

# Promoting Productive Integration in Latin America and the Caribbean

## Suggestions for Project Preparation

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# Introduction

In recent years, the Inter-American Development Bank has played an increasingly active role in promoting competitiveness in the region, as evidenced in the many projects that it has implemented, and continues to implement, at all levels. All these projects have been put into practice through the application of what is herein referred to as the “productive integration” logic. This logic is based on the assumption that, by cooperating with each other and with public and private institutions, enterprises can develop competitive advantages that would be impossible to achieve in isolation. In addition, central, regional and local governments, working in partnership with the private sector, can better focus their policies and their resources, thus increasing both the cost-effectiveness and the impact of their efforts.

This paper reviews, analyzes, and documents the current IDB experience in this area, in order to generate a pool of useful knowledge that will contribute to improving the design and implementation of future projects. Such an effort is necessary when viewed in the context of the increasingly competitive pressures faced by the countries of the region as a result of market globalization and liberalization, particularly regarding small-scale enterprises.

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## Summary

Productive integration projects (PIPs) are designed to promote competitiveness. They are based on systems of cooperation among enterprises as well as among enterprises and public and private institutions. The interest shown by the Inter-American Development Bank in this type of intervention has increased in recent years, as reflected in loans it has made to governments and in the operations of the Multilateral Investment Fund (MIF) and the Social Entrepreneurship Program (SEP). Although all these projects are based on associative schemes, they are differentiated by a wide variety of factors, the two most important of which refer to the degree of potential appropriability of the project benefits by entrepreneurs, and whether priority is given to a system of horizontal or vertical cooperation. Both factors influence the type of executing agency required, the project strategy and the risks that might affect project implementation.

In addition, productive integration projects include unique complications that result from the inherent difficulty in promoting a process of trust generation or, in other words, in making trust a business asset. Consequently, these pro-

jects are typically “process-intensive,” that is, their results depend not only on the quality of the project’s design, but also on the quality of its implementation and follow-up. As regards social capital, however, the success of a PIP is also dependent on its point of origin. Hence, the initial assessment of the entrepreneurial sector is extremely important, not only in terms of the feasibility of the overall business, but also in terms of the capacity of the parties involved to act collectively. For this reason, entrepreneurs need to participate actively from the outset in project design, and also to assume ownership of the project. That said, public sector presence is also important, especially in projects whose benefits exhibit low levels of appropriability by enterprises. Lastly, since these projects are at all times dependent on the level of entrepreneurial motivation and commitment, they must have objectives that are attainable over the short-term and that, in addition, contribute to the achievement of longer-term objectives (which will ultimately define the competitive future of the entrepreneurs and, accordingly, their ability to remain active in the market).

## What is a Productive Integration Project?

Productive integration projects are designed to promote competitiveness. They are based on systems of cooperation among enterprises and among the latter and public and private institutions. The interest of the Inter-American Development Bank in such projects has increased in recent years. While in 2000 the Bank had almost no involvement in operations of this type, in recent years it has approved almost twenty PIPs. In addition, almost all of the loans granted by the Bank to governments for the purpose of promoting competitiveness have included productive integration components. Annex 1 provides a summary of these operations. To finance these activities, the Bank has used primarily three instruments: loan operations to governments, projects financed by the Multilateral Investment Fund, and projects carried out within the framework of the Social Entrepreneurship Program.

The purpose of loans to governments is to promote the competitiveness of a given geographic area (national, provincial or state) by strengthening public-private institutions, and promoting those clusters and productive chains that exhibit the greatest competitive potential. Projects financed by the MIF involve direct nonreimbursable technical assistance to groups of firms that are concentrated both geographically and by sector (referred to as clusters) or that are interlinked by means of productive chains.<sup>1</sup> Lastly, SEP projects involve a combination of funding and nonreimbursable technical assistance focusing exclusively on microenterprises that are typically grouped together in producer associations.

These efforts by the Bank have not been carried out in isolation. During the past decade, most cooperation organizations and virtually all of the governments of the region have launched productive integration initiatives and created public-private institutions for the purpose of designing

competitiveness policies. Although these experiences have been studied, a complete understanding of them is still lacking because of their considerable diversity and to the absence of comparable information on their results.<sup>2</sup>

Owing to the increasing importance of instruments designed to promote the productive integration of enterprises, the purpose of this study is to review the Bank's experience in order to draw appropriate lessons and applying them to other initiatives.<sup>3</sup> The second section of this paper describes the core elements of PIP design, while the third section discusses the principal lessons learned that could prove to be useful in the project design and implementation process. The topic of monitoring and evaluation, identified as key by Bank officials, is discussed in the fourth section, and the study closes with a section on conclusions.

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<sup>2</sup> Studies conducted by Sölvell *et al.* (2003) and The Mitchell Group (2003). These studies review various cluster promotion initiatives carried out worldwide that provide evidence of the wide range of approaches that currently exist, while simultaneously stressing the lack of quantitative and comparable information from which to draw lessons.

<sup>3</sup> Bank specialists participated in selecting the projects to be included in this report. The selection was carried out between July and September 2004 (see detailed information in Annex 1). Using this sample of projects, the researchers conducted field and telephone interviews with Bank officials responsible for the design and implementation of projects, as well as of the consultants and members of the staff of the implementing agencies and public institutions involved. The interviews were conducted between September and November 2004. Existing documentation was also reviewed, including project documents, review reports and specialized consultancies. Based on this information, a preliminary document was prepared and subsequently discussed in a working session held in Washington, D. C. in December 2004. That report presents the observations and conclusions of the discussions.

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<sup>1</sup> Information on these projects can be found at: <http://www.iadb.org/mif/v2/spanish/clusters.html>.

# How is a Productive Integration Project Designed?

The design of each productive integration project involves three core elements that must be precisely defined: the specific objective, the project strategy and the institutional plan for project implementation. Each of these elements is discussed below.

## **DEFINITION OF SPECIFIC OBJECTIVES AND THEIR INFLUENCE ON PIP DESIGN**

The specific objectives of a project provide information on the project's benefits. Accordingly, in order to monitor and evaluate projects and thereby determine whether the expected results were achieved, the objectives must be precise and quantifiable. Box 1 lists the principal criteria to be used in defining these objectives.

In addition, the objectives determine the project's strategy and institutional structure. To better understand their influence, two important questions must be answered. First, we need to ask how appropriable the benefits to be generated by the project will be for specific actors. In other words, we need to understand whether the project is intended to provide collective or public goods. This is important, as it helps determine the type of actors who must participate actively both in the design and as counterparts, together with the resources they will be asked to contribute.

For example, in the case of the provision of collective goods (i.e., a project whose benefits are entirely appropriable by defined groups of enterprises), project success will depend on the level of participation of those enterprises in terms of their contribution of counterpart resources and their assumption of risks and responsibilities within the framework of the implementation plan. At the other extreme (i.e., the provision of public goods) is the case of a project whose benefits virtually cannot be appropriated by any particular group of enterprises and that will generate externalities for the geographic area involved. In this case, project success will be dependent on the participation of

either public institutions or private associations with a significant presence in the area. Naturally, the goods provided by a productive integration project are never entirely either collective or public. Nevertheless, this criterion is valid to the extent that the goods to be generated approximate either of the above two cases.

Secondly, an analysis should be conducted to determine whether the relationships to be prioritized by the project will be horizontal and/or vertical. This is determined by the problem to be resolved as well as by the industrial structure of the area of influence of the project. As we will see below, this will also influence the type of actor required by the project and the various project components and activities. Table 1 defines four types of productive integration projects in accordance with the degree to which the project benefits can be appropriated and the particular type of relationships (horizontal or vertical) involved.

*Horizontal Networks.* The enterprises involved in horizontal networks are a small group (typically between five and twenty) that operate in the same productive environment and are located primarily in the same geographic area. These enterprises cooperate among themselves to achieve economies of scale that allow them to reduce the cost of inputs or to access new technologies and high-volume markets. The type of collective actions in these cases ranges from an informal union among the enterprises that form part of the group, to the creation of a common enterprise responsible for coordinating the associative business ventures.<sup>4</sup>

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<sup>4</sup> One example is the MIF project implemented by COFOCE in Guanajuato, Mexico, which works with groups of enterprises operating in the leather, footwear and ceramics industries. The group of enterprises working with leather focuses on identifying markets in China, while the footwear group, in addition to exploring new markets, is making joint purchases of raw materials. With respect to the latter industry, a group of four enterprises in Dolores Hi-



### Box 1. Criteria for Defining Objectives

- Objectives should be determined by means of a participative process involving all stakeholders; that is, enterprises and institutions.
- Objectives should be measured using quantitative and qualitative indicators.
  - Quantitative: productivity, sales, value added, exports, employment, etc.
  - Qualitative: change in entrepreneurial behavior, increase in trust among enterprises.
- Objectives should be established for both the short and long term.
- Objectives should take into account the characteristics of the geographic area and the market targeted by the project: global, regional or local.

*Vertical Networks.* In these projects, the number of participating enterprises may range from four or five in the manufacturing sector to several dozen in the agroindustrial sector. These programs link large client enterprises and small provider enterprises, or alternatively, large producers and small clients/distributors.<sup>5</sup> Generally, the development of relationships of cooperation between adjacent links on the value chain enhances the efficiency of supply or distribution mechanisms. The type of coordination varies, depending on who is promoting the project. The two most frequent cases are: (i) a large client

enterprise (producer) selects providers (clients/distributors) and invites them to participate in a plan to make improvements that will enable them to more effectively integrate their operations into the production (distribution) network; and (ii) an organized group of small providers (clients/distributors) forms an association to propose a new supply (distribution) relationship to the client enterprise (producer). In the first case, responsibility for coordination is primarily taken by the large enterprise, while in the second, project coordination is the responsibility of an *ad hoc* entity created by the providers.

**Table 1. PIP Typology**  
Appropriability of Benefits

		<b>High</b>	<b>Low</b>
Relationships among enterprises	<b>Horizontal</b>	<i>Horizontal networks</i>	<i>Local productive environment</i>
	<b>Vertical</b>	<i>Vertical networks (development of providers)</i>	<i>Cluster</i>

dalgo is exporting a line of ceramic products based on a unique concept of design and quality.

