011—is a successful example that can be reproduced in other countries and regions. Started 10 years before by a group of 150 families who wanted to ensure that the production of quinoa translated into a better life for the residents of Cabana, the association today directly benefits 500 families and 15 additional associations that bring together 3,000 inhabitants of the region. The work done by these associations has yielded concrete results:
 - Stable or increasing prices for the producer (1 nuevo sol per kilo in 2006; 4.80 nuevos soles per kilo in 2010).
 - Higher productivity and better quality, thanks to improved seeds and natural fertilizers.
 - Organic certification.
 - A processing plant that can process 1,200 tons of pearl quinoa a year.
 - Direct microloans between 600 nuevos soles and 1,000 nuevos soles per semester.
 - Growing participation in international trade, with plans to increase sales directly handled by COOPAIN without intermediaries.
 - Presence in local and regional fairs, and in some international fairs, such as Taipei Food Show, Mistura Perú, Expoalimentaria Perú, BioFach (Germany) and SIAL Canada.

■ Table VI.3 ■
Peru: COOPAIN in numbers

| Products | 2008 | | 2009 | | 2010 (at September) | |
|---------------------|------|--------------|------|--------------|---------------------|--------------|
| | Tons | Nuevos soles | Tons | Nuevos soles | Tons | Nuevos soles |
| Conventional quinoa | 57 | 377 190 | 93 | 488 732 | 87 | 535 822 |
| Organic quinoa | 0 | 0 | 208 | 1 516 906 | 208 | 1 770 714 |
| Total | 57 | 377 190 | 311 | 2 005 638 | 295 | 2 306 536 |

Source: Organization of American States (OAS).

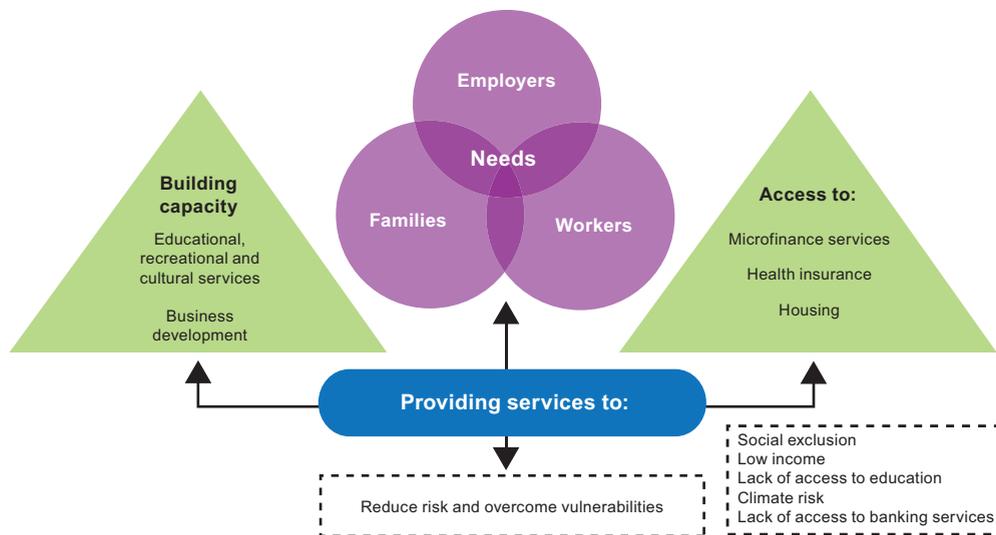
7. A model of social protection: Caja de Compensación Familiar de Antioquia (Colombia)

- Caja de Compensación Familiar de Antioquia (COMFAMA) is a private, non-profit corporation that provides social services within Colombia’s institutional framework of social protection. COMFAMA’s strategic approach focuses on reducing social inequalities, based on the principles of solidarity, responsibility, and integration. COMFAMA was founded in 1954 as the result of an agreement between the National Association of Industrialists (ANDI) and the workers of the Antioquia Railroad Labour Union. This helped to consolidate COMFAMA’s legitimacy and sustainability. For more than five decades it has perfected profitable mechanisms that help civil society participate in and influence social policy management and see that the private sector impacts the social development of Antioquia.
- COMFAMA delivers social services to vulnerable sectors of society under a decentralized arrangement that combines

social and financial logic and generates annual profits. This is a competitive advantage that distinguishes it from other social programmes that do not expect to recover invested funds (i.e., non-returnable aid). Policy decisions are made by a joint board of directors comprising five employers and five labour union representatives. Its funding comes from contributions in the form of 4% of the payroll of more than 45,000 affiliated enterprises, from user co-payments, from its own revenue and from resources obtained through public-private alliances with national and international actors. The social character of COMFAMA operations can be seen in its allocation of expenditures: all investments are linked to some kind of service for vulnerable population groups (49% to social services, 27% to health services, 22% to financial subsidy programmes and 2% to microcredit programmes).

