ANNEX 2
of the Commission Implementing Decision on the
Action Document for ALINVEST 5.0: Inclusive Growth for Social Cohesion

1. IDENTIFICATION

<table>
<thead>
<tr>
<th>Title/Number</th>
<th>ALINVEST 5.0: Inclusive Growth for Social Cohesion CRIS number: DCI-ALA/2014/032-650</th>
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</thead>
<tbody>
<tr>
<td>Total cost</td>
<td>Total estimated cost: EUR 32,412,500&lt;br&gt;Total amount of EU budget contribution: EUR 26,000,000</td>
</tr>
<tr>
<td>Aid method / Management mode and type of financing</td>
<td>Project Approach&lt;br&gt;Direct Management:&lt;br&gt;- grants – call for proposal (EUR 25,000,000)&lt;br&gt;- Indirect management with the international organisation ECLAC (The United Nations' Economic Commission for Latin America and the Caribbean) (EUR 1,000,000)</td>
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<td>DAC-code</td>
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</tbody>
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2. RATIONALE AND CONTEXT

2.1. Summary of the action and its objectives

The general objective of the present programme is to contribute to sustainable and equitable socio-economic development in Latin America. The specific objective is to improve productivity of micro, small and medium-sized enterprises (MSMEs). The programme will achieve this by fostering business linkages that enable MSMEs to establish a culture of continuous improvement and innovation.

A characteristic feature of the Latin American economies is the huge productivity and competitiveness gap between the vast majority of MSMEs and larger companies. Bridging the productivity gap and making Latin American MSMEs more competitive is a fundamental challenge to create a more sustainable socio-economic development and reduce the huge income inequalities that still persist in Latin America.

The programme should produce the following results:

- Result 1: At least 8,500 Latin American MSMEs are connected through different business linkage systems in at least 12 eligible countries.
- Result 2: Participating MSMEs have improved their productivity and competitiveness.
- Result 3: Institutional capacity of participating Business Membership Organisations (BMOs) has been strengthened. ALINVEST 5.0 should benefit at least 40 BMOs.
- Result 4: The market for business development services (BDS) is the target zones have been improved.
• Result 5: The programme contributes to better MSME policies at national level. Primary beneficiaries will be business membership organisations that will ensure the sustainability of the actions. Secondary targets are to build institutional capacity of participating business organisations, foster regional networks as a basis for enhanced regional integration, develop markets for business development services, connect public and private actors in strategic alliances and contribute to integrated SME promotion policies.

2.2. Context: Rationale and strategic framework for the Call for Proposals

Latin America has experienced very positive economic growth figures from 2004 to 2013. Poverty has been reduced and the middle classes have been growing in most countries. But despite these positive developments, Latin America remains the most unequal region in the world. In order to change this, Latin America needs to transform its economic structure. In a scenario of sluggish growth in countries from the Organisation for Economic Co-operation and Development (OECD) and a certain growth deceleration in China and India, Latin America must realise growth potential beyond exports to these markets and reduce its dependence on the extraction of raw materials. The key for broadening the basis for economic growth and a successful diversification of the economy are micro, small and medium enterprises.

Micro, small and medium enterprises (MSMEs) are central actors in the development of the Latin American region, as they account for more than 99% of business and employ around 67% of the workforce. They are therefore crucial to job creation and production. Their contribution to the gross domestic product (GDP) varies between 15 to 60%, depending if the informal sector is taken into account or not.\footnote{This figures are based on MSMEs according to the definition of ECLAC.}

The productivity gap: Latin America is characterised by an enormous productivity gap between the regions, micro, small and medium sized enterprises and its large companies. According to OECD Development Centre and the Economic Commission for Latin America (ECLAC) figures, the national productivity levels of small firms relative to large firms range from 16% to 36% in Latin America, but from 63% to 75% in Europe. Latin America's SMEs participation in global value chains and productive linkages among firms that promote innovation and competitiveness are scarce. These discrepancies in productivity translate also into the wage gap, which has major consequences for income distribution and inequality in the region.\footnote{Compare Latin American Economic Outlook 2013. SME Policies for Structural Change, OECD Development Centre and the United Nations' Economic Commission for Latin America and the Caribbean (ECLAC), 2012, page 46.}

