MULTILATERAL INVESTMENT FUND

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EXECUTIVE SUMMARY

Latin America and the Caribbean are facing serious economic challenges. Income disparities in the region remain the world’s highest, economic growth is at low levels, investment is declining and the level of informality in the economy is growing. Populations are fatigued with waiting for the gains expected from reform, and social tensions are increasing in many areas. It is urgent to improve economic performance and reduce poverty in the region.

It is absolutely essential to improve the business environment, and strengthen the capacities of firms to benefit from reforms. These are inter-connected challenges. Change in the legal, regulatory and institutional framework inevitably entails a new distribution of benefits, and governments can only proceed when there is a sturdy, broad-based constituency for reform. Engagement of the private sector is essential to build this base, and ensure that reforms deliver maximum benefit.

Small business growth is central to achieving the kind of growth needed to reduce poverty. However, these enterprises are particularly vulnerable to weak institutions, or market dysfunctions that make it difficult to obtain adequate finance, information and new techniques to improve capacity. The fading distinction between domestic and export markets also impacts very small firms as new competitors enter previously local markets. Informality poses additional constraints, limiting access to financial and other inputs, hampering access to public services and narrowing the kind of contracts or investments these businesses can make.

MIF technical assistance and demonstration projects play an essential in advancing broadly-based private sector development. Of all the projects undertaken by the IDB Group over the past ten years, MIF has funded nearly all those for microfinance, two out of every three targeting SMEs and one of every three for financial sector reform. MIF operations advance new thinking, assist small firms to benefit from change and involve the private sector in the development process. Although each project is small relative to the typical size of IDB loans, the extent of involvement and ownership by the private sector has enabled MIF projects to spark much larger results.

MIF initiatives complement and leverage not only the actions of other members of the IDB Group, but other multilateral and bilateral agencies (over 30 partners), national development agencies throughout the Region, and numerous international and national NGOs and private sector organizations.

MIF has built an unequalled range and depth of experience on how to improve the growth prospects for small business. Its 590 projects are making a significant difference throughout the Region, addressing those aspects of the business environment that are the most critical for SMEs, as well as strengthening the capacity of micro and small enterprises to benefit from market change. Including the counterpart funds of its partners, MIF projects have put over $1.8 billion to work, making it the largest provider of technical assistance to the Region.

MIF promotes new thinking and directly engages the private sector in the development process. Three quarters of projects are undertaken in direct partnership with business associations, trade groups, foundations and NGOs, with these organizations typically providing half the project costs. As a result, MIF has worked closely with over 400 leading private sector organizations throughout the Region. This network of relationships is an important asset for both identifying issues of relevance as
well as advancing the quality of economic participation by more deeply involving the private sector in the development process.

MIF initiatives are building the kind of region-wide sharing of experience that is needed for sustained improvements in competitiveness. They are providing concrete examples of working models that take theory into practice and catalyze larger reform processes. Investment projects are demonstrating new possibilities to commercial markets and pioneering development of needed financial mechanisms to support small business growth.

**MIF has a special role in assuming the risk of innovation.** Making progress on stubborn problems calls for energizing new ideas and developing customized Latin American and Caribbean models. However, by definition these types of initiatives are unproven and therefore risky. Grant initiatives play a critical role by supporting the development of innovative approaches that might benefit all, but are not yet proven. They enable public sector entrepreneurs to advance their ideas for change, and also encourage deeper involvement of the private sector in building capacities that might have important benefits for the economy, but where markets alone do not provide a way to repay the costs of introducing the new approach.

**MIF projects are particularly important to assist the smaller and less developed countries of the Region (C&D Countries).** Technical assistance is particularly important to smaller countries with a narrower domestic base of expertise in specific issues, and where standard models need greater adaptation to gain support. The majority of MIF technical assistance has been directed to meeting these needs.

**The Office of Oversight and Evaluation (OVE) finds MIF has been a highly effective agent of change.** OVE’s recently completed two year evaluation of over 80% of MIF projects offers a wealth of information and identifies important themes. It finds¹:

"The evaluation results indicate that the MIF has focused on highly relevant issues, built effective partnerships for the promotion of change, and consistently demonstrated a high level of innovation in its operations. Projects have generally been effective, and in a number of areas the MIF has initiated major change processes in the region with only a small contribution of its own resources. While the (evaluation) findings suggest there are substantial opportunities for improvement in the future, the MIF has already clearly established itself as a powerful ally for private sector development in the region."

**OVE found that MIF projects addressed crucial private sector development issues, piloted important new concepts and enabled reforms that otherwise would not have happened.** In the detailed reports on ten different project groups, OVE found that MIF interventions have made a measurable difference, central to the progress achieved in microfinance, remittances, skills standards and credentialing systems, venture capital market development, alternative dispute resolution, and

¹ The final summary report is MIF/GN 78-16, 3March 2004. Other OVE reports are MIF/GN-78-1 through 15. In addition to the OVE studies, a range of other independent evaluations of MIF projects have also been completed. These include studies on ISO projects, Tourism, Regulatory Reform, Microfinance, Alternate Dispute Resolution, Skills Standards, and the use of Equity as a Development Tool.
quality management systems (ISO). Important contributions have been made in the areas of environmental management, financial sector reform, regulatory reform and the framework for private sector investment in infrastructure. Early results from newer areas such as clean production are showing significant promise.

In its detailed analysis of ten different project groups, OVE found that projects were highly relevant, innovative and effective. Most projects were sustainable and while additionality was difficult to measure, there were solid indications that MIF initiatives were essential to the results that had been achieved in most areas. Weaknesses were identified in the efficiency of project implementation, of a similar degree to those of other IDB initiatives.

The involvement of a broad range of private sector partners presents special challenges for efficient project implementation. Projects must be designed for flexibility and on-going technical support during implementation as well as the explicit development of institutional capacity for problem solving within the executing agencies, and the capturing of economies of scale among similar projects. New administrative procedures governing project implementation may be needed to enhance these objectives.

MIF’s focus on meeting emerging needs, and seeking new ways to address old problems, has been central to its success. It has discouraged the institutionalization of any one approach, and supported an open assessment of what works and what doesn’t. Its projects are building grass roots economic resiliency, improving competitiveness of the firm, helping to remove barriers to growth and catalyzing larger reform processes.

Development impact from innovative projects is maximized when sharing of results is built into project design. While improving the productivity of a group of small enterprises, or advancing reform in a particular market is in itself worthwhile, greater development effectiveness is achieved when projects have impact beyond any one group of beneficiaries, delivering clear lessons and models to share with a wider group. In addition, it is important to build networks among firms that are applying new methodologies in order to create a series of distinct models adapted to the region’s needs.

Technical assistance and demonstration projects face basic choices. Grant resources are precious and must be carefully focused to maximize their impact. Highly innovative initiatives must be balanced with the importance of sustainability. Promoting international standards may constrain the ability to tailor projects to local needs. Certain reforms may be more effectively done through reimbursable technical assistance as part of a long term strategy. Working with proven partners must be balanced with the importance of reaching out to new communities. Maximizing development impact involves not only doing the right things, but doing them in the right way.

MIF has had good success in managing difficult choices by focusing on the nature of its instrument rather than solely directing its strategic choices to the development topics to which it is applied. This approach assists in maintaining strategic coherence among IDB Group private sector development activities, focusing its efforts not only on important issues, but on those initiatives where small projects can make a difference.

The nature of MIF projects changed significantly over the decade, as experience was gained with
utilizing the MIF as an instrument, as well as in response to the evolving needs of the Region. As private sector partners became more and more involved, they provided an increasing share of project costs, bringing down average MIF contributions. The portion of projects undertaken with private sector executing agencies grew from 45% in the first three years to 80% over the past three.

Innovative methods of delivering assistance were developed. Project clusters introduced a new way to increase focus and obtain thematic, cross cutting lessons. Competitive selection of which projects to finance was piloted, and new modalities were tested to enable MIF to meet the needs of very small, local operations.

In defining MIF 2, there is an opportunity to reinforce those modalities that have proven to be most effective. Project efficiency can be improved with new budgetary mechanisms to better capture economies of scale and streamline procedures. The impact of Project Clusters can be increased with new ways to share knowledge among participants. Pilots of competitive selection of projects, and use of delegated authority have been promising and could be significantly expanded.

MIF’s essential role within the IDB Group efforts to develop the private sector can be made explicit. Its structure and range of instruments uniquely position MIF to help improve competitiveness, addressing both deficiencies within the business environment as well as building capacities of the firm. MIF can approach these issues with an innovative and targeted mix of non-reimbursable technical assistance grants, debt, and equity vehicles. MIF also has an extensive network of private sector partners that are an important resource in promoting growth.

Over the past few years MIF has been increasingly taking an integrated approach employing the full range of its grant, debt and equity mechanisms to target a specific development issue. This method can be most recently seen in MIF’s approach to the remittances issue, where it used the full range of its tools to raise awareness of the issue, and to energize action that has already led to important fundamental change.

MIF is uniquely equipped to assume the costs and risks of developing and introducing new ideas. It has a close and responsive relationship with the kinds of private sector groups that need to be deeply involved in the process of private sector development. It can work both at the level of capacity building of the firm as well as address reform of the business environment. It can work across borders to build regional approaches and can enter into the difficult areas of building support for larger reforms through demonstration projects.

Current MIF Agreements need updating. Replenishment of the MIF entails renewal of the two founding documents, The Agreement Establishing the Multilateral Investment Fund, and its companion Agreement for the Administration of the Multilateral Investment Fund.

An updated strategic framework should focus MIF where it has a “competitive advantage” – where the issue is both important to private sector development and is one where MIF as an instrument can have a significant impact.

MIF success has been strongly associated with openness to innovation, flexible response to changing circumstance and new opportunities, and close partnership with private sector groups. Most
importantly, the deepest results have arisen from concentrated effort over time on a particular
development topic, with MIF funding a succession of innovative initiatives as the issue evolved.

Most of the specific areas where MIF has had the greatest development impact were not expressly
defined by the original Agreement. Rather, the Agreement described strategic level objectives and
areas of activity and assigned the Donors Committee to guide the development of operational priorities
used to identify specific projects. This approach enabled the focus to adapt to changing needs, and
allowed MIF to pioneer new development approaches.

**The proposed strategic framework maintains the approach of the current Agreement.** The
framework presents new strategic objectives to reflect the recommendations and analysis of the OVE
studies, and the views of the network of partners MIF has built up throughout the region.

**It proposes that MIF focus on three strategic objectives:**

- Improving the Business Environment;
- Building Competitiveness of Smaller Firms;
- Engaging the Private Sector as Partners for Change.

Each of these relates to the overall private sector strategy of the IDB Group, and can be seen as
describing the role that the MIF plays with respect to each area of action.

<table>
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<th>Engaging the Private Sector as Partners for Change</th>
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**New measures to add a more explicit focus on development results** would enhance MIF’s focus
and development impact. There is need for new approaches to stubborn problems, not only removing
impediments to growth and investment, but finding innovative ways to energize the private sector in
the Region. Measuring MIF’s impact in these areas not only identifies useful approaches, but can itself
become a development tool.

Expectations play a central role in defining the institutions and incentives of the business environment,
and in determining how people respond to change. Clear, transparent measurement of what a particular
technical assistance project is supposed to achieve can help create new expectations, and stimulate
further innovation. It can help maintain support for reform over the longer time periods needed to
achieve fundamental change. Most importantly, it creates the foundation for ongoing innovation and adaptation to change by increasing knowledge.

A multi-faceted approach can also increase impact in areas of focused efforts. MIF has had good results when it strategically targeted a particular development issue, and then utilized a variety of research, communication, and project methods to offer people new ideas and techniques for correcting problems or reacting to opportunities. The proposed strategic framework supports further development of this role, by describing objectives for each area of activity rather than the kind of initiatives that could be financed.

Much has been learned about the importance of creating a competitive business environment with the right incentives and institutions to attract both foreign and domestic investment. Much is now understood about the critical role of micro and small business in building economic resiliency and how targeted action is needed to extend the benefit of reforms and broaden economic participation.

MIF has been a highly successful development instrument that has made an important difference in these areas. It occupies a unique niche, complementing and leveraging the actions of other members of the IDB Group and other development agencies. This is rooted in its ability to assume the risks of innovation, advance new thinking, and assist small firms to benefit from change. There is a compelling need for this kind of development assistance, a need that MIF is uniquely able to meet.

MIF has an unequalled range and depth of experience on how to improve the growth prospects for micro and small business. Its network of over 400 leading private sector organizations throughout the Region is an important asset for both identifying the issues of relevance as well as advancing the quality of economic participation by more deeply involving the private sector in the development process. Its recent leadership in the issue of remittances is opening new ways to increase economic participation in rural areas and extend access to financial services.