<sup>5</sup> An example of the first type is the project to develop supplier chains implemented by SERCAL in Chile. Cases where small producers are linked with potential end clients and/or distributors can be found in the Social Entrepreneurship Projects. For example, links in the case of coffee in Honduras and beans in Bolivia ensure the sustainability of the associated enterprises.

*Cluster.* This type of productive integration project is designed to enhance the competitiveness of a group of enterprises by increasing the efficiency of collective coordination and facilitating their incorporation into international value chains. The objective of these projects is to identify and eliminate, through joint efforts, the bottlenecks affecting the cluster's competitiveness. The beneficiaries of these actions are all enterprises in the sector in the geographic area in question. The most common coordinating entity in these cases is a representative institution or chamber operating, such as a university, research center or export promotion organization.<sup>6</sup>

*Local Productive Environment.* This type of project promotes coordination mechanisms that include a specific local productive system in its entirety. Through the more efficient coordination of public and private local actors it can create competitive advantages that will differentiate the productive system in place in one geographic area from those in operation in other areas by increasing its natural productive vocation, eliminating bottlenecks and establishing public services.<sup>7</sup>

### **PROJECT STRATEGY: PIP COMPONENTS AND ACTIVITIES**

In broad terms, PIP activities can be grouped into four components, whose relative importance will vary in accordance with the specific objectives of the project (see table 2). The first component seeks to strengthen or promote, depen-

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<sup>6</sup> One example is the Isabella Grape PIP implemented by Fundación Carvajal in Cali, Colombia. The project has designed and reached a consensus among sector enterprises and institutions as regards quality standards (color, dimensions, sugar content, etc.) of the Isabella grape, by generating a referral system that facilitates intermediation among producer enterprises, as well as among the latter and marketing enterprises.

<sup>7</sup> For example, the MIF financed a productive integration project in Lima, Peru, that is being implemented by that country's Small and Medium Enterprise Promotion Commission (*Comisión de Promoción de la Pequeña y Micro Empresa*). The project improves security in the Gamarra neighborhood to the benefit of the wearing apparel manufacturing enterprises that operate there.

ding on the case, the capacity for collective action, not only among enterprises but also among the latter and the community of public-private institutions. It is in this component where specific PIP strategies and actions are defined. The second component includes those actions aimed at improving access to markets, typically export markets. The third component includes activities promoting access to improved technologies and productive and administrative processes by groups of enterprises. Finally, component 4 includes activities involving the evaluation and dissemination of results.

### **INSTITUTIONAL IMPLEMENTATION PLAN**

In cases where the productive integration project works in a specific geographic area and with previously defined groups of enterprises, project implementation and resource allocation typically take place directly through an implementing agency associated with the target group of beneficiaries.<sup>8</sup> However, when the project covers a larger regional or national territory, and the entrepreneurial group or sector to receive benefits has not been established previously,<sup>9</sup> implementation involves tiered models, where a number of entities perform separate functions. In such cases, the Bank provides resources to an executing agency, which will then identify projects and manage their implementation. Such plans are particularly useful when:

- There is a sufficiently strong institution to take responsibility for selecting and implementing associative projects.
- There is no specific sector with the potential for productive integration, but rather groups of enterprises with common objectives within the geographic area.
- There is a critical mass of enterprises interested in participating in competitive process-

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<sup>8</sup> Such is the case of most SEP and MIF projects.

<sup>9</sup> Such is the case of loans to governments, as well as in two of MIF projects (one implemented by INCAE in Central America and the other by the University of the Andes in Colombia).

**Table 2. Principal Activities, by Component and Type of PIP**

<b>Horizontal Network</b>	<b>Vertical Network</b>	<b>Cluster</b>	<b>Local Context</b>
<b>Component 1: Promoting Cooperation Among Enterprises</b>			
Pilot initiatives; for example, joint purchase of inputs.	Reduction of client enterprise inventories	<ul style="list-style-type: none"> <li>• Analysis of the cluster</li> <li>• Participative workshops on sector strategic planning</li> <li>• Design of a cluster development strategy</li> </ul>	<ul style="list-style-type: none"> <li>• Analysis of the local productive system</li> <li>• Participative workshops on strategic planning</li> <li>• Design of a development strategy</li> </ul>
<ul style="list-style-type: none"> <li>• Analysis of enterprises</li> <li>• SWOT analysis of potential groups</li> <li>• Development of a collective project</li> <li>• Analysis of the technical-economic feasibility of associative projects</li> </ul>			
<b>Component 2: Facilitating Access to Markets</b>			
<ul style="list-style-type: none"> <li>• Joint commercial promotion activities via catalogs, participation in expositions, training of sales staff, etc.</li> <li>• Trade missions</li> </ul>	Access to large enterprise procurement contracts through the creation of mechanisms for small providers	Development of linkages between small providers and purchasing enterprises  Organization and participation in expositions	Local image and quality standards campaign
<b>Component 3: Facilitating Access to Technology and Business Services</b>			
<ul style="list-style-type: none"> <li>• Hiring of technicians for the group</li> <li>• Individualized advisory assistance, counseling in productive technology and management</li> <li>• Procurement of equipment for collective use</li> </ul>	Assistance to providers with the support of large client enterprises	<ul style="list-style-type: none"> <li>• Development of common technical services</li> <li>• Generation of new productive support services, such as laboratories, training centers, etc.</li> <li>• Creation of new enterprises in productive phases important for development of the chain</li> <li>• Technical assistance to small suppliers by the technical staff of client enterprises</li> <li>• Training of specialized labor</li> </ul>	<ul style="list-style-type: none"> <li>• Negotiation with local technical support and training institutions to adapt their supply of services to the needs of enterprises</li> <li>• Research projects for local enterprises</li> <li>• Training of local labor</li> </ul>
Standardization of process technologies Coordination of joint production logistics			
<b>Component 4: Disseminating and Developing Institutional Capacities</b>			
<ul style="list-style-type: none"> <li>• Creation of network promoters</li> <li>• Consolidation of group coordination mechanisms</li> </ul>		<ul style="list-style-type: none"> <li>• Training of technicians specializing in supplier development</li> <li>• Strengthening of mechanisms for sector representation</li> </ul>	<ul style="list-style-type: none"> <li>• Training of promoters of local productive development</li> <li>• Consolidation of local institutions</li> </ul>
Identification and dissemination of best practices			

ses that want to receive support for collective projects.

- When, for reasons of efficiency in the use of resources, it is desirable to finance a local institution to assume responsibility for identifying and implementing a number of projects.
- There are numerous geographic areas with concentrations of enterprises interested in carrying out development programs.

The functions listed below should be carried out during the PIP implementation process. In the case of tiered schemes, these functions are performed by separate entities:

- *Management*: Capture and allocate resources; define operating criteria (for example, criteria for selecting projects, types of subsidies, cofinancing by the enterprises,

etc.); select and supervise the entity responsible for coordination; assume responsibility for evaluating the program's impact; and support the creation of local capabilities to promote productive linkages.

- *Coordination*: Identify opportunities for projects that establish productive links in the subregional areas; extend public invitations to local actors to prepare and submit proposals; evaluate all proposals received and allocate subsidies; monitor project progress; and identify and disseminate best practices.
- *Implementation*: Contact enterprises; facilitate the development of relationships of trust and the generation of a consensus with regard to a development project; facilitate contact with other development entities; and launch the project and help resolve any conflicts that might occur among the groups.<sup>10</sup>

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<sup>10</sup> An additional tier consists of service providers, i.e., enterprises or individuals contracted by either the beneficiaries or the implementing agency to provide business development services.

# Lessons Learned from Productive Integration Projects

This chapter presents lessons drawn from the combined analysis of IDB productive integration projects. The purpose is to provide practitioners that participate in the design and implementation of inter-firm cooperation projects, guidelines for making discussions or, at a minimum, to offer contrasting views on the most important aspects of PIPs.

## HOW TO SELECT PROJECTS

Careful selection of projects increases the likelihood of success. Although there are external factors that can affect the implementation of a productive integration project (see box 2), a number of critical factors should be taken into account in selecting projects.

### Institution Promoting the Project

Although the role of the promoting institution is essential in all types of projects, it is particularly important in projects focusing on microenterprise development inasmuch as, in this case, participating entrepreneurs tend to play a less active role while exercising greater leadership in defining project objectives, goals, and activity plans. It is recommended that this institution:

- Should not be affected by any factor that might damage its credibility, such as political involvement, excessive identification with a particular economic interest, unethical behavior, etc.
- Should be closely related to the business sector that is being targeted by the project, and enjoy good relationships and contacts with the leading enterprises and institutions involved.
- Should employ trained personnel with experience in micro, small and medium enterprise development and in promoting associative activities.

- Should have the capacity to meet the administrative and accounting requirements imposed by the financing organization.
- Should have enough of its own resources to ensure its sustainability, regardless of project resources.
- Should ensure the development of the business sector through the promotion of associative activities.<sup>11</sup>

### Institutional Context and the Entrepreneurial Sector

The following elements and conditions should be present:

- *Enterprise Leadership.* This requires the existence of a group of enterprises that is committed to the project, participates in its design and contributes to its implementation. This point is discussed in greater detail in the next section.
- *Economically Viable Sector.* It should be possible to eliminate the factors impeding the competitive development of the sector, such as legal obstacles, the lack of basic public infrastructure, etc.
- *Minimum Level of Trust Among Enterprises.* From the beginning of the project, enterprises should engage in constructive dialogues, exchange information, and identify areas of common interest.

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<sup>11</sup> Although this commitment can be explicitly stated in the organization's mission, it is important to ensure that these activities are at the core of the promoting institution's work plan, which is achieved if its clients (affiliated enterprises) participate directly in these activities and contribute to them. If this condition is met, it will be the enterprises themselves that ensure the commitment of the institution and that will monitor implementation of jointly agreed work plans.

## Box 2. The External Risk of Political Turmoil

The SEP cocoa project implemented by Venezuela's Paria Foundation has had a significant impact on the average productivity of the enterprises involved, which has increased from 200 to 500 kilograms of cocoa per hectare in the first two years of the project. In addition, following construction of a cocoa fermentation and drying facility, it was possible to export some 100 tons during the first year of project activity. Unfortunately, the country's political crisis produced divisions between the implementing entity and the target entrepreneurial associations, which in turn led to a significant drop in productivity and profitability.