Latin America’s SMEs participation in global value chains and productive linkages among firms that promote innovation and competitiveness are scarce.\footnote{Altenburg, T. (2011), “Industrial Policy in Developing Countries. Overview and Lessons from Seven Country Cases”, Discussion Paper, Vol. 4, No. 11, German Development Institute, Bonn.} In terms of integration into the world economy, only about 10 of small and medium enterprises (SME) participate in international trade compared to around 40% in the EU. These discrepancies in productivity translate also into the wage gap, which has major consequences for income distribution and inequality in the region.\footnote{Compare Latin American Economic Outlook 2013. SME Policies for Structural Change, OECD Development Centre and the United Nations' Economic Commission for Latin America and the Caribbean (ECLAC), 2012, page 46.}

There are several reasons for this productivity gap such as the concentration in sectors that do not offer comparative advantages to smaller units, disproportionate effect of red tape on smaller units, lack of entrepreneurial spirit of owners as many SMEs are established for sheer
necessity and not with a convincing business idea, the inadequate level of management and technical education and training of both owners and employees, the lack of a culture of constant learning and innovation.

One root cause is the isolated way in which MSME work. There are few linkages between different MSMEs and few institutionalised mechanisms to connect them. This affects several of the causes for the low productivity. The poor linkages and cooperation among companies and actors create an obstacle to technology and knowledge transfer, innovation processes and exchange between the productive sector and research institution. The smaller the company, the greater the difficulties become. Moreover, MSME often operate in sectors that do not offer competitive advantages to smaller units.

Figure 2.1. Relative productivity in selected Latin American and OECD countries
(as percentages, productivity of large firms = 100%)

![Graph showing relative productivity in selected Latin American and OECD countries](image)

Table 2.1. Wage gaps relative to large firms, 2006
(as percentages)

<table>
<thead>
<tr>
<th></th>
<th>Argentina</th>
<th>Brazil</th>
<th>Chile</th>
<th>Mexico</th>
<th>Germany</th>
<th>Spain</th>
<th>France</th>
<th>Italy</th>
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</thead>
<tbody>
<tr>
<td>Micro</td>
<td>36</td>
<td>43</td>
<td>-</td>
<td>21</td>
<td>69</td>
<td>63</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Small</td>
<td>44</td>
<td>42</td>
<td>52</td>
<td>56</td>
<td>73</td>
<td>74</td>
<td>88</td>
<td>69</td>
</tr>
<tr>
<td>Medium</td>
<td>57</td>
<td>64</td>
<td>69</td>
<td>55</td>
<td>81</td>
<td>88</td>
<td>91</td>
<td>79</td>
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<tr>
<td>Large</td>
<td>100</td>
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<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
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</tbody>
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Source: ECLAC (2010). StatLink: http://dx.doi.org/10.1787/88893272528

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6 Latin American Economic Outlook 2013, ECCLAC/ OECD Development Centre, 2012, p.113

Connecting MSMEs through business linkage approaches offers a strategy to overcome this structural obstacle and to increase productivity of MSME. It is in line with the Europeans Commission Communication on private sector development. The programme will help MSMEs to harness business opportunities created in the framework of trade agreements with the EU.

2.3. Lessons learnt

The EU’s flagship programme for SME promotion in Latin America over the last two decades has been AL-INVEST. AL-INVEST can look back on an impressive track record with literally tens of thousands of beneficiary SMEs and contracts generated worth of hundreds of millions of Euro. In fact, its success has been one of the principal reasons to extend the programme: AL-INVEST has definitely contributed to the positive economic development in Latin America over the last decade and to strengthen the internationalisation of Latin American companies. However, it was focussed primarily on SMEs that were competitive and productive enough to compete in international markets. The present programme should focus more on companies that have growth potential, but that are, right now, more concentrated on increasing their productivity and competitiveness in the local or regional market or – with regards to international trade – on their successful integration into value-chains.

In order to reach out to a high number of companies in a sustainable manner, programmes must work through multipliers. One lesson-learned during almost 20 years of implementation of the AL-INVEST Programme in Latin America is that business membership organisations (BMOs) can be effective multipliers and are generally closer to the companies than public institutions. Even compared to other world regions, Latin American companies show a relatively high standard of organisation. Additionally, due to the positive economic growth of the last decade, new sectors of economy are emerging and many of these traditional BMOs feel a strong incentive to open up and expand their membership base beyond their traditional constituency. There is a certain historic opportunity as the growth of the middle class during the last decade has broadened the potential target group of MSMEs.