MIF projects act as prototypes, filling the gap between research and diagnostics and the full implementation of an idea. They introduce new approaches, work across national boundaries and directly engage the private sector in the development process. They enable progress on difficult reform issues and can assist countries to meet urgent needs for technical assistance. MIF2 offers the opportunity to further strengthen MIF’s development impact, increasing the focus on development results, and incorporating the lessons of experience.
I. THE MIF ROLE IN PRIVATE SECTOR DEVELOPMENT

1.01. The Multilateral Investment Fund was established in 1993 as a new type of development assistance instrument. It was a bold step to accelerate a set of economic reforms in Latin America and Caribbean with a flexible instrument, structured to capture the spirit of the private sector it was created to serve. Donors recognized the importance of technical assistance and demonstration projects as agents of change, and equipped MIF to play that role. It was given the ability to utilize grant and investment mechanisms, and designed to respond quickly, test new ideas and lay the groundwork for further large-scale reform.

1.02. MIF has established a solid track record as an innovative, flexible instrument that has focused on important issues, responded quickly to changing needs of the region and had a significant development impact. It focuses on grass roots private sector development, promoting micro and small business development, building worker skills, and improving the business environment.

1.03. MIF projects are:

- **Increasing private sector resilience:** Working at the grass roots level, projects develop the practical business and worker skills, and strengthen the private sector institutions, needed to survive economic shocks and improve long-term competitiveness.

- **Promoting new thinking:** New ideas, and uniquely Latin American and Caribbean models are needed to address the many challenges being faced in the region - yet by definition these are unproven and therefore risky. It is often inappropriate or premature to utilize public sector funds to test an innovative concept. However, simply importing a solution that worked elsewhere is often ineffective – one size does not fit all.

- **Offering an important learning tool:** A core objective is to test and learn from new development approaches, and now that sufficient projects have reached completion, they are in fact yielding important lessons. MIF projects are also proving to be useful as a means of testing new ways to improve the processing of projects and delivery of development assistance.

- **Involving the private sector:** MIF small technical assistance projects play an important role in this respect, as they reach out to include new communities, and strengthen the business groups and NGOs that can offer an important institutional framework to convey important business knowledge to improve reforms, and strengthen productivity, helping their members see the potential of new incentive structures. Over the ten years 75% of MIF projects partner with private sector agencies and groups. Over the past three years this has reached 80%.

- **Building region-wide networks:** MIF’s focus on specific targeted areas of intervention, brings together people and institutions across national borders. The information exchange among these agencies plays a vital role in creating the most effective methods and practices to meet the distinct needs of the region.

- **Demonstrating new techniques:** Demonstration projects, such as MIFs use of equity in small business funds or microfinance institutions, are also important in stimulating the supply
response to changed incentives. Producing real results speaks much more effectively to commercial markets than theory.

- **Accelerating reforms**: In addition to finding new ways to address old problems, sometimes technical assistance is needed to accelerate reforms where best practices have been clearly developed. In these cases, assistance is most effective if it can quickly deliver needed guidance and support, just when it can have the most impact on larger processes. This ‘just-in-time’ advice can make a significant difference, particularly in facilitating large reforms at critical junctures.

- **Assisting small business to realize the advantages of regulatory change**: Reforms in regulatory structures will only have their desired impact if business responds to the new incentive structure. MIF projects are equipping smaller firms to realize the opportunities offered by these changes.

### A. WHAT ARE MIF PROJECTS LIKE?

1.04. MIF was designed to be free of many of the demands and constraints of traditional development organizations, and unlike major large-scale programs, the MIF can afford to experiment, enabling it to chart a fresh path. MIF projects have focused on promoting innovation, piloting new concepts and building knowledge of what works or doesn’t. In general, projects share these characteristics:

- **Innovation**: piloting a new concept; introducing a concept that has been developed elsewhere but is new to a particular market or setting; including significant new features in an otherwise mainstream development initiative. Innovation is not simply inventing, but rather embodies a flexible, imaginative approach to realizing change in response to the circumstances and needs of a particular situation. Projects that are highly innovative have a particular responsibility to clearly identify what is being tested, and ensure that the results can be identified and compared with other approaches.

- **Sustainability**: having a credible plan and strong potential for financial sustainability once MIF resources are expended

- **Demonstration effect**: offering the potential to be replicated in other sectors or other beneficiary countries.

- **Additionality**: occurring where MIF resources are critical to the outcome, and the most appropriate choice to finance a given initiative. When constituting a part of a larger development initiative, there should be an overall strategy that clearly indicates why certain elements of the program are being addressed by the MIF. This is particularly important when MIF resources are addressing critical issues such as financial sector reform.

- **Partnership**: undertaking projects through executing agencies that have made a significant commitment of resources to the project(on average partner agencies cover 50% of costs).
B. MIF ASSISTANCE IS NEEDED NOW MORE THAN EVER

1.05. Translating the benefits of major reforms into broadly based and resilient growth is a complex process. While significant progress has been achieved, establishment of sound macro-economic policies has not automatically led to stable growth that is sustainable and socially equitable. Special attention must be paid to micro-level policies, and to building the capacities of smaller firms.

1.06. It is urgent to improve economic growth and reduce poverty. Income disparities in the region are some of the world’s highest, economic growth is at very low levels with uncertain recovery prospects, investment and credit are declining and the levels of informality in the economy are growing. Populations are fatigued with waiting for the gains expected from reform programs, and social tensions are increasing in many areas.

1.07. Unless business environments become more conducive to growth, and products and services become higher quality or embody innovative concepts, many countries in the region are likely to experience a decline in living standards. Growth that is both sustainable and equitable requires a competitive and broadly-based private sector, where the benefits of development are felt throughout society, not just by those best equipped to take full advantage of new opportunities.

1.08. There are no easy answers. Improving economic performance and reducing poverty involves an interconnected array of critically important social, economic and political factors. However, it is clear that the type of initiatives undertaken by the MIF can play a critical role as agents of change.

1.09. Economies grow if their firms are able to access needed financial, physical capital, and human resources, efficiently apply technology, and if they are motivated and able to make ever more productive use of these factors. Achieving this obviously encompasses a wide range of activities – indeed it can begin to look like the definition of development itself. Competitiveness needs macro-economic stability, rule of law, efficient and transparent institutions, adequate infrastructure, a well-trained and healthy labour force.

1.10. However, from a business perspective, a firm is competitive if the products and services it sells are of higher quality, delivered more quickly, unique or newer in some way, or if they cost less than those offered by competitors. This reality defines business success whether for a microenterprise or for a major international firm. Changing business prospects involves not only macro-level reforms, but ensuring that these have the desired impact on the individual business.

1.11. Both the business environment and capacities of firms must be strengthened. Improving growth prospects calls for improving the quality of the business environment and building the capacities of firms of all sizes to enable them to realize the benefits of reform. The most capable firm cannot be internationally competitive if it is working from a market with poor property rights, limited financing options, costly regulatory over-burden and weak infrastructure. The best set of regulatory improvements will not succeed if firms do not have the individual capacity to recognize and respond to opportunities.
1.12. The business environment in the region is significantly hampering the competitiveness of the private sector with a direct impact on poverty levels. Survey information indicates that Latin American business persons view the economic and institutional obstacles they face as being more severe than do business people in other regions of the world. Growing informality in many areas in the region can be seen as an indicator that the business environment is not fully meeting the interests of micro and small firms. Small firms are facing new competition in their domestic markets, and new requirements for quality and product standards. However, there is a gap in the services available locally to help them meet these new benchmarks.

1.13. Technical assistance projects have a special role to play in addressing these inter-connected issues. Public entrepreneurship must be fostered in order to realize new ways to resolve stubborn problems. Small firms need better methods in quickly changing markets. Methodologies must be tested and adapted to local realities. MIF’s structure and range of instruments, uniquely equip it to help develop this deep-level competitiveness, addressing both deficiencies within the business environment as well as building capacities of the firm.

1.14. **MIF is uniquely positioned to make a difference.** It is the only organization in the region that is able to approach these issues with an innovative and targeted mix of non-reimbursable technical assistance grants, debt, equity, and quasi-equity vehicles. MIF also has an extensive network of private sector partners – these business groups, NGOs and trade associations are an important resource in promoting growth.

1.15. **Reforms need deeper private/public sector communication.** Reforms will only be effective if they are built on a full understanding of the likely impacts of policies on business productivity. Dialogue is also critical to realizing change. Reform of the legal, regulatory and institutional framework inevitably entails a new distribution of benefits, and governments can only proceed when there is a sturdy, broad-based constituency for reform.

1.16. This is particularly important with respect to the changes arising from globalization and international trade. Markets are integrating, as a result of formal agreements or as a result of technologies and market forces. To maintain competitiveness, it is increasingly necessary to align regulations, standards and norms of practice with international benchmarks and requirements. Governments need to understand the full implications of proposed changes in order to maximize the benefits for the country.

1.17. **Small firms are particularly impacted by these changes,** as they rarely can influence them, standards are established with the needs of larger firms in mind, and information is often not readily available. Building local certification and advisory service capacity is critical to maintaining access and opening the benefits of new access to smaller enterprises.

1.18. Practical restrictions on the time of the business owners make it difficult to engage smaller enterprises in public policy decision-making. Building the kind of dialogue that is needed depends on business groups, trade associations and NGOs that can voice the views of the smaller firms. However, in the region, these institutions rarely have the needed institutional capacities or revenue streams to support their fulfillment of this role. The presence of a growing informal sector makes this more difficult. In some areas informal business accounts...
for 50% or more of economic activity, and by definition, these businesses pose particular barriers to formal communication with the public sector.

1.19. Technical assistance and demonstration projects have a special role to play in advancing needed private/public sector dialogue. Projects test new approaches to enable their adaptation to local realities, and help build the support needed for broader reforms.

1.20. **Technical assistance advances reforms through accelerating larger processes:** Short-term technical assistance can make a difference when it is responding to a priority market need. These ‘windows of opportunity’ open when the larger reform process meets a specific obstacle of lack of expertise, or where grants can enable promoters of reform to demonstrate its benefits thus building a broader constituency for further progress.

1.21. **The reform process also needs new ideas and distinctive models adapted to the regions needs:** Transplanting standard models has often led to disappointing results, creating significant skepticism about the ability of market economies to deliver the broadly based growth needed for poverty reduction. It is vital to develop new approaches and models that are specifically designed for the realities of the region and of each country’s situation, and that are seen as arising from the region’s own decision makers. MIF is in a unique position to advance work in this area by acting as a laboratory testing policies and approaches.

1.22. **Firms must respond to the new incentive structure.** In order for any firm to respond to a changed business environment, they must understand the implications of the changed environment in order to see the business opportunities, and then have the financial, human and material resources and technologies capacities needed to exploit them. This is a particular challenge for economies with large micro and small business sectors as very small firms face a range of limitations to their ability to both take advantage of major reform. In many economies of the region, small firm productivity has fallen despite improvements in the business environment.

1.23. Technical assistance and demonstration projects play a key role in stimulating the supply response through the example of working models and through capacity building at the level of the firm. These projects also have the effect of building the capacity of the intermediary institutions that are so important to establishing economic resiliency.

1.24. **Small firms need special attention:** Very small enterprises account for four out of five new jobs created in the region, and employ 50% of workers. Reducing poverty means improving the growth prospects of these firms, creating better business conditions, and encouraging the development of the capacities needed to take advantage of new opportunities.

1.25. Small firms are particularly vulnerable to weaknesses in the business environment. Whereas large firms may be able to carry the costs of specialized resources to overcome market dysfunctions, small firms can find these costs to be prohibitive, encouraging informality and restricting growth. Reforms help all firms but are of particular importance to smaller business.

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2 MIF/GN 78-8
C. WHAT DIFFERENCE HAS MIF MADE?

1.26. **Over 80 % of MIF projects have been extensively evaluated** by the IDB’s Office for Evaluation and Oversight over the past two years\(^3\). The report summarizing findings notes that MIF projects addressed crucial private sector development issues, piloted important new concepts and enabled reforms that otherwise would not have happened.

1.27. **Results and key lessons learned are detailed in the following section.** MIF interventions were central to the progress achieved in microfinance, remittances, skills standards and credentialing systems, venture capital market development, alternative dispute resolution, and quality management systems (ISO). Important contributions have been made in the areas of environment, financial sector reform, regulatory reform and the framework for private sector investment in infrastructure. Early results from newer areas such as clean production are showing significant promise.