■ Diagram VI.1 ■

Colombia: COMFAMA business model



Source: Economic Commission for Latin America and the Caribbean (ECLAC).

- Family allowances are in keeping with a broad social protection agenda encompassing all components of well-being for workers and their families, like health, protection for older persons, housing, employment, education and recreation. This model is based on the idea that people with higher incomes should contribute more so that lower-income persons receive more and are better able to provide for their dependants.
- COMFAMA distributes income through different modalities that can be classed in three groups according to resource use flexibility and the beneficiaries: direct financial subsidy programmes, targeted funds and/or resources, and social services. The latter focus on education, health and nutrition, training and culture, housing, recreation and credit services. COMFAMA also offers an integral package that combines financial and non-financial resources.
- COMFAMA is an established social security model that mitigates risks for vulnerable sectors, to keep them from falling into extreme poverty. COMFAMA takes a holistic approach to welfare in order to improve the quality of life for vulnerable families. It aims to provide people with opportunities and skills, empowering individuals and their families to break the cycle of poverty.

8. The Partnership in Opportunities for Employment through Technology in the Americas (POETA) initiative: a multi-sector approach to promote economic opportunities and social inclusion for vulnerable communities

- Through its Partnership in Opportunities for Employment through Technology in the Americas (POETA) programme, the Trust for the Americas trains persons with disabilities to facilitate their entry into the formal workforce, and it promotes their inclusion in public policies. This is particularly important, because some 82% of the 50 million persons with disabilities in the region are living in poverty. The vast majority of them are unemployed or outside the work force (according to World Bank data).
- The Trust builds the institutional capacity of civil society organizations working with persons with disabilities. In partnership with donors such as Microsoft, the Inter-American Development Bank and the U.S. Department of Labor, The Trust provides local organizations with the tools they need to improve their beneficiaries' access to employment opportunities through training, information, communication, technology and job readiness. At the end of the training period, The Trust works with its local partners to develop plans for programme continuity and monitor participants' success in the job market. The Trust also promotes social inclusion of persons with disabilities through public awareness campaigns and outreach to local governments. It educates local businesses about inclusive employment practices and encourages them to put social responsibility high on their corporate agendas.
- The IDB and the International Monetary Fund have supported the POETA initiative to strengthen labour inclusion in Ecuador, El Salvador, Mexico and Peru through joint partnerships with businesses, governments and civil society organizations. Specific actions include:
 - Motivating and providing technical assistance to employers to encourage the inclusion of labour policies in their corporate social responsibility statements (338 companies have participated).
 - Addressing the challenges faced by persons with disabilities upon entering the labour market, and implementing a training curriculum to meet the demands of target populations.
 - Increasing employment rates for persons with disabilities in participating countries by an average of 10% over the life of the programme.
- Over the past five years, the Trust's POETA programme has trained 47,000 persons with disabilities and other vulnerable population groups and has achieved job placement rates of up to 27%. More than 338,000 people have benefited from the 105 POETA centres that The Trust has sponsored in 20 countries in the region. In 2010, the POETA programme was recognized by the United Nations Development Programme as a good practice contributing to the achievement of the Millennium Development Goal of reducing extreme poverty.