Another important lesson-learned when working with micro and small enterprises is to reach out to companies that have a certain growth potential. There are many micro and small enterprises that operate principally on subsistence level. Raising their income could have a direct and potentially huge impact on poverty alleviation. Therefore, they have been targeted in the past in many programmes. The results suggest that targeting subsistence firms can be counterproductive: Many of these firms operate in areas where micro and small units do not

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8 Compare Dini, Marco/ Carlo Ferraro/ Carolina Gasaly: PYMES y articulación productiva. Resultados y lecciones a partir de experiencias en América Latina, ECLAC, GTZ y UNIDO, Chile, 2007

9 Communication from the Commission to the European Parliament, the Council, The European Economic and Social Committee and the Committee of the Regions. A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries; COM(2014) 263 final, Brussels 15.05.2014.

10 This is a very superficial, simplified and synthesised summary of a complex and broad programme. Of course, there have very important efforts to improve the competitiveness of SMEs that had absolutely no export experience. For a much more balanced and detailed analysis of AL-INVEST, please refer to its final evaluation.
have competitive advantages towards bigger companies. They have, thus, no real growth potential. Providing them with training and other support often leads to increased competition and motivates others to start-up similar firms. As a result, prices and, hence, income, sink. The challenge is, therefore, to concentrate on micro and small enterprises that have competitive advantages and growth potential. This will be tackled by a decentralised approach: Instead of defining the main sectors centrally, the implementing BMOs should choose the sectors based on criteria to be defined the formulation phase at local level, thus making sure that local comparative advantages will be properly taken into account.

Another lesson-learnt is that business linkage approaches in Latin America are a good tool to achieve direct positive impact at enterprise level. They achieve this by, for example:

- buying consumables to cut costs or improve the terms with the suppliers (delivery terms, variety, quality, payment methods, etc.);
- hiring consulting firms to access knowledge that the businesses could not afford on their own;
- joint sale of products to achieve economies of scale and access high-volume markets (such as supermarkets or exports), or sale of complementary products to achieve economies of scope;
- shared use of costly, highly productive facilities and equipment that can be paid for and, above all, used efficiently by groups of small and especially medium-sized enterprises.

Production linkage approaches entail business networks, clusters, value chains and even regional development strategies. However, on very common flaw of these approaches that limits their impact and sustainability is a missing link to the policy level. In order to achieve broad impact, the approaches that have been proven successful at company level must be integrated into the broader framework of SME policy and coordinated with other initiatives, particularly of public and academic institutions. Therefore, the present proposal entails a specific component that aims at a systematic analysis of the programme’s action that produces clear policy recommendations and at establishing a policy dialogue between main public and private stakeholders.

There exist many experiences regarding business linkage approaches not only in Latin America, but particularly in the EU. A lesson-learnt from the ALINVEST programme is that there is a clear need for a structured knowledge management and a clearly defined role of European partners in the consortium. This is going to be specified in the guidelines for the call for proposal.

2.4. Complementary actions

The action in question is part of a broader EU programme that aims at fostering an inclusive and sustainable development in Latin America.

The EU’s MSME programme will be complemented by actions that address four additional development obstacles for MSMEs in Latin America:

- **Infrastructure**: as analysed in detail in the Latin American Economic Outlook 2014, inadequate infrastructure remains a main challenge for economic growth in Latin

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A central element of the EU regional programme 2014-2020 for Latin America that is highly complementary to the SSME programme will be the Latin American Investment Facility (LAIF) that will address both this as well as the following challenge:

- **Access to Finance**: SME in LA receive only 12% of the total credit in the region, while in OECD countries SMEs are the recipients of 25% of total credit. New and innovative instruments are necessary to address this problem. Developments Banks, among them the European Investment Bank, will have an important role to play in this process and will be able to rely on LAIF.

- **Lack of qualified labour**: SME in Latin America suffer particularly under a shortage of qualified labour. The not-sufficiently qualified workforce and management, a high drop-out rate from secondary school, the mismatch between the training offered by the educational system and the demands of the SMEs are all major obstacle for higher productivity. This problem will be specifically addressed by an action on Vocational Education and Training within the regional strategy 2014-2020.