1. Microfinance

1.28. MIF has played a leading role in the development of Latin America’s distinct and effective approach to microfinance. Applying its unique combination of equity, debt and technical assistance financing, MIF enabled the strongest microfinance NGOs to graduate to regulated for-profit intermediaries, while still promoting new and less mature NGO’s introducing microfinance in various markets.

1.29. Through direct equity participation, coupled with its lead investment in PROFUND and Gateway, MIF has invested in every instance of NGO micro-lenders transforming into regulated financial institutions over the past decade, demonstrating that this sector offers potential that could attract wider sources of capital and enable further expansion of service for microenterprise.

1.30. Technical assistance, particularly through the Line of Activity for Microfinance, has introduced specialized microcredit techniques, improving performance and assisting NGOs to prepare to take the step to becoming formal financial institutions. Assistance is also helping develop the regulatory structures needed to ensure sound financial management with standards appropriate to the special nature of micro-loan portfolios.

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\(^3\) In addition to the OVE studies, a range of other independent evaluations of MIF projects have also been completed. These include individual project evaluations as well as studies on ISO projects, Tourism, Regulatory Reform, Microfinance, Alternate Dispute Resolution, Skills Standards, and the use of Equity as a development tool.
Key Lessons:

1.31. The microfinance story demonstrates how the IDB Group effectively employed a range of its instruments to make a significant difference. *MIF efforts built on the deep relationship established by the IDB with the NGO’s providing micro-credits. As experience with the transition to the new model was gained, the IDB played a leading role disseminating best practices, sharing lessons learned and providing more information to existing and potential stakeholders, including organizations working globally, such as CGap and the IFC.*

1.32. Other important lessons are *the power of demonstrating working models.* Ten years ago, MIF was the sole investor and major creditor to microfinance institutions in Latin American and the Caribbean (LAC). Today, over 16 other regional and international development institutions and a new class of “Socially Responsible” investors have begun to co-invest with MIF in this sector. Local private investors are starting to play an increasing role. Several Latin American banks in the region have entered microfinance, establishing service units, or separate companies.

1.33. A third lesson is that *knowledge sharing networks among developing regions* are being developed. Several investment vehicles launched as start-ups and supported by MIF from the beginning have been asked to transmit their knowledge of the industry to other developing regions.

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<th>Beneficiary</th>
<th>Country</th>
<th>MIF Commitment</th>
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<tbody>
<tr>
<td>Women's World Banking</td>
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</tr>
<tr>
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<td><strong>Total</strong></td>
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2. Remittances

1.34. Migrant workers sent an estimated US$40 billion dollars to countries of origin in LAC in 2003, an amount far outstripping the flows of Official Development Assistance to the region. Over the past year, remittances have significantly exceeded the region’s foreign direct investment, and in most countries exceed earnings from major exports or tourism. Remittances account for at least 10% of the GDP in six countries.
1.35. MIF has led in raising international awareness of the importance of these flows, and the urgent need to lower their cost of transmission and to make new options available to remittance senders and receivers. Through an active program of analysis, seminars and other awareness raising activities, MIF focused international attention on this critical issue. Projects are helping to move the issue beyond discussion, into development of solutions. An important beginning has been made.

- **Costs are coming down:** Four years ago the average cost of sending remittances was 15% of the transaction. However, as both awareness and competition increased, fees have been slashed by 50%. As a result, senders and receivers now have an additional US$3 billion.

- In **Mexico**, laws and regulations, which prohibited financial institutions such as rural credit unions from receiving remittances, have been changed. A network is being formed -- La Red de la Gente -- with a goal that about 1,100 offices (both inside and outside that network) will be receiving remittances throughout rural Mexico in the near future.

- In **Ecuador**, Banco Solidario is working with a network of Ecuadorian cooperatives and several financial institutions in Spain and Italy to distribute remittances. After just one year, Banco Solidario has captured over 10% of the $500 million remittance flow between Spain and Ecuador.

- In **El Salvador**, FEDECACES is working with its affiliates to strengthen their capacity to receive international remittances, reaching over 100,000 transactions through credit unions in 2003. CALPIA, a respected microfinance institution which MIF helped establish in 1994, is processing over 10,000 remittances a month.

- In **Nicaragua**, Findesa, a small microfinance institution, is linking up with the largest bank in Costa Rica, Banco Nacional, to receive remittances from that country.

- In **Argentina**, FIE Gran Poder has established a microfinance operation in Buenos Aires to provide services to the hundreds of thousands of Bolivians living there, including helping them to send their remittances back home.

**Key Lessons:**

1.36. MIF is uniquely equipped to bring topics such as remittances to international attention. Its close partnership with private sector groups working at the grass roots level coupled with its membership in the IDB Group, gives it a *special ability to both identify critical issues, and to convene international expertise*.

1.37. The remittances story also illustrate the importance of combining analysis, a communication program and specific support for *demonstration projects to move the issue beyond discussion* of a problem, into piloting solutions.
3. Equity As A Development Tool

1.38. In markets with no formal system of equity financing, new and growing businesses often fund their needs inappropriately, using revolving bank loans or other debt financing. This places undue burdens on small and growing companies, while also transferring equity risk onto financial institutions, with risky consequences for depositors.

1.39. Equity financing has not been available in Latin America and the Caribbean, hindering small business start-ups and growth. It also limits the ability of new entrepreneurs who operate outside of the traditional business groups to finance their ideas.

1.40. MIF has pioneered the development of this infant industry in Latin America. Since 1996 MIF has committed almost US$ 200 million to 35 venture capital and small business funds, providing a practical demonstration of how such instruments can result in new business capacity. This effort has been reinforced by over US$ 14 million in 20 plus technical assistance projects to help promote the development of entrepreneurship in the region and improve the regulatory framework for venture capital.

1.41. Although MIF’s interventions have been relatively small, they have already made a major contribution to a venture capital market in the Region, laying the groundwork for its continued development. Venture Capital networks have been established, regulations changed to permit better development of the industry, and new players have been attracted.

1.42. As noted in a recent evaluation conducted by the Bank's Office of Evaluation and Oversight, “The MIF's Venture Capital fund program is probably one of the most ambitious and challenging programs the institution has tried to tackle to date. In less than a decade, it attempted to create from scratch a venture capital industry geared to small and medium enterprises (SME)... The MIF has been the leading actor in the region and is recognized as such.”

1.43. “The MIF has been unquestionably one of the largest players in its target segment (the largest in terms of reach if not in size). The MIF embarked on this program at a time when SME venture capital investing via equity funds was virtually nonexistent in the region. For all practical purposes, there were no experienced managers and no local success stories or models to emulate.”

1.44. MIF sponsored funds have made possible venture capital investments in smaller economies either through the creation of country-specific funds or via regional funds. In addition to its quantifiable monetary contribution to investment funds and technical assistance projects, the MIF has been at the forefront of the debate on how to structure the appropriate legal and regulatory environment for the industry to thrive in the region.

1.45. Additionally, MIF's investments have provided important lessons learned to influence further involvement in this sector by MIF, the IDB group and the region's stakeholders.
Key Lessons:

1.46. The need for a long term, sustained approach: Developing this industry will take time. It is a process that is measured in decades and not in years. The breakthrough that has been achieved in Brazil through the INOVAR initiative demonstrates the impact of a concerted effort.

1.47. The urgency of working with the governments to improve the conditions for venture capital to thrive: This includes influencing policies and incentives to foster entrepreneurship and continuing to improve the legal, regulatory, taxation and financial framework.

1.48. The need to focus on building specific skills and a critical mass: To gain size, the industry needs the entrepreneurs, scientists and technically skilled personnel who are creating the opportunities for investment, fund managers with the capacity to identify and nurture growth in the investee companies, and a large base of VC investors.

1.49. The value of successful demonstration: Commercial capital responds to success stories. This generates a virtuous circle whereby resources move into venture capital investing, critical mass is attained faster and more entrepreneurs are willing to take risks.

4. Alternative Dispute Resolution

1.50. MIF played a central role in promoting the use of ADR for the resolution of commercial disputes in Latin America and the Caribbean. Projects have had a strong impact on the change in the region’s legal culture and on universalizing the use of ADR.

1.51. Excellent results were achieved in a number of countries, particularly Peru, Colombia, Chile and Brazil. The projects not only achieved their goals, but in some cases, created an irreversible trend toward the use of ADR. In Peru, for example, there are more than 500 mediation centers that processed more than 30,000 cases in the last three years. In Brazil, the project has exceeded its goals for the number of centers affiliated with the national network and more than 6,000 negotiations have already taken place. In Colombia, the Chamber of Commerce of Bogota continues to grow and has expanded its work in the country and internationally. In the last two years, it has provided training for more than 400 people from abroad. ADR is being used for commercial purposes. Today, the arbitration and mediation center model promoted by the MIF is recognized throughout the region.

1.52. The model for commercial arbitration was also perfected. From the Colombian project onward, successive operations improved on and fine-tuned the original model. Legislation on arbitration and mediation was modernized and harmonized to international standards and specialized human resources were trained throughout the region. Today qualified arbitrators and mediators are widely available, which was not the case at the beginning of the 1990s.

1.53. There were also some unexpected achievements: The projects in Peru, Colombia and Brazil were extremely successful in school, community and labor mediation, areas with high social content.

1.54. The institutions supported by MIF projects have become national chapters in the Inter-
American Commission on Commercial Arbitration (ICCA), and are actively working together, coordinating activities with NAFTA counterparts and creating a regional network that provides first-class arbitration and mediation services to business managers and investors in the region.

**Key Lessons:**

1.55. *The importance of building networks of implementing agencies:* An important long-term impact has been the establishment of a region wide ADR network. This provides a forum for exchange of practical information about procedural regulations, administrative and arbitration costs and ethical norms, increasing transparency and facilitating first use of ADR services.

1.56. *Adapting design to local needs is a critical success factor:* The ADR projects piloted a new way of resolving commercial conflicts and as such, were applied within the judicial setting of each country. While the basic ADR methodology was quite consistent, projects needed to adapt to the specific local context.

1.57. *Many actors and organizations need to be involved:* Realizing deeply rooted change needs the support and coordination of many different actors and institutions. Involving lawyers’ associations, chambers of commerce, universities, and various legal agencies was a critical factor. The projects with the best results were those that included alliances among these groups and worked hand-in-hand with organizations in both the public and private sectors.

5. **International Quality Management Standards**

1.58. Small and medium enterprises face an increasing need to meet internationally recognized quality and environmental management system standards. However, many of these standards and practices have been developed from the experience of larger entities in developed markets, posing particular challenges to small firms in the region.

1.59. MIF is introducing international quality management standards (ISO) and food safety protocols (such as HACCP) through a cluster of 12 projects throughout the region. These are building regional quality management capacity, working at both the firm level as well as with the regulatory and institutional frameworks. They focus on ensuring that small firms have access to the benefits that use of quality management techniques and certification can bring.

1.60. Projects strengthen each aspect of the quality management system, working with certification agencies, building awareness within the private sector and increasing the capacity of local experts in the technique, creating a base of ongoing expertise for SMEs to access, and lowering costs.

1.61. Projects have exceeded results anticipated. A new market for specialized consultants is well launched, lowering costs of implementing ISO or HACCP standards and improving the quality of services offered to SMEs. The network of partner agencies implementing these projects has been particularly active, functioning as a virtual community with an active interchange of ideas, contributing to the building of a regional model and approach to quality management.
1.62. These projects are demonstrating that smaller firms also benefit from the productivity enhancements that can be realized through application of the quality management techniques that underlie these standards. To date, more than 70,000 people have participated in seminars to raise awareness, and provide specialized training in quality management techniques.

**Key Lessons:**

1.63. *An integrated communications program complemented by specific projects obtains leveraged results:* This cluster was the first to utilize the methodology of first bringing together international experts with private and public sector decision-makers from the region, and then stimulating concrete action through a transparent and competitive selection process for projects. The results of this focused approach have been highly encouraging.

1.64. *Deeper involvement by companies is contributing to sustainability:* The innovative approach of utilizing active counterpart contribution of participating companies, is contributing positively to long-term sustainability.

6. **Building Business Capacity**

1.65. MIF projects in this area have tested new ways to strengthen capacities at the level of the firm, and introduced new mechanisms to stimulate private sector supply of critical intermediate inputs.

1.66. Early pilots tested different ways to deliver small business advisory services. One approach focused on the establishment of business advisory centers (which were expected to become self-sufficient). Another set of projects piloted different ways to stimulate the market for small business non-financial services by connecting small business with local consultants. Others focused on particular sub-sectors to introduce improved technologies, marketing skills and environmental practices, or to provide business advice to firms from many sectors but in a particular geographic locale.

