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GUYANA

DEVELOPMENT OF THE MICROENTERPRISE TRAINING SERVICES MARKET

(TC-98-07-069)

DONORS MEMORANDUM

This document was prepared by the project team consisting of: Donna Harris (COF/CGY); Stefan Queck (RE3/OD6); Akemi Yonemura (MIF); Javier Cayo (LEG/OPR); Alexandra Santillana (SDS/MIC) and Dieter Wittkowski (SDS/MIC), team leader.

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ABBREVIATIONS

CESI	Committee on Environmental and Social Impact
CESO	Canadian Executive Service Organization
CIDA	Canadian International Development Agency
GOG	Government of Guyana
GVC	Guyana Volunteers Consultancy Ltd.
IRS	Information and Referral Service
PCC	Program Consultative Committee
PCU	Program Coordination Unit
SME	Small and Microentrepreneurs
TIS	Training institutions
TTDF	Training Technologies Development Fund
TVS	Training Voucher System
USAID	United States Agency for International Development

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(TC-98-07-069)

EXECUTIVE SUMMARY

EXECUTING AGENCY: Guyana Volunteers Consultancy Ltd. (GVC)

BENEFICIARIