

**QUALITY AND ENVIRONMENTAL MANAGEMENT SYSTEMS AND FOOD SAFETY
IMPLEMENTATION IN SMALL AND MEDIUM ENTERPRISES IN VENEZUELA**

(TC-00-08-02-5)

EXECUTIVE SUMMARY

EXECUTING AGENCY: *Fondo para la Normalización y Certificación de la Calidad (FONDONORMA).*

BENEFICIARIES: Project beneficiaries include: a) 1050 small and medium enterprises (SMEs) that will participate in awareness conferences; b) 300 managers of SMEs that will participate in seminars on the basic requirements of implementing management systems; c) 90 SMEs that will be assessed by FONDONORMA in terms of their management system readiness; d) 240 consultants that will be trained as specialists on quality (ISO 9000), environmental (ISO 14000) and Hazard Analysis and Critical Control Points (HACCP) food safety systems; 150 consultants that will be trained as external auditors in ISO 9000, ISO 14000 and HACCP; 50 consultants that will be trained as internal auditors on ISO 9000, ISO 14000 and HACCP; e) 50 SMEs that will implement ISO 9000, ISO 14000 or HACCP systems; and f) FONDONORMA that will receive technical assistance and upgrading to design and manage a comprehensive training system.

OBJECTIVES: The overall objective of this Program is to achieve increased competitiveness of SMEs in Venezuela through the use of ISO 9000, ISO 14000 and HACCP systems. The purpose of this program is to develop a market for management system training and implementation and to build technical capacity of small and medium-sized enterprises.

DESCRIPTION: The project includes four comprehensive components: (i) raising awareness among managers of SMEs regarding ISO 9000, ISO 14000 and/or HACCP systems to increase their competitiveness; (ii) facilitating the development of a domestic supply of consultants and auditors in quality and environmental management standards and HACCP; (iii) supporting the implementation of ISO 9000, ISO 14000 and HACCP in order to promote quality, competitiveness, food safety improvement, and exports; and, (iv) improving FONDONORMA's ability to provide services in support of SME competitiveness.

FINANCING:	Method: non-reimbursable – Human Resources Facility
	MIF: US\$ 1,208,979
	Local counterpart funding: <u>US\$ 804,549</u>
	Total: <u>US\$ 2,013,528</u>
EXECUTION SCHEDULE:	Execution: 39 months Disbursement: 42 months
EXCEPTION TO BANK POLICIES AND PROCEDURES:	None
SPECIAL CONTRACTUAL CONDITIONS:	As a condition prior to disbursement, FONDONORMA will have appointed a Project Director and established the Project Steering Committee (see paragraphs 4.1 and 4.2). As a condition prior to disbursement for Component 3, FONDONORMA and CONINDUSTRIA will have ratified the inter-agency agreement governing the execution of this component and approved the Operational Manual for the matching grants component.
ENVIRONMENTAL AND SOCIAL IMPACT:	The Committee on Environment and Social Impact reviewed and approved this project with no comment on October 16, 2001.

I. COUNTRY AND PROGRAM ELIGIBILITY

- 1.1 Venezuela was declared eligible for all forms of financing from the Multilateral Investment Fund (MIF) on December 3, 1993. The proposed project meets the eligibility criteria for a grant through the Human Resources Facility. This facility supports domestic private-sector initiatives, with a particular focus on leveraging financial resources, expanding existing training programs, supporting strategic economic sectors and promoting partnership between the public and the private sectors in the development and delivery of training programs. This project for Venezuela is one of 13 projects in the "ISO Cluster," a group of grant projects that have been developed in 2000 and 2001 that have similar design characteristics and are being monitored and assessed as a group. The Venezuela project will complete the MIF ISO Cluster. Participation in this network of projects enables standards organizations and other grant beneficiaries to benefit from a continual exchange of information and experiences while enabling the MIF to gauge the development impact of its grant resources more systematically.

II. BACKGROUND

A. Context

- 2.1 Venezuela has yet to recover from a deep recession that was precipitated by falling world oil prices that resulted from the Asian crisis of 1997-1998. Through the end of the year 2000, Venezuela faced significant economic difficulties: official unemployment was at 11%, there was a budget deficit of 9.5% of gross domestic product (GDP), and inflation was at 30%. A series of budget cuts, tax increases and other measures helped the new administration to reduce the inflation rate to 20%, but only with an accompanying acceleration in the unemployment rate. While the strong resurgence in the price of crude oil has provided much needed revenues, unemployment remains high and there is a negative rate of growth of real GDP. The private sector overall, and industry in particular, remains stagnant. Manufacturing has been particularly hard hit, while the services sector has also suffered an absolute contraction in its contribution to GDP. Domestic and foreign investment has contracted as wary investors await economic improvement and the outcomes of constitutional and policy debates.
- 2.2 Micro, small and medium-sized enterprises (SMEs) now comprise 94% of the total number of industrial enterprises in Venezuela, and provide 45% of total employment in the country. The productive potential of many of these enterprises is enormous, yet their average productivity, quality and cost competitiveness remain low. Recent policies to diversify the economy reflect the fact that changing external incentives may not be sufficient to alter the market behavior of small firms. Financing is required, as well as technical assistance.
- 2.3 Along with other member states of the World Trade Organization, Venezuela must continue to reduce subsidies, tariffs and other forms of protection that have sheltered domestic industry. Firms are now exposed to increasing competition from international

producers of high quality products at competitive prices. Many of the local enterprises lack the know-how required to survive such competition, as evidenced by a precipitous rise in small business failures in 2000, when over 4,000 SMEs went out of business. This loss far exceeds the number of new market entrants and reflects continued deficiencies in finance and a wide range of managerial and organizational capabilities, including quality management. For example, the use of environmental management systems, important in the regulatory sphere and increasingly demanded by larger customers is very low among firms in Venezuela, and non-existent among SMEs.

2.4 The Government is very cognizant of the need to support SMEs in obtaining both technical assistance and capital. In mid-1999, the Bank approved the "Second Science and Technology Program (VE-0112)" with an IDB contribution of \$100 million. This loan, among its other objectives, is trying to promote and improve the competitiveness of the country's main productive sectors and the companies that produce goods and services. The National Fund for Science, Technology, and Innovation (FONACIT) is providing grant resources under this program to eligible organizations to finance projects in support of innovation, as well as financing for other activities in support of technology services, research and development.

2.5 The MIF is also supporting a program with the Venezuelan Confederation of Industries (CONINDUSTRIA) that is facilitating training and business development services tailored to the needs of SMEs to transform and modernize their systems of management, administration and production. The MIF program is successfully training and certifying consultants and brokering business services for smaller firms. CONINDUSTRIA has developed an important database of firms and consultants, as well as an effective system for brokering a broad range of business development services through matching grants.

B. ISO 9000, ISO 14000 and HACCP as a Tool to Improve Competitiveness among SMEs

2.6 In order to compete, firms must be able to deliver goods and services of high quality on time and in the correct quantities—all at competitive prices. Of increasing importance is a growing range of international standards and technical requirements that are required in international and regional markets. Foremost among these are standards related to quality, the environment, and to food processing activities. ISO 9000 and ISO 14000 are known as *generic management system standards*. *Generic* means that the same standards can be applied to any organization, large or small, whatever its product – including whether its "product" is actually a service – in any sector of activity.

2.7 Unlike ISO 9000 and ISO 14000, Hazard Analysis and Critical Control Points (HACCP) is not a management system standard, but an extremely cost-effective system to eliminate sources of potential contamination in food processing.¹ HACCP is now required by the world's largest markets for imports of most shellfish, and is soon to be required for all forms of food where contamination poses a threat.

¹ HACCP is designed to improve the safety of food, but evidence suggests that the implementation of HACCP also enables a firm to cut operating costs by as much as 20% (see Guelph Newsletter, December, 1999: Toronto).

C. Project Rationale: Local Supply and Demand for ISO-related Services

- 2.8 In Venezuela, 218 firms are certified to ISO 9000; 100 of these certifications were awarded to SMEs. The absolute number of firms certified in Venezuela compares favorably to several other countries in the region. However, given that there are over 23,000 SMEs in Venezuela, the percentage is still quite low. With respect to ISO 14000, there are only seven enterprises certified.
- 2.9 To quantify the demand for ISO systems in the country, FONDONORMA (the National Standards Body), conducted an extensive telemarketing campaign as part of project analysis from August to October 2001, drawing from CONINDUSTRIA's registry of firms. 325 firms were contacted in this study. Of these firms, 214 were classified as SMEs² and interested in implementing ISO and/or HACCP systems given prevailing market prices. Interested firms are concentrated in sectors that exhibit: (i) export-orientation; (ii) significant levels of direct foreign investment; and, (iii) strong competition from imports in the domestic market.
- 2.10 From the study it was apparent that demand for training and consulting assistance in quality-related subjects among SMEs is restricted due to a number of factors, including: small firms have limited awareness of management system standards and how their application (especially in a small firm environment) could improve business competitiveness; most training materials on the market examine cases of large firms and organizations that have little application for SMEs; there is no standardization in the courses offered and, therefore, no way to judge the quality of course content or of the instruction offered by one program versus another; employees sent to quality-related training programs by their employers often report a lack of interest on the part of management in applying what they have learned inside the workplace; and the cost of management system implementation was thought to be too expensive.
- 2.11 According to FONDONORMA's database, there are 110 consultants available on the local market that have undergone some form of training in ISO management systems. Of these 110, 15 are recognized as auditors in ISO 9000, nine are recognized as auditors in ISO 14001 and 12 are recognized as auditors in HACCP. The balance of consultants are not specialized in their field but have participated in training programs. All trained consultants and auditors, however, lack direct expertise with SMEs.
- 2.12 By raising awareness of the importance of ISO and HACCP systems for a firm's competitiveness, training a supply of qualified consultants in management system standards, offering quality training for internal auditors (owners/managers) within small firms using case studies adapted to smaller firm realities, and providing matching grants to 50 firms to implement ISO and HACCP systems at 50% of the market value this project will address the current market imperfections that have inhibited SMEs from accessing ISO and HACCP systems. The project as designed should have an important

²SMEs are defined as firms that employ between 5-100 workers and have an annual revenue between US\$3 to \$5 million.

demonstration effect by stimulating the market for ISO and HACCP training and implementation services. This project is concentrated more on increasing awareness of the importance of management system standards and on developing training and consulting services than on ISO and HACCP implementation, as the expectation is that Government subsidies through the FONACIT Program (VE-0112) will be available to SMEs.

D. Executing Agency

- 2.13 FONDONORMA is the national standards body and functions as an important part of the national quality infrastructure together with the Ministry of Production and Commerce. FONDONORMA is a legal, non-profit entity, with the responsibility for promoting the diffusion of quality methodologies at all levels in Venezuela, and has a center for the publication and distribution of Venezuelan standards. FONDONORMA was established in 1973, and is part of a long and important history in the formulation and promotion of national and international standards, and in the certification of products and systems. The organization has had extensive experience working with enterprises, having certified over 200 firms.
- 2.14 FONDONORMA is positioning itself in this program to assume a more prominent role in the preparation and development of programs to promote and diffuse the importance of international standards and to train an important number of consultants and auditors in management systems. FONDONORMA's Board of Directors is comprised of leaders from a broad cross section of industry, including SMEs, and as a member of the International Organization for Standardization (ISO), it is recognized as an important training provider in ISO systems. FONDONORMA is also an accredited certification body and provides certification services.
- 2.15 In accordance with ISO, FONDONORMA does not provide consulting or guidance to any firm or individual regarding the implementation of management systems, assessments, or pre-audit evaluations. Conformity with these best practices ensures transparency and removes conflicts of interest regarding certification and related services provided by FONDONORMA. Accordingly, in this program FONDONORMA will partner with CONINDUSTRIA in the implementation of the ISO and HACCP systems component.
- 2.16 CONINDUSTRIA is the largest business association with nearly 4,000 members, representing 87% of industrial production of the country. CONINDUSTRIA has developed the necessary technical and administrative staff to broker the management system implementation services proposed in this Project and has the capacity to reach SMEs and to monitor service delivery. CONINDUSTRIA is willing to contribute 40% of the total cost of the component and to share its databases and information on firms and consultants. CONINDUSTRIA's interest in this project is due to the fact that this MIF ISO presents a potential opportunity for the association to perfect a model for business brokering in management systems for 50 firms.

III. PROGRAM OBJECTIVES AND BASIC COMPONENTS

- 3.1 The overall objective of this Program is to achieve increased competitiveness of SMEs in Venezuela through the use of ISO 9000, ISO 14000 and HACCP systems. The purpose of this program is to develop a market for management system training and implementation and to build technical capacity of small and medium-sized enterprises. In order to achieve this objective and purpose, the project will implement the following four components.
- A. Component 1: Raising Awareness and Knowledge of SMEs on the Importance of International Standards (MIF \$113.585 /Local \$122.091)**
- 3.2 This component will have the dual effect of both informing a wide business audience of the benefits of implementing management system standards and HACCP for competitiveness and introducing SMEs to quality, environmental, and HACCP system implementation. Activities will be carried out by FONDONORMA with the assistance of locally contracted experts in the subject matter.
- 3.3 The component consists of 12 conferences on ISO 9000/ISO 14000 and three for HACCP awareness that will be organized in six cities that demonstrated the highest demand in the marketing study conducted by FONDONORMA (Caracas, Zulia, Carabobo, Anzoategui, Aragua and Falcon)³. Each of the ISO conferences will have an average of 80 participants from all industry sectors and the HACCP conferences 30, totaling 1050 participants. FONDONORMA will use its extensive network of chambers and industry associations, as well as the findings of its marketing study to target participants for the conferences. Seven ISO 9000/14000 conferences are targeted for delivery in the first year and five are scheduled for year two. One HACCP conference is planned for the first year and two will be offered in year two. FONDONORMA will also invite prominent private and public sector figures, involved in quality, environmental and food safety work to participate in these events.
- 3.4 Awareness-raising conferences will be publicly advertised and will be open to all sectors during the first two years of the project. Participation will be free of charge since these represent an important element in marketing the Project. At the end of each event, participants will receive a questionnaire that will allow the project staff to evaluate their technical knowledge of the ISO 9000, ISO 14000 and HACCP systems, as well as their willingness and readiness to finance and implement a management system. This questionnaire will also help to delineate an action plan for training and technical assistance for implementing ISO 9000, 14000 or HACCP.
- 3.5 This component will also offer technical training at market value to SMEs that request ISO or HACCP system implementation as a direct result of participation in the awareness activities. The general manager, quality engineer, or internal auditor would be the target audience of these technical training seminars as they will be geared to increasing the firm's capacity to implement systems thereby reducing the days of consulting required

³ See summarized results of the study in the Operational Manual in the technical files.

for implementation. FONDONORMA will offer 12 seminars for a total of 300 firms; divided into groups of 25 participants for 24 hours of training. Four seminars are targeted for each year of the project.

- 3.6 It is expected that 90 SMEs that participate in the awareness events and/or the technical training will solicit FONDONORMA's assistance in conducting a pre-diagnostic or "gap assessment" of their firm to identify training and technical assistance requirements for implementing a management system or HACCP. The cost of this pre-diagnostic would be subsidized by 50%. In addition to their willingness to pay, firms would need to meet the following criteria established by the Project to be eligible for this subsidy: 1) legally incorporated, 2) meet the definition of SME established by the Project, 3) demonstrate that there is adequate administrative and operational capacity to manage a system, and 4) have participated in the Management Seminar described in paragraph 3.5.

B. Component 2: Training Consultants and External Auditors (MIF \$446.700 / Local \$291.274)

- 3.7 This component is intended to increase the supply as well as the technical abilities of national consultants, internal auditors and external auditors in the fields of quality management, environmental management, and HACCP. The current market of consultants and external auditors is characterized by a limited number of qualified consultants whose rates are high and therefore not accessible to SMEs. The training included in this component will promote greater competition in the national/international market of service providers while improving quality and reducing consulting costs. This component will promote the development of a sustainable market of business development services custom made for SMEs, in the areas of ISO 9000, ISO 14000 and HACCP. A total of 240 consultants, 50 internal auditors and 150 external auditors will be trained.
- 3.8 The first activity will consist of training 120 consultants as Specialists in ISO 9000:2000 standards implementation; the second activity will prepare 60 external auditors in ISO 9000 in three groups (20 people each); the third activity will prepare 20 internal auditors in ISO 9000 in one group; the fourth activity will instruct 60 Environmental Management System consultants to become Specialists in ISO 14001 implementation in three groups (20 people each); the fifth activity will prepare 60 external auditors in ISO 14000 in three groups (20 people each); the sixth activity will prepare 20 internal auditors in ISO 14000 in one group; the seventh activity will train 60 food safety consultants as Specialists in HACCP standards implementation in five groups (15 people each); the eighth course will prepare 30 external auditors in HACCP in two groups (15 people each); and the ninth activity will prepare 10 internal auditors in HACCP (see the Operational Manual in the technical files for criteria for participation in training programs and for a description of all courses and training schedules).
- 3.9 In order to select applicants who wish to take part in this component, the Project will advertise the basic participation requirements in the press. To create the capacity to replicate this training, the Project will market the training to University and technical

1) legally incorporated; 2) meet the definition of a SME as established by the Project⁴; 3) have adequate administrative and operational capacity; 4) have sufficient net operating income to pay the cost of services co-financed by the project, and to pay those not financed by the project but needed to reach the commercial objectives in the short and medium term; 5) demonstrate top management commitment; and 6) have a designated internal auditor in the firm (general manager or in charge of quality, environment or food safety). These requirements will be complimented by an interview that representatives from CONINDUSTRIA will conduct with top management to assess readiness of the firm and its ability to implement the management system. (Criteria for participating and the procedures for the matching grants are contained in the Operational Manual for Matching Grants developed for this project.)

3.14 FONDONORMA and CONINDUSTRIA will provide a list of pre-qualified consultants and external auditors entered in the Project's database. Each participating SME would then be able independently to select, contract and pay for the consulting and auditing costs. Upon proof of the completion of the contract, CONINDUSTRIA will reimburse up to 50% of the consulting and/or auditing cost. Operational regulations for the matching grants are contained in the technical files, including detailed steps to follow for approval, implementation and reimbursement.

3.15 CONINDUSTRIA will use the MIF Office ISO Project Performance Indicators⁵ before, during and after each implementation to collect data on the improvements of the participating firms' competitiveness. This information will be transferred to a common database already published in the World Wide Web. All enterprises will be required to fill out an evaluation form to assess the national consultants and auditors. It is anticipated that the majority of the SMEs will successfully complete the pre-audit process.

D. Component 4: Institutional Strengthening of FONDONORMA (MIF \$156.274 / Local \$17.384)

3.16 The goal of this component is to enhance FONDONORMA's ability to manage the Project as planned and to provide better services tailored to the needs of SMEs. The component will finance the services of a consultant for up to one month to work with the Project execution team to develop a strategic plan.

3.17 This project will be able to benefit from the MIF ISO project in Uruguay with UNIT, the National Standards Body in Montevideo. UNIT, with MIF assistance, has developed a highly successful training system that will be adapted for delivery in Venezuela. As part of project preparation, a technical assistance agreement between FONDONORMA and UNIT has been developed that includes the transfer of products and the use of short-term trainers from Uruguay that will travel to Venezuela at defined intervals to work with FONDONORMA staff in training delivery (see the Operational Manual for more information on this collaboration).

⁴ SMEs in this project are all those enterprises with less than 100 employees and between \$3 and \$5 million annual revenue.

⁵ This survey instrument and guidelines for its administration may be found in the technical files.

- 3.18 To improve the sustainability of the awareness and training activities, to ensure that SME needs are taken into account, and to develop the needed cadre of local trainers within FONDONORMA for the various levels of training proposed in the Project, four staff from FONDONORMA will be trained as facilitators of the awareness conferences and two staff will be trained as trainers of HACCP.
- 3.19 Another activity of this component will be the configuration of the Project Management Information System (MIS) that will be used to manage Project data, store information, and monitor and track performance of participating SMEs, local consultants and external auditors. FONDONORMA will configure its MIS after the MIF ISO project in Colombia developed in 2000 with MIF assistance, and proven to be very effective (see the Operational Manual for more information on the MIS).
- 3.20 This component will also finance the upgrading and development of new training materials and equipment to enable FONDONORMA to deliver the high caliber products envisaged in the Project and to market and promote its training products in the form of newsletters and other promotional materials.

IV. EXECUTING AGENCY AND BENEFICIARIES

- 4.1 The Project will be executed over a three-year period (39 months of execution and 42 of disbursements). FONDONORMA is the proposed grant beneficiary and responsible for managing the Project and for the administration of all local counterpart resources. FONDONORMA is autonomous and representative of the productive, governmental and professional sectors as evidenced by its Board of Directors.
- 4.2 The Project will be managed by a Project Director, a Training Specialist, and an administrative assistant. (Terms of reference for Project staff may be found in the technical files). A Project Steering Committee will be established upon approval of the MIF resources comprised of representatives from FONDONORMA, the National Fund for Science, Technology and Innovation (FONACIT), and CONINDUSTRIA to oversee and guide the activities. This will be a voluntary committee that will meet on a regularly scheduled basis every quarter. The Project Director will be responsible for presenting the quarterly work plan and disbursement schedule to the Committee for review and approval. In addition to the work plan, the Steering Committee will make recommendations for hiring and review the profiles of SMEs interested in matching grants. (The terms and composition of the Steering Committee may be found in the Operational Manual).
- 4.3 The execution responsibility of Component 3 will be with CONINDUSTRIA. FONDONORMA and CONINDUSTRIA will ratify a co-execution agreement for the management of the component. FONDONORMA will disburse resources to CONINDUSTRIA in accordance with the inter-agency agreement established specifically for this component in accordance with Bank procedure. The two agencies have already signed a letter of intention for this cooperation and CONINDUSTRIA has agreed to commit 40% of the total cost of the component in counterpart resources.

- 4.4 As part of this cooperative agreement, CONINDUSTRIA will be responsible for: (i) the selection of firms according to criteria established by the Project; (ii) the pre-qualification of consultants as capable of providing assistance according to criteria established by the Program; (iii) the approval of matching grant resources based on degree of compliance with management systems processes; (iv) the monitoring of the systems' implementation; (v) the reimbursing of 50% of the cost of the consultants; and finally (vi) guiding firms in using impact indicators developed by the MIF ISO Cluster. All these procedures are defined and explained in the Operations Manual for the Matching Grants component.
- 4.5 FONDONORMA will establish and maintain adequate accounting, financial, internal control, and filing systems, which will allow the identification of sources and uses of funds of the program. The accounting system will be organized to provide necessary documents, permit verification of transactions, and facilitate the timely preparation of financial statements and reports. The project's records will be kept in a way that: (i) identifies sums received from different sources; (ii) reports project spending in accordance with a chart of accounts previously approved by the Bank, distinguishing between MIF contributions and funds from other sources; and, (iii) includes details necessary to identify goods acquired and services contracted, as well as the use of those goods and services. FONDONORMA will also open separate and specific bank accounts for the administration of the MIF's contribution, and for the local counterpart funds. Finally, FONDONORMA will process the disbursement requests and their respective justifications of expenditures, in accordance with the Bank's disbursement procedures.
- 4.6 **Revolving Fund.** After having completed the conditions prior to first disbursement, a revolving fund of up to 10% of the grant may be made if the executing agency so requests. The amount for the revolving fund has been recommended by the project team and deemed justifiable due to the expenses that will be incurred at the initiation of this project. FONDONORMA will prepare and submit to the Bank, within a period of thirty (30) days after the closing of each semester, a semiannual report showing the status of the revolving fund as of June 30 and December 31. Disbursements of grant funds and the purchase of goods and services will be done in accordance with Bank/MIF procedures.
- 4.7 **Financial Audits.** FONDONORMA will prepare and submit to the Bank, within ninety (90) days after the final disbursement of the project, final financial statements regarding the Bank's contribution and local counterpart funds. A firm of independent auditors acceptable to the Bank will audit these financial statements. The audit costs will be financed with proceeds from MIF's contribution, in accordance with the Bank's procedures.
- 4.8 **Supervision.** The IDB Country Office in Venezuela will be responsible for supervising this technical cooperation. FONDONORMA will submit to the IDB Country Office all project progress reports within 30 days after the completion of each semester and a final report within 30 days from the last disbursement. These reports will follow a previously agreed format and will address project activities, finances and results. In addition,

FONDONORMA will be charged with providing a report three months after project completion, indicating the results of the project.

- 4.9 **Beneficiaries.** Project beneficiaries include: a) 1050 small and medium enterprises (SMEs) that will participate in awareness conferences; b) 300 managers of SMEs; c) 90 SMEs that will be assessed by FONDONORMA in terms of their management system readiness; d) 240 consultants that will be trained as specialists on quality (ISO 9000), environmental (ISO 14000) or HACCP; 150 consultants that will be trained as external auditors; 50 consultants that will be trained as internal auditors; e) 50 SMEs that will implement management systems or HACCP; and f) FONDONORMA that will receive technical assistance and upgrading to design and manage a comprehensive training system.
- 4.10 **Project readiness.** The design, budget and activities planned under the project have received input from all stakeholders and have been developed with the assistance of the local Country Office. The local counterpart contribution has been confirmed from both FONDONORMA and CONINDUSTRIA. The demand for the management systems and willingness to pay for the consulting services and training has been assessed by FONDONORMA and CONINDUSTRIA and the findings reveal that the market for ISO and HACCP services is growing and will easily absorb the technical assistance foreseen in this Project. A preliminary business plan has been designed to predict revenue collection and the project is expected to be operationally sustainable at the time the MIF grant resources are expended. Resources have been allocated in Component 4 for the purpose of contracting an expert to work with FONDONORMA in the finalization of their business plan and to facilitate project launching.
- 4.11 This project is the last in a series of MIF ISO projects and it will directly benefit from the technical assistance activities MIF is co-funding in its ISO Cluster projects in Colombia and Uruguay. FONDONORMA will model their MIS after the Colombia model and will adapt the training system for ISO consultants directly from Uruguay. Additional cross-fertilization of activities and exchange of experiences and training products and consultants is anticipated throughout execution. To facilitate lessons learned from ISO project implementation, the MIF has contracted an ISO Technical Advisor to provide technical assistance and monitoring of all projects in the Cluster, will organize and facilitate two ISO Cluster Workshops in 2002 and 2004, and has designed a website for the Cluster to foster a constant exchange of information among the 13 projects.

V. COST, SOURCE OF FINANCING AND COST RECOVERY

COMPONENTS / BUDGET CATEGORIES	MIF CONTRIBUTION	LOCAL CONTRIBUTION	TOTAL
I. Raising Awareness and Providing Basic Technical Knowledge to SMEs on the Importance of International Standards	\$113.585	\$122.091	\$235.676
II. Training Consultants, External and Internal Auditors	\$446.700	\$291.274	\$737.974
III. Implementing QMS, EMS and HACCP in SMEs	\$228.150	\$143.800 ⁶	\$371.950
IV. Institutional Strengthening of FONDONORMA	\$156.274	\$17.384	\$173.658
Project Execution Unit and Logistics	\$81.770	\$210.000	\$291.770
Evaluations	\$50.000		\$50.000
Cluster Performance Indicators & Workshop	\$15.000		\$15.000
Audit	\$37.500		\$37.500
Contingencies	\$80.000	\$20.000	\$100.000
TOTAL	\$1.208.979	\$804.549	\$2.013.528

- 5.1 The cost of the program is estimated at US\$2.013.528, of which the equivalent of US\$1.208.979 will be provided from the MIF (Human Resources Facility) on a non-reimbursable basis, and the equivalent of US\$804.549 will be provided as local counterpart funding, in accordance with the preceding table. Approximately half of the local counterpart resources will be accounted for as a cash contribution, the balance will be in kind.
- 5.2 **Sustainability** of the Project depends largely on revenue that will be generated by (i) charging fees for the seminars of Component 1; (ii) charging fees for the gap assessments of 90 firms; (iii) charging market prices to national experts for the modular training programs offered in Component 2; and (iv) the revenues generated from the sale of goods and services as a result of the institutional strengthening in Component 4. A detailed budget is included in the technical files, including the income projections.
- 5.3 All revenue generated by the project will be used to sustain project staff, the awareness creation conferences, training of FONDONORMA's trainers as necessary, and implementation of systems by additional firms not included in the first group of 50. By the conclusion of the project, FONDONORMA is expected to have the capacity to continue with the training and CONINDUSTRIA with the consulting activities financed by the participating companies in the form of matching grants or paying full market price. In addition, the cadre of local consultants are expected to be in a position to charge for training and consulting services at other local firms interested in implementing ISO and

⁶ This is the administrative cost for managing the matching grant component that will be financed by CONINDUSTRIA.

HACCP systems. The participation of a broad range of stakeholders in this project ensures the interaction of public institutions, private businesses, non-governmental organizations, and training institutions that will constitute a central element for sustainability and especially for project diffusion and replication.

VI. PROJECT JUSTIFICATION, BENEFITS AND RISKS

- 6.1 **Justification for MIF participation.** MIF funding is requested for this project for the following reasons: it responds to the MIF's priority of stimulating small business competitiveness; it is part of the ISO cluster and it complies with the guidelines established for grant funding under the Competitiveness through ISO Standards Program; it will address specific market imperfections that have been identified as inhibiting ISO and HACCP implementation and SME competitiveness; it will have an important demonstration effect in that it will develop a model for facilitating ISO and HACCP implementation that can be taken to scale through the IDB loan program with FONACIT; and it will build on important design lessons learned from the other MIF financed ISO projects in the region.
- 6.2 **Benefits.** The benefits of this project are as follows: (i) it will increase competitiveness of SMEs in Venezuela; (ii) it will develop a cadre of trained national professionals in the implementation of international standards systems, reducing the costs dramatically for ISO and HACCP implementation for SMEs in the future; (iii) it will pilot test systems implementation of 50 companies to motivate the participation of a larger universe of beneficiaries that could implement systems by accessing alternative financing from the FONACIT Program; (iv) it will facilitate the sharing of information and serve to leverage available resources; (v) it will strengthen the national standards organization of the country and improve its capacity to provide timely and relevant information and training to SMEs.
- 6.3 **Risks.** One project risk could result from the possibility that future demand for the services provided will be lower than projected. To respond to this issue, FONDONORMA has recently conducted a market study and forecasted a significant increase in the demand for consulting services and for management system implementation. In addition, the government is strongly encouraging firms to adopt quality, environmental management and food safety systems. FONDONORMA has witnessed an increased demand for ISO certification in the last year, having certified 80 of the 218 firms in the last 12 months. To mitigate the risk involved in investing in new training and implementation services for SMEs, the Project includes incentives for the training and for management system implementation, which will be phased out by the end of the execution period.
- 6.4 A second project risk could result from the financial constraints of firms, which may keep them from participating in the project. This risk has been calculated as part of the project analysis when the level of subsidy, mark-ups and market prices were defined during project design, in order to reach competitive prices for competitive services. To mitigate

this risk, FONDONORMA should closely monitor how the demand evolves in order to make changes in prices and level of incentives when needed.

- 6.5 By fostering the development of competition among providers while encouraging demand, the project expects to contribute to an equilibrium point where demand and supply market forces would keep their own momentum and nourish commercial activities of SMEs and service providers, as well as facilitators such as FONDONORMA and CONINDUSTRIA.

VII. PERFORMANCE INDICATORS AND EVALUATION

- 7.1 The Bank will contract individual consultants to carry out two evaluations of the project. A mid-term evaluation will be performed 18 months after the project contract is signed or when 50% of the resources have been disbursed. A final evaluation will be conducted within three months after the project is completed. Of special interest for the ISO Cluster is the MIF Office ISO Project Performance Indicators that will be used to measure impact at the SME level; the same indicators used in each of the other 12 projects already approved in the region.
- 7.2 The Project will compile quantitative and qualitative indicators for monitoring and for the mid-term and final evaluations. Qualitative indicators would include: (i) information on the type of firms participating in the program; (ii) extent to which systems are being implemented by SME participants; (iii) level of improvement of performance as a result of the companies' participation in the project; (iv) support from the private sector and the ability to sustain training activities; and, (v) level of satisfaction with consulting and training services.
- 7.3 The quantitative indicators for monitoring and evaluating the project would include: (i) the impact of the project, including results of the monitoring and the participation of companies in the program (total number of participants, number of participants per program, number of placements, number of persons trained and companies certified); and, (ii) cost-effectiveness of the program. The MIF Office ISO Project Performance Indicators will be used to measure firm improvements as a result of implementing ISO systems. This survey instrument and guidelines for its administration may be found in the Operational Manual. The project's detailed logical framework, contained in the technical files, will also guide the evaluation of the project.
- 7.4 Three months after the project execution period, the final evaluation will be performed. Independent consultants will take into account the program's impact on individual firms. This evaluation will focus on key areas such as: measuring the cost of the service provided and its relationship to the benefit obtained; the impact on the productivity of participating companies; and the level of personnel turnover among firms in the sector. FONDONORMA will provide access to all the information and documentation needed to conduct these evaluations.

VIII. SPECIAL CONDITIONS

- 8.1 As a condition prior to disbursement, FONDONORMA will have appointed a Project Director and established the Project Steering Committee (see paragraphs 4.1 and 4.2). As a condition prior to disbursement for Component 3, FONDONORMA and CONINDUSTRIA will have ratified the inter-agency agreement governing the execution of this component and approved the operational manual for the matching grants.

ANNEX I – Logical Framework Quality and Environmental Management Systems and Food Safety Implementation in Small and Medium Enterprises (TC-00-08-02-5)			
OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Goal			
The overall objective of this Program is to achieve increased competitiveness of SMEs in Venezuela through the use of ISO 9000, ISO 14000 and HACCP systems. The purpose of this program is to develop a market for management system training and implementation and to build technical capacity of small and medium-sized enterprises.	<ul style="list-style-type: none"> Measurable increase in ISO and HACCP implementation and certification recorded among SMEs in next three years. 	<ul style="list-style-type: none"> Macroeconomic data/reports. 	<ul style="list-style-type: none"> Regional markets remain strong and SMEs will begin to demand ISO systems for market access and to improve overall firm performance.
Purpose			
Component 1: Raising awareness among managers of SMEs regarding ISO 9000, ISO 14000 and/or HACCP systems. Raise awareness of SMEs concerning the importance of management systems standards in achieving competitiveness.	<ul style="list-style-type: none"> 1030 participants understand the advantages of and procedures for implementing management systems. 300 quality engineers and/or managers of SMEs introduced to management systems technical seminars. 90 firms participated in gap assessments. 	<ul style="list-style-type: none"> Project data base and information system; evaluation forms submitted by participants that attend awareness seminars; demand for course materials and promotional pamphlets. 	<ul style="list-style-type: none"> SMEs are interested in improving competitiveness and value FONDONORMA's courses.
Component 2: Development of a local supply of experts in ISO 9000, ISO 14000 and HACCP systems. Create a supply of trained consultants available for the national ISO consulting and training market and capable of working with SMEs in the design and development of management systems.	<ul style="list-style-type: none"> 240 consultants trained in management system implementation; 150 consultants trained as external auditors; 50 consultants trained as internal auditors. 	<ul style="list-style-type: none"> Diplomas issued for courses; FONDONORMA's database and consulting registry; and course evaluations. 	<ul style="list-style-type: none"> Consultants willing to pay market prices for comprehensive training programs.
Component 3: Supporting Implementation of Management Systems through Matching Grants. To address key information, skills and financial constraints SMEs have in implementing ISO systems.	<ul style="list-style-type: none"> 50 firms implement ISO and/or HACCP systems. 	<ul style="list-style-type: none"> COINDUSTRIA and FONDONORMA's marketing study and database of firms. Operational Manual for the Administration of Matching Grants is followed. 	<ul style="list-style-type: none"> There is a demand among SMEs for ISO systems if there is the possibility of a demand subsidy.

ANNEX 1 – Logical Framework
Quality and Environmental Management Systems and Food Safety Implementation in Small and Medium Enterprises
 (EC-00-08-02-S)

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>• Institutional strengthening in FONDONORMA to support of SME</p>	<ul style="list-style-type: none"> • FONDONORMA staff trained to manage new training system by UNIT personnel; • 4 facilitators trained to take over awareness activities; • 2 instructors trained in HACCP program delivery; 	<ul style="list-style-type: none"> • Record of SMEs/ institutions using standards; ISO certifications and/or requesting information on performed by FONDONORMA; registry and tracking system of consultants. 	<ul style="list-style-type: none"> • International trade and access of SMEs; knowledge of trade barriers to trade is necessary business among SMEs.

PROPOSED RESOLUTION

VENEZUELA. NONREIMBURSABLE TECHNICAL COOPERATION IN QUALITY AND ENVIRONMENTAL MANAGEMENT SYSTEMS AND FOOD SAFETY IMPLEMENTATION IN SMALL AND MEDIUM ENTERPRISES

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank or such representative as he shall designate is authorized, in the name and on behalf of the Bank, as Administrator of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the Fondo para la Normalización y Certificación de la Calidad, from the Republica Bolivariana de Venezuela, and to take such additional measures as may be pertinent for the execution of the project proposal contained in Document MIF/AT-_____ with respect to a technical cooperation in Quality and Environmental Management Systems and Food Safety Implementation in Small and Medium Enterprises.
2. That up to the amount of US\$1,208,979, or its equivalent in other convertible currencies, shall be authorized for the purpose of this resolution, chargeable to resources of the Human Resources Facility of the Multilateral Investment Fund.
3. That the above-mentioned sum is to be provided on a nonreimbursable basis.