

IMPACT EVALUATION CASE STUDY

THE PROGRAM FOR
INDUSTRIAL DISTRICTS IN
BRAZIL



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Introduction

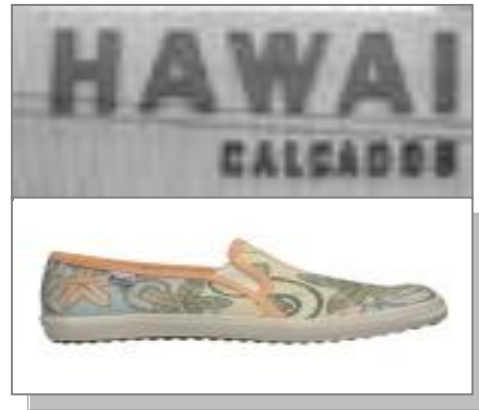
One goal of the Multilateral Investment Fund (MIF) is to improve the management and competitiveness of small and medium enterprises (SMEs) in different sectors in Latin America and the Caribbean. To that end, MIF supports activities that promote the creation and strengthening of support services that will spur development of SMEs and stimulate demand for the use of such services. The Program for the Development of Industrial Districts in Brazil is a good example of how MIF works with local institutions to strengthen different dimensions of SME development.

The case study that follows, prepared based on the Industrial Districts Program impact evaluation conducted four years after program completion, aims to contribute to better design, execution, evaluation, and impact of future MIF programs. It is presented as an educational tool for program officers at MIF and the Inter-American Development Bank (IDB), potential partnering institutions, and other stakeholders.

Hawai Calçados: Expanding the family business horizons

When the Brazilian Microenterprise and Small Business Support Service (SEBRAE) and Milan Chamber of Commerce Special Agency for International Activities (PROMOS) came to Campina Grande (State of Pará) in 2002 to identify participants for the Industrial Districts Program, Eduardo Almeida Souto, second-generation owner of Calçados Hawai, didn't have a clear idea about how to improve his products or grow further his business. The firm that his father had started with one machine in 1949 and that he had joined in 1969 at age 21 was still a small shoe shop, with 30 workers and production capacity of 600 pairs of shoes a day.

The Industrial Districts Program opened the eyes of Calçados Hawai staff to ways to increase production based on customers' preferences and needs: As program participants, the staff visited other shoe districts in Brazil (in Minas Gerais, Rio Grande do Sul, and elsewhere) and abroad (Italy) and learned more about shoe production and markets. They worked on product modeling, costs,



design, and development through the Footwear Technology Center,¹ focusing production on shoe lines with higher profit margins and better consumer acceptance. Eduardo also started investing in new machinery and moved production to a new warehouse where the layout was more efficient and facilitated the management of raw materials and production storage.

“We improved our products in terms of quality and visited other shoe centers in Brazil. All the companies (in the case of Campina Grande) that participated in the Promos Sebrae program improved and so did the sector as a whole.”

As a result of its participation in the program, Hawai operates in a medium-size factory in Campina Grande, with 70 employees manufacturing 1,800 pairs of shoe per day. More than 80 percent of the production is automated; manual manufacturing has virtually disappeared. Production growth averages about 20 percent per year thanks to new markets and investments. The company is celebrating its 60-plus years of tradition and expertise in the shoe business in Campina Grande, and looking forward to the third generation of Almeida Souto family ownership – Eduardo's son, who is in his mid 20s, works at the factory and is proud to be contributing to building the family business.

¹ The Footwear Technology Center is operated in Campina Grande by the Brazilian National Service for Industrial Learning (SENAI); it offers computer-assisted design and manufacturing (CAD/CAM) services that it acquired under the Industrial Districts Program.