- **Trade Facilitation**: There is no other region in the world that shows lower numbers of intraregional trade as a percentage of total trade than Latin America. Its figure of just over 20 per cent of intraregional trade pales in comparison, not only to the EU's 70%, but also to the approximately 50% in Asia and North America. Moreover, the so-called "Bali Package" of the WTO includes an important agreement on trade facilitation. In this context, within the its cooperation programme for Latin America under the DCI, the EU intends to address questions related to trade facilitation at bilateral (Andean countries), sub-regional (Central America) and regional level.

It is also foreseen that the EU promotes the shift to energy-efficient greener economy through blending mechanisms such as the Latin American Investment Facility.

Additionally, there are is a subregional programme in Central America and bilateral programmes in several countries that are highly complementary.

<table>
<thead>
<tr>
<th>Sector 1</th>
<th>Sector 2</th>
<th>Sector 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>El Salvador</td>
<td>Private Sector Development</td>
<td></td>
</tr>
<tr>
<td>Honduras (235)</td>
<td>Employment: decent work and social protection policy</td>
<td></td>
</tr>
<tr>
<td>Guatemala</td>
<td>Competitiveness</td>
<td></td>
</tr>
<tr>
<td>Nicaragua 4)</td>
<td>Productive sector (agriculture and agroindustry)</td>
<td>Effective education for employment</td>
</tr>
</tbody>
</table>

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In line with the agenda for change, the EU concentrates on fewer sectors and strives to ensure optimal synergies and complementarities between its different instruments. It must be taken into account that ALINVEST 5.0 will be the first action to be presented in the economic part of the 2014-2020 programme for Latin America. This means that during the implementation special attention must be paid to assure synergies with evolving complementary programmes. Particular attention will also be paid to creating links and synergies with other European initiatives such as the programme ELAN or Horizon 2020.

2.5 DONOR COORDINATION

The European Union is the leading donor for Latin America. The European Commission is leading in Technical Assistance. There are currently no other significant regional programmes in the field of SME promotion underway. However, there are several support programmes at subregional level (Central America, CENTROMYPE) and bilateral level underway. Given that the present proposal presumably will not start implementation before early 2016 most of these projects will have reached already the final phase of their implementation. Coordination with other donors in the preparation of this programme included meetings with International Trade Centre, United Nations Conference on Trade and Development (UNCTAD), the German development cooperation agency GIZ, the Inter-American Development Bank (IDB), World Bank and ECLAC. The programme idea was also discussed with the partner countries, for example in the framework of the Lima seminar in March 2014, who welcomed the initiative.

There is widespread agreement on the need to improve the productivity of SME in Latin America. The programme design is, in principle, complementary to national SME support policies. However, the challenge will be to ensure that the different business linkage approaches that ALINVEST 5.0 will support will be connected and integrated into more comprehensive private sector support policies. This will require constant dialogue between the different private stakeholders of the programme and the public sector. Therefore, a specific component, Result 5 on the integration of the programme results into discussion of national economic development policies, has been included. This component will be implemented by ECLAC who possess the academic capacity to scientifically accompany the implementation of the programme, the legitimacy to foster policy dialogue between the different public and private actors and the mandate to formulate policy recommendations. This component will be essential to ensure a constant coordination of ALINVEST 5.0 with national governments, academia and international donors.

3. DETAILED DESCRIPTION

3.1. Objectives

General objective:

- Poverty reduction through more inclusive and sustainable economic growth in Latin America.

Specific objectives:

- Improve the productivity of micro, small and medium-sized enterprises (MSMEs).
To this end, the programme will support BMOs to foster business linkages of MSMEs. Business linkage approaches include approaches of business networks, clusters, value chains and local economic development. The main focus of the actions should be to enhance productivity of participating companies. Of special value are activities that help to foster innovative practices and a culture of constant learning.

Business linkages offer several opportunities:

- They are an instrument to improve the productivity and competitiveness of the participating companies by creating a culture of constant innovation. They create business linkages between different companies and institutionalise exchange and cooperation.

- They help create a market for business development services (BDS) as they constantly create demand and improve purchasing power by bringing together various potential clients with limited financial possibilities to act individually.

- By connecting individual companies to BMOs, they start to get the chance to bring in their needs and demands into policy dialogue. This is a precondition to develop better policies and to create a better business environment.