Due to the complexity of the processes by which trust is generated among enterprises, if this condition is not met from the outset it will be impossible to achieve the projected enterprise modernization objectives during the life of the project.

- *Minimal Geographic Concentration*<sup>12</sup> of Enterprises in the Sector. This condition is clearly applicable to projects that have a precisely defined geographic scope. However, even in projects lacking such a well-defined geographic focus, as in the case of Uruguay's viticulture cluster, it is important to identify geographic areas where a large number of enterprises operate.
- *Problems that are common to all the enterprises*, so that they may be resolved through collective action.
- *Minimal Capabilities at Both the Enterprise and Institutional Levels*.<sup>13</sup> It is important to bear in mind that PIPs generate demand for support in the many areas of business activity (particularly technical assistance, exports, credit, training, and innovation). PIPs

<sup>12</sup> The number of enterprises making up this "minimal" concentration may vary by sector and by country. A minimal concentration would be one that stands out in its sector at the national level and that allows member enterprises to achieve significant economies of scale.

<sup>13</sup> For example, it is difficult for a project to achieve results in terms of exports if the enterprises comprising the cluster have no previous export experience; likewise, it is impossible to promote significant technological improvements if the cluster does not have (or cannot easily access) institutions, consultants, etc., with expertise in technological development.

cannot efficiently develop all of these areas, and accordingly their final outcome will also depend on the efficiency of the development system in place in the country.

### Project Proposals

Project proposals should exhibit the following characteristics:

- The business ideas that form part of the project proposal should be economically viable. From this standpoint, the most complex context is that involving projects focusing on micro- and subsistence-level enterprises. In such cases, the economic viability of the proposals contrasts with the extremely limited productive capacity of the participating enterprises. To overcome this obstacle, it is necessary to develop coordination among a very large group of independent enterprises or subjects, which, in turn, implies that the supporting institution will have to absorb high transaction costs.
- Projects should focus on improving competitiveness through collective action.
- Projects should be based on a comprehensive vision of the geographic area in question.
- The project should be clearly differentiated from the supporting activities carried out by other institutions. Nevertheless, rather than focus on new areas, PIPs should generate synergies and either complement or accelerate ongoing processes.

## HOW TO ENCOURAGE PRIVATE SECTOR PARTICIPATION AND LEADERSHIP

Entrepreneurs participate actively in productive integration projects when: (i) their motivation makes them feel responsible for the project; (ii) they have both the capacity and the skills to participate; and/or (iii) they have the willingness and ability to work in groups. The relative importance of each of these three factors will vary by project.

In those initiatives in which project benefits are highly appropriable, entrepreneurs have a clear motivation to participate. In projects in which benefits are not completely appropriable, but rather generate positive externalities, entrepreneurs may be motivated to participate by virtue of their interest in influencing the national competitiveness strategy and the allocation of development funds. In order to do this, they must have both the capacity and the skills necessary to represent the private sector.

In projects with highly appropriable benefits and horizontal networks, the implementing agencies must work in close collaboration with those firms exhibiting the greatest interest and motivation to implement the project. In the case of vertical networks, however, the main counterpart should be the large enterprise. This is even more important when the latter has access to the market and, therefore, the ability to select providers, define standards, set deadlines, etc. In both cases, the executing agency must facilitate a transparent process by virtue of which interested entrepreneurs may establish clear rules regarding the distribution of responsibilities, costs and benefits, as well as how new partners would be allowed to join the group.

In projects with benefits that cannot be easily appropriated by the participants, the promoting institution should identify a group of enterprises that are representative of the industry in question and interested in promoting its competitiveness (see box 3). This may involve either informal

groups or groups of legally chartered organizations. In both cases, it is crucial to evaluate the extent to which the enterprises identified are effective representatives of the entire group. In the absence of private counterparts that are representative of common interests (either sector, geographic or national interests) and that have the ability to develop informed proposals, such exercises may be futile. Moreover, if the representatives are too biased, the project could be “captured” by private interests, to the detriment of initiatives of a broader scope. Accordingly, it is important that the motivation of participating businesspeople lie either in the possibility of expanding their businesses as a result of the externalities generated for the industry, or in the opportunity to achieve social legitimacy in the community in which they operate.

Regardless of the type of productive integration project, it is always necessary to ensure that the ties between the executing agency and participating enterprises do not become excluding or closed relationships. It is essential that the promoting institution facilitate the participation of all of the enterprises in the area that express an interest in becoming involved in the project. Thus, it should have an ongoing concern regarding the need to disseminate information on the activities that are being carried out as well as their outcomes.

Private sector participation in projects whose objective is the development of microenterprises faces additional obstacles resulting from the private sector’s relatively low organizational capacity. In addition, the private sector is often made up of isolated actors that lack the motivation and self-esteem to engage in activities of this sort. Finally, the private sector is also challenged by cultural barriers. In this context, experience shows that the development of leadership capacities by beneficiaries involves a relatively long gestation period. As a result, the principal responsibility for defining the initial proposal and developing a consensus with the beneficiaries falls to the promoting institution.

### **Box 3. Fee-based Services and Externalities: The Case of the Isabella Grape Project**

The objective of the Isabella Grape Project was to improve the competitive opportunities available to the grape growers of Colombia's Cauca valley, through the implementation of associative activities. The focus of the project was to consolidate a producers' corporation, known as CORPOGINEBRA, which was charged with coordinating the technical support and business activities of the affiliated enterprises.

At the beginning of 2005, the Corporation had 212 members, most of whom had received technical assistance and training that enabled them to increase their productivity and improve production technology and business management. The Corporation has developed an information system that enables it to monitor and coordinate the productive processes of its members and, in conjunction with the project support institutions, has prepared a consensual standard for grape quality.

Six months prior to the conclusion of the project, the implementing agency, Fundación Carvajal, began to develop closeout activities. The primary emphasis of the work of the technicians and professionals involved in the project is to create the conditions that will ensure CORPOGINEBRA's sustainability. This can be achieved to the extent that the Corporation manages to successfully combine the development function that, until now, was carried out by the project team (that is, generating positive externalities for the sector, such as establishing a quality standard for grape production and creating a network of specialized consulting firms) with the provision of support services to be paid for by member enterprises.

The first component of this activity is very unlikely to find a market and will have to be financed by contributions from partners and/or development agencies. The development of fee-based support services, on the other hand, requires a precise definition of the value added that CORPOGINEBRA could contribute to the enterprises being served.

In projects where the private sector is relatively unorganized, the executing agency should take advantage of initiatives being promoted by other development agencies, particularly in the case of activities designed to promote trust. Another important consideration concerning the efforts of the executing agency, is that encouraging the participation of entrepreneurs should not focus indistinctly on all potential beneficiary enterprises, but rather target a group of lead firms in the geographic area in question.

#### **WHEN AND WHERE THE PUBLIC SECTOR SHOULD PARTICIPATE**

Generally speaking, the public sector should intervene in the provision of public goods and in promoting the creation of collective goods by providing incentives for competition. In this regard, public sector participation should increase, or become more important, when: (i) the benefits of the productive integration project cannot be easily appropriated; (ii) the project must focus on promoting cooperation as a result

of private sector weaknesses; and (iii) it is necessary to develop mid-level institutions because of the geographic scope of the project. In addition, public participation includes functions such as the following:

- Ensuring that the PIP is consistent with the prevailing national, regional and/or local development strategy.
- Facilitating the coordination with other initiatives that also support the business sector.
- Helping to overcome institutional obstacles (for example, bureaucratic red tape).
- Ensuring the systematization and dissemination of best practices.

The lack of incentives, vocation and experience that public institutions may have for working jointly with the private sector is also an obstacle. The experiences of projects that required the creation of public-private coordination entities



show that the greatest constraints to dialogue tend to lie on the public side. To the extent that the private sector becomes involved, public officials lose their means of exercising power and discretionality in the allocation of resources. In addition, tension may arise between public officials and private consultants who, working at similar levels of responsibility, receive unequal pay. The principal problem, however, tends not to be a lack of incentives but rather a lack of vocation and experience of public agency officials in working with the private sector. Experience has shown that implementation improves with the participation of public entities that, as a result of their very nature, have experience working with enterprises. This tends to be the case of entities involved in foreign trade or with implementing national industrial policies. The lesson is that, in the design stage, it is necessary to assess the vocation and experience of the public ministry or institution responsible for the initiative in working with the private sector. Once this is done, project designers may then reach an agreement with responsible public officials as to management styles and procedures that clearly stipulate appropriate decision-making mechanisms and response times.

Another aspect of the active participation of the public sector in project management involves the assignment of responsibilities to high-ranking public administration figures, such as ministers. When project management organizations include such individuals, they acquire considerable political weight. While this is good, such a situation also has its drawbacks; namely that high-ranking officials frequently delegate their participation, and this can act as a disincentive to private participants, who sense that the importance of the management organization has been lowered as a result. Intermediate solutions should be sought to avoid this risk. This include, for example, delegating participation to career officials, providing them with training, and creating mechanisms for validating any actions that involve the ministers.

## **HOW TO ACHIEVE A MARKET APPROACH**

Taking a market approach in productive integration projects means prioritizing those products and services that have commercial value when produced together.<sup>14</sup> To achieve this, a PIP may pursue a strategy based on goods and services that are differentiated by their increased value added. These products and services are the result of improvements to processes and products and the incorporation of new functions, such as the capacity to develop brands and to control distribution. In such cases, the project may focus on identifying competitive opportunities for the various groups of enterprises identified. For example, it might finance studies aimed at: (i) identifying the most competitive groups of enterprises; (ii) highlighting the strengths and weaknesses of the enterprises being considered; or (iii) analyzing the characteristics of the potential markets and the opportunities they provide, by defining standards and competitive ways by which they can be accessed.

This strategy, however, may be difficult to apply to projects that focus on micro or small enterprises that are characterized by the intensive use of unskilled labor (see box 4). In such cases, the success of the enterprises depends on reaching specific and well-defined market segments. In addition, the PIP should contribute to creating both individual and collective capacities in the enterprises and supporting them in order to explore markets, identify opportunities, and develop and implement a joint commercial vision.

