

# AID-FOR-TRADE: CASE STORY

## INTER-AMERICAN INVESTMENT CORPORATION (IIC)

### FINPYME Export Plus

**Date of submission:** February 2011

**Region:** Central America and the Caribbean

**Country:** Guatemala, El Salvador, Costa Rica, Nicaragua, Dominican Republic, Haiti, Bahamas, Barbados, Guyana, and Suriname

**Type:** Program

**Author:** Inter-American Investment Corporation, Inter-American Development Bank (IDB) Group

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### Executive Summary

FINPYME<sup>1</sup> ExportPlus is an Inter-American Investment Corporation<sup>2</sup> (IIC, part of the IDB Group) initiative seeking to enable small and medium-size enterprises (SMEs) to improve their access to export markets. The program supports carrying out market studies; follows with the selection of companies in strategic sectors that could benefit from the program; and provides direct technical assistance aimed at disseminating basic export knowledge so that SMEs can increase and diversify both their products and their markets.

The FINPYME ExportPlus program was launched in 2009 in Guatemala as a pilot project with excellent results, including a high implementation rate (88%) of the knowledge shared through the program and an increase (50%) in attendees' export capacity. Today, the program is being extended to several other countries in the Central America and Caribbean region, such as El Salvador, Costa Rica, Nicaragua, Dominican Republic, Haiti, Bahamas, Barbados, Guyana, and Suriname.

#### **1. Issues Addressed**

In line with the World Trade Organization Aid for Trade Initiative (AfT), supported by the IDB, the FINPYME ExportPlus program was launched to help developing countries in Latin America and the Caribbean to improve their ability to operate in the international marketplace. The IIC pilot project focused on the AfT Building Productive Capacity category by providing technical assistance directly to SMEs.

In accordance with the donor's (Government of Italy) regional and national aid priorities, Guatemala was selected for the pilot. The project targeted companies in the agribusiness sector, as it remains the country's main industry. Despite generous market access concessions, either through trade agreements

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<sup>1</sup> Spanish acronym for Innovative Financings for SMEs, FINPYME is a diagnostic tool developed by the IIC to help SMEs improve their competitiveness and facilitate their access to potential sources of financing.

<sup>2</sup> The IIC complements the activities of the IDB in the LAC region by encouraging the establishment, expansion, and modernization of private enterprises, especially SMEs. Besides direct technical assistance to SMES, the IIC provides project financing in the form of direct loans and equity investments, lines of credit to local financial intermediaries, and investments in local and regional investment funds.

with or preferences from the United States and the European Union, Guatemalan exporters continue to face several market access obstacles related to international production and labeling standards. As a result, market access instruments tend to remain underutilized. The IIC thus saw an opportunity to implement this innovative approach in the country.

## 2. Objectives Pursued

The main objective of the FINPYME ExportPlus program is to help SMEs become more competitive abroad and to access foreign markets. To this end, the program disseminates basic knowledge on how to export to key markets and provides tailor-made capacity-building on key issues affecting the ability of SMEs to comply with international standards. In other words, it gives SMEs the “first push” in the direction of becoming exporters, helping them discover new trade opportunities outside their traditional local and international markets, so as to pursue exports and market diversification as pivotal growth strategies. In turn, this process aids companies in identifying internal weaknesses that may be impairing their trading potential.

## 3. Design and Implementation

Given the IIC’s limited human and financial resources, the program’s business model incorporated a network of local public and private institutions involved in international trade<sup>3</sup> as partners in the project. The IIC would manage the project, but would rely on the network to provide essential support in order to attain the program’s objectives. The IIC relied on these partners to begin the project by identifying SMEs that could be facing market access barriers and that could therefore most benefit from the program. These partners were also essential in assisting with the financing and logistics of the activities developed for the program.

The IIC next initiated an exchange of information with the network partners. A consensus was reached that the pilot program should focus on the following three “pillars” in order to enhance the capacity of Guatemalan exporters to compete internationally.

- a. **Certification processes:** any certification required from countries abroad related, in particular, to quality standards and agriculture products;
- b. **Operational processes:** any improvement related to a company’s internal productive apparatus in order to detect and address deficiencies, thereby improving productivity and delivering better products or services;
- c. **Management processes:** capacity building in management skills, in particular to assist export management, market analysis, marketing, project management, strategic planning and logistics.