3.2. **Expected results and main activities**

The present programme will be implemented through a call for proposal that will offer the applicants to develop concrete strategies to support MSMEs through different business linkage approaches. The following results intend to provide a clear framework and orientation for the selection of the best proposal.

Result 1: MSMEs are connected in business linkages

At least 8,500 Latin American MSMEs are connected through different business linkage systems in at least 12 eligible countries which include both Portuguese and Spanish speaking countries.

Result 2: MSMEs have improved their productivity and competitiveness.

The main target group are MSMEs that should improve their situation as a result of the programme intervention. It will be an important task to establish a clear and comprehensive monitoring system to measure ALINVEST 5.0's impact at company level. Two possible proxies for improved productivity and competitiveness are business volume and number of employees.

Result 3: Institutional capacity of participating Business Membership Organisations (BMOs) has been strengthened.

ALINVEST 5.0 should contribute to develop the capacity of BMOs in the following three core areas:

- Organisational capacity
- Service offer to companies
- Constructive political dialogue
ALINVEST 5.0 should benefit at least 40 BMOs of which at least 35 should be able to demonstrate improvements at the end of the programme in at least two of the aforementioned areas. Indicative assessment criteria could be: Increase in membership, increase in staff, more services or higher volume of services to MSMEs and more initiatives and participation in policy dialogue.

Result 4: The market for business development services (BDS) is the target zones have been improved.

The business linkages should lead to a higher demand in BDS through three effects:

- Creating awareness among the participating companies of the importance of constant development.
- Connecting supply better to demand
- Fostering joint actions where MSMEs are enabled to jointly hire consulting firms to access knowledge that the individual businesses could not afford on their own.

Result 5: The programme contributes to better MSME policies at national level.

As outlined earlier, connecting business linkage approaches to the policy level and leading to better integrated MSME policies is crucial for achieving a sustainable and systemic impact. Several studies will be conducted in order to create an evidence-based discussion on MSME policy, including an initial baseline survey that will permit a counterfactual monitoring and evaluation of results and possible impact.

This result should be achieved through a contract with the Economic Commission for Latin America (ECLAC). ECLAC is uniquely positioned to achieve this result thanks to its political mandate, academic capacity and credibility in the region. ECLAC should also facilitate the bi-regional policy dialogue between Europe and Latin America.

3.3. Risks and assumptions

All countries eligible under the Development Co-operation Instrument (DCI) will be eligible for participation in this programme. This poses an operational challenge to find a implementation structure that offers a real opportunity for a maximum number of eligible countries to benefit from the programme. On the one hand, it is practically impossible to sign one contract with partners all countries eligible under the regional programme. On the other hand, it is not desirable to split the action into several geographical areas as, for example, in ALINVEST IV. This risk will be mitigated through the flexible implementation structure that will allow for a gradual integration of countries that form not part of the consortium. The main part of the action will be a grant with the primary objective to give financial support to third parties. The consortium must consist of at least 5 Latin American partners from at least 5 Latin American countries. The partners must demonstrate in their application that they are, first, able to implement business linkage approaches that reach out to MSMEs. Moreover, they must, second, be able to demonstrate that they have the networks, the reputation and the

13 For more information on ECLAC, please refer to chapter 5.3.3
14 There are several arguments against this: 1. The overall amount is significantly smaller than ALINVEST IV. 2. Human resources at the COM have been significantly reduced which makes it impossible to deal with a higher number of contracts per given amount as several smaller contracts mean a higher workload than one bigger contract. 3. A separation into different regions could limit the scope for multiplication, peer learning and knowledge transfer. 4. A separation into different contracts would complicate the political dialogue both with ECLAC as well as within EUCELAC.
administrative capacity to be able to provide financial assistance to other BMOs from other Latin American countries so to allow them to foster business linkage approaches. The latter point must be the primary objective of the action.

A risk identified in the identification phase had been lack of ownership of the foreseen implementation approach. This risk has been addressed through switching to a Call for Proposal approach and by considerably widening the methodological scope of the programme, allowing participating BMOs to propose business linkage approaches that appear most appropriate for them. It should be highlighted that the discussions with over 50 BMOs from Latin America in the framework of the consultation exercise for the Commission Communication on private sector support (COM(2014) 263 final) proved to be very helpful in this respect. The guidelines will establish criteria that will further mitigate the risk by establishing clear criteria that help to create real ownership: proven track record, clear strategic approach, long-term sustainability focus, co-financing strategy and cost effectiveness. An additional requirement will be a clear vision for strengthening the regional dimension of the programme.