VII. Environmental governance and cooperation

1. Improving corporate environmental performance supports the Millennium Development Goals

- The United Nations Global Compact corporate social responsibility initiative promotes good corporate environmental performance, supporting a precautionary approach, initiatives to promote environmental responsibility and better development and diffusion of environmentally friendly technologies. These principles are in line with Millennium Development Goal 7, which calls for incorporating the principles of sustainable development into country policies and programmes, reducing biodiversity loss, and reducing by half by 2015 the proportion of the population without sustainable access to safe drinking water and basic sanitation.
- Corporate social responsibility seeks growing public-sector and community involvement in business activities, through public-private alliances. Such alliances take a broader approach to corporate social responsibility by bringing in the State as guarantor of an institutional and regulatory framework that encourages business development, responds to the needs of local communities, ensures minimum standards and prevents business practices that are harmful to society. One indicator of progress in corporate social responsibility in Latin America is the growing number of SMEs endorsing the Global Compact, going from 188 in 2004 to 1,500 in 2010. Corporate social responsibility stresses policy formulation, advances in regulation, the development of standards, and support of sustainability.
- Latin American enterprises that have endorsed the Global Compact report regularly on their programmes and policies for improving their environmental performance. Their efforts focus mainly on four areas: biodiversity, efficient use of natural resources, energy and climate change and waste management.
 - In the area of biodiversity, companies focus on reforestation, recovery of integrated biodiversity areas, preservation of ecosystems and forest repopulation.
 - For use of natural resources, the focus is on reusing water, reducing the use of paper, water and other materials and monitoring water quality.
 - For energy and climate change, the focus is on reducing greenhouse gas emissions and developing and using renewable energies.
 - Waste management encompasses disposing of waste, eliminating and decontaminating toxic waste, reusing and recycling non-hazardous waste (composting) and decreasing trash production.
- Companies participating in the initiative follow programmes for improving their environmental performance. In doing so, they become more competitive, enhance their image, gain access to more demanding external markets or simply take advantage of new business opportunities. The impacts of these programmes often go beyond the companies themselves to extend throughout their value and supply chains.
- These efforts, which are a significant generator of new technologies and of adoption of existing clean technologies, contribute to the achievement of global reduction goals in participating countries.

■ Table VII.1 ■

Latin America and the Caribbean: improvements in corporate environmental performance, by sector

| Sector | Biodiversity | Efficient use of natural resources | Energy / Climate change | Waste management |
|--------------------------------|--|--|---|---|
| Transport | Sites for species recovery/ relocation | Water recycling | Energy-efficient designs for new facilities | Responsible disposal of hazardous waste |
| | | | Energy conservation | Fertilizer processing Reduction of waste production Reuse or recycling of non-hazardous waste |
| Building materials | Afforestation | Water recycling | Energy conservation | Disposal of hazardous waste and decontamination |
| | Preservation of ecosystems | Water savings | | Alternative use of fuels to process non-reusable and non-recyclable waste |
| | Reforestation | Rainwater collection | | Pollution control |
| | Sites for species recovery/ relocation | Water quality control | | Micro-treatment plants for reusing community waste |
| | Biodiversity recovery in degraded areas | | | Fertilizer processing |
| Gas, water and public services | Biodiversity recovery in degraded areas | Water quality control | Reduction of greenhouse gases | Use of composting processes |
| | Reforestation | Supporting the development of micro-basins | Development and use of renewable energy sources | Reuse or recycling of non-hazardous waste |
| | Preservation of ecosystems | Paper recycling | Energy conservation | Use of waste recycling and classification equipment |
| | | Paper conservation | | Reduction of waste production |
| | Power transmission lines that have a low impact on forests | Water conservation | | Responsible disposal of hazardous waste and decontamination |
| Telecommunications | Reforestation sponsorship | Paper and water conservation | Energy conservation | Reduction of waste production |
| | | | | Use of waste recycling and classification equipment |
| | | | | Responsible disposal of hazardous waste |

Table VII.1 (concluded)

| Sector | Biodiversity | Efficient use of natural resources | Energy / Climate change | Waste management |
|-----------------------------------|--|--|--|---|
| Metals mining industry and mining | Biodiversity recovery in degraded areas | Water quality control | Reduction of greenhouse gases/ Air quality monitoring | Responsible disposal of hazardous waste and decontamination |
| | Afforestation | Water recycling | | Reuse or recycling of non-hazardous waste |
| | Preservation of ecosystems | Water conservation | | Waste management programme |
| Energy | Reforestation sponsorship | Water conservation | Energy conservation | Reduction of waste production |
| | Power transmission lines that have a low impact on forests | Use of recycled or sustainable materials | Use of renewable energy | Responsible disposal of hazardous waste |
| | | | | Reduction of greenhouse gases |
| | | | Development of renewable energy sources | |
| Tourism | Preservation of ecosystems | Conservation of resources | Energy conservation | Installation of solid-waste recycling systems |
| | | Water conservation | Use of renewable energy resources | Responsible disposal of waste |
| | | Water recycling | | Reuse or recycling of non-hazardous waste |
| | | | | Fertilizer processing |
| Chemical products | Preservation of ecosystems | Water recycling | Energy conservation | |
| | No use of animals in product testing | Water conservation | Pollution control | |
| Cement | Biodiversity recovery in degraded areas | Conservation of limestone, chalk, mudstone, sandstone and gravel resources | Reduction of greenhouse gases | Reuse or recycling of concrete |
| | Preservation of ecosystems | | Use of renewable fuels | |
| | | | Reduction of resource consumption | |
| | | | Pollution control/Air quality monitoring | |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Global Compact database [online] www.unglobalcompact.org/participants/search.