The program was then implemented with three focus areas:

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<sup>3</sup> These stakeholders are: Agexport, Universidad Landívar, Cámara de Agro, PRONACOM, Asociación de Gerentes de Guatemala, Cámara de Comercio de Guatemala, Anacafé, Citibank, Grupo Financiero de Occidente. The Guatemalan Ministry of Economy and the Italian Embassy in Guatemala also provided support during the preparation and execution of this project

1. **Researching the market:** The program supported the hiring of local and international experts to identify key sectors where SMEs are active and that have the potential to boost exports with greater efficiency and improved know-how.
2. **Gathering data:** The IIC collected information from SMEs in key strategic sectors with annual revenue not exceeding USD 2.5 million. Data was collected on companies' operations, traditional export markets, and preferred FINPYME ExportPlus capacity-building pillar. Local partners were instrumental in the information-gathering process.
3. **Providing technical assistance:** Using this data, the IIC selected a smaller number of SMEs to participate in the program and receive technical assistance to strengthen their export capabilities.

The pilot capacity building program included assistance in nine business activities; however, due to the success of the program, it has subsequently been expanded to the following 12 activities:

1. Waste water treatment for the leather industry (operational process)
2. Labeling for the U.S. market (certification)
3. Organic production for the U.S. Market (certification)
4. Export management (management process)
5. Phytosanitary regulations (certification)
6. Coffee industry (operational and management/marketing process);
7. Export project management (management process);
8. Wood and furniture (operational and management/marketing process);
9. Export to the U.S. market (management/marketing);
10. Export to Europe (management/marketing);
11. Strategic planning for export (management);
12. Family business governance (management).

Of these 12 activities, the first eight were implemented in 2010, while the last four are to be completed in 2011. For a brief overview of the timeline and content of these activities, see Table 1 in the Annex. In addition, for more detail on the implementation of the program, see Figures 1, 2, and 3 in the Annex.

#### 4. Problems Encountered

Generally speaking, the program faced the following challenges:

- **Identifying SMEs:** The IIC realized early on that it could not alone identify all SMEs that might benefit from the project. It therefore engaged its local partners for much necessary support in this regard.
- **Selecting the appropriate SMEs:** In order to select the SMEs most appropriate for the pilot project, the IIC had to carefully examine the recommendations made by its local partners.
- **Designing the seminars/activities:** Because the IIC knew that prematurely establishing the program's activities could significantly limit its options and implementation space, it devoted six months (from June 2009 to January 2010) to evaluating the information provided by the pre-selected SMEs, as well as to assessing the best technical assistance options based on this information. This proved to be a wise decision, as the program's design eventually allowed for the scope of operations to be expanded from nine to 12 activities.

## **5. Factors for Success/Failure**

The program's success in Guatemala hinged on the IIC's relationships with local agencies representing SMEs. Through them it was possible to leverage knowledge and to select appropriate pillars and activities to develop SMEs. Finally, it is important to acknowledge the importance of tailor-made capacity-building activities, as matching the right activities with the right SME clusters proved a key factor for success

## **6. Results Achieved**

In Guatemala, the FINPYME ExportPlus program allowed for:

- Technical assistance to 187 SMEs
- Advisory services to 17 SMEs
- Training to 16 entities representing public institutions and private sector associations

Usually, this kind of technical assistance faces important implementation hurdles. Despite advanced training, beneficiaries tend to face difficulties incorporating the information learned at these seminars into their production and export processes. In fact, studies generally show that only 20 to 30 percent of companies report improvements in their export volumes after similar export-oriented training. The training provided through FINPYME ExportPlus, however, has already yielded significant, substantive results even as it continues to be implemented.