1.67. Reflecting the high-risk nature of innovative projects, results have varied widely. Some of these centers became highly successful, however early results showed that this approach was very dependent on the individual service providers, and that it often did not lead to expected sustainability. Other efforts to improve the competitiveness of a particular target group, succeeded with better business results for participants, but did not have the deeper multiplier effect that would stimulate self-sustaining growth in productivity.

**Key Lessons:**

1.68. *Structuring for leveraged impact:* While improving the productivity of a particular group is in itself worthwhile, greater development effectiveness is obviously achieved when projects impact beyond any one group of beneficiaries. Projects achieved stronger results when the original designs consciously identified the model that was being tested, as this facilitated identification of widely applicable lessons for a larger group.
1.69. Leverage impact was more difficult to achieve when projects were ‘one-off’ events as the lessons they provided were often specific to the individual circumstance.

1.70. **Strategically positioning initiatives:** Care must be taken to ensure that the business environment impacting the particular group does not pose limitations to the extent that it would be more cost effective to focus first on strengthening that environment and only then on building capacity at the level of the firm.

1.71. **Sustainability:** The single most important factor was the strength and level of commitment of the partner agency. For partners with certain aspects of institutional weakness, inclusion of specific measures to strengthen these factors increased sustainability.

7. **Small Business Innovation - Project Clusters**

1.72. **Project clusters** are a series of projects in various countries which are identified, developed, implemented and evaluated as a group. Clusters promote communication among executing agencies facing similar challenges and help build region wide sharing of knowledge of what works and what doesn’t.

1.73. Clusters were designed in recognition of a core challenge faced by projects designed to encourage small business growth. Strengthening capacities at the level of the firm is not effective unless the business environment that impacts small business also improves. However, strengthening the environment for small business will only happen when there is a well informed and capable small business constituency for change.

   a. **Cleaner Production:**

1.74. These projects promote the use of eco-efficient processes, as a means of increasing SME productivity as well as improving environmental management. Projects utilize market dynamics to introduce and demonstrate new approaches, through building the market of key intermediate service providers, introducing international standards, demonstrating new production tools and techniques, helping improve the access to finance, as well as strengthening capacities of the individual enterprises. The increasing number of trade agreements in the region is expected to increase pressure for companies to improve their environmental performance as a means to maintain or open access to international markets.

1.75. Early results from the project in Colombia show much better than expected results with numbers at the halfway point more than double original expectations for levels that would be attained at completion.

   b. **Supply Chains:**

1.76. Integration of markets impacts firms of all sizes - even the smallest retailers may face large chain outlets entering their market. However, new forms of manufacturing that are developing as result of integrated markets are opening new possibilities for sub-contracting and supplying through membership in a supply chain. Recent research associates higher growth with those micro and small firms who do not sell to an end user but rather sell as inputs to larger product/service or for export.
1.77. Supply chains help improve competitiveness by establishing cooperation among firms throughout the different stages of production and marketing. For small business, these open new ways to overcome the limitations of size, improve efficiency and quality, cut costs, and absorb training and new technologies. In addition, when groups of SMEs divide up activities at various stages of production, opportunities for small business start-ups arise along with demand for new services.

c. Information and Communications Technology (ICT)

1.78. Information and Communication Technology (ICT) is an essential tool for businesses to improve their efficiency and quality of products and services, and to foster market penetration. The projects in this cluster facilitate the adoption of ICT by small businesses by strengthening their awareness and skills; improving the regulatory framework for electronic commerce; supporting ICT innovation; strengthening local ICT industries and developing ICT skills among youth.

1.79. A special program uses a competitive mechanism to support innovative ICT applications for SMEs in the areas of value chain integration, workplace productivity and efficiency, and market penetration. This program is stimulating a great deal of thinking and development in this critical area. Over 100 well-developed proposals were received for the first round when five projects were selected. Interest is even greater for the current competition with close to two hundred proposals received.

d. Streamlining Regulations

1.80. Regulatory inefficiencies particularly impact small firms, and encourage informality that in itself imposes a series of costs and constrains growth. Adequate financing or access to material inputs becomes more difficult and there are barriers to accessing certain public goods. Regulations and procedures that promote small business formation are essential, including systems that enable small entrepreneurs to title and register real property.

1.81. Simplifying business registration procedures is one aspect of the larger set of reforms needed to reduce informality, and MIF has six projects focused on this objective. Early results indicate that the projects are resulting in simpler and faster procedures and improving the interface between small business and government.

e. Accounting and Auditing

1.82. The economic consequences of recent financial crises and poor corporate governance have highlighted the importance of accounting and auditing standards in the reform of market systems. Unsound financial reporting is a significant threat to the health of market economies, undermining the credibility high-profile corporations, raising risk and uncertainty in capital and equity markets, and increasing numerous costs to governments.

1.83. MIF has approved five projects in this cluster and expects the final cluster to comprise 8-10
projects. Projects promote aligning local accounting and auditing practices and standards with the International Accounting Standards (IAS) and/or the Generally Accepted Accounting Principles (GAAP).

**Early Lessons From Project Clusters**

1.84. There is a great deal of enthusiasm for sharing experience among the various executing agencies in a cluster. However, this does not progress into significant ongoing action without several meetings where individuals can establish personal connections. In addition, information-gathering activities need to be carefully structured to ensure that they are of value to the participants, not just a central authority.

1.85. *Need for critical mass:* The central desired outcome of many clusters is to build a new capacity of an important service or input that wasn’t previously being supplied. Results to date show the importance of building networks among the suppliers being trained so that a more complete dynamic will encourage creation of distinct models adapted to the region’s needs. Isolated interventions lack the critical mass to engender self-sustaining market.

1.86. *Sustainability:* The level of motivation and commitment of counterparts is the single most important factor associated with success. Attracting such partners is enhanced by introducing competitive selection processes, and by positioning certain partners as regional centers of expertise in given topics. For example, creation of region-specific models is facilitated by encouraging one agency to take the lead of the group, with responsibilities for identifying and sharing ongoing experiences and lessons.

1.87. *Response time:* Dynamic private sector partners want to move quickly. It is important to continue to find ways to improve response time.

8. **Financial and Capital Market Reform**

1.88. The MIF’s financial reform and capital market development efforts have been directed toward changing a strong legacy of market distortions. Projects are undertaken as part of overall IDB reform programs where small, targeted technical assistance are the most appropriate instrument. Reflecting the special needs of smaller countries, the majority of MIF projects in this area have been in the ‘C&D’ member countries.

1.89. Projects addressed the problems of inadequate economic and financial *policies* such as lax monetary policy, fiscal deficits, interest rate policy and directed credit. The fragility of *institutions* such as central banks, state-owned development banks, supervisory bodies, commercial banks, stock and commodity exchanges, investment companies and broker/dealers, pension funds and insurance companies were the subjects of strengthening programs. And, finally, financial reform of the *legal and regulatory environment* involving property rights, commercial codes and bankruptcy acts, banking and securities laws and pension and insurance legislation were addressed.

1.90. Projects have helped to modernize regulatory frameworks, build supervision capacity and
introduce new financial instruments. Capital market development has been promoted through strengthening of market mechanisms, introducing new methods based on international standards, and reforming regulatory and institutional frameworks.

**Key lessons:**

1.91. *Technical assistance is most effective if used strategically:* Financial and capital market development in the region is critically important to private sector growth. Maximum development impact from small technical assistance projects is achieved when the relative advantages and limitations of technical assistance and demonstration projects are clearly understood and deployed in a strategic manner.

1.92. *When acting as a catalyst, speed of response is critical:* Short-term technical assistance can make a big difference when it is responding to a priority market need. These ‘windows of opportunity’ open when the larger reform process meets a specific obstacle of lack of expertise, or where grants can enable promoters of reform to demonstrate its benefits thus building a broader constituency for further progress.

1.93. Such assistance is most effective when executing agencies are capable of efficient project administration and where there is a strong policy environment. In these cases, quickly responding with high quality, easily sourced expertise enabled MIF projects to achieve sound results. Timing was critical as delay could lose the moment for progress.

1.94. *It is worthwhile to consider new mechanisms to enhance response time:* Lines of Activity may be a useful concept to extend beyond replication of a particular design, into a new quick response instrument to deliver high quality technical assistance at critical junctures in the larger reform process.

1.95. *Technical assistance is also needed for longer term reform processes:* Technical assistance and demonstration projects can also play an important role in longer term reform processes. Institutional and policy making capacity may be advanced in certain cases by simple, single-purpose operations that concentrate on redressing institutional debilities or helping to bolster the legal/regulatory environment for financial and capital markets. However, these must be strategically integrated with larger reform programs in order to realize their development impact.

9. **Regulatory Reform**

1.96. Over the past 10 years, the countries of Latin America and the Caribbean have made significant progress in implementing regulatory reforms, with emphasis on promoting and incorporating private-sector participation in infrastructure sectors. However in most countries of the region, the quality of business environment is ranked as being very poor in international comparisons. Survey information indicates that Latin American business persons view the economic and institutional obstacles they face as being more severe than do business people in other regions of the world. Reform of markets to ensure they are open, efficient and transparent is particularly important for smaller participants. While larger entities can afford to
have specialized services to manage difficult market structures, the smaller players cannot.

1.97. MIF has focused on those aspects of market reform where it can have a distinct impact, removing bottlenecks, broadening participation by small enterprise, and promoting transparent and fair practices that meet international norms. Projects have helped improve the environment for private sector investment by supporting reform of regulatory and legal frameworks governing infrastructure investments. Projects assisted in defining policy options, and then provided technical assistance and training to support implementation of the selected approach, emphasizing the technically oriented regulatory capacity needed to implement effective reforms.

1.98. MIF’s role has been particularly important in Group C and D countries where often market structure and regulations limit competition and market entry, or where the regulatory structures and agencies do not have technical, financial, or administrative autonomy; and have limited capacity to supervise contracts with the private sector.

**Key Lessons:**

1.99. *Technical assistance is essential to build support for reform:* Governments cannot borrow funds to implement reforms that might be viewed as experimental. Grants are often essential to enable proponents of reform to undertake the demonstration projects needed to gain the experience to tailor reforms to individual country needs, thereby increasing their effectiveness as well as building up sufficient support for their full implementation.

1.100. *It is particularly important for smaller countries:* Technical assistance plays a very important role in regulatory reform in smaller and less developed countries (the C&D members of the IDB). These countries face relatively greater constraints on their human and financial resources, and processes are complicated by their size, which can increase resistance to change. Technical assistance is especially needed to pilot and demonstrate reforms to build support for their implementation, and provide the experience needed to tailor approaches to individual country situations.

1.101. MIF is in a unique position to advance work in this area by acting as a laboratory testing policies and approaches. This is particularly important at sensitive junctures where grant funds are needed to demonstrate benefits and advance reforms for the broader public good.

1.102. *Projects are vulnerable to shifts in policy and priorities:* Development effectiveness of technical assistance depends on how well these interventions are part of an integrated reform program with adequate budgetary and institutional commitment to enable implementation of the new approach that is being demonstrated.

1.103. Projects must be designed for the reality that governmental change or unexpected budgetary pressures may alter the level of commitment to a specific reform. Greater use should be made of multi-stage projects conditioned on attaining results over a longer period of time.
1.104. **Sustainability of the learning from the project must be leveraged:** Attention should also be paid to building up a knowledge base that is readily accessible to member countries as a forum for sharing best practice and capturing economies of scale.

### 10. Facilitating Private Sector Investment in Infrastructure

1.105. Closely related to modernization of the regulatory framework, MIF supported a series of changes that countries in the region undertook to increase private participation in infrastructure. Despite its being only 0.6% of annual Bank Group approvals for the infrastructure sector, MIF has played a leading role as a source of technical cooperation funding. Since 1994, the MIF has provided funds equivalent to 51% of all the stand-alone technical cooperation resources approved by the Bank Group in the area of infrastructure. Overall, the MIF approved 86 projects in 23 countries to support private participation in infrastructure, for a total of US$ 83.9 million.

1.106. Almost three quarters of the projects, 61 out of a total of 86 projects, benefited C and D countries, where the role of the MIF has been much more visible.

1.107. Attributing results to MIF projects is particularly difficult in this sector, as projects were part of larger reform processes. However, as noted in the OVE report, “Innovative MIF projects in countries of all sizes are leading the way for new opportunities for the IDB Group as a whole. For instance, MIF has made inroads into areas such as: (i) Strengthening of regulation at the local level and/or of small local operators; (ii) Application of concession tools to other areas of infrastructure, such as health care, etc; (iii) Promotion of alternative means of private sector participation, such as management contracts or local level concessions; (iv) Coordination of regulatory activities among countries involved in integration schemes; or (v) some novel thematic areas like Consumer protection, Training of regulators, Urban Transport, Solid Waste Management, among others”.