In the case of programs that generate benefits that are not easily appropriated, “market oriented” should be understood to mean the need to generate results that will compensate the effort put forth by the participants. In this regard, it is crucial that agreements be reached between representatives of the enterprises and the public authorities involved in issues that are deemed to

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<sup>14</sup> If this valuation exceeds production cost, the initiative will generate sufficient resources to be replicated over time, which constitutes a necessary (though not sufficient) condition to ensure sustainability over the medium and long term.

#### **Box 4. Impediments to the Participation of Microenterprises**

Productive integration projects that involve the participation of microenterprises, which lack resources and competitiveness, face the following difficulties:

- The microentrepreneurs frequently lack trust in their own technical and individual capabilities.
- Cultural barriers that generate isolation, especially in the case of women. This was shown in the successful experience of the FUNDAUNIBAN project in Colombia, which had to fight to overcome a chauvinistic culture that hampered the involvement of women workers in a plastic recycling cooperative.
- Absence of sufficient technical and entrepreneurial skills to understand productive process, successfully use operating tools, and comprehend the logic and dynamic of the market in which they compete.

Two alternatives exist for overcoming these difficulties: (i) generate self-management capabilities in the microproducers; or (ii) give them the role of informed observers and assign management functions to an independent institution, which could be the implementing agency itself. In addition, in order to encourage the active participation of microproducers in PIP design and implementation, attempts should be made to generate tangible short-term benefits as well as to value their skills and work experiences.

be of high importance to the private actors, and that those agreements be effectively implemented. Ideally, in order to provide an indication of the seriousness of the public commitment, these entities should identify a limited number of areas in which activities can be carried out expeditiously in order to quickly demonstrate that their outcomes are valuable. This should take place at the very start of the project.

#### **HOW TO PROMOTE THE SUSTAINABILITY OF A PROJECT**

In the context of PIPs, sustainability can be interpreted in three ways, which involve the sustainability of behavior and strategies that facilitate the creation of associations, of the capabilities of the executing agency, and of the knowledge acquired.

In many cases, formal agreements and partnerships among firms constitute a guarantee that the behaviors and strategies that facilitated the creation of the associations will be maintained. As a result, projects have promoted the creation of joint economic entities with their own legal status (for example, central supply or common marketing entities). Experience indicates, however, that it is not wise to force such processes beyond what is required by the competitive

strategy of each group, and that formal partnerships make sense only when there is real trust among the enterprises that have joined together to carry out joint business ventures.

The sustainability of the capacity of the executing agency to continue to support the enterprises following the conclusion of the project requires that it has been able to reduce its operating costs. Sustainability also requires that there is an increased demand for its services, not only from new groups of enterprises but also from public and private institutions or international donor agencies wishing to contract with the agency to replicate the experience.

Maintaining the knowledge gained from the experience is also important in order to make it possible for other public or private institutions to carry out activities similar to those of the original project without having themselves to go through the learning process again.

As a rule, the first case (the sustainability of the behaviors and strategies that facilitated the creation of the associations) is particularly important for projects involving networks of firms. The other two types of sustainability (that of the capacity of the executing agency and maintaining the knowledge gained from the experience)

are best fitted to initiatives aimed at developing more complex strategies. This means that certain PIPs will have to accept the temporary nature of the executing agency and of the services it provides, since the objective may be to induce a change in behavior in the entrepreneurs, as opposed to creating formal institutions.

### **HOW TO ESTABLISH THE TECHNICAL TEAM**

Project implementation is the responsibility of the group of technicians assigned to this task by the promoting agency. Implementation of a project includes, among others, the following functions: strategic management of the project; direct or indirect development of associative business, depending on whether it is a one- or two-tiered system; and monitoring and dissemination of outcomes. A particularly important role involves helping to create relationships of trust among the enterprises and institutions participating in the project. This is often done by demonstrating the advantages of collective efforts and helping the participants to overcome the conflicts that crop up throughout the process as a result of the emergence of unforeseen difficulties, noncompliance by a particular participant, changes in expectations, and differences in interpreting plans and proposals. The presence of these technicians makes it possible to mediate the most serious conflicts and to take advantage of all experiences in order to accelerate the group learning process.

The experience of other projects whose role is to create linkages, indicates that there is no such thing as one ideal team. Composition of the team and the background of its members vary by type of project (i.e. the project's objectives and the enterprises on which it focuses) and experience level. This implies that the skills set required by the project varies throughout the implementation process.

As regards organization, there are two types of project teams: (i) those made up of a relatively broad range of technicians and professionals from a variety of disciplines who devote their efforts full time to the project during its entire life; and (ii) small teams consisting of one or

two permanent individuals (a director and an administrative assistant), and short-term consultants who are hired in accordance with project needs. The first type maximizes ownership of knowledge and the learning processes, while the second optimizes management costs and facilitates the sustainability of the technical-professional structure.

An essential element of both cases is the relationship established between the individuals making up the team and the enterprises participating in the project. Accordingly, any change in the makeup of the technical team damages the bonds of trust created by the promoting agency with the participating enterprises. Although it has not yet been possible to verify and empirically evaluate the effects of staff turnover on performance, all of the projects analyzed have deemed it to be important to create mechanisms to maximize work team stability and motivation. These mechanisms include: (i) the criteria for selecting PIP personnel; and (ii) the incentives established for the technical team and its training. Each is discussed below.

#### **How to Select Project Personnel**

Selection of members of the technical team should be transparent and be carried out with the participation of the entrepreneurs. Transparency is achieved by giving appropriate publicity to all of the steps and criteria involved in the selection process. The focus should be on demonstrating that the process is governed by technical principles and values skills above any and all other considerations of a political, administrative, ethnic or religious nature.

Participation by entrepreneurs, in turn, ensures an enhanced relationship between the latter and the technical personnel that they themselves have chosen to implement and manage the project initiatives. Participation by entrepreneurs in the organizations charged with defining selection criteria, reviewing résumés, interviewing candidates, and ultimately selecting those to be hired ensures that, not only will the inherent skills of the latter, be appropriately assessed, but also their experience and capacity as regards communication, group management, generation

of consensus, knowledge of the sector, and design of business strategies. In addition, although having the entrepreneurs take on such an active role extends the selection time, it also helps promote in them an attitude of leadership, and their sense of responsibility for the project as a whole.

### **How to Motivate the Technical Team**

Both financial and nonfinancial incentives may be used to motivate the technical team. Financial incentives may be quite useful because of the difficulty in designing full-time work contracts that not only specify all of the tasks to be carried out, but also anticipate potential problem areas. For example, a portion of the remuneration of team members could be tied to the results achieved by the enterprises regarding variables such as productivity, sales and number of enterprises served. These types of incentives can be used to ensure the continuing effectiveness of work efforts. However, their problems lie in designing a measuring system that takes into consideration the contribution of the various functions of team members to the outcome variables.

There are also a number of nonfinancial incentives that can be used. The executing agency may motivate technical personnel by offering incentives that value their professional experience. Training is a very useful tool for valuing and taking maximum advantage of the aptitudes of the technical team, as well as ensuring its commitment. The first step in using training as a motivating tool is to systematize and disseminate information regarding the concrete experiences of successful productive integration initiatives. This makes it possible to identify and disseminate best practices and accelerate the individual learning process. It should be stressed that many PIPs include a component for training team members through which it is possible to finance technical advisory assistance and consultancies by specialized technicians, travel for purposes of study, and short-term seminars, among other things. Another type of activity involves internships (exchange of technicians among projects), which enable the members of one project to learn from the experiences of

others and subsequently apply those experiences to their own project.

### **HOW TO ENSURE THAT PIP OBJECTIVES MAINTAIN THEIR RELEVANCE**

Since there is often a considerable time between project design, project approval and the initial drawdown of funds (in some cases more than 12 months), it is necessary to verify, prior to project implementation, that the proposal set forth in the initial document continues to be relevant. This may imply the need to update the assessment, abandon, upscale or downscale some areas of action, or introduce new areas of work.

In addition, although the time between design and implementation may not be significant, it is important to validate the content of the project document with participating entrepreneurs. In this regard, it is important to stress that at project startup these entrepreneurs should already have knowledge of the content of the proposal, since they should have participated in its design and preparation. It is quite common to find, however, that the tendency is not all of entrepreneurs to become involved to the extent necessary during the design process. Indeed, some entrepreneurs may even project a discreet or skeptical attitude vis-à-vis the complexity of the bureaucratic procedures involved in this phase. In addition, the group of entrepreneurs promoting the initiative rarely presents the characteristics of unity and capacity for collective management required to ensure the efficiency of the implementation process.

For all these reasons it is essential that once the technical team devote time to verifying the extent to which the entrepreneurs are in agreement with the strategies set forth in the project document. In addition to ensuring a greater match with the needs and interests of the entrepreneurs, this validation activity makes it possible to create a shared strategic vision among the lead enterprises supporting the project.

Another important way to ensure that objectives maintain their relevance involves creating measurable indicators to monitor progress and pre-

pare a concrete work plan to ensure an ongoing balance between short- and long-term results. Concentrating exclusively on immediate results can mean sidetracking participating enterprises from more important processes involving the transformation of their competitive capacity; at the same time, however, the lack of tangible short-term results can discourage the enterprises. There are economic benefits that can be achieved in very short periods of time, such as, for example, the sale of products through participation in a trade fair or exhibit or by identifying new markets, and cost reduction through the joint purchase of raw materials. The most significant and enduring results, however, involve changes in the practices, organization and productive technologies that enterprises must introduce in order to adapt to the requirements of the group, such as, for example, the introduction of quality control systems, and the standardization, incorporation or elimination of certain productive processes. This transformation of the enterprises, and of their technology, organization and productive routines (in accordance with the requirements of the associative strategy), can require upward of 18 months.

In the case of projects whose benefits cannot be easily appropriated, it is likely that it will take longer to achieve results. This might limit the enthusiasm of entrepreneurs because of uncertainty regarding the benefits that might accrue to them. In most cases, however, long- and short-term strategies are not incompatible: the former aim at attacking structural problems and defining a broad planning horizon, while the latter attempt to generate immediate and tangible benefits that will encourage a more active participation by the entrepreneurs. What is most important in this regard is to define mechanisms to ensure appropriate coordination of the two strategies and the purposes pursued by each. Discussion committees can be created in some cases, while in others it is probably more appropriate to involve only those entrepreneurs who are directly committed to the business initiatives being promoted. The responsibilities of the technical team will include ensuring that the two lines of action are consistent.