3.4. Cross-cutting issues

The proposed structure should allow to specifically address several cross-cutting issues according to the concrete context:

- Democracy: ALINVEST 5.0 aims at strengthening democracy in Latin America by specifically strengthening democratically organised business membership organisations (BMOs). By strengthening the capacity of BMOs as service providers and by widening their membership base, they will also improve their legitimacy as representatives of MSMEs and create opportunities of democratic participation.

- Gender equality: When defining the focus sectors in the specific countries, attention should be paid to include sectors that have a high percentage of women workers and entrepreneurs and to promote the participation of women entrepreneurs in all sectors. Here a direct follow-up to several successful activities of the ALINVEST IV programme should be sought, for example the groups of women entrepreneurs and the strategy to focus on sectors with a high percentage of women entrepreneurs in several actions.

- Environmental sustainability: When defining the focus sectors in specific countries, attention should be paid to include sectors of green economy. Resource-efficiency will be a cross-cutting issue in all sectors.

- Marginalised groups: When defining the focus sectors in specific countries, attention should be paid to include sectors that offer entrepreneurial and employment opportunities for marginalised groups. The territorial dimension also has to be taken into account: Whenever the choice between to equally sound proposals must be made, preference should be given to actions that benefit underdeveloped regions.

3.5. Stakeholders

Main stakeholders of the programme will be business membership organisations (BMO) due to the lessons-learned explained in chapter 2.3. This offers the following benefits:
- **Demand orientation:** Business membership organisations are in a better position to respond to the actual needs and demands of SMEs as they are generally closer to them than public administrations.

- **Outreach and Multiplier effect:** Channelling support through business membership organisations allows reaching a higher number of companies as they act as multipliers and are well connected to the target group. This reduces costs considerably, one of the main challenges for efficient MSME support programmes. Moreover, the institutional linkage is a condition for sustainability.

- **Complementarity:** The lion’s share of SME programmes is channelled through public institutions. However, democratic systems are especially dependent on a strong tissue of social institutions that can act as counterparts to government. Strengthening and broadening business membership organisations is necessary to structurally improve the business environment for SMEs and to produce better policies. By working with organisations that aim at broadening their membership base, the programme will create conditions to produce better SME policies and will, last but not least, contribute to stronger democratic participation in Latin American societies.

- **Framework conditions:** Business Membership Organisations are also recognised players in policy dialogue. Their involvement will allow to establish dialogue platforms, to discuss aspects related to policy support and policy dialogue, for example, on questions like investment policies, regulatory and business environment, corporate social responsibility, social and environmental sustainability etc.

- **EU-Added Value:** No international donors can rely upon such an extensive network of business membership organisations in Latin America as the EU. Within the framework of the AL-INVEST programme, the EU has cooperated since the mid-1990’s with literally hundreds of business membership organisations in Latin America. The contacts, experiences and lessons-learned from in AL-INVEST will greatly benefit the design and implementation of the MSME programme.

ALINVEST 5.0 will aim to work particularly with three types of BMOs:

- Traditional chambers and business associations that have a clear commitment to open up to new companies and to widen their membership base. These are in fact the ideal partners as they possess a certain degree of institutionalisation and are already well positioned in policy dialogue. This will be the main target group.

- Emerging sector or cluster associations in new fields that offer high growth potential. There are only a limited number of these associations that will be able to participate in the programme as many do not possess the sufficient institutional strength to implement such a programme. This type of BMOs can have a great impact upon the competitiveness and productivity of its member companies, but is more limited in policy dialogue as it generally advocates only in favour of the (legitimate) interests of a small group.
Cooperatives of small producers. Here the programme will try to build upon very positive experiences of AL-INVEST IV in the Central American region, particularly in Guatemala, Nicaragua or Costa Rica who established BMOs managed to reach out to big groups of small producers thanks to the involvement of cooperatives.

The guidelines for applicants of the call for proposals will specify that BMOs must meet certain criteria: They should be able to demonstrate that they have a basic capacity to manage the actions entrusted to them, that they have a certain outreach to MSMEs, that they are active in policy dialogue and able to form alliances with other public and private stakeholders. Their proposals must include a clear sustainability strategy that includes the financial dimension. It is expected that a maximum of 80% of the overall amount of the grant is going to be covered by the EU contribution. The 20% co-financing should come to the highest possible extend from fees collected from participating MSMEs.