**Key Lessons:**

1.108. **It is a lengthy process:** Improving the legal, regulatory framework for private sector investment in infrastructure requires a long-term commitment by the countries and the IDB Group as a whole. It is a process of institution building that requires a clear definition of final objectives, a good identification of weaknesses and deficiencies and well defined action plans.

1.109. **Coordination with the larger programs is essential:** The best results were found when MIF projects were conceived in high complementarity and coordination with the Bank, and where MIF projects focused on innovation, such as training of regulators, consumer protection, and harmonization of regional regulations to address aspects not covered by the IDB loan programs.

1.110. MIF projects also have a special role to play in areas such as harmonization to support the convergence of regulatory aspects, particularly for smaller countries involved in integration processes.

1.111. **These projects face significant risks:** The most effective MIF projects in the area of
infrastructure tended to be preceded by a thorough identification of risks enabling better risk mitigation activities. The quality of executing teams is a determining factor, particularly with respect to adapting to changed external circumstances such as a shift in the political policy climate.

11. Skills Standards and Credentialing

1.112. Skilled labour is a critical input to attaining growth and productivity. MIF projects have focused on introducing skills standards and certification methodologies, testing new systems to deliver training through private sector training providers and build their capacity to respond to workplace needs, and piloting innovative methods to promote labor market modernization.

1.113. Workers in occupations where there is no established set of standards or qualifications have limited opportunities to advance in their careers through education and training, or through job mobility. This is even more significant in industries where there is an intensive use of labor.

1.114. The lack of a recognized standards and qualifications with respect to the skills required in the labor market has implications for employers, for the quality of the training programs and for the labor market in general. Employers looking for workers in certain sectors cannot verify the experience and skills accomplished by the worker, increasing the costs associated with recruitment. It also negatively affects the quality and relevance of worker skills programs offered by private training institutions. Without a system of recognized standards and qualifications, what these private trainers can provide has less immediately applicability to workplace needs.

**Key Lessons:**

1.115. *Private sector commitment and leadership is essential.* Success and long term sustainability require that the business sector be engaged from the start. Effective standards and the investment to implement them, will only occur when it is industry driven.

1.116. *Proper financing needs to be in place* as financial sustainability remains a critical challenge. Broad stakeholder approaches work best as decisions regarding the relative roles of the public and private sector are difficult and will only be satisfactory if a broad group is involved in making them.

1.117. *Simpler is often better.* Those systems that attempted a too detailed methodology were overly complex for many users to apply.
12. Youth Employment

1.118. With more than half the population under the age of 24, integrating youth into the productive workforce is a central concern. However, the rate of youth unemployment is double or triple the general unemployment rate, and is on the rise in most of the countries of the region. At the same time businesses face shortages of skilled workers. MIF projects tested a number of new approaches to bridging this gap, with a growing focus on entrepreneurship and on equipping young people with information and communication technology skills.

*Key Lessons:*

1.119. Training of *youth and the unemployed* should be done cautiously. Careful monitoring of project design and selection is very important to ensure MIF projects in this area are testing new models, have clear demand, and capacity for sustainability.

1.120. Training systems in the region have been dominated by public sector training institutes making it difficult to ensure that training has sufficient demand-orientation and integration with job placement. The predominance of an informal sector and micro, small, and medium enterprises in LAC also present special challenges in ensuring training relevance.
II. EXPERIENCE WITH MIF AS AN INSTRUMENT

A. BACKGROUND

2.01. The Agreement Establishing the Multilateral Investment Fund created a new type of development assistance instrument. It was a bold step to accelerate a set of economic reforms in Latin America and Caribbean with an instrument that was designed to be flexible, to capture the spirit of the private sector it was created to serve.

2.02. MIF 2 offers an opportunity to make an equally bold statement about the paramount role of private sector development in meeting today’s urgent need to stimulate growth in the region and better enable all members of society to benefit from economic change. The IDB Group must play an important role in setting a new tone, and MIF can be a critical part of that effort, helping to catalyze new energies and introduce innovative ideas to tackle persistent problems.

2.03. Grant resources are precious, and must be carefully focused to maximize their impact. In choosing which initiatives to fund, it is important to both do the right things, as well as do them in the right way. Ten years of experience with the MIF have provided a rich set of lessons on which to build a MIF 2, one that will directly reflect current and emerging needs in the region, embody the lessons learned with using MIF as an instrument, and explicitly include a focus on results and sharing the knowledge gained from its projects.

2.04. MIF has proven to be an effective agent of change. Projects have addressed critical private sector development issues, piloted important new concepts and enabled reforms that otherwise would not have happened. Its projects are building grass roots economic resiliency, improving competitiveness at the level of the firm, helping to remove barriers to growth and catalyzing larger reform processes. Most importantly, MIF projects have deeply involved the private sector itself in the process of development, focusing their energy, talent and resources to improve the business environment and build capacities.

2.05. The nature of MIF projects changed significantly over the decade, as experience was gained with utilizing the MIF as an instrument, as well as in response to the evolving needs of the region. As private sector partners became more and more involved, average project size decreased and counterpart (the portion of costs covered by the partner executing the project) increased. The portion of projects undertaken with private sector executing agencies grew from 45% in the first three years to 80% over the past three.

2.06. Innovative methods of delivering assistance were developed. Project clusters were introduced as a new way to increase focus and obtain thematic, cross cutting lessons. Competitive selection of projects to fund was piloted, and new modalities were tested to enable MIF to meet the needs of very small, local projects.

2.07. MIF 2 offers an opportunity to improve MIF as an instrument – to “sharpen the tool”. Methods and approaches that have proven to be the most effective can be extended. New modalities can be introduced to address weaknesses in the efficiency of project implementation and to expand the opportunities to realize economies of scale. A more explicit focus on using the extensive
research of other development agencies such as those of the World Bank Group, and regional organizations such as ECLAC can help address the need for more in-depth diagnostics identified in the OVE studies.

2.08. The following outlines how MIF addressed the challenges that arise when using technical assistance grants as way to stimulate private sector development, identifying those characteristics of MIF projects most associated with development effectiveness, and suggesting new ways to enhance how MIF delivers assistance. Many of these concern how the MIF is administered, and will be addressed in greater depth in considering a new Administrative Agreement.

B. ALTERNATIVES AND CHOICES

2.09. All small technical assistance and demonstration projects face basic alternatives and choices that are inherent to the nature of the work. These are not matters to resolve, as there is no right answer, but rather are on-going challenges to be managed in such a way as to maximize development impact.

2.10. MIF experience in addressing these issues is outlined below. It indicates that certain aspects of MIF as a development instrument might usefully be clarified or made more explicit in MIF 2 in order to enhance the impact of MIF interventions. Items for consideration by Donors are noted in bullet form underneath each point.

2.11. **Balancing innovation and sustainability:** Highly innovative projects offer an effective way to stimulate new thinking and actively involve those participants in the private and public sectors that can help realize change. They reflect the energy of those willing to challenge traditional methods and are undertaken in order to test a new idea and contribute to the knowledge base of what works and what doesn’t. However, these projects are inherently risky and individual projects may not achieve sustainability.

2.12. MIF has managed this reality by attempting to achieve a balance between these objectives within each project. However, as experience was gained, it became increasingly clear that non-traditional expectations and results measurements are needed to assess the sustained impact of highly innovative projects.

2.13. These projects act as a laboratory for new methods, and what ultimately matters most is the sustainability of the learning from the experience. Projects undertaken primarily to test new ideas, must be designed and implemented so that results are well measured, and generally applicable lessons are drawn from specific project experience. Results must then be actively shared with a broader audience.

- Projects undertaken to test a new concept should not only be individually equipped with sufficient resources to realize their individual objectives. Resources must also be available to identify and disseminate broadly applicable results that could help others meeting similar development challenges.
- Different measures of results are needed depending on the degree of innovation. As projects
move along the continuum to become relatively less innovative, and expected development impact is increasingly realized by the implementation of proven methods, expectations for the sustainability of their individual project objectives should increase.

2.14. **International standard practice or individualized approaches:** Another area where ongoing choices need to be made concerns the degree to which tailor-made methods are needed. One could maintain that in today’s rapidly integrating world, innovation is less important than adoption of standard models. However, it can also be argued that new ideas are needed to energize the private sector development process and involve a broader community.

2.15. This issue is particularly apparent with respect to major reform programs. These tend to focus on meeting international benchmarks and there is a growing convergence of practice in many areas. However, it is also true that attempts to simply import development models have rarely met with success. Reforms need a sturdy support base, and must be tested and adapted to fully reflect local customs and culture if they are to work. New ideas tend to stimulate this process, even if standard practice has been proven effective. Innovative projects attract those attracted to change.

2.16. MIF is particularly well positioned to support this aspect of reform, and has sought to not only fund concepts that are completely new, but to utilize innovative methods to advance proven practice. Once it becomes apparent that the support for a given approach is there, the focus of MIF efforts has shifted to such mechanisms as Lines of Activity to facilitate rapid delivery of assistance in those areas where small projects can have an impact. However, realizing major reforms requires long-term technical assistance of a nature not provided by the MIF’s current focus.

➢ In designing MIF 2 it will be useful to clarify the degree of emphasis that should be placed on testing new development concepts as a core objective. This is particularly important with respect to MIF’s role in supporting major reforms in the business environment.

2.17. **Technical assistance grants or reimbursable technical assistance:** In addressing the significant need for technical assistance of all kinds, choices must be made regarding which should be offered as grants, and which are more appropriately met through reimbursable methods.

2.18. As the major source of technical assistance for private sector development in the region, MIF is met with the full range of requests for support. However, in recognition that it can’t do everything, nor should it try, MIF has focused support on those aspects where grant resources appeared to cover needs better than other financing.

2.19. In advancing major reforms of the business environment, grants are particularly needed where there is uncertainty regarding the usefulness of a proposed change. Governments cannot easily justify utilizing loans to implement a reform that does not enjoy broadly based support, even if it has proven to be well received elsewhere. Grants (if provided by an objective source) are a highly effective way to build the base of support by demonstrating how reforms could work.
They also are the most appropriate choice to pilot development models to enable their adaptation to local conditions and empower reformers so that they can take initial action.

2.20. Grants are also needed to cover innovation in reform. Unlike an invention, where first mover costs can be recouped through intellectual property rights, it is difficult to justify expenditure of funds for high risk innovation in reforms that might benefit all, but are not yet proven.

2.21. However, once a model has been adapted to reflect local needs, and the support base for change is well developed, it may be more appropriate to fund reforms through loan programs. Realizing major reform is a long term process with long term needs for technical assistance that need to be fully integrated within a larger process.

2.22. With respect to working directly with private sector groups, grants have proven to be a highly effective way of involving them and leveraging additional resources. MIF projects costs are typically shared 50/50 with its partner agencies and these initiatives are enabling development of broadly-based networks that are starting to play a key role in attaining an improved business environment and greater economic resiliency in the region. In developed economies such groups are integral to effective policy formation and in ongoing improvement of the business environment. However, in the region, these groups do not have the assets or cash flow to assume this expanded role and grant assistance provides an important way of starting a virtuous circle.

- In the process of designing MIF 2, it may be useful to clarify that MIF resources should be directed to those aspects that cannot be met by reimbursable technical assistance. This would enhance the process of project identification and contribute to a more strategically coordinated use of MIF within the IDB Group.

- It may also be useful to develop new mechanisms, tailored to individual country circumstances, that would more clearly ‘graduate’ a particular initiative thus improving the connection between the pilot phase and the long-term implementation that could be done under a loan program.

2.23. **Flexible response to changing needs or long term planning**: MIF’s ability to respond quickly to new needs and opportunities has been a key aspect of its success. This suggests that it would be counter-productive to plan MIF interventions too far into the future. However, many reforms in the legal and regulatory framework require multi-year effort utilizing the full range of IDB Group instruments. Maximizing MIF impact on these issues suggests the need for a long-term plan.

2.24. The IDB Group Private Sector Strategy provides a practical framework to manage these realities. It proposes a country level private sector strategy as part of the Country Programming process. This would assign strategic roles for the different instruments of the Group, ensuring a coherent and coordinated approach, while protecting the MIF’s ability to respond quickly and flexibly to new needs of the private sector.
2.25. This approach also recognizes that the Country Planning process tends to be undertaken by the Regional Departments of the IDB in dialogue with governmental planning authorities, while most MIF interventions are done with private sector counterparts. It will clarify the issues where MIF is expected to be the best instrument within the framework of a long-term plan, and which interventions gain best development impact by being more directly responsive to private sector counterparts.