## HOW TO PROMOTE TRUST

The creation of a foundation of trust among the enterprises participating in the project, and between them and the supporting institutions, is a key element of PIP development. This is achieved through a gradual process in which the entrepreneurs gain practical and progressive experience with joint actions that involve, among other things, the delegation of responsibilities to third parties, review of compliance with commitments, discussion and summary of opposing positions, conflict arbitration, etc. In order to ensure learning and reaffirm commitment to the group, it is desirable that entrepreneurs clearly identify and verify the results achieved by means of objective indicators that measure both advances and setbacks in the collective strategy.

Opportunities for dialogue and interaction should be maximized in order to create and consolidate relationships of trust between productive and institutional actors. An initial step in this direction for projects to promote competitiveness in specific entrepreneurial groups is an assessment of the enterprises and of their opportunities as a group, an analysis of their results, and the preparation of a shared strategic vision.

In the case of public-private linkages, it is necessary to demonstrate public sector motivation through the early implementation of actions agreed to with private counterparts that are relevant to the latter. In addition, in order to maintain group trust in the initiative, it is essential that high-level public authorities refrain from delegating their participation to subordinates. Other activities that contribute to developing trust among the enterprises and institutions involved in the project include meetings, travel, social interactions, visits to other enterprises, and pilot activities.

- *Meetings* with entrepreneurs or institutions that have successfully carried out activities to promote networks of firms. Sharing experience by means of direct testimony by peers (entrepreneurs to entrepreneurs, professionals to professionals, etc.) has been shown to be particularly effective, owing to

the ability of these individuals to communicate in the language of the interested parties.

- *Travel*, which can be business or technology related, allows entrepreneurs and/or representatives of local institutions to share the experience of exploring new environments, routines, decisions and problems and facilitates dialogue and learning from each other.
- *Social events* involving the participation of families have proven to be useful in encouraging trust, as they make it possible to get to know the entrepreneurs involved in the projects.
- *Visits to other enterprises* are a test of the willingness to form a group. It is also useful for verifying the uniformity of interests and for transmitting knowledge.
- *Pilot activities* are low-cost and limited-risk initiatives focusing on achieving tangible short-term results and in which the entrepreneurs experience both the benefits and costs of collective action.<sup>15</sup> Pilot projects could include the joint purchase of inputs or the exploration of new markets. The latter could lower transaction costs because they become an area of collaboration rather than competition. During such activities, each participant experiences the process of sharing responsibility, analyzing results, and punishing non-compliance that characterizes all collective efforts. These activities can be undertaken even though the initial level of trust among participants is not particularly high. What is most important here is to achieve observable results that encourage reciprocal trust and make it possible to progress toward collective activities that are more complex and involve a greater risk.

Owing to the complexity of the processes for creating relationships of trust and of the knowl-

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<sup>15</sup> Even though these initiatives may be both simple and limited, it is preferable that they be structured on the basis of a project approach that makes it possible to clearly see the costs, benefits, time periods and responsibilities.

edge necessary for undertaking associative efforts, the implementation and consolidation of development strategies typically takes between three and five years. Accordingly, it is important, from the outset, that there is a foundation of trust among the group of local actors (particularly the enterprises) directing the PIP design and launching phase (see box 5).

### **HOW TO DESIGN A PIP USING A TIERED SYSTEM**

Many of the lessons and suggestions presented in this document are applicable regardless of whether or not the implementation plan is based on tiers. PIPs based on systems of tiers deserve special consideration because, at the time of their design, the beneficiary enterprises have not yet been identified and the responsibility for selecting projects falls to the executing agency. This affects decisions regarding: (i) the type of implementing entity required, and (ii) the process for selecting beneficiaries. The project document must establish guidelines to ensure that the system for allocating funds guarantees equal opportunity of access to the enterprises involved.

#### **Functions and Characteristics of Participating Entities**

Table 3 presents the principal characteristics required of the entities participating in a tiered system, based on their individual functions (as described in the second section of this report).

#### **The Proposal Selection Process**

The criteria for selecting proposals in the case of projects with a two-tiered institutional structure are spelled out in the guidelines for project formulation contained in the invitation extended by the responsible institution. Generally speaking, it is recommended that prerequisites grant priority status to proposals that focus on the development of enterprises having specific characteristics (number of employees, sector, etc.) and that in addition stipulate the contribution of counter-

**Box 5. When Conditions to Promote the Creation of Association Are Underestimated**

Peru's National Forestry Chamber (*Cámara Nacional Forestal*, or CNF) implemented an SEP project designed to improve linkages between forestry producers in the Amazon region and furniture manufacturers in Villa El Salvador, so that the latter would be able make more intensive use of high-value tropical woods in their production processes. The project was intended to provide advisory assistance to forestry producers to enable them to supply manufacturers with dried lumber cut to size and, in this way, help the manufacturers to develop the capacity to take full advantage of tropical tree species.

The project implementation period was 22 months, which turned out to be too short to achieve the established objectives. The limited time available to develop a relationship of trust between both parties conspired to prevent the successful achievement of results. The haste to show concrete results made it difficult to carry out activities that would lead to a greater mutual knowledge between the parties and the development of the commitment required to enable them to overcome the problems that would inevitably arise over the course of the project.

The geographic distance between the parties involved worsened the problem because it made communications difficult. Although entrepreneurs from both groups visited each other, it was not possible to carry out a professional work effort aimed at consolidating a common project that would lead to mutual support between the parties.

Communication problems and the lack of effective contact had a direct negative impact on the success of this initiative. One example of this is that the only time that it was possible for the forestry producers to deliver lumber against a part of the deferred payment, it led to a significant delay in payment by the furniture manufacturers. According to the manufacturers, the problem lay in the fact that the lumber delivered did not meet stipulated requirements. Following that experience, neither party was willing to continue in a joint business effort. It should be noted that achieving a satisfactory match between the lumber supplied and the conditions imposed by the furniture manufacturers was precisely one of the primary objectives of the program.

Nevertheless, the project did manage to introduce the subject of business associations among the furniture manufacturers of Villa El Salvador. As a result, a group of them is currently working with forestry producers along the same lines set forth in the initial project. However, the current endeavor involves a smaller group of furniture manufacturers who have a high degree of mutual trust. This achievement is largely due to the fact that the person responsible for the project at CNF continued to work on a voluntary basis with the producers from Villa El Salvador. As he himself pointed out, "The fruits of associativity are slow to mature."

**Table 3 Principal Characteristics of the Entities Performing Each Function**

<b>Function</b>	<b>Characteristics</b>
Management	Continuity, transparency and capacity to learn
Coordination	Capacity to operate on a decentralized basis, knowledge of private institutions, and contacts with enterprises
Implementation	Technical credibility; knowledge of the enterprises, of their competitive potential and of their level of entrepreneurial and technological development; knowledge of market dynamics; contact with intermediaries and providers; knowledge of development institutions

part resources (typically 50 percent of the amount of the proposal).

Subsequently, it is necessary to pre-select the profiles of viable projects based on the above-specified criteria. Once technically viable profiles have been selected, the responsible institution selects proposals deemed to be the best candidates for receiving support under the project. These proposals tend to be innovative and replicable, to respect the environment, and to have specific objectives that are both precise and quantifiable. The most important aspect of this process is to ensure the transparency of decision-making mechanisms and to pragmatically focus on good solutions.

Lastly, if the funds allocation system is based on competitive mechanisms, it is wise to consider instruments that would increase the likelihood of access for the weakest enterprises, particularly in

those countries having a wide variety of productive structures. One possibility would be to establish an *ad hoc* fund to support first-tier institutions in creating relationships of trust among local actors, helping them to identify common development strategies, and developing and submitting proposals.

This support could cover both the costs associated with the activities carried out by professionals from the support institution (honoraria, travel expense, per diems, etc.), as well as those incurred in financing the associative activities carried out by the entrepreneurs receiving the services (for example, joint missions, prefeasibility studies, catalogues, sending of samples, etc.). Such support could be limited to a maximum number of times for each location and be concentrated in the initial years of project activity.

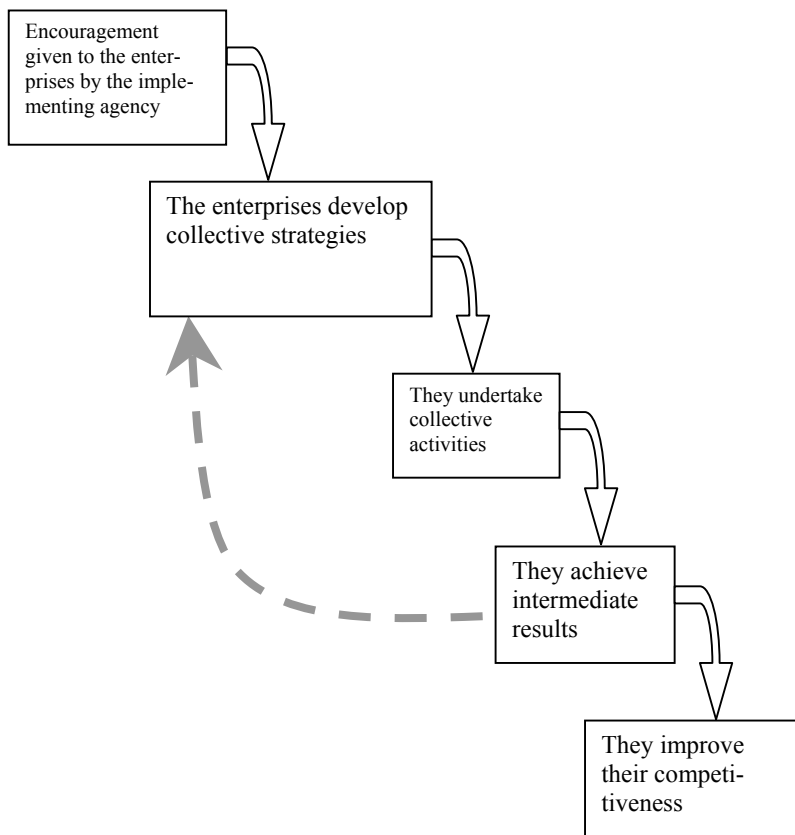


# PIP Monitoring and Evaluation<sup>16</sup>

The success of a productive integration project involves changing the behavior of enterprises and institutions by making them more inclined to cooperate. Under the productive integration rationale, this change produces tangible effects on the profitability of the enterprises, which in turn helps strengthen their trust in collective activities, thus closing a circle that generates continuous increases in competitiveness (see figure 1). To verify that this circle operates in accordance with PIP logic, it is necessary to

have available consistent information generated by an information system. Consequently, this information is not only important in terms of identifying the impact produced by PIPs, but it is also useful for managing the project *per se*, thus being of particular interest to the executing agency. A point of comparison, which will determine the project baseline, is required to monitor the progress of the PIP and evaluate its impact.