2. Access to information for good environmental governance: the Inter-American strategy

- The countries of the western hemisphere have taken a leading role in the supporting the good governance principles set out in the Rio Declaration on Environment and Development (particularly Principle 10, on appropriate access to information concerning the environment), the Inter-American Democratic Charter, and the Inter-American Strategy for the Promotion of Public Participation in Decision-Making for Sustainable Development. The latter seeks to promote transparent, effective and responsible public participation in decision-making and to foster the formulation and execution of sustainable development policies. This is necessary because the rise of an effective and active civil society, in conjunction with increasingly powerful international institutions, has created a dynamic that is reshaping the way international environmental law is developed and enforced.
- A number of countries, including Canada, Dominican Republic, El Salvador, Ecuador, Jamaica, Mexico, Peru, Trinidad and Tobago and the United States have therefore adopted or are reviewing freedom of information laws and/or procedures that support environmental information access following the Model Inter-American Law on Access to Public Information.
- Good environmental governance includes transparency, access to environmental information, citizen accountability procedures, and clear processes that support meaningful public participation. Case studies suggest that the principles and recommendations adopted by countries through the Inter-American Strategy for the Promotion of Public Participation in Decision-Making for Sustainable Development are valuable elements of good governance. The work of the OAS, particularly in the Andean and Central American subregions, shows that there is still work to be done regarding the incorporation of principles of good governance and participation –in particular those included in the Strategy: proactivity, inclusiveness, shared responsibility, openness throughout the process, access, transparency and respect for public input.
- Advancing the implementation of the Inter-American Strategy for the Promotion of Public Participation in Decision-Making for Sustainable Development and Principle 10 of the Rio Declaration will provide a valuable reference on governance for sustainable development in future actions in this area and towards the United Nations Conference on Sustainable Development.

3. Reforestation project in Rondônia (Brazil)

- In 2007, the Joint Consortium for Economic Reforestation (RECA) project won fourth place in the ECLAC-Kellogg “Experiences in Social Innovation in Latin America and the Caribbean” contest. RECA has its origins in a National Institute for Colonization and Agrarian Reform (INCRA) settlement in the Amazon jungle, in the state of Rondônia, on land that the government gave in 1984 to settlers who had no technical or financial support. Location and climate worked against growing any crops, especially environmentally sustainable ones. The RECA project introduced a new, collective, sustainable and organic mode of production that has improved the small farmers’ quality of life and increased their income.
- With no government support, small-scale producers began to organize with the rubber tappers already living in the region to develop initiatives for improving their income and living conditions. That is how the RECA project association of small-scale farmers came about. RECA promotes agroforestry systems, the recovery of deteriorated lands and capacity-building for communities. After a few years it added the processing of forest products and established a processing and marketing enterprise that garners better prices, thus ensuring a source of income for the members of RECA, who often are plant operators. Growers sell to the plant at prices that are set in an open meeting.
- Processed products include competitively-priced concentrated juices, pulp, marmalades, vegetable oils and cupuaçu nut butter. Demand for RECA’s products is high in the pharmaceutical and cosmetics industries. The products are certified organic, adding value and opening high-end market niches.
- Since 1989 RECA membership has grown from 86 families to more than 300 families of small agroforestry producers who work some 1,800 hectares. In 2009 RECA processed 1,300 tons of fruit and sold pulp to factories in north-eastern Brazil and in São Paulo. Working together, RECA member producers earn 30% more than farmers who work alone and sell unprocessed products.

4. Evaluating the activities of the Environmental Cooperation Programme for Central America-Dominican Republic-United States Free Trade Agreement (CAFTA-DR) countries

- As of December 2010, the United States had invested US\$ 77 million to fund the Environmental Cooperation Programme (ECP) for Central America-Dominican Republic-United States Free Trade Agreement (CAFTA-DR) countries. This investment is to help further progress in four programmatic areas, as defined under the Environmental Cooperation Agreement:
 - Institutional strengthening for effective implementation and enforcement of environmental laws
 - Biodiversity and conservation
 - Market-based conservation
 - Improved private sector environmental performance
- The CAFTA-DR countries pioneered implementation of a results-based performance monitoring framework to assess the impact of trade-related environmental cooperation. The OAS Department of Sustainable Development (DSD) prepared Performance Measurement Frameworks (PMFs) to perform quantitative data analyses. It conducts regular consultations with Points of Contact, cooperation beneficiaries, implementing agencies and national institutions and authorities, among other actors, to identify relevant information for reporting.
- This cooperation has yielded valuable experiences and benefits. The success of this initiative has helped to raise awareness of the ECP and highlight progress made on it throughout the region, thus contributing to its implementation. CAFTA-DR countries are in a position to take the programme to the next level, as they have the basic tools to ensure its continuation. Staff and resources must be properly allocated and sustainability must be made a priority in order to ensure the long-term benefits of the ECP.