- Short-term technical assistance can make a big difference in these cases by filling the need that may open if the larger reform process meets a specific obstacle of lack of expertise, or where promoters of reform need to demonstrate its benefits to build support for next steps. As these benefits are best realized if support is mobilized as part of a strategic process.

- Where the primary goals are testing new concepts, or involving the private sector directly in the development process, it may be useful to ensure a focus on responsive, flexible procedures.

2.26. **How long should support be given?** The fact that long-term grant resources can create dependencies and distortions in a market is well recognized, yet success is also associated with concerted long term effort. MIF has addressed this issue by refraining from funding second phases of a project, only repeating assistance to an executing agency to enable it to undertake a different venture. While this stance has enabled MIF to avoid the problem of creating dependencies, evaluation results are finding that in a number of cases, a second round of funding could have enabled an initiative to attain the point of self-sustainability, thus improving development impact.

- For MIF 2 it may be useful to clarify the conditions under which a second phase would be considered. It may also be useful to give increased emphasis on designing initiatives that extend over a longer time period, protecting against grant dependency through subsequent support being clearly tied to attainment of results in earlier increments.

2.27. **Working with proven partners to maximize results or working with new partners to expand capacity:** Project success is deeply associated with solid executing agencies in good policy environments. However, development need is often greatest where these factors are not prevalent. As a related point, projects that seek to introduce new concepts often need to create specialized capacity in their local partner. By definition, as the concept is new, the partner agencies do not yet have the required technical capacity to undertake the project.

2.28. MIF projects have tended to explicitly emphasize implementation of a particular model, rather than institutional capacity building per se. While projects with the goal of introducing a new practice or technique have included specific support to increase or create capacity in the partner agencies, this has been viewed as a means to an end, not the purpose of the project itself. This has sometimes meant that institutional support has been insufficiently addressed, with the result of detracting from overall objectives.
As there is a significant need, and consequent pressure on MIF resources to fund institutional capacity building per se, it may be useful to clarify Donor expectations in MIF 2, with the understanding that such support entails long-term commitments.

It may be useful to encourage greater use of phased project designs, where institutional strengthening results must be attained prior to receiving funds for implementation measures that depend on institutional capacity to realize success.

C. OTHER LESSONS

2.29. **Improving the business environment and building capacities of the firm are interconnected:** Projects attained greatest effectiveness when they strategically linked these two objectives, and care was taken to ensure that the business environment impacting the particular group did not pose limitations to the extent that it would be more cost effective to focus first on strengthening that environment and then build capacity at the level of the firm.

2.30. **Capacity building is most effective when leveraged by knowledge sharing:** While improving the productivity of a particular group of micro or small enterprises is in itself worthwhile, greater development effectiveness was achieved when projects had an impact beyond any one group of beneficiaries, delivering clear lessons and models and having a plan to share these with a wider group. Networks among firms that are applying new methodologies to promote creation of distinct models adapted to the region’s needs. Isolated interventions lack the critical mass to engender a self-sustaining market.

2.31. Reform of the business environment is most effective when explicitly focused on either testing new concepts or on accelerating a larger process: Achieving maximum development impact with small technical assistance or demonstration projects is enhanced when there is clarity as to the project’s strategic purpose. Projects that pilot new concepts need to be structured with emphasis on sharing the knowledge gained. Projects that focus on accelerating reforms need special mechanisms to speed response time and realize economies of scale inherent in repeating best practice.

2.32. **Networks of partner agencies are an important asset:** This network, comprised of business associations, NGOs, public sector and leading institutions are a source of valuable insights into the evolving needs of the private sector in Latin America and the Caribbean and in disseminating the results of innovative initiatives. This could be maximized by new ways to involve these partners in identifying relevant project ideas, and in communicating effective approaches.

2.33. **Use of variety of instruments has been effective:** Its structure and range of instruments, have uniquely positioned MIF to help develop this deep-level competitiveness, addressing both deficiencies within the business environment as well as building capacities of the firm. MIF is the only organization in the region that is able to approach these issues with an innovative and targeted mix of non-reimbursable technical assistance grants, debt, equity, and quasi-equity vehicles.
2.34. **Special measures are needed to attain implementation efficiency:** The innovative nature and involvement of a broad range of private sector partners present special challenges for efficient project implementation. Projects must be designed for flexibility and ongoing technical support during implementation as well as the explicit development of institutional capacity for problem solving within the executing agencies.

D. **MIF 2 – FURTHER STRENGTHENING MIF AS AN INSTRUMENT**

2.35. MIF has had good results in managing difficult choices by focusing on the nature of its instrument rather than solely directing strategic choices to the development topics to which it is applied. Over the past decade, various new ways to deliver assistance have been introduced, and as Donors consider how to orient resources for MIF 2, there is an opportunity to build on this experience and further develop these methods. Points for consideration by Donors are noted in bullets under each point.

2.36. **Project Clusters:** In this approach, a series of projects are inter-related from their inception, and identified, developed, implemented and evaluated as a group. Topics are selected based on demand from the region and on the experience gained with promising pilot initiatives. Cluster topics are undertaken with two major goals: to increase the knowledge base by testing a concept with sufficient concentration to obtain clear results; and to build networks among those directly involved in addressing similar development challenges.

2.37. The cluster approach can strengthen project design and implementation, giving project teams and executing agencies access to ongoing technical expertise. It can promote communication among executing agencies facing similar challenges and helps build regional networks; and maximize generic lessons learned and identification and dissemination of best practices.

2.38. While clusters are a fairly recent technique, early indications are that there is a significant variation in the degree to which the potential of the approach is being fully achieved. The initial concept relied on clusters being supported by a coordinator who would regularly visit projects, foster the sharing of experiences, and facilitating project implementation. A key aspect of the coordinator’s responsibilities was to report on lessons learned on an ongoing basis, so that best practices can be identified and shared among the partner agencies. Similarly, seminars, workshops and other events were also envisaged to help build a network among those involved in implementing the initiatives and promote the identification of useful practices. In practice, resource constraints have made it difficult to realize this concept.

- New administrative mechanisms would enhance the impact of project clusters. It has proven difficult to finance cluster activities within the constraints of the project approach. At present, funds can be included within each initiative to cover these features, but existing administrative systems have made it cumbersome to manage the resources to attain collective results.

- Another set of concerns relates to the challenge of ensuring that cluster projects are addressing the specific needs of the private sector in the particular country and not simply being undertaken because MIF has identified its interest in testing the particular approach
with a cluster of projects. It may be useful to deepen analysis and dialogue to better position a cluster initiative within the needs of the private sector and help avoid these types of initiatives being seen as ‘supply driven’. It may also be useful to clarify that while projects address similar needs they are tailored to individual circumstances.

2.39. **Lines of Activity** facilitate the rapid deployment of technical assistance by an umbrella approval of a basic design and objectives which are then followed by small initiatives processed by short procedure. This approach has reduced administrative burden for preparation of small projects as well as improving the ability to respond to specific windows of opportunity in a larger reform process.

- **Maximizing the potential of this mechanism:** The existing approach simplifies the preparation stage of projects, but does not address streamlining of implementation and procurement procedures. Impact could be reinforced by new mechanisms to capture economies of scale in consultant services and the sharing of products produced by individual initiatives. These could be detailed in a new Administration Agreement for the MIF.

2.40. **Competitive Selection:** Project selection is a multi-faceted process involving potential executing agencies and the development community as well as Bank staff, in order to encourage project ideas that best match private sector development needs as well as the areas of priority focus of the MIF. The complexity of this process can make it rather opaque and difficult to map out clearly.

2.41. MIF has piloted new ways to use competitive selection as a way to both increase transparency as well as leverage the development impact of its funds. Several pilots use a public contest method, announcing that funding will be available for projects meeting specific requirements and encouraging potential executing agencies to submit projects for competitive selection.

2.42. **Outsourcing to reach new communities:** In another approach, MIF works through a strong partner agency, extending its outreach by having the agency apply defined criteria to screen a set of small sub-projects that would otherwise each be too small to access MIF funds.

- These models are demonstrating important early success. Not only have the range and quality of submissions improved from the first round of selections to subsequent rounds, but there is also a recognition of the extended impact engendered by the process itself. While difficult to measure or attribute, there appears to be a positive impact on capacity building that arises from the action of proposal preparation itself, creating some benefit for even those proposals that do not receive funding. In MIF 2, Donors may wish to extend this approach.

2.43. **A clearer profile:** The development impact of MIF 2 could be enhanced by a clearer, easier to identify profile. It should be positioned to not only make, but be seen to make a difference in private sector growth. This ‘brand recognition’ would provide a clear focal point to communicate the commitment of Donors to stimulating growth to reduce poverty and help MIF more efficiently energize and stimulate effort on key topics.

2.44. An important modality to achieve this might be to build on the experience of MIF in the past few years in utilizing an integrated, multi-faceted approach to target a specific development
issue. This method can be most recently seen in MIF’s approach to the remittances issue, where it used the full range of its tools to raise awareness of the issue, and to energize action that has already led to important fundamental change.

2.45. As a member of the IDB Group, MIF has the credibility to convene international attention at the most senior levels of the public and private sectors. As an independent fund MIF has a wider scope of action, and greater freedom to address sensitive issues and undertake higher risk initiatives. Equipped with both grant and investment capabilities it can provide support for a continuum of activities - from the needed diagnostic analysis to ensure the dialogue is substantive, through to funding the pilot and demonstration projects needed to move dialogue forward into action.

2.46. MIF is uniquely equipped to assume the costs and risks of developing and introducing new ideas. It has a close and responsive relationship with the kinds of private sector groups that need to be deeply involved in the process of private sector development. It can work both at the level of capacity building of the firm as well as reform of the business environment. It can work across borders to build regional approaches and can enter into the difficult areas of building support for larger reforms through demonstration projects.

2.47. Experience has shown that MIF has had the greatest development impact when acting as an agent of change – focusing on a particular development issue, stimulating new thinking, piloting innovative initiatives, and then contributing practical usable knowledge about how to realize new ways of doing things and build consensus for further reforms.

2.48. More clearly identifying this ‘niche’ of the MIF could be done at a practical level by positioning MIF actions as part of the IDB Group private sector strategy, where the role of the other members of the Group would be also be clear. However, care must be taken that modalities to achieve this greater strategic integration, do not end up destroying the very flexibility and responsiveness that have been the sources of MIF’s success.

2.49. MIF has had good results by focusing on the nature of its instrument rather than solely directing its strategic choices to the development topics to which it is applied. This could also assist in managing the need to attain greater strategic coherence among IDB Group private sector development activities, while not adding bureaucratic approval layers that could impede responsiveness.

- Donors may wish to request that an integrated program approach be developed for a list of key private sector development issues. This list would be specified as part of the discussions on priority strategic objectives for MIF 2

- To enhance the impact of more integrated approach, the role of other members of the IDB Group could be explicitly included from the outset, and the plan could be actively publicized to encourage broadly based participation and interest from the country concerned
III. A STRATEGIC FRAMEWORK

A. BACKGROUND

3.01. During the past decade much has been learned about the importance of sound institutions and broadly based participation in making markets work for equitable growth. Globalization, pushed by new technologies and ever more rapidly mobile capital, has increased the importance of international competitiveness and brought new forces to bear on local economies.

3.02. Working within this rapidly changing context, MIF has gained important experience on how to maximize its relevance and effectiveness in private sector development. MIF has had the greatest impact when acting as an agent of change – focusing on a particular issue, stimulating new thinking, piloting innovative initiatives and then contributing practical usable knowledge about how to make a difference.

3.03. Results have been strongly associated with openness to innovation, flexible response to changing circumstance and new opportunities, and close partnership with private sector groups. Most importantly, the deepest results have arisen from concentrated effort over time on a particular development topic, with MIF funding a succession of innovative initiatives as the issue evolved.

3.04. In designing MIF2, there is an opportunity to build on this experience and take the MIF to a new level of development effectiveness.

3.05. The preceding Chapters outlined why the role played by the MIF is important, reviewed where MIF has made a difference, and summarized what has been learned about how to maximize the impact of MIF as an instrument. Building on these lessons, the following Chapter proposes a strategic framework to define the development goals of MIF2. It notes MIF’s particular role with respect to the private sector development efforts of other members of the IDB Group as well as those of other development institutions.