**Figure 1. PIP Logic**



<sup>16</sup> This section is based primarily on Guaipatín (2004). Worthy of special mention is the effort currently being carried out by the MIF to implement a common monitoring system for productive integration projects. See Oldsman (2004) for a common methodology.

## CONSIDERATIONS FOR DETERMINING THE BASELINE

The purpose of determining a baseline is to produce a set of initial indicators for making comparisons with project progress and results.<sup>17</sup> To establish the baseline, it is necessary to follow the steps listed below.

- Determine who will be responsible for gathering the information.
- Identify the users of this baseline and determine what the objectives of future evaluations will be.
- Estimate the indicators appearing in the *purpose* cell of the logical framework (in the final evaluation, it will be necessary to determine the change in these indicators). In addition, the indicators for which estimates will be made at the outset of the project should be selected from the *components and activities* column. These indicators should be specific, measurable, realistic, cost-effective, relevant and time-limited.
- Systematize all of the information in a database into which data can be continuously fed, and in paper formats that can be filled out by both the enterprises and consultants involved.
- Assign a unique identification number to each beneficiary enterprise, and another to each project consultant or service provider.
- Train both the enterprises and the consultants in how to fill out the forms.
- Suggest which variables should be monitored, and why.

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<sup>17</sup> Establishment of the baseline should take place during the project launch workshop. In addition to taking advantage of the opportunity to bring together the initial participants in order to gather information, the workshop would serve to fine-tune the accuracy of the indicators in the logical framework.

- From the baseline information, verify the following:
  - Whether the information for enterprises of a similar size is homogeneous. If not, determine whether this is due to an informant error or otherwise explain the difference.
  - Add in aggregates for production, number of employees, sales and exports, and then compare to aggregate data for the territory and verify any inconsistencies (for example, whether sales are close to or greater than GDP for the region, or whether labor being employed is greater than half the population, etc.).

## CONSIDERATIONS REGARDING MONITORING

Monitoring is the ongoing observation of the implementation of a project vis-à-vis the established schedule; it identifies problems occurring during project implementation and facilitates any changes or adjustments that need to be made to the activities.

Since the objective of a PIP is to improve competitiveness, the principal indicator is the change in productivity of the firms. However, there are two reasons why it is not sufficient to monitor only this indicator. In the first place, changes in productivity do not tell how each activity and component contributed to achieving the objective, and therefore, it is not possible to determine which activity was most important or the conditions under which that impact was generated. Second, in the event that the project is not generating the expected results, the productivity indicator does not by itself provide criteria for deciding how and where to introduce improvements. Consequently, it is necessary to have indicators that can be broken down by activity and by component.

Selection of the variables to be monitored depends, in part, on the point during the project life cycle at which the evaluator finds him or herself. Throughout the life of the project, it is necessary

to measure project progress based on information concerning the use of resources (use of financial resources, work reports submitted by project staff, etc.), the progress of results, and compliance with the schedule of activities. However, some of the variables that need to be monitored may change as project implementation moves forward.

In the case of a project whose benefits are easily appropriated, monitoring could include all participating enterprises, and most of the information should be centralized and structured in an information system maintained by the executing agency. Toward this end, the enterprises should agree to provide the information requested as a pre-condition for receiving benefits under the program. This information will be entered systematically into the executing agency's database once the enterprise has been registered and every succeeding time that it makes use of program services. The information should be provided directly by the enterprises, as well as by the consultants charged with providing services. To structure the information system, it will be necessary to:

- Identify information users.
- Clarify user needs.
- Identify types of priority information.
- Determine what information exists and what information needs to be generated.
- Define a methodology for compiling the information.
- Identify functions and responsibilities.
- Design report formats.
- Identify required resources (human, financial, technological).

## **CONSIDERATIONS REGARDING THE MID-TERM EVALUATION**

The mid-term evaluation should determine whether the activities have led to results in terms of projected amounts, quality and schedule. In addition, it should determine how well project monitoring (and/or the management information system) is working. Following is a list of issues that should be taken into consideration when conducting the mid-term evaluation.

- The instructions contained in the logical framework.<sup>18</sup> The logical framework establishes what the indicators are, how they are to be measured and what the principal sources of information are.
- Verify the project budget and the schedule for implementing activities.
- Review beneficiary evaluations.
- The evaluator should conduct his or her analysis on the basis of groups of responses. Thus, he or she will determine the existence of common characteristics in enterprises having similar evaluations for each component. The purpose is to determine whether there are certain activities that are generating more useful results for a given type of enterprise.
- The analysis should be conducted in greater depth when it identifies activities having an overall low assessment or exhibiting a large number of asymmetries in their responses.

## **CONSIDERATIONS REGARDING THE FINAL EVALUATION**

The purpose of the final evaluation is to determine project impact and the effectiveness of project activities. The final evaluation focuses primarily on impact indicators and analyzes the chain of causality; that is, how much and in what way each activity has contributed to the ultimate objective of the project. Both the mid-term and

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<sup>18</sup> Annex 2 contains a sample log frame.

final evaluations will be compared to similar experiences. Thus, it is expected that lessons will be drawn regarding the effectiveness of resources allocated to each component and also with regard to the project's real return on investment.

The final evaluation includes an analysis of the executing agency's information system, verification of the consistency of that information, and a qualitative analysis based on interviews with enterprises, consulting firms, public and private

institutions, purchasers, the executing agency and the local office of the IDB.

As regards methodology, the final evaluation is similar to the process involved in preparing the project, as it requires an update of the baseline information in order to discuss marginal variations resulting from the project. It is recommended that the final evaluation include a workshop with the participation of the principal actors.

## Conclusions

Support to initiatives based on cooperation among firms or among firms and public and private institutions, is widely used in IDB efforts to promote competitiveness. From activities to support the creation of institutions for strategic dialogue between political authorities and business representatives (at the national, regional or sector levels) to support provided to groups of small producers in local communities, the Bank's interventions increasingly incorporate the interaction of these actors as a key element for achieving the results being pursued. Such activities consider competitiveness to be a systemic phenomenon in which the enterprise is defined by the quality of the relationships that it develops with the rest of the enterprises and institutions with which it interacts, and not merely by the legal frameworks in its area of activity.

Projects based on cooperation have proven to be both effective and complex, as they require that the energies of a group of actors be mobilized in complementary or converging directions; moreover, benefits are often difficult for each enterprise to envision, and they are not always rapidly attainable. Accordingly, this type of experience needs to be systematically analyzed. To achieve this, it will be necessary to continue to pursue efforts in monitoring and evaluation so as to provide objective and comparable evidence that will contribute to the achievement of practical improvements. Presented below are the main conclusions reached by a review of the experience of Bank projects containing productive integration components.

### **The initial assessment of the group with which work will be carried out is extremely important.**

An initial element is determining the presence or absence of actors that have the capacity and interest to play a dynamic role in promoting joint work efforts. Thus, for example, if the idea

is to improve the operation of a productive export chain, the export firm or firms have an essential role to carry out, as they are connected to the final market and, without their commitment, it will be extremely difficult for a program designed to enhance the competitiveness of a particular chain to be successful. In addition, in the case of strategic agreements involving the participation of public institutions, the commitment of the political authority is essential for achieving results. At other times, the existence of a group of enterprises with prior experience in conducting successful joint work efforts may act as an engine for the initiative receiving Bank support.

Without detriment to the wide variety of possible scenarios, it is important to stress that the initial assessment must not only identify the economic return of the proposed intervention; equally or more important is the need to detect the existence or absence of actors with the ability to successfully carry it to conclusion. The idea is to avoid the risk inherent in voluntary interventions by identifying from the outset not only the "partners" in the initiative, but also the actual strengths of those partners.

### **The initial assessment of the business and of its potential is also important.**

The initial assessment should also include a clear valuation of the competitive potential of the enterprises or sectors in which work will be carried out. Even when there is willingness on the part of the actors, the efforts put forth will not produce satisfactory results if the business supporting the project does not show a positive trajectory. PIPs are endowed with powerful tools to support improvements to competitiveness, but it is essential that such projects be clearly market oriented. Otherwise, failures can contribute to disparaging modes of intervention that may have been potentially effective but were applied in the wrong place.

**PIP design and launching should take place from the outset with the active participation of the beneficiary entrepreneurs.**

In the case of projects whose benefits can be easily appropriated, the prior existence of a foundation of trust among the enterprises, or the presence of lead enterprises within the group, are extremely important factors. In cases where work is conducted with smaller-sized firms, these elements are determining factors in reducing the high transaction costs generated in launching associative initiatives. It is also necessary to involve the entrepreneurs in selecting the personnel that will work with the project, as this makes them feel more involved in it and also makes them feel more responsible for its proper evolution.

**Although private enterprise is the lead player in a PIP, the public sector should also be involved, particularly in projects whose benefits cannot be easily appropriated.**

For PIPs whose benefits are not easily appropriated and/or where the beneficiaries are primarily small producers or relatively uneducated entrepreneurs, the role of support institutions during the project design phase takes on increased importance and should be evaluated more carefully. In the case of projects seeking to increase the level of coordination between public and private actors (whether at the sector, national or regional levels), experience shows that the degree of commitment of a high-level public figure is key to sustaining the initiative. This situation presents a particularly complex issue, as political turnover within the region is often associated with volatility in public policies, which detracts from the continuity of efforts.