Program Background

Hawai Calçados was one of 591 Brazilian SMEs from four industrial districts (Lingerie in Nova Friburgo; Leather Goods and Footwear in Campina Grande; Wood Products and Furniture in Paragominas; and Apparel and Artisan Stitch Work in Tobias Barreto) that participated in the MIF Industrial Districts Program. The program was a nonreimbursable MIF facility whose objective was to increase the competitive capacity of the small enterprises that produce goods and services in the four districts. The program, run in partnership with SEBRAE, the executing agency, and PROMOS, was approved by MIF in June 2002, formally launched in July 2003, and implemented over a period of 55 months², until 2006. SEBRAE provided 65 percent of the total budget of US\$5.98 million, and MIF provided the remaining 35 percent.³ The program was structured around four components: (1) Information and Market Access; (2) Organization and Production; (3) Strengthening Industrial District Dynamics; and (4) Access of SMEs to International Markets.

The program provided the companies technical assistance and specialized businesses development consulting, and financed their participation in trade shows in Brazil and Italy, to expand their exposure and competitiveness.

The Impact Evaluation

The methodology used to evaluate the outcomes and impact of the Industrial Districts Program had three objectives:

- Identify and measure the outcomes achieved by participating SMEs, using the indicators specified in the logical framework in the Donor's Memorandum and research workplan
- Assess how well the goals for each of the project's four primary components were met
- Identify areas of strength and areas for improvement, which MIF can use to improve program results, the sustainability

² Starting from the signature of the Letter of Agreement of the program.

³ The original program budget was US\$4,105,000, of which US\$2,075,000 (50.55 %) was to be contributed by MIF and US\$2,030,000 (49.45 %) by SEBRAE. However, the program extension and addition of the fourth industrial district (Tobias Barreto) after the program started increased the budget to US\$5,989,000.

of outcomes, financial sustainability, and internal processes.

The evaluation framework had five dimensions, for each phase of the project lifecycle: (i) scope and strategic relevance of the program; (ii) internal quality; (iii) likely impact; (iv) dialogue and dissemination; and (v) inputs and processes. The assessment collected both quantitative and qualitative data. The evaluators were able to interview MIF/IDB staff members, SEBRAE's staff at the national and state level, program coordinators and participants, and nonparticipants. However, other information gathering was more challenging. Perhaps the most critical obstacles were building the program's relevant document history (four years after the program had been completed, many documents could not be obtained) and gathering specific baseline data needed for the impact assessment. The absence of baseline data meant the evaluators had to rely on documents such as consultant reports, program's periodical surveys, and other program's documents and data.

Key Findings

In general, the Industrial Districts Program achieved many of the general outputs that the Donor's Memorandum framework (and modification) set out for the four program components. However, results of the tracked indicators are more ambiguous: participant performance varied by district and even within each district. Differences in the sector stage of development (some where at the pre-cluster development level), the type of participants (in some districts, like Tobias Barreto, most of the beneficiaries were informal companies and artisans), and the level of sector governance explain the different results achieved by each district.

During the three-plus years of program implementation, overall sales, productivity, and employment generation increased substantially at many of the SME beneficiaries, and many of the increases have been sustained over the ensuing four years. *"The PROMOS – SEBRAE Program helped us access new markets in Brazil and abroad. It also helped us increase our productivity. We went from manufacturing 120 pairs of shoes per day to 1,500 today with three different lines of shoe ranging from shoe size 17 to 26,"* Sydney Rossi from Calzados Bebezinho (Campina Grande) told evaluators.

Participants found many intervention activities to be reasonably designed in terms of length and budget. Many of them reported activities such as product development and production organization provided by SENAI and SEBRAE as the greatest benefit from the program. Participation in national and regional fairs was also considered effective in generating new sales and increasing the client base (especially in Campina Grande and Nova Friburgo). However, they judged some technical assistance too sophisticated for the level of development and knowledge-capture capacity of some of the SMEs, for example, wood furniture companies and fashion designers with few design skills and little of the export experience or international exposure that are needed to export.

The program also supported the creation and strengthening of sector governance institutions that promote different types of joint initiatives such as the promotion of export consortiums, the coordination of support initiatives provided by different institutions, and origin and quality tags for products manufactured in some of the industrial districts. *“The Underwear Fashion Council, created in 2002, was instrumental in channeling support to the sector by institutions such as the Banco do Brazil, SENAI, and city authorities, and in coordinating the specific activities of the IDB-SEBRAE-PROMO program in order to maximize impact on the companies and the sector,”* said Claudio Tangari, President of the Fashion Council at the time the program took place.