The IIC is in the process of surveying satisfaction with FINPYME ExportPlus. A sample of 50 companies has been selected to provide their views and to document their experience with the program and how it has impacted their operations. Among others, the main preliminary findings of this independent survey include:

- Average satisfaction score of SME participants for the capacity-building activities is 4.56 on a scale of 1-5, with 5 being most satisfied.
- Around 88 percent of SME participants have already implemented actions recommended during training sessions.
- Importantly, around 50 percent of respondents have already witnessed an increase in their export capacity to international markets, either through higher volumes or value or through diversification of markets. This is impressive considering that the figure is typically just 20 to 30 percent, as well as the fact that the training was delivered in short periods lasting from two days to a month.
- In addition, 88 percent of SME participants say they are willing to invest in similar training activities in the future.

Most importantly, however, FINPYME ExportPlus has built capacity locally. As a result, Guatemala can now carry out this and similar programs on its own.

## **7. Lessons Learned**

The FINPYME ExportPlus pilot program demonstrated that well-designed and implemented capacity-building projects are high-return investments. More specifically, it resulted in the following key lessons:

- **Clear goals:** Clear objectives for any given program can enhance effectiveness tremendously. Such objectives should be maintained for the next steps of FINPYME ExportPlus, and the processes should be formalized for other programs.
- **Identification of needs in specific sectors and sub-sectors:** Identifying and addressing SMEs' specific needs proved pivotal in contributing to firms' competitiveness and thus the success of the program in Guatemala.
- **The importance of tailor-made capacity-building:** For capacity-building programs to have positive impacts, they must include tailor-made activities that can best address the issues of any given sector or sub-sector. Going forward, capacity-building programs like ExportPlus could enhance their efficacy by tailoring similar activities based on problem issues and challenges at the company level.
- **Importance of long program design and implementation periods:** Based on the previous point, it also becomes clear that for this type of programs to be successful, there must be a readiness to have careful, if relatively long design and implementation periods. This in turn implies hard work at the very micro-level (sub-sector and firm level) and ongoing cooperation with local partners that will support the process from its very beginning.
- **Importance of solid, local partnerships:** Expensive and ambitious undertakings like FINPYME ExportPlus can only guarantee their success in the presence of reliable partners that can effectively work as bridges between donors and beneficiaries.
- **Selection of appropriate aid beneficiaries:** Likewise, programs such as FINPYME ExportPlus must carefully select their beneficiaries. In particular, selected firms must be willing to invest in similar training in order to ensure adequate absorption of the knowledge gained, as well as long-term sustainability of the program.

## 8. Conclusion (applicability to other programs)

In 2011, FINPYME ExportPlus will be expanding to other regions in Central America and the Caribbean<sup>4</sup>. The basic structures, business model, and processes will be maintained in other cases and lessons learned from previous programs applied. Future activities in these countries will be developed under the program's three pillars: certification, operations, and managerial processes. Nevertheless, countries' specific situations will be considered on a case-by-case basis. For every country selected for FINPYME ExportPlus, the IIC will conduct a thorough analysis of which sectors are more competitive and eligible for export before implementing the program. As a result, seminar topics and product lines may vary.

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<sup>4</sup> The program has already been launched in Suriname, Guyana, Barbados, and the Bahamas; later in 2011, it will also be launched in Nicaragua, Costa Rica, the Dominican Republic and El Salvador; between 2011 and 2012 it will be launched in Bolivia and Peru. ExportPlus will be in its preparation phase in 2011 for Uruguay and Paraguay, looking at a 2012 launch in these countries.

ANNEX

**Table 1: FINPYME ExportPlus Guatemala Case**

The program was launched in Guatemala in 2009. During 2010, the program implemented workshops and individual technical assistance covering labeling requirements, export management, organic production, and productivity improvement.

<b>Task</b>	<b>City</b>	<b>Date</b>	<b>Partner</b>	<b>Group TA</b>	<b>Individual TA</b>
<b>1) Waste Water Treatment System</b>	Guatemala City Quetzaltenango	February	Quimitalia	13 Companies	1
<b>2) Labeling for the U.S. Market</b>	Guatemala City	March	Agexport	18 Companies	11
<b>3) Organic Production for the U.S. Market</b>	Guatemala City	March-April	Agexport	16 Companies	
<b>4) Export Management Course</b>	Guatemala City	March-April	University of Landívar	25 Companies	
<b>5) Phytosanitary Standards</b>	Guatemala City	April	Pronacom, Agexport, URL, Cámara de Agro, Banco de Occidente	15 Institutions 23 companies	
<b>6) Exporting coffee to Italy</b>	Huehuetenango, Guatemala City, Chiquimula	May	Cooperazione Italiana, Asociación de Gerentes Anacafé	59 Cooperatives	2
<b>7) Process Improvement for export market-Project management</b>	Guatemala City	August	University of Landívar	13 Companies	
<b>8) Wood and Furniture</b>	Guatemala City	December	Agexport	15 Companies	3