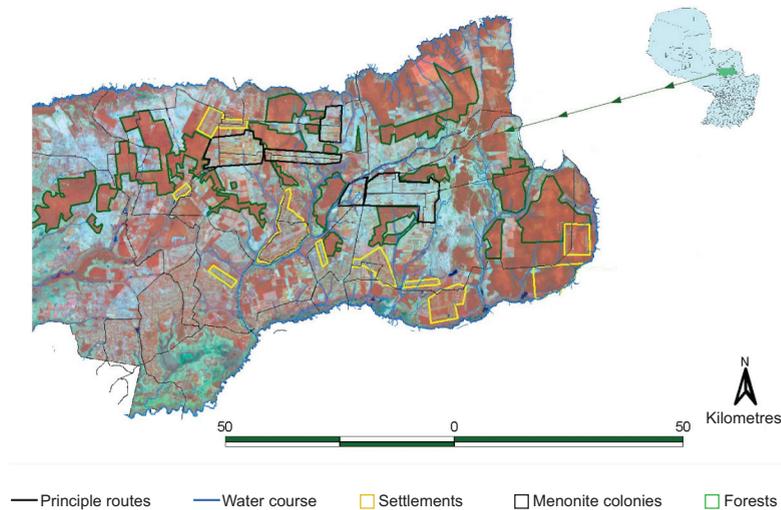
5. Keeping an ecosystem: conservation of the Atlantic forest in the Alto Paraná (Paraguay)

- Forest loss and ecosystem change in Latin America have led rural initiatives and rural agricultural and forest businesses to lose valuable environmental services for productive performance. Forest loss also increases carbon dioxide emissions into the atmosphere, accelerating the reduction in the rate of biodiversity and diminishing the ability of soils to retain and produce water, among other resources. Paraguay is no exception. In the Department of San Pedro, deforestation is progressing rapidly; innovative mechanisms are needed to halt the loss of environmental services.
- A legal instrument implemented by the Government to reverse this situation is the valuation and payment of

ecosystem services law (Act 3001/06). The Department of Sustainable Development of the OAS General Secretariat and the Institute of Environmental Law and Economics of Paraguay (IDEA), with financial support from the World Bank, have used this framework to work with a group of farmers in sustainable farming practices and in the certification of community forest reserves as a provider of environmental services. Subsequently, a group of national economic actors will be identified who are willing to offset their environmental liabilities through the purchase of the certificates issued by the community within the framework of this law. This project constitutes the first application of this law in the context of the rural economy.

Map VII.1

Paraguay: area of influence of the sustainable agriculture project



Source: Organization of American States (OAS).

VIII. Improving policy design and implementation

1. Levelling the playing field: policies to protect competition

(a) Space for SMEs

- Because of their size and number, SMEs do not usually engage in anti-competitive practices. Rather, they are a key driver of competition in an economy. While laws to protect and promote competition do not directly target SMEs, an effective competition policy facilitates their market incorporation by freeing them from potential anti-competitive threats.
- Competition policy has a dual purpose: to promote economic efficiency (optimum use of existing resources) and to promote consumer well-being (impact on prices and options at their disposal). However, some international practices show that competition policy can have additional goals; these may include increasing equality, generating opportunities for SMEs and creating jobs (Hernández and Schatan, 2006). Adding these goals means that when rules in defence of competition are enforced, their impact—especially on small enterprises— must be taken into account (see table VIII.1).
- Countries with regulations governing competition that apply to SMEs are looking to provide them with equal opportunities in the economy and have allowed the authorities to develop an increasingly relevant body of jurisprudence for SMEs. Examples of such regulations are:
 - Overseeing mergers and acquisitions above certain amounts of assets and sales, paying special attention to cases of vertical integration of production.
 - Developing valuation criteria above and beyond efficiency indicators for allowing or conditioning mergers, bearing in mind such factors as impacts on employment and on productive linkages with SMEs.
 - Banning discriminatory practices by large enterprises.
 - Allowing exceptions to the criterion of market domination so that SMEs can join together to negotiate prices through buyers' associations.
 - Authorizing certain public aids that discriminate in favour of SMEs.
 - Setting market shares or minimum revenue levels below which certain rules on competition do not apply, relaxing the restrictions on cooperation between companies.
 - Barring certain exclusivity and preferential pricing agreements, which create entry barriers and force participating SMEs to accept below-market prices.
- Regions that are in the process of economic integration are focusing their efforts on expanding national markets so that their enterprises encounter more dynamic regional markets and attain appropriate plant scales. Most of these integration processes have been enhanced by including goals and enforcement mechanisms to protect competition. This creates instruments that SMEs (which generally keep to local markets) can use to protect themselves against anti-competition practices by larger, regional or international companies.