4. IMPLEMENTATION ISSUES

4.1. Financing agreement

In order to implement this action, it is not foreseen to conclude a financing agreement.

4.2. Indicative operational implementation period

The indicative operational implementation period of this action, during which the activities described in sections 3.2. and 4.3. will be carried out, is 54 months from the date of entry into force of the financing agreement or, where none is concluded, from the adoption of this Action Document, subject to modifications to be agreed by the responsible authorising officer in the relevant agreements. Moreover, there will be a closure period of 18 months. The European Parliament and the relevant Committee shall be informed of the extension of the operational implementation period within one month of that extension being granted.

4.3. Implementation components and modules

4.3.1. Grants: call for proposal ALINVEST 5.0: Programa para las micro, pequeñas y medianas empresas en América Latina: INnovación y PROductividad (direct management)

(a) Objectives of the grants, fields of intervention, priorities of the year and expected results

The general objective of this call is poverty reduction through more inclusive and sustainable economic growth in Latin America. The specific objective is to improve the productivity of micro, small and medium-sized enterprises (MSMEs).

The main objective of the actions financed this call should be to provide financial support to third parties. The rationale for this approach is to have maximum outreach in terms of geographical scope and participating entities within a manageable implementation structure.
To this end, the programme will support BMOs to foster business linkages of MSMEs. Business linkage approaches include approaches of business networks, clusters, value chains and local economic development. The main focus of the actions should be to enhance productivity of participating companies. Of special value are activities that help to foster innovative practices and a culture of constant learning.

The proposal should be able to reach at least the following minimum results:

Result 1: MSMEs are connected in business linkages

At least 8500 Latin American MSMEs are connected through different business linkage systems in at least 12 eligible countries.

Result 2: MSMES have improved their productivity and competitiveness.

The main target group are MSMEs that should improve their situation as a result of the programme intervention. It will be an important task to establish a clear and comprehensive monitoring system to measure ALINVEST 5.0's impact at company level. Two possible proxies for improved productivity and competitiveness are business volume and number of employees.

Result 3: Institutional capacity of participating Business Membership Organisations (BMOs) has been strengthened.

ALINVEST 5.0 should contribute to develop the capacity of BMOs in the following three core areas:

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The action should benefit at least 40 BMOs of which at least 35 should be able to demonstrate improvements at the end of the programme in at least two of the aforementioned areas. Indicative assessment criteria could be: Increase in membership, increase in staff, more services or higher volume of services to MSMEs and more initiatives and participation in policy dialogue.

Result 4: The market for business development services (BDS) is the target zones have been improved.

The business linkages should lead to a higher demand in BDS through three effects:

- Creating awareness among the participating companies of the importance of constant development.
- Connecting supply better to demand
- Fostering joint actions where MSMEs are enabled to jointly hire consulting firms to access knowledge that the individual businesses could not afford on their own.

The number of BMOs and MSME has been determined particularly in light of the results of the preceding phases of ALINVEST. The number of companies has been chosen to allow
achieving measurable impact at company level with the funds available. The number of BMOs has been chosen so that the relation companies/BMOs ensures that participating BMOs are relevant actors so that in turn the results of the programme will have the desired spill-over effects on the broader economic context.

(b) Eligibility conditions

(1) In order to be eligible for a grant, applicants must:

- be legal persons and
- be non-profit making and
- be nationals of a Member State of the European Union or of those countries that fall within the scope of the DCI Regulation
- belong to one of the following categories:

- public or private organisations that represent, promote and defend the general and sectoral interests of Latin American MSMEs, and routinely provide SME development services (e.g. chambers of commerce, trade associations, cooperatives, etc.),
- have legally been established for at least three years prior to the date of the submission of the Proposal and
- have adequate and stable sources of finance to ensure the implementation of the Action throughout its entire duration as well as to contribute to the Action's financing.

(c) Essential selection and award criteria

The essential selection criteria are financial and operational capacity of the applicant.

The essential award criteria are relevance of the proposed action to the objectives of the call; design, effectiveness, feasibility, sustainability and cost-effectiveness of the action.