## **ExportPlus Activities in 2010**

### **1. Waste Water Treatment System**

This task was implemented through a workshop and individual technical assistance. Participants learned about water treatment systems and processing techniques that could significantly reduce the water pollution that often accompanies traditional leather manufacturing methods. Producing leather without chemicals and mitigating environmental risks will improve the competitiveness and export capacity of the participating manufacturers.

### **2. Labeling for the U.S. Market**

This task was implemented through a workshop and individual technical assistance. Participants learned about key U.S. federal regulations on labeling and food safety, as well as specific food labeling requirements, including display panel, nutrition label, typographical and design styles, brands, allergens, organic products, and health claims for fresh and processed products. Following the workshop, the technical expert provided individual counseling to each company to make sure food labels meet U.S. requirements.

### **3. Organic Production for the U.S. Market**

Through a one-month training course, agricultural producers learned about the benefits of organic cultivation and how to shift from conventional to organic farming methods. The training dealt with organic and fair-trade certification, as well as international marketing. Additionally, the program included two site visits where participants experienced firsthand running organic production facilities.

### **4. Export Management Course**

This task was implemented as a series of eight workshops led by experts from the School of Economics and Business at the Universidad Rafael Landívar. It covered sanitary and packaging certification; supply chain management, quality control, and global logistics; and international sales and marketing. The experts provided individual technical assistance sessions for all participating firms to improve their export management processes.

### **5. Phytosanitary Standards**

This task was implemented through a conference and a three-day workshop. The conference on international phytosanitary standards included experts from around the world, including officials from the IDB, the EU, the WTO, the U.S. Department of Agriculture, and the U.S. Food and Drug Administration. These experts were later involved in a three-day workshop for SMEs. There participants learned about global food regulations and how to prepare agricultural products for export to major markets, including the U.S. and the EU.

### **6. Exporting Coffee to Italy**

This task was implemented through a conference and multiple workshops. The technical assistance was addressed to small- and medium-sized coffee producers in Guatemala City, Huehuetenango, Olopa, and Antigua. An international expert presented recommendations on quality control, proper roasting techniques, sales channels, and competitive marketing strategies. Following the workshops, several cooperatives, including a women's cooperative, received direct technical assistance on how to prepare their coffee products for sale in the demanding Italian market.

### **7. Process Improvement for Export Markets**

In collaboration with the Universidad Rafael Landívar, the IIC hosted a two-day technical assistance workshop on project management for SMEs in Guatemala. A key element was the introduction of a project management methodology aimed at achieving specific objectives, including export targets. An



international expert discussed internationally recognized project management standards. The workshop additionally provided individual and group technical assistance sessions for all participating firms to improve their planning processes.

## **8. Wood and Furniture**

This activity was developed in partnership with Agexport, Guatemala's exporters association. The IIC hired an expert from an Italian consortium of wood and furniture producers. The two-day workshop focused on quality control, operation processes, design techniques, sales channels, and competitive marketing strategies, mainly for the EU market. In addition to the workshop, three companies received direct technical assistance on quality control and operational improvements.

## **ExportPlus Activities in 2011**

### **1. Export to the U.S. market**

The workshop will bring together Guatemalan SMEs with multiple experts from the U.S. Department of Agriculture, AmCham Guatemala, Agexport, the IIC, Citibank, DHL, Deloitte and others. Participants will learn about U.S. regulations and legal requirements, market needs, distribution channels, financial tools, logistics and transportation infrastructures in order to enter or expand in the U.S. market.