■ Table VIII.1 ■

International practices linking the defence of competition to the protection of SMEs

| Substantive rules | Procedural rules |
|---|--|
| 1. Prohibition of certain exclusivity agreements. 2. Exceptions that allow SMEs to form groups or associations for negotiating preferential prices. 3. Rules controlling the reasons for and impacts of mergers and acquisitions between large companies and small enterprises. 4. Interpretive criteria that balance the search for efficiency with the promotion of SME competitiveness. | 1. Accessibility: institutional support for SMEs to help them make their case. 2. Dispute resolution: special rules for seeking out-of-court agreements. 3. Precautionary measures: considerations on the irreversible costs that SMEs face, and criteria for ruling in their favour. 4. Admissibility exceptions based on market share or sales. |

Source: Economic Commission for Latin America and the Caribbean (ECLAC).

(b) Policies to protect competition in small economies

- Policies to protect competition encounter certain peculiarities when they are formulated and put in place in small economies. The structure of such economies is characterized by small markets with highly concentrated market power. Although economic opening and international insertion can increase competition by bringing in external economic actors, they sometimes concentrate market power in foreign companies with regional or global operations.
- These traits of small economies highlight how important it is for rules on competition to be specific to each country and its production structure. In some cases, banning cartels is the best way to protect competition. In others, the best solution could be to ban abuse of dominant positions, to regulate mergers or to scrutinize exclusivity contracts. Subsidies and regulations that benefit certain economic actors under production policies can, from another perspective, negatively impact competition.
- In small economies, competition policy should be tailored to the degree of concentration required for enterprises to attain minimum efficient scale. Criteria for assessing anti-competitive measures should be reviewed on a case-by-case basis instead of just measuring the lessening of competition in

the market or the degree of concentration. Competition laws may also target the operation of transnational companies to prevent the abuse of market power (Stewart, 2006). Given the power asymmetry between such companies and small States, cooperation agreements with other countries are very important.

- In smaller economies, companies with a dominant position in one country can also impact neighbouring countries, so methods for gathering evidence for litigation and procedures for measuring market power should be regional –not just national– in scope. Some trade agreements are examples of good practices because they go beyond opening markets as a way to promote competition. Some examples are the agreement between the European Union and the Caribbean Forum of African, Caribbean and Pacific States (CARIFORUM), and the agreement between the European Union and Central America. Both provide for the exchange of information, cooperation in enforcing measures and recognition of regional agreements and national laws of the participating countries. All of the regional integration mechanisms in Latin America and the Caribbean allow for the creation of regional authorities and cooperation mechanisms on competition, but they are actually in place only in the Andean Community (CAN) and the Caribbean Community (CARICOM), as table VIII.2 shows.

■ Table VIII.2 ■

Rules protecting competition in regional integration agreements

| | |
|---------------------------------------|--|
| Andean Community (CAN) | Decision 608 (205) bars and penalizes conduct restricting competition that impacts the subregion. The Andean Competition Protection Committee was created as the agency in charge of competition policy. There is a system for cooperating with national authorities responsible for competition in the member countries. |
| Caribbean Community (CARICOM) | The Treaty of Chaguaramas, which created CARICOM in 1973, has provisions concerning the protection of competition in the subregion. Protocol VIII (2000) to the treaty regulates competition policy, consumer protection, dumping and subsidies. It states that member States shall have laws on competition and shall cooperate with the Regional Competition Commission. |
| Central American Common Market (CACM) | The countries of Central America have no regional agreement on competition, nor do they have an agreement on regional cooperation concerning competition. The partnership agreement with the European Union provides for a regional agreement on competition and a regional competition authority, pursuant to article 25 of the Guatemala Protocol (1993). |
| Southern Common Market (MERCOSUR) | Decision 18/96: "Protocol for the Protection of Competition in MERCOSUR," approved on 17 December 1996. Investigation of restrictive practice is within the purview of the Committee for the Defence of Competition. Paraguay and Brazil ratified the protocol, which has still not taken effect in the absence of ratification by the other member States. |

Source: Economic Commission for Latin America and the Caribbean, on the basis of official information.