(d) Maximum rate of co-financing

The maximum possible rate of co-financing for grants under this call is 80%. The co/financing should be to the highest possible extend be generated through service and membership fees from participating companies.

(e) Indicative trimester to launch the call

First trimester of the year 2015.

(f) Exception to the non-retroactivity of costs

Not applicable.

4.3.2. Indirect management with a the United Nations' Economic Commission for Latin America and the Caribbean (ECLAC)

A part of this action with the objective of establishing a public-private dialogue on SME promotion policies that helps to integrate the different business linkage approaches into broader policies, share experiences and best practices between key stakeholders and to contribute to better MSME policies may be implemented in indirect management with ECLAC in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012. This
implementation is justified because The Economic Commission for Latin America (ECLA) - the Spanish acronym is CEPAL- is uniquely positioned to achieve this result thanks to its political mandate, academic capacity and credibility in the region. Due to its mandate, ECLAC's ownership of the action will be high. Moreover, ECLAC is well positioned to ensure better donor coordination and will provide co-financing.

ECLAC was established by Economic and Social Council resolution 106(VI) of 25 February 1948 and began to function that same year. The scope of the Commission's work was later broadened to include the countries of the Caribbean, and by resolution 1984/67 of 27 July 1984, the Economic Council decided to change its name to the Economic Commission for Latin America and the Caribbean (ECLAC); the Spanish acronym, CEPAL, remains unchanged. ECLAC, which is headquartered in Santiago, Chile, is one of the five regional commissions of the United Nations. It was founded with the purpose of contributing to the economic development of Latin America, coordinating actions directed towards this end, and reinforcing economic ties among countries and with other nations of the world.

ECLAC's core task will be to manage the public-private dialogue that will be conducted by the relevant public and private stakeholders, i.e. business membership associations and ministries of economy, industry etc. and public bodies such as investment and export promotion agencies. ECLAC will be responsible for budget implementation tasks, including the necessary procurement procedures and payments. The action will include studies, particularly a baseline survey, seminars, events and conferences as well as the development of policy recommendations and MSME policies.

The entrusted entity is currently undergoing the ex ante assessment in accordance with Article 61(1) of Regulation (EU, Euratom) No 966/2012. In anticipation of the results of this review, the responsible authorising officer deems that, based on a preliminary evaluation and on the long-standing and problem-free cooperation with this entity, it can be entrusted with budget-implementation tasks under indirect management.

The change of management mode from indirect to direct management, whether partially or entirely, is not considered a substantial change.

4.4. Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act shall apply.

4.5. Indicative budget

<table>
<thead>
<tr>
<th>Module</th>
<th>Amount in EUR thousands</th>
<th>Third party contribution (indicative, where known)</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.3.1. – Call for proposals ALINVEST 5.0 (direct management)</td>
<td>25,000,000</td>
<td>6,162,500</td>
</tr>
<tr>
<td>4.3.2. – Indirect management with ECLAC</td>
<td>1,000,000</td>
<td>250,000</td>
</tr>
<tr>
<td>Totals</td>
<td>26,000,000</td>
<td>6,412,500</td>
</tr>
</tbody>
</table>
4.6. **Performance monitoring**

The programme will be implemented on the basis of yearly activity plans that have to be presented by the beneficiary to the European Commission for its approval in December of each year.

Within the main grant contract, a Steering Committee will be established that is going to be chaired by the European Commission with the main beneficiary acting as secretariat. All members of the consortium will be members of the Steering Committee. The Steering Committee will meet at least three times per year to prepare and approve the yearly plan of activities of the programme and to analyse its progress.

Moreover, there will be an Advisory Board established in the framework of the indirect management with ECLAC acting as its secretariat. The objective of this advisory board is to provide a link between the concrete support to MSME and strategic questions of industrial/MSME policies. This board will meet at least twice per year, where possible linked to a meeting of the Steering Committee.

4.7. **Evaluation and audit**

The Commission will contract a mid-term evaluation to analyse the achievement of objectives / results and any significant changes that could affect the action. A final evaluation will be issued after the conclusion of the programme.

4.8. **Communication and visibility**

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated before the start of implementation and supported with the budget indicated in section 4.5 above.

The measures shall be implemented either (a) by the Commission, and/or (b) by the grant beneficiaries and entrusted entities. Appropriate contractual obligations shall be included in procurement and grant contracts.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.