3.06. Most importantly, it proposes that MIF explicitly focus on development results, utilizing a range of interventions to improve the business environment, build broadly based competitiveness and involve the private sector as the most important partner in the development process.

3.07. As the process of MIF Replenishment moves forward, specific language for the Agreement for MIF2 would subsequently be developed to reflect the strategic framework as decided by Donors.
B. DEVELOPING MIF2 - THE CONTEXT:

3.08. **The needs of the region are urgent:** As detailed earlier, the Region must strengthen its competitive position. The business climate needs to be improved and the ability of firms to respond to new market opportunities must be increased.

3.09. **Much has been learned in the past decade concerning the reform process:**

- **Incentives and Institutions matter:** Market systems are embedded in market institutions. These include stable and transparent rules, laws, regulations, and public organizations that form the incentives facing private decision-makers. In the absence of robust institutions, reforms cannot be fully effective.

- **International competitiveness matters:** New technologies, mobile capital and market integration are changing the prospects for both large and small enterprises, opening new opportunities but also introducing new competition in domestic markets; enabling access to better methods but increasing expectations for product and service standards; clarifying best practices for the business environment but highlighting legal and regulatory institutions that are not competitive.

- **Growth of micro and small firms is critical to reducing poverty.** However these firms are particularly vulnerable to weak public institutions, or market dysfunctions that make it difficult to obtain adequate finance, information and new techniques to improve capacity. In addition, the fading distinction between domestic and export markets also impacts very small firms as new competitors enter previously local markets. Special measures are needed to address these realities.

- **The quality of economic participation matters:** Sustained and equitable growth needs broadly based participation with the benefits of economic development being accessible to all members of society. However, moving toward this goal is not an automatic result of macro level market reforms. Special attention needs to be paid to the social impacts of change.

3.10. **MIF has a special set of experiences in addressing private sector development needs.** Over 80% of MIF’s 590 projects have been included in the special evaluation program undertaken by the Office of Oversight and Evaluation (OVE) over the past two years. These have yielded a wealth of important information, not only about past MIF projects, but what should be done in the future.

3.11. **MIF occupies a unique niche and complements other development efforts:** MIF plays a distinct role within IDB Group efforts to address these issues and advance inclusive private sector growth in the region. MIF projects advance new thinking, assist small firms to benefit from change and involve the private sector in the development process. Its initiatives complement and leverage not only the actions of other members of the IDB Group, but other multilateral and bilateral agencies (over 30 partners), national development agencies throughout the Region, and numerous international and national NGOs and private sector organizations.
3.12. **MIF Replenishment is taking place at a time of extensive analysis of the role of other IDB Group instruments.** Over the past few months the IDB Group has been engaged in extensive dialogue concerning its support to private sector development in the region. Many of these issues are very complex and will require further discussion and assessment. The uncertainty surrounding the future scope of activities that address the provision of financing to private sector firms has slowed the expected pace of MIF Replenishment.

3.13. **However, it has become increasingly clear that the needs addressed by the MIF continue to be essential, and that its work is complementary to, but not dependent on other changes being considered.** The MIF is focused on improving growth prospects with a special focus on micro and small firms. It does this through technical assistance to improve the business environment, building worker skills, strengthening the capacity of small firms to realize the benefits of changing incentives and demonstrating the use of investments in microfinance and small business funds. These activity areas are complementary to those that provide direct financing to firms (addressed by the IIC or PRI). For example, MIF projects help very small firms to grow to a size where they could become ‘clients’ of IIC. Other MIF projects are improving the business environment making it easier for the kinds of projects funded by PRI.

3.14. **Advancing on MIF Replenishment will contribute to the understanding of the needs of the private sector:** MIF’s unique experience with the private sector in the region enables it to make an important contribution to advance private sector development in the region. Over three quarters of MIF projects are with private sector organizations such as Chamber of Commerce, trade associations and NGOs, providing MIF with a network of over 400 partners, each actively involved in private sector development. This network of relationships provides an extensive base of direct knowledge about private sector needs as well as the means to create change.

C. **MIF’S DEVELOPMENT NICHE:**

3.15. **MIF’s particular role** in advancing private sector development is rooted in:

- **Assuming the risk of innovation:** Making progress on stubborn problems calls for energizing new ideas and developing uniquely Latin American and Caribbean models. However, by definition these types of initiatives are unproven and therefore risky. Grant initiatives play a critical role by supporting the development of new ideas that might benefit all, but are not yet proven. They enable public sector entrepreneurs to advance their ideas for change, and also encourage deeper involvement of the private sector in building new capacities that might have important benefits for the economy, but where markets alone do not provide a way to repay the costs of introducing the new approach.

- **Understanding micro and small business:** MIF has built up an unequaled range and depth of experience on how to improve the growth prospects for micro and small business. Its 590 projects are making a significant difference throughout the Region, addressing those aspects of the business environment that are the most critical for SMEs, as well as strengthening the capacity of micro and small enterprise to benefit from market change.
Including the counterpart funds of its partners, MIF projects have put over $1.8 billion to work, making it the largest provider of technical assistance in the Region.

- **Network of relationships:** MIF has worked closely with over 400 leading private sector organizations throughout the Region. This network of relationships is an important asset for both identifying the issues of relevance as well as advancing the quality of economic participation by more deeply involving the private sector in the development process.

3.16. **MIF has already had significant impact** in microfinance, remittances, skills standards and credentialing systems, venture capital market development, alternative dispute resolution, and quality management systems (ISO). Important contributions have been made in the areas of cleaner production, financial sector reform, regulatory reform and the framework for private sector investment in infrastructure.

3.17. **Most of these topics were not anticipated when MIF was originally designed.** Rather, the Agreement was written to enable the kind of dynamic focusing of resources and efforts that have resulted in MIF not only adapting to changing needs, but leading by introducing new development approaches.

3.18. **The updated strategic framework should offer this same kind of flexibility,** enabling MIF to maximize the impact of innovation and build on its successful experience in the micro and small enterprise sectors and in partnering with the private sector. The close involvement of Donors in guiding MIF response to these changes has been a very helpful and should continue to be a key feature.

3.19. **It should also maximize the additionality and impact** of MIF resources by focusing on those issues and actions where they can have the biggest result. The strategic framework should target relevant and important concerns best suited to the kind of interventions where experience has shown MIF is the most effective. It should build upon the knowledge gained from projects implemented to date, and the views of the network of partners MIF has built up throughout the region. It must reflect the development objectives of its Donors, and maximize MIF’s contribution within the framework of the IDB Group Strategy for Private Sector Development.

3.20. **The strategic framework must focus resources on important concerns where MIF can make a difference:** MIF success has been fostered by an Agreement that focused on overarching development goals coupled with the active involvement of the Donors Committee in developing operational priorities to guide the identification of specific projects. This allows operational priorities to respond to changing needs of the region.

**D. ENSURING A FOCUS ON RESULTS:**

3.21. **The strategic framework for MIF2 should be built on measurable results, not simply designated activities.** However, it is challenging to define expected results for an instrument that operates in the area of fostering new thinking. If projects are truly innovative, many may not achieve their originally intended results. The small size of individual interventions also poses measurement challenges as they are subject to large risks and significant external
influences, and direct attribution will always be difficult. Traditional measures that focus on the attainment of initially planned project outcomes may not fully capture how well MIF is fulfilling its development niche.

3.22. **A clear focus on results for an innovative mechanism, calls for an innovative approach to their measurement.** Assessments must focus on the degree of innovation and whether the concepts tested were relevant and useful. Did initiatives that were designed to build support for larger reforms result in downstream programs, or leverage contributions from other agencies and groups? Was the learning from pilot initiatives well identified and shared in order to contribute to the broader knowledge base?

3.23. **Initiatives should be designed for learning.** To maximize MIF’s contribution to creating useful knowledge about private sector development, initiatives should emphasize their expected contribution to knowledge as a central development outcome. Creating a body of useful advice to others facing similar development challenges would become part of the normal responsibilities of executing agencies, and project designs would include resources and planned activities to identify and share key lessons. Individual pilot projects would produce case studies and other reports to enable easy dissemination of their results. When there are sufficient projects addressing a development topic, they should be evaluated as a group in order to identify cross cutting, thematic lessons.

3.24. **The action of measuring results should itself become a development tool.** Expectations play a central role in defining the institutions and incentives of the business environment, and in determining how people respond to change. Clear, transparent measurement of what a particular technical assistance project is supposed to achieve can help create new expectations, and stimulate further innovation. It can help reforms be realized across a change in project administration, and assist in maintaining support for proposed change.

E. **FURTHER DEVELOPING MIF AS AN INSTRUMENT:**

3.25. Building on the discussion in Chapter two, the strategic framework should position MIF2 to keep building on its experience to further its orientation on development results.

3.26. **Maximizing impact by a multi-faceted approach:** MIF has had good results when it strategically targeted a particular development issue, and then utilized a variety of research, communication, and project methods to offer people new ideas and techniques for correcting problems or reacting to opportunities. Research is often needed to fully understand an issue. Projects provide vital testing of theory. Effective use of media, and new communication technologies raise awareness, invite broader participation and reinforce the contribution to knowledge gained in individual initiatives. An integrated, multi-faceted approach that plans the use of a range of communication techniques as part of a targeted focus on a specific issue can maximize the impact of MIF resources. The proposed strategic framework supports further development of this role, by describing development objectives for each area of activity rather than the kind of initiatives that could be financed.

3.27. This method involves the use of a full range of tools to raise awareness of an issue, and to
energize action by undertaking demonstration projects. Through a strategic combination of studies, public media, involvement of academia and NGOs, new thinking about an issue can be stimulated. By supporting key demonstration projects, this dialogue can be moved forward into action, harnessing the forces of competition as new initiatives strive to improve upon the pilots.

3.28. **Sustained and targeted focus:** MIF effectiveness can be enhanced by emphasizing sustained engagement on a specific development topic, undertaking successive initiatives that are individually innovative but continue to focus on the specific issue. Project Clusters are an important mechanism to attain this focus.

3.29. **Building knowledge as a central goal:** MIF not only seeks development results from its projects, but seeks to extend the impact of its initiatives through contributing to knowledge on how to advance grass roots private sector development. In addition to an active program of the MIF Office, identification and sharing of ongoing and final lessons should be part of the accountabilities of executing agencies during project implementation.

3.30. **Introducing new modalities:** Effectiveness is not only achieved by ensuring that relevant development topics are addressed, but by focusing on methods of delivering assistance to ensure that interventions can attain objectives. While needed actions are usually at an administrative level, and therefore are not appropriately addressed in a strategic framework, the MIF2 Agreement should establish ongoing improvement to the way assistance is delivered as a central strategic goal.

F. **PROPOSED STRATEGIC FRAMEWORK:**

3.31. The original Agreement focused on removing impediments to private sector investment, and on mitigating the expected negative impacts of transition to market reforms on the labour market. It also recognized the special needs of the smallest enterprises. 4 This basic framework was further defined by the Working Group on MIF Strategy. 5

3.32. This approach has served the objectives of the MIF well, enabling it to adapt its focus to best suit the changing needs of the region and as experience was gained with where it could make the biggest development difference. Over the years, MIF increasingly focused on working in partnership with the private sector to address the needs of the region’s smallest businesses.

3.33. In updating the text of the Agreement for MIF2, it is proposed to follow the successful format of the original Agreement. Three basic programs areas are proposed, and their complementarity to the efforts of the other members of the IDB Group as well as other development institutions is outlined.

3.34. The strategic framework proposed below orients MIF resources to both address the right topics as well as approach them in the right way - where small technical assistance and

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4 It outlined four program areas: Facility I - technical assistance to strengthen the environment for private sector development; Facility II - human resource development; Facility III small and microenterprise; and Facility IIIa investments in microfinance institutions and small business development.

5 MIF/GN-56
demonstration projects can make a difference.

1. **Improving the Business Environment - Better Incentives and Institutions:**

3.35. Deficiencies in the business environment discourage investment and entrepreneurship. As outlined in the IDB Strategy for Private Sector Development, the state must establish the “rules of the game” that ensure competitive markets, provide an appropriate legal and regulatory framework, a stable macroeconomic environment, a robust social and hard infrastructure (health and education as well as roads, communications, etc.), As the forces of globalization make it increasingly easy to shift investments to more competitive environments, it has become more and more important to foster the enabling environment for investment, improving the framework of laws and regulations as well as the institutions that implement them.

3.36. **Technical assistance and investment projects to demonstrate new approaches have a specific role to play** in advancing required reforms. Grants are particularly useful where there is a need to build the base of support by demonstrating how reforms could work. They also are the most appropriate choice to pilot development models to enable their adaptation to local conditions and empower reformers so that they can take initial action. Grants are also needed to cover innovation in reform. Unlike an invention, where first mover costs can be recouped through intellectual property rights, it is difficult to justify expenditure of funds for high risk innovation in reforms that might benefit all, but are not yet proven.