**It is necessary to verify and validate the formulation of a project when it is launched.**

The lag between assessment and project formulation, approval and implementation, makes it wise to conduct a review of the base conditions on which the intervention was developed. This recommendation is clearly more important in those cases where success is dependent on the political will involved. This phase is more likely

to see the more active participation of entrepreneurs, as they will have already received assurances that the process is about to get underway.

**Balance between short- and long-term objectives.**

Owing to its nature, this type of program requires an appropriate balance between tangible short-term achievements and the development of processes that will lead to shifts over the long term. Indeed, the enterprises will desist from their collaborative efforts if they are unable to see any concrete results from their joint activities, either among themselves or with other institutions. However, the most substantive and significant modifications in terms of increasing entrepreneurial competitiveness (such as changes in practices and in the logic of actions carried out) take time to materialize. The same is often true with institutional changes, as some may require projects with a longer lead-time (such as projects of a legislative nature). Hence the need to consolidate the process by seeking to record clearly verifiable achievements, for example, by establishing from the outset progress indicators that can be verified by the participants, but without giving in to the temptation to gear all activities to short-term objectives.

**Optimum institutional structure varies with each project.**

A common challenge for programs receiving Bank support is to define their institutional structure along with their structure for allocating resources. Contact with the enterprises is generally best left to private implementers who possess greater flexibility to act and represent a more efficient alternative for managing resources. In addition, strategic coordination for the program tends to be in the hands of a public institution. The intermediate space, however, in which efforts involving the operational design and monitoring of the program are concentrated, is more problematic.

There are not many public institutions in the region with experience in this type of intervention that, in addition, have the ability to ensure efficient management of resources.

### Box 6. Best Practices

- Initial conditions required for implementing a PIP:
  - Preexisting foundation of trust
  - Critical mass of enterprises
  - Existence of markets
  - Minimal institutional technical capacity
  - Macroeconomic stability
  - Baseline for project indicators and initial conditions
- The process of defining objectives:
  - Must be demand-driven
  - The private sector must assume ownership of the project and direct it
  - Must involve all major actors
  - The project must be results-oriented
  - The participation of the lead firm in the cluster or chain is important
- The project objectives:
  - Should focus on those products of the cluster having the greatest value added
  - Project objectives should focus on market failures, problems with the provision of public goods, and breakdowns in coordination
  - The enterprises should define their own goals and evaluate their progress periodically
  - Establish clear and quantifiable goals
  - Establish easily achievable short-term objectives
  - Strengthen the institutional system for providing support to the cluster

Source: based primarily on Sölvell, Lindqvist and Ketels (2003) and The Mitchell Group (2003)

One alternative would be to consider having the public sector act as a temporary catalyst for developing capacities of this type that would ultimately be located in private institutions. In practice, this subject has been addressed by promoting partnerships between experienced international operators and local institutions, but to date no conclusive evidence is available.

#### **PIPs are process-intensive**

The proper evolution of projects that follow the productive integration logic requires that special attention be paid to the various aspects of process management. Consequently, the following

issues take on increased importance: (i) the preliminary analysis of participating actors, taking into account not only their incentives but also more subjective factors that might influence the quality of the relationships established with them; (ii) in the case of programs designed to bring about the strategic convergence of public and private actors, analysis of the political environment is obviously critical; (iii) promotion from the outset of ownership of the project by key actors; and (iv) the effort involved in monitoring program implementation, which should not be limited to merely observing administrative issues.

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# Annex 1

## Productive Integration Projects of the Inter-American Development Bank

### LOAN OPERATIONS TO GOVERNMENTS

Within the overall category of PIPs financed by means of IDB loans to governments, it is possible to distinguish three groups of operations: loans to promote innovation, loans to support policy reform, and loans for specific projects.

#### Loans to Promote Innovation

Three programs to promote competitiveness (PPCs) have been designed through the use of this instrument known as an “innovation loan,” whose goal is to promote innovative policies with loan amounts of less than US\$10 million and a 30-month implementation period. The purpose of a PPC is to create a national institution to articulate and put into effect a participatory process for generating a consensus between public and private actors in order to develop strategies and projects to remove obstacles to competitiveness. The PPC is a dynamic mechanism for identifying and implementing solutions through deliberative and collaborative processes carried out by the government, the private sector, universities, business organizations and others. PPCs are not limited to promoting clusters, but rather facilitate the identification and elimination of restrictions constraining competitiveness.

PPCs typically consist of three main components implemented consecutively. The first component is aimed at strengthening the institutions implementing the program, designing a national competitiveness strategy, and putting into motion a public-private participatory process. The second component finances assessments, designs competitive strategies for the clusters and articulates those strategies within the national competitiveness strategy, develops baselines, and trains consultants. And lastly, the third component creates a Competitiveness Fund that finances collective entrepreneurial projects.

In 2002 the IDB approved a loan to Panama to implement a PPC (see table A.1). The following year it approved two consecutive loans to finance PPCs in Honduras and the Dominican Republic. These operations employ similar institutional structures: the strategy of the PPCs and the principal decisions are made in the so-called National Competitiveness Councils (Competitiveness Group in Panama), entities consisting of representatives from the public sector (ministers) and private sector (entrepreneurs and workers). At present, none of the three countries has commenced the third component, in which the Competitiveness Fund will be used to subsidize technical assistance activities for clusters. This fund accounts for a considerable portion of the project budget: 37 percent in the case of Honduras, 70 percent in Panama and 60 percent in the Dominican Republic.

#### Loans to Support Policy Reform

These loans are structured to induce policy reforms (changes in laws, regulations or institutions), not to finance specific expenditures or investments. In the area of competitiveness, the Bank used this instrument in Peru and Bolivia to: (i) strengthen the national institutional capacity to support competitiveness; (ii) promote private sector participation in designing competitiveness policies and establishing forums for dialogue with the public sector; (iii) improve the business climate; and (iv) focus specific policies on identifying and eliminating bottlenecks constraining competitiveness. Table A.2 presents the characteristics of both programs.

**Table A.1. Loans to Promote Innovation**

Country	Amount (US\$ millions)	Term (years)	Year approved	Executing agency
Honduras: Program to promote competitiveness and strengthen foreign trade. HO-0221	5.4	3	2003	Ministry of Industry and Trade
Panama: Program to foster competitiveness. PN-0145	7	3	2002	Ministry of Economy
Dominican Republic: Program for the development of competitive advantages. DR-0152	9.4	3	2003	Ministry of Industry and Trade

Source: Project documents, IDB

**Table A.2. Loans to Support Policy Reform**

Project	Amount (US\$ millions)	Term	Year approved	Executing agency
Peru: Competitiveness reform program. PE-0239	Total for the program: 300  Budget for productive integration: 0.951	3 years	2003	Ministry of Economy and Finance
Bolivia: Program to strengthen public institutions and policies for supporting competitiveness. BO-0219	Total for the program: 87  Budget for productive integration: Undefined	2 years	2003	Ministry of Economic Development

### Loans for Specific Projects

This group of loans includes those based on plans for cooperation among firms and between the latter and public institutions, implemented by public agencies in a variety of sectors. Depending on the criteria employed, this category could include not only projects aimed at promoting competitiveness, but also a variety of projects to promote tourism, rural development, and similar objectives. Two projects with a clear focus on productive integration were financed by the MIF. In Argentina, the Bank financed a program to support the modernization of production in the Rio Negro province that included a productive integration component (see table A.3). The objective was to support the capacities of the public and private sectors to develop strategies to promote competitiveness and exports through specific interventions in support of tourism, technology and fruit growing clusters. In Uruguay, the Bank prepared a project to introduce innovations to the livestock sector by promoting the vertical integration of enterprises.

**Table A.3. Loan Operations Containing Productive Integration Components**

<b>Project</b>	<b>Amount (US\$ millions)</b>	<b>Term</b>	<b>Year approved</b>	<b>Executing agency</b>
Argentina: Support for modernizing production in Rio Negro province. AR-0279	Total: 51.9  Promotion of clusters: 1.87	5 years	2003	Provincial Unit for Coordination and Implementation of External Financing
Uruguay: Pilot project to promote the competitiveness of the livestock sector. UR-0137	7.7	30 months	2000	Ministry of Agriculture

Source: Project documents, IDB

### **PRODUCTIVE INTEGRATION PROJECTS FINANCED BY THE MULTILATERAL INVESTMENT FUND**

Since 2001, the Multilateral Investment Fund (MIF) has financed a dozen productive integration projects, shown in table A.4, through nonreimbursable technical cooperation operations. The objectives of these projects were to: (i) encourage the establishment of partnerships among firms; (ii) improve supplier relationships between large enterprises and small producers, or between large producers and small clients/distributors; and (iii) coordinate joint activities in productive chains and clusters in order to eliminate the bottlenecks affecting their competitiveness.

These projects typically work with previously identified groups of enterprises and with implementing agencies that are either public or private nonprofit organizations. Only in Colombia and Costa Rica do projects work with a second-tier system, where universities (INCAE in Costa Rica and University of the Andes in Colombia) act as implementing agencies responsible for identifying groups of enterprises. The average implementation period is about three years.

### **PRODUCTIVE INTEGRATION PROJECTS FINANCED BY THE SOCIAL ENTREPRENEURSHIP PROGRAM**

The Bank, has designed and implemented a number of projects through the Social Entrepreneurship Program (SEP) that also have a productive integration focus. (However, the objective of the SEP is not to promote competitiveness directly, but rather to generate income and economic opportunities for the poorest sectors). The PIPs carried out within the framework of the work of the SEP with low-income entrepreneurs grouped together in associations that are extremely weak as regards their capacity for collective action and their access to knowledge, markets and financing. As a rule, these projects deal with enterprises that operate in primary sectors serving the domestic market and that are extremely vulnerable to competition, because there are few obstacles to market entry.