(c) Regional policies: progress towards normative and institutional models

- To capitalize on trade liberalization now that the main barriers to trade in Central America have been removed, a competition policy should be developed. Formulating an effective competition policy at the subregional and national level helps reduce and avoid competition problems in the single market, normally associated with permanent barriers to market access and anti-competitive business practices. Furthermore, if Central American products are to be globally competitive, there must be strong competition within the subregional market. This can be achieved with a modern and effective competition policy.
- The Inter-American Development Bank has supported the development of a normative and institutional model for a regional competition policy in Central America and Panama designed to boost the response capacity of the Central American Common Market (CACM) through measures for eliminating barriers to market access and limiting anti-competitive practices.
- The normative and institutional model will include a detailed action plan for approving and implementing the regional competition policy. The policy will lay down the terms for cooperation between the subregion's competition authorities and a strategy for enhancing national inter-institutional coordination. It will also set out a process for harmonizing and standardizing competition regulations, based on international best practices. Emphasis will be placed on combating horizontal integration practices and regulating mergers and acquisitions; studies will also be conducted on sectors experiencing competition problems at a subregional level, and recommendations put forward on protecting competition.
- Without a culture of competition, a regional policy will have little impact. The project will support the development of a strategy and action plan to bolster the culture of competition nationally and subregionally. It will also include a pilot initiative: a regional Central American competition day will be launched. This will involve national public awareness activities and a regional forum targeting various spheres (education, business, government, opinion-makers and civil society).

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2. Correcting failures of implementation

(a) Increase human and financial resources for SME policies

- There is a large gap between formulation and implementation of policies in support of SMEs. Many countries have drafted, approved and announced policies that are not always implemented. Among the reasons for these failures of implementation are operational problems; multiple, often contradictory and hard-to-attain goals; lack of funding and of qualified human resources; and weak alliances between public and private actors.
- SME policy formulation should explicitly consider the implementing institutions. In terms of institutional development, there are significant differences between the countries of the region. There are institutions with ample experience, scope and operating capacity, while others are in an incipient phase of development and lack the necessary authority for unifying and aligning efforts aimed at SMEs. Moreover, in some countries there is no sustained effort to build these institutional capacities, just poorly coordinated, inconsistent actions.
- Despite these differences, the institutions tasked with policy design and implementation face severe human and financial resource restrictions. As noted by ECLAC (2010), direct spending to support SMEs in the countries of the region is, in the best of cases, below 0.1% of GDP. In some countries it is not even 0.01%. This is in a context where tens of thousands or hundreds of thousands of SMEs are in need of support (Ferraro and Stumpo, 2010).
- Between 2003 and 2008, several countries, including Argentina, Brazil, Ecuador, El Salvador and Mexico, increased the financial resources available for SMEs. But dependency on international cooperation funds remains high. In El Salvador in 2006, for example, 58% of the CONAMYPE budget was funded by outside sources. In Paraguay, almost all of the funding is from international cooperation. In other cases, there are areas of strategic importance, such as credit, where virtually all of the funding is from outside sources. The

■ Table VIII.3 ■
Latin America: spending by institutions promoting SMEs, 2005
(Percentages of GDP)

| Countries | Percentages of GDP |
|------------------------------------|--------------------|
| Argentina | 0.004 |
| Brazil | 0.085 |
| Chile | 0.030 |
| Colombia | 0.008 |
| Costa Rica | 0.004 |
| Dominican Republic | 0.005 |
| Ecuador | 0.019 |
| El Salvador | 0.006 |
| Guatemala | 0.005 |
| Honduras | 0.015 |
| Mexico | 0.022 |
| Nicaragua | 0.027 |
| Panama | 0.005 |
| Paraguay | 0.004 |
| Peru | 0.033 |
| Uruguay | 0.002 |
| Venezuela (Bolivarian Republic of) | 0.024 |
| Average | 0.018 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Time for equality: closing gaps, opening trails* (LC/G.2432(SES.33/3)), Santiago, Chile, 2010.

availability of resources thus depends on decisions that are not made by the country's authorities. What is more, those decisions are based on rationales and restrictions at multilateral organizations, international cooperation agencies or ministries of foreign affairs in donor countries.