3.37. **Weaknesses in this business environment are particularly harmful to the smallest businesses.** Whereas large firms may be able to carry the costs of specialized resources to overcome market dysfunctions, small firms can find these costs to be prohibitive, restricting growth and encouraging informality. Indeed, growing informality in many areas in the region can be seen as an indicator of the weaknesses of the institutions, regulatory framework and incentives that define the business environment.

3.38. Maximizing MIF’s ‘competitive advantage’ in this area calls for its resources to be focused on those areas where grants are the best choice as well as those areas where MIF’s experience in micro and small business issues offers an advantage. MIF is uniquely equipped to support the development of new ideas, and to bridge the ‘action gap’ between diagnosing a problem and when there is sufficient broadly based support to move ahead with large reforms. MIF’s agility also positions it to meet the need for immediate technical assistance to help with a crisis or to take advantage of a window of opportunity.

3.39. **Proposed MIF Goal:** focusing on those issues of primary importance to SMEs, promote efficient, fair and transparent institutional and market practices that introduce new ideas, advance the implementation of best practice and encourage the application of international norms and standards.

3.40. **Types of Initiatives:** Projects focus where MIF’s agility allows it to meet urgent needs that other instruments cannot, where its experience in nurturing innovation can help create new
solutions to stubborn problems, and where working models are needed to pilot reforms, building experience and support for larger programs (which can be assisted by other parts of the IDB Group or other development entities.) Initiatives in this group emphasize increasing incentives to becoming formal, lowering the costs and risks of productive activity, and expanding business opportunities. Projects are most often implemented in partnership with a public sector counterpart.

3.41. **Relationship to IDB Group and other Initiatives:** MIF initiatives build on the analytic work done by other development institutions (such as the World Bank ‘Doing Business’ reports, FIAS reports, CAF and CABEI or research by bilateral development agencies) as well as the knowledge base of the IDB Group itself. Projects are coordinated with other IDB Group initiatives through the Private Sector Strategy process and are used where it is important to foster innovation, demonstrate new approaches and build consensus for further reforms.

**Basic areas of activity:**

3.42. **Promoting public sector entrepreneurship:** Complex regulatory environments impede business growth and encourage informality. In particular, improvements are needed in the legal and regulatory framework for productive sectors and development of institutional structures to encourage the fulfillment of contract obligations. However, achieving change is not easy. It requires specific technical expertise, significant energy, and political will. MIF should support those reformers - the entrepreneurs of the public sector – who are willing to take the risk of introducing new ways to improve the laws, regulations, procedures, and policies that impact on business and investment.

3.43. **Meeting the challenge of trade integration:** As markets integrate, countries must align their regulations, standards and norms of practice with regional and international benchmarks and requirements, or risk making their economies uncompetitive. To help ensure that small firms benefit from these changes, MIF should promote application of international practice, emphasizing broadly based private-public sector consultation, and the development of local certification and advisory service capacity.

3.44. **Improving how markets function:** Business needs efficient access to factors of production and technology in order to be competitive, and society needs well functioning markets in order to ensure that resources are well allocated. Where small, targeted technical assistance is needed to implement recommended actions, or to build consensus for further reform, MIF should support initiatives to improve regulatory structure and practice, increase competition and broaden participation and access.

3.45. **Financial sector and capital market reforms:** The functioning of the financial market has overarching importance for business competitiveness. The credit needed for growth can only flow when information is reliable and easily available, when there is enough participation to create sufficient depth of financial products and services, and when the soundness of the financial system is ensured by good regulation and supervision. MIF projects should advance larger reform initiatives where small technical assistance programs are the most appropriate instruments to promote needed change, or where a multi-faceted approach is needed to...
progress a change such as property reform to enable secured transactions, increasing small business credit. MIF’s proven track record in quickly mobilizing resources is particularly important in the financial sector where immediate technical assistance is needed to help countries deal with sudden crisis.

Measuring Results:

3.46. Projects in this group are undertaken to introduce new concepts into the dialogue to advance a larger reform processes or to respond quickly to an urgent need or window of opportunity. Short-term technical assistance can make a big difference by providing specific expertise, or where promoters of reform need to demonstrate its benefits to build support for next steps. MIF results for this type of project should measure attainment of these objectives, clearly basing assessments on outcome indicators such as whether larger programs did follow a pilot, whether attitudes toward reform significantly changed, or whether a crisis was minimized. The results of the OVE evaluation provide specific suggestions with respect to such indicators

2. Building competitiveness of smaller firms:

3.47. Increasing the productivity and market participation of very small firms is central to reducing poverty. Throughout the Region, these firms account for the vast majority of economic activity – only 2% of firms are considered as large. In terms of jobs, SMEs in the formal sector provide between 20 and 40 percent, while the informal sector accounts for well over half of economic activity. Very small enterprises account for four out of five new jobs created in the region, and employ 50% of workers.

3.48. There are special challenges in ensuring that reform programs fully reach this group. A contributing factor in the widening income disparities found throughout the region, is the reality that as major reforms change the business environment it is the well equipped firms and individuals that first benefit from the new opportunities. Individuals that have been more integrated into the economy before reform have been the ones best positioned to manage and prosper from the changes. It is difficult for very small enterprises to access to the information and capacities needed to first benefit from reforms. Informality poses additional constraints, limiting access to financial and other inputs, hampering access to public services and narrowing the kind of contracts or investments it can make.

3.49. Constraints in financial markets represent a major constraint for micro and small firms. Commercial capital often has ready outlet in public sector instruments or in meeting the needs of large firms, and will not assume the risk inherent in testing new financial mechanisms that meet the needs of micro and small firms. As some of these new mechanisms may well prove to be attractive to commercial capital once the high-risk test phase is completed, there is a important development role in demonstrating them to the market. MIF has had significant impact in this area, utilizing a range of equity and quasi equity tools to advance microfinance and demonstrate the use of small business investment funds in the region.

3.50. Small business capacities need strengthening so they can realize the benefits of change. Programs to build capacity of these firms can have important social as well as economic
benefits. Private sector groups are often the most effective channels for transferring new business techniques and market information, however they face significant resource constraints and do not have the financial capacities to borrow to expand their programs.

3.51. **Goal:** to support ongoing innovation to increase the potential of microenterprise and small business to generate income, create jobs, and grow in a sustainable fashion.

3.52. **Types of Initiatives:** Initiatives in this group address the underlying issues of building competitiveness. They are most often implemented with private sector counterparts, and aim to create distinctive regional approaches to competitiveness issues, creating new norms and stimulating development of new models. These initiatives tend to be highly innovative and usually start with support to a pilot project(s). Where these early trials have promising results, a deeper engagement follows with a series of subsequent actions that may entail a degree of replication.

3.53. **Relationship to IDB Group and other development efforts:** The highly innovative nature of these initiatives, coupled with the role of private sector partners, make them complementary to rather than part of larger reform programs. In general they support the IDB Group’s strategic direction of focusing on underserved markets and contribute to the knowledge among development institutions on how to address micro and small enterprise needs.

**Basic Areas of Intervention:**

3.54. **Demonstrating new financial mechanisms:** MIF should build on its pioneering work in the use of equity as a development tool, to support initiatives that introduce new ways to increase the supply, range and quality of financial products specially designed for microenterprise and small business. The focus should be on initiatives that aim to correct underlying market barriers or failures, or that are designed to demonstrate the potential of a particular instrument in meeting financing needs, utilizing the full range of MIF’s equity, debt and grant mechanisms. Initiatives should advance development of micro and small business finance as an integral part of overall financial sector development, demonstrating new techniques to showcase potential to commercial capital sources, and promoting best practices.

3.55. **Managerial and Technical Capacity:** Special attention is needed to ensure that smaller firms have the information and the capacities needed to respond to new opportunities and challenges. MIF should test innovative and demonstration initiatives to build resilience and adaptability to quickly changing market realities, promoting application of internationally accepted financial management and reporting methods. Projects should focus on increasing growth potential, taking an integrated approach to identifying operational and managerial constraints, and advancing those financial and institutional changes needed to increase competitiveness. Projects should seek leveraged impact beyond the individual initiative, and only be undertaken where the business environment is sufficiently conducive to realizing results.

3.56. **Developing Private Sector Networks:** Institutions such as chambers of commerce, trade associations and NGOs are of particular importance to micro and small firms. They play a vital role in conveying information about market change, and voice the views of their members in
dialogue with the public sector. MIF should promote communication among these private sector institutions that are working to help the very small enterprises respond to new incentives and seize economic opportunities.

**Measuring Results**

3.57. These projects are often undertaken to test a new approach in order to identify areas where further, deeper actions can be directed. As such, the key results measure is the degree to which lessons are identified and shared. Projects are often part of a project cluster and for clusters, key results measurements are: development of a model for subsequent replication and whether a network among the implementing agencies is established.

**3. Engaging the Private Sector as Partners for Change:**

3.58. **The quality of economic participation is central to achieving sustained economic growth and poverty reduction.** Income disparities in Latin America and the Caribbean are the world’s highest and the portion of the population living in poverty has increased over the past decade. Investment is lagging and informality, a crucial indicator of weak business environments, is growing.

3.59. Changing this requires a set of inter-connected actions. The business environment must be improved, and capacities of firms of all sizes must be strengthened to enable them to realize the benefits of reform. However, it is not sufficient to just remove the impediments to growth.

3.60. Attaining growth with enough momentum to withstand external shocks, and to deliver the kind of poverty reduction that will build domestic demand and investment, calls for a new kind of engagement by the private sector. Effective markets are not simply a result of their formal rules and regulations - they reflect the norms, practices and expectations of their participants. The quality of institutions is an outcome of the expectations and desires of decision makers in a society.

3.61. Shaping an economy that works effectively for all members of society calls for new business attitudes, uniquely Latin American or Caribbean business models and a broader understanding of the connection between individual success and how this is either enhanced or reduced by the success of others in the economy as a whole.

3.62. **Goal:** to promote broadly based participation in the economy, and deepen the involvement of private sector in development issues, advancing the effective application of business techniques in addressing social concerns.

3.63. **Types of Initiatives:** Initiatives in this group have a high level of innovation, piloting new concepts and introducing new ways to harness business motivations for development goals. They are most often implemented with private sector counterparts.

3.64. **Relationship to IDB Group and other development efforts:** More deeply involving the private sector in development is an important element of the IDB Group private sector strategy. MIF’s network of over 400 leading private sector organizations throughout the
Region is a significant asset in this respect, enabling new concepts to move beyond discussion into implementation.

**Basic areas of intervention:**

3.65. **Advancing socially responsible approaches to business:** Often known as Corporate Social Responsibility, this encompasses a range of activities that link business decision-making with good corporate governance, environmental responsibility, worker health and safety, and respect for communities and the society as a whole. Initiatives promote the understanding that it is good business to follow such practices, and that a firm cannot achieve its full potential completely isolated from the success of its workers or of other firms in its economy. MIF should raise awareness among the business community, pilot initiatives and share knowledge as the concept is applied. Environmental management is a key aspect. MIF should build on its early work in introducing cleaner production techniques to further promote innovative methods to demonstrate that it is a benefit not a cost, promoting eco-efficient production, and building private sector capacity.

3.66. **Increasing private sector involvement in policy formation:** Identifying the obstacles to private sector growth and sequencing appropriate policy response calls for an active participation by a well-informed business community. Broadly-based, grass roots groups such as Chambers of Commerce, industry associations, consumer and environmental organizations share and build useful commercial knowledge and express their members views in policy making forums. This is particularly important in involving micro enterprise as their very informality constrains their ability to convey their needs to government institutions.

3.67. **Demonstrating new ways to do business**: MIF should work support initiatives that test and establish working models of effective new approaches to business. Such approaches as encouraging large firms to help their smaller suppliers implement more effective environmental management models, or working with value or supply chains to promote more sustainable business practices can have a significant multiplier effect on business attitudes and practices.

**Measuring Results**

3.68. These projects tend to be highly innovative and as such, the key results measure is the degree to which lessons are identified and shared. Projects contribute to the knowledge of what works and what doesn’t with respect to important private sector development topics. To do this, projects must be designed for learning, including not only clear baselines and success indicators, but including a plan to share experience in order to maximize contribution to the knowledge base. Where possible, projects should be grouped by development topic to encourage the creation of networks of business groups, NGOs and other agencies that are addressing the issue as well as better support implementation and learning.