In the opinion of the program’s National Director, Renato Caporalli, the program’s budget and duration fell short of completing all planned activities in order to reach cluster self-sustainability impact in consonance with each district’s level of development. *“Perhaps at least five years would have been needed to reach a self-sustained development level to improve the prospect of long-term impact and sustainability.”*

Perhaps the most notable impact and program success, as recognized by the main stakeholders, is the positioning of the SME policy discussion at the national level and the development of the Local Productive Agreements (*Arranjos Produtivos Locais* or APLs-) in Brazil. In this sense, the intervention served as a “pilot program,” with its lessons helping to frame the national debate around SME development policy. Creation of the first 100 APLs (2005–06) engendered a national debate about this

concept that was joined by the Ministry of Industry. More than 100 APLs were represented in the final program workshop. Today there are more than 900 APL initiatives across Brazil. The Industrial Districts Program was certainly instrumental in enhancing awareness and thus a contributor to APL scale-up.

“The program was the first structured initiative by SEBRAE that organized a relationship with international partners (PROMOS)...it also allowed that SEBRAE developed a new concept integrating sociological, geographical, and economic factors which was the Arranjo Produtivos Locais or APLs concept,” said Paulo Volker, SEBRAE’s National Program Coordinator.

Conclusion and Recommendations

- The Industrial Districts Program had a positive impact on SME beneficiaries in terms of supporting specific production and management areas such as factory layout, market segmentation, participation in trade shows, and access to markets and product development. The program was successful in “opening the participants’ vision” about key business development factors such as increasing productivity, improving production efficiency, and increasing sales.
- The program made an important contribution in promoting awareness of policymakers nationwide on the importance of supporting SME development and creating vehicles to foster cluster development in Brazil under the APL concept. SEBRAE’s presentations on the APL model and the importance of supporting SME development at workshops, seminars, and conferences in Brazil planted the seed for what would become the reference model for the development of clusters. This process included the creation of a methodology for the development of SMEs through the APL model, which had not existed before in Brazil, and its subsequent use by different Brazilian public and private institutions.
- By partnering with MIF, SEBRAE gained access to international project management experience (identification and selection of international consultants, preparation of terms of references, monitoring and evaluation of

program outputs and outcomes), and added value came in the form of best practices for project design and implementation and development of international partnerships. The partnership also helped the program to gain credibility, relevance, and visibility.

- In future interventions, MIF may want to consider: (i) moving from "good practices" to "good fits," that is, moving beyond generic support by tailoring programs and projects to the country context and adapting strategies to local conditions; (ii) agreeing in the very early stages of the program on baseline indicators, beneficiaries' participation, control group definition, monitoring and evaluation, and associated arrangements with the executing agency in situations where the program may be considered as part of a mainstreamed programmatic effort; (iii) basing disbursements on achievement of performance benchmarks rather than automatically reimbursing expenses or inputs, thereby reducing line-item controls and allowing greater flexibility to focus on substantive issues, results, and lessons.
- When MIF interventions are intermediated by a major institution like SEBRAE, which has its own policies and practices, there must be alignment on program norms, procedures, and other types of management arrangements from the very beginning of program design. This will contribute to efficient program development, impact on beneficiaries, and overall performance.
- Objective performance evaluations and impact assessments require minimum performance-related data, such as (i) program approval committee documents; (ii) baseline studies, and a database of contact information for beneficiaries and the control group; (iii) monitoring and evaluation reports; (iv) terms of reference for specific activities throughout the project life cycle and consultant reports; (v) fiduciary oversight documents; (vi) peer-reviewed comments and meeting minutes throughout the project life cycle; and (vii) procurement and financial management documents.

At the beginning of each intervention, MIF needs to ask itself: How can further development of the participants and the sector in which they operate be ensured without special (and potential distortionary) incentives? How can a vehicle be introduced, resources mobilized, and international partnerships forged that will free the sector from relying on special subsidies or MIF support?