The SEP project portfolio currently totals some 300 projects and it increases annually by some 15 to 20 new initiatives. Twenty PIP projects were approved during the past decade. Out of these, 10 projects with an implementation track record and a high percentage of disbursement of budgeted funds and whose implementing agencies were still in existence, were selected for analysis. Despite the fact that the number of PIPs is small relative to total operations, it is nevertheless remarkable that each year the importance of PIPs increases within the overall SEP portfolio. For example, eight PIPs were approved in 2004, account

**Table A.4. PIPs Financed Through the MIF**

<b>Project</b>	<b>Amount (US\$ millions)</b>	<b>Year approved</b>	<b>Sector</b>	<b>Executing agency</b>
Colombia: Development of the productive chain for Isabella Grapes	1.1	2001	Agriculture	Fundación Carvajal
Chile: Productive integration for microenterprise	1.1	2001	Various	Servicios de Consultoría en América Latina (SERCAL)
Brazil: Development of industrial districts	2.1	2002	Footwear, lingerie, wooden furniture	Servicio Brasileiro de Apoio as Micro e Pequenas Empresas (SEBRAE)
Argentina: Productive clusters in Córdoba	1.1	2003	Furniture, data processing, organic agriculture and livestock	Agencia de Desarrollo Económico de Córdoba (ADEC)
Regional: Program of competitiveness for Central America	5	2003	Various	INCAE
Mexico: Development of productive chains for small and medium export enterprises in Guanajuato	1	2003	Leather and footwear, decorative articles and wearing apparel	Coordinadora de Fomento al Comercio Exterior del Estado de Guanajuato (COFOCE)
Dominican Republic: Competitiveness of micro, small and medium sized enterprises in Santiago de los Caballeros	0.6	2003	Furniture and wearing apparel	Asociación de Industriales de la Región Norte (AIREN)
Peru: Productive chains for the wearing apparel industry in Gamarra and the tourism industry in Cuzco	1	2004	Wearing apparel and tourism	Comisión de Promoción de la Pequeña y Micro Empresa (Propyme)
Uruguay: Support for the development of a productive chain for the viticulture industry	0.5	2004	Viticulture	Asociación de Bodegas Exportadoras de Vinos Finos de Uruguay (ABE)
Uruguay: Development of the productive chain of Ñandú	0.5	2004	Livestock	Asociación Uruguaya de Criadores del Ñandú (A.U.CRI.ÑA)
Colombia: Promotion of clusters in Colombia	3.5	2004	Various	University of the Andes

Source: Project documents, IDB

ing for almost 40 percent of the SEP's annual portfolio. The trend carried over into 2005, as will be seen below. Table A.5 lists the 10 SEP projects selected for this study.

**Table A.5. PIPs Financed Through the Social Entrepreneurship Program**

Project	Loan (US\$)	Technical cooperation (US\$)	Year approved	Sector	Executing agency
Mexico: Integral Development of Beekeeping in the Region of Las Cañadas de Ocosingo	490.000	137.000	1998	Honey	Productores Agropecuarios de la Selva Lacandona SSS Sponsor: Agencia de Solidaridad Social
Venezuela: Small cocoa producers of the Paria peninsula	0	250.000	2001	Cocoa	Fundación Proyecto Paria
Colombia: Program for recycling banana waste	420.000	200.000	1999	Recycling of plastic products	Fundación Social Unión de Bananeros (Fundaniban)
Uruguay: Sociedad de Fomento Rural La Casilla (SFRLC), Cooperativa Agraria de Young Limitada (CADYL), Sociedad de Fomento Rural de Durazno (SFRD) y Sociedad de Productores de Leche de Florida (SPLF)	3.510.000	3.138.000	1993	Dairy products	National Savings and Loan Cooperative (COFAC)
Peru: Improvement of SME competitiveness in the lumber industry		250.000	1999	Lumber	National Forestry Chamber (CNF)
Bolivia: Project to support bean production and marketing	400.000	111.200	2000	Beans	National Association of Bean Producers (ASOPROF)
Panama: Support to Multiple Services Cooperative	400.000	30000	1999	Beekeeping	John XXIII Multiple Services Cooperative
Honduras: Support for improving the quality and competitiveness of coffee	350.000	250.000	2002	Coffee	Cooperativa Cafetalera Siguatepeque Limitada (Cohorsil)
El Salvador: Associativity and competitiveness for small fruit and vegetable producers	0	196.000	2002	Fruit growing	Asociación Salvadoreña de Desarrollo Integral (ASDI)
Panama: Association to promote community-level environmental sanitation	0	250,000	2002	Recycling of solid waste	Asociación para la Promoción del Saneamiento Ambiental en la Comunidad (APROSAC)

Source: Project documents, IDB

## Annex 2

### The Logical Framework as an Evaluation Tool

The first methodological tool available to the evaluator is the logical framework, or log frame, prepared during project design, which summarizes in a four-by-four matrix what the project intends to achieve, together with why, how and when. The log frame serves as a tool not only to facilitate project design but also to support project monitoring and evaluation, since it is constructed in such a way that it is possible to analyze compliance with the project's causative ties, which in principle follow the logic listed below:

- The *activities* specified for each *component* are necessary to produce the *component*.
- The *components* are those that are necessary and sufficient to achieve the project *purpose* of implementing a productive integration plan.
- The project *purpose* contributes to achievement of the *goal*, which is to improve the competitiveness of a given sector or territory.
- The *goal* is a response to the most important problem affecting the sector or geographic area.

The following table presents a log frame that includes traditional components of productive integration projects, along with their respective activities and indicators. Of course, the components vary in accordance with the objectives of each productive integration plan, which in turn depend on the ability and willingness of the beneficiaries, on the vocation of the executing agency and, above all, on the degree of cooperation and technical and administrative capacity exhibited by the beneficiary enterprises prior to project launch. The evaluation methodology should be adapted to the variations exhibited in all of these areas.

SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<b>GOAL</b>			
Contribute to improving the competitiveness of X sector located in Y area			Stable macroeconomic scenario
<b>PURPOSE</b>			
Program of productive integration installed in sector X located in Y	<p>Thirty-six months after project launch, groups of MSMEs, as a result of collective actions taken, report the following results vis-à-vis their base-lines:</p> <ol style="list-style-type: none"> <li>1. Sales increase an average of more than 20% in real terms.</li> <li>2. Productivity (value added per employee) increases by more than 10%.</li> <li>3. The number of enterprises participating in the project increases from 20 to 60.</li> </ol>	<ol style="list-style-type: none"> <li>1. Initial and final project reports</li> <li>2. Quarterly management reports</li> <li>3. Trade records for the area</li> </ol>	<ol style="list-style-type: none"> <li>1. Demand for, and prices of, sector X products remain stable.</li> </ol>
<b>COMPONENTS</b>			
1. Strengthening of relationships of cooperation	<p>Six months after project launch, the following will have been occurred:</p> <ol style="list-style-type: none"> <li>1.1 A Productive Integration Strategy designed, with specific activities identified</li> <li>1.2 20 officials from supporting entities and participants trained</li> <li>1.3 100 entrepreneurs and producers trained in productive integration</li> <li>1.4 Assessment of integration opportunities carried out</li> <li>1.5 Baseline for competitiveness of participating enterprises defined for sales, productivity and joint marketing variables</li> </ol>	<ol style="list-style-type: none"> <li>1. Quarterly management reports prepared by the Technical Unit</li> <li>2. Minutes of the Steering Committee</li> <li>3. Letter of commitment signed by enterprises interested in participating</li> <li>4. Productive Integration Strategy Document including baseline</li> </ol>	<ol style="list-style-type: none"> <li>1. Interest and participation of enterprises and other institutions</li> <li>2. Availability of trained personnel to provide training and technical assistance</li> <li>3. Effective institutional coordination by the Steering Committee</li> </ol>
2. Collective improvement of means of production	<p>Thirty-six months following project launch:</p> <ol style="list-style-type: none"> <li>2.1 At least 30 enterprises working in joint projects</li> <li>2.2 One specialized pilot enterprise in operation</li> <li>2.3 30 enterprises have received technical assistance and training in the subject matter identified in the strategies</li> <li>2.4 Centralized information systems in operation and inventory management improved in both sectors</li> <li>2.5 Training provided to beneficiary enterprises in aspects of the envi-</li> </ol>	<ol style="list-style-type: none"> <li>1. Work plans</li> <li>2. Quarterly management reports prepared by the Technical Unit</li> <li>3. Records of events kept by the Executing Agency</li> <li>4. Minutes of the Steering Committee</li> </ol>	<ol style="list-style-type: none"> <li>1. Willingness and ability to pay on the part of the enterprises</li> <li>2. Executing Agency provides follow-up on the quality of technical assistance services</li> <li>3. Willingness of the enterprises to participate in training and technical assistance events</li> <li>4. The study conducted to prepare the business plan for specialized enterprises confirms its viability</li> <li>5. Sector enterprises demon-</li> </ol>

	<p>2.6 ronment and occupational safety 30 enterprises increase their productivity by an average of 10% and reduce their costs by at least 5%</p> <p>2.7 At least 30 enterprises in the sector are awarded the seal of quality</p>		strate interest and contribute resources for carrying out pilot project involving a specialized enterprise
3. Promotion of joint marketing	<p>At the conclusion of the project:</p> <p>3.1 X% of production is marketed jointly by two or more enterprises</p> <p>3.2 For enterprises that exported either directly or indirectly, the volume of export sales has increased by 20%</p> <p>3.3 For those that did not export, at least 15 are now doing so on an ongoing basis as direct or indirect exporters</p> <p>3.4 Establishment of a joint brand</p>	<p>1. Minutes of the Steering Committee</p> <p>2. Work plans prepared by the Technical Unit</p> <p>3. Quarterly management reports prepared by the Technical Unit</p> <p>4. Sales records of the enterprises</p> <p>5. The city's foreign trade records</p>	<p>1. There are clients in external markets interested in the supply offered by the sector</p> <p>2. Enterprises are able to comply with export procedures</p> <p>3. Sector enterprises show interest and contribute resources for marketing with a joint brand</p>
4. Dissemination of the model and of the results obtained	<p>4.1 30 months after project launch, best practices for productive integration programs are documented</p> <p>4.2 36 months after launch, program dissemination pamphlets have been prepared</p> <p>4.3 36 months following project launch, four program dissemination workshops have been held</p>	<p>1. Documents attached to the Minutes of the project Steering Committee for each consecutive year</p> <p>2. Multimedia documents or cases</p>	<p>1. Availability of information and project evaluations</p> <p>2. Willingness of enterprises and institutions to create networks</p> <p>3. Local capacity to develop successful initiatives</p>