### **2. Export to Europe**

The workshop will cater to 50 SMEs with multiple European experts from different product areas. Participants will learn about EU regulations and legal requirements, market needs, distribution channels, financial tools, logistics, and transportation infrastructure in order to export to the European market.

### **3. Strategic planning for export**

This activity will help the selected companies to create an international business plan that includes a strategy for entering or expanding into targeted markets. Providing individual and group technical assistance sessions, the activity will focus on areas such as market research, marketing and sales tactics, product adjustments, logistics, and competitive advantage analysis.

### **4. Family business governance**

This two-day workshop for 20 companies will address governance for family businesses that includes review management successor plans, family participation mechanisms, performance of governance structures, and other topics for better managing change and the transition to the next generation.

Figure 1: Program Schedule, Phase I

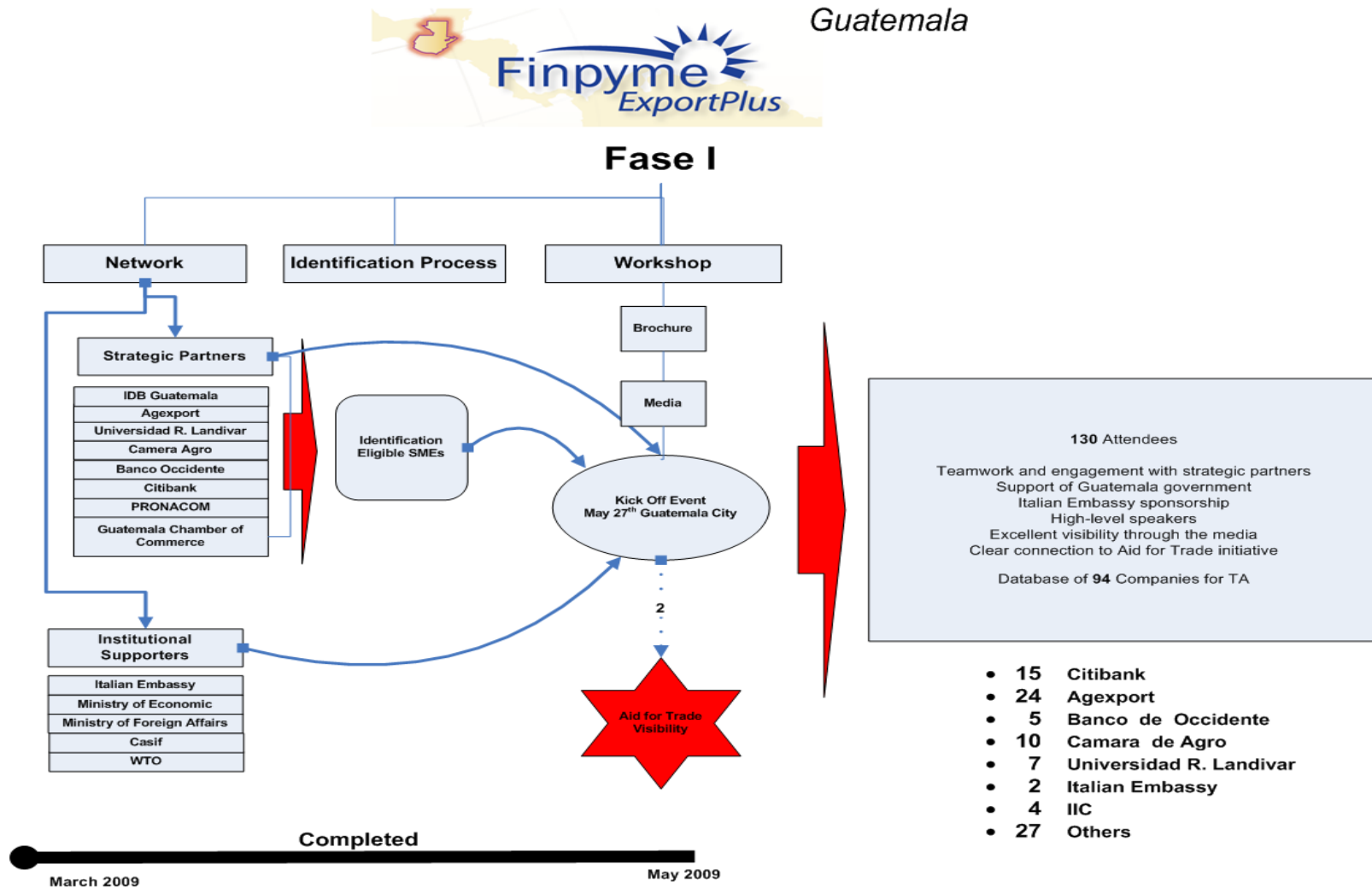
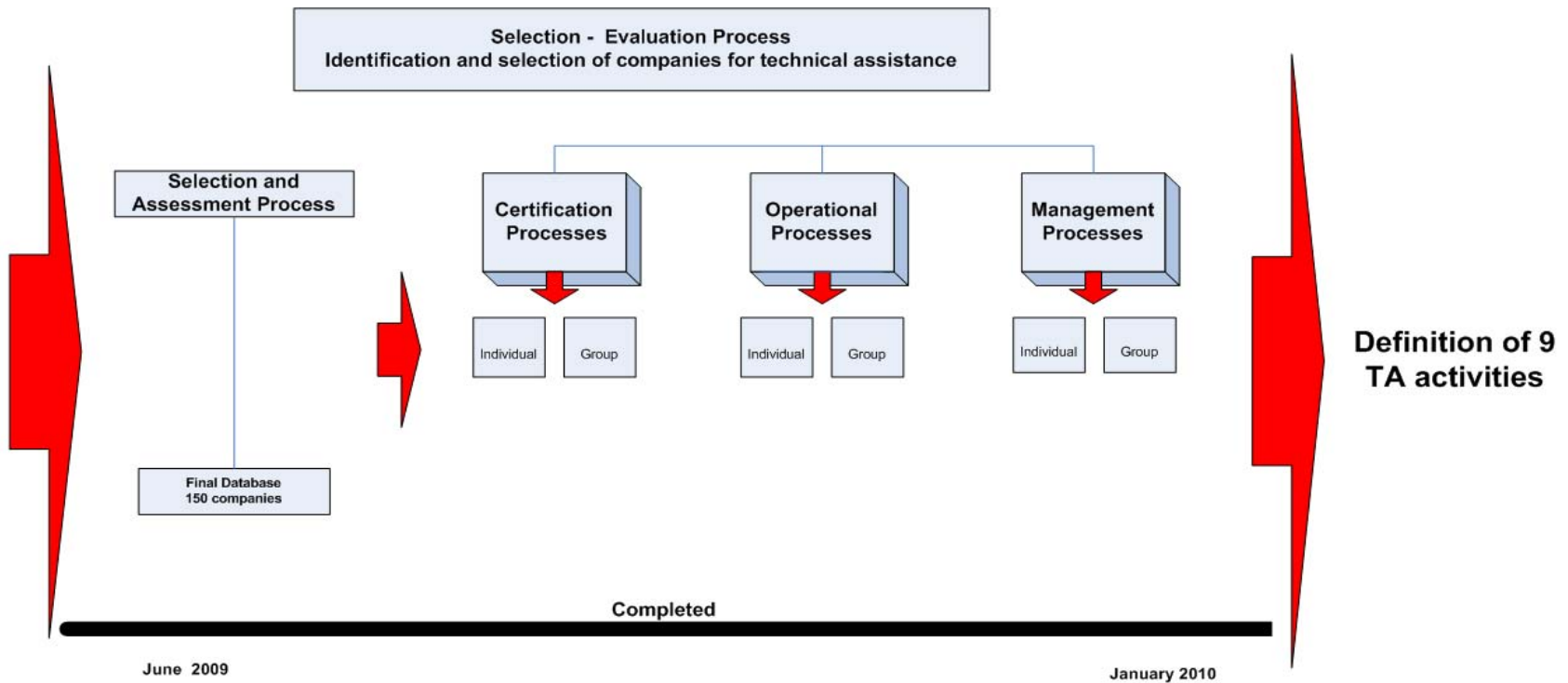


Figure 2: Program Schedule, Phase II

**Phase II**



**Figure 3: Program Schedule, Phase III**

### Phase III 2010-2011