- In many cases, SME support institutions have little capacity to use the resources that are available. This is an additional limitation when it comes to increasing the allocated funds. In several countries, the annual budget available for specific programmes or entire areas of intervention is grossly underutilized. This means that instead of simply increasing

the budget allocation for promotion institutions, they must also be given greater capacity to define strategies, design policies and execute instruments and mechanisms for supporting SMEs.

(b) Institution-building and development

- Designing and implementing a strategy for supporting SMEs so that they can become engines of productive growth and international competitiveness requires an effort that is more than short- and medium-range. It should be sustainable for longer than a term of office. This calls for building a consensus as to the role that these policies play in State policy overall, so as to gradually and incrementally generate institutional and learning capacities.
- The first requirement is to map out a long-term institutional project that ensures management and technical staff continuity over and above political change. Institutional learning entails a long-term effort linked to the formation of competencies and the systematic evaluation of interventions. An evaluation can, in addition to measuring the outcomes and impacts of instruments and programmes, show how

they are working and, above all, if they are contributing to the overall strategy.

- Second, institution building should go along with a gradual increase in funding, in view of the scant amounts currently allocated for SME policies. Moving these policies forward calls for human capital in addition to funding. In many cases, a strategy for training human resources is needed – especially in areas like productive articulation and operational decentralization of instruments. This often requires the training of human resources outside a country’s capital or major cities. So, as seen above, success stories should be put to good use in designing and implementing lines of action.
- To correct implementation failures, SME policies must be added to government agendas as part of a productive development strategy, dovetailing their instruments and spheres of action with industrial sector and technology policies (ECLAC, 2010). In addition, SME policies must be given a higher ranking and more political weight within the structure of government so that they gain in effectiveness and in legitimacy in society, thus more fully committing society to allocate the financial and human resources needed to implement them.

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3. SME policies must tie in with industrial, technology and foreign trade strategies

- The countries of the region have put SME policies on their agenda, in a framework of institutional development that varies from country to country, as does the degree of effectiveness and consistency. As progress has been made in reshaping the institutional framework, innovative and far-reaching approaches have surfaced. Some of these are productive articulation, partnership programmes and the development of business networks and clusters. Some countries have incorporated microenterprises as a policy focus, broadening beneficiary coverage and adding more complex elements to an already large universe of actors. As noted by ECLAC (2010), marked heterogeneity among (and within) subsectors is being compounded by substantial differences in the size of the actors. It is thus necessary to design and implement targeted policies that mesh with systemic visions, especially with industrial policies geared towards sectors in which there is a marked presence of SMEs, and with technology policies geared towards capacity building and the enhancement of national innovation systems.
- In this complex scenario, improving the status of SMEs and making them more competitive and productive calls for systemic public policy intervention. Efforts should therefore be linked to a comprehensive productive development agenda that combines action on several policy fronts: industry, technology and support for SMEs.
- There is no reason for SME policies that are separate from industry- and technology-based ones. To focus on just one of the areas would raise the competitiveness of some groups of enterprises, to the detriment of others, exacerbate heterogeneity and fragment productivity. A strategy that prioritizes sectoral and industrial policy alone would likely strengthen larger actors (medium-sized and large enterprises) in certain sectors but exclude the vast majority of SMEs and microenterprises. Likewise, a policy that focused solely on supporting the least dynamic enterprises might have positive effects on heterogeneity among agents but would not lead to the leap in productivity required to narrow the gap with the most developed economies. Combined, integrated action in these three policy spheres requires a favourable macroeconomic context, too.
- A pivotal item on the agenda is the identification of key sectors, which will have to be selected on the basis of the specific features of each country's production structure and in accordance with the sectors' capacity to generate and disseminate knowledge and innovation and to encourage linkages with other manufacturing and services activities. It will be the task of industrial policy to focus efforts on these sectors.
- It will fall to SME development policy to provide credit and promote the development of human resources. As more firms gain a purchase and start to narrow their productivity gaps, they will also find it easier to join the supply chains of large companies and form enterprise networks, leveraging synergies with industrial policy.
- Technology policy will play a key role in this strategy, in two ways: first, by promoting innovation, essentially in large and medium-sized enterprises in selected strategic sectors; and second, by encouraging the dissemination of knowledge and technology in the companies with the greatest lags, through targeted interventions.
- Coordinating these different spheres of action is a complex process, as it involves various types of institutions (sectoral, technological, financial and those that focus on promoting SMEs) that tend to follow their own rationale and specific objectives. For this reason, priority objectives need to be established within a strategic agenda. This can be attained only through consensus on those objectives (among public and private actors and within society as a whole) and under clear and decisive leadership by the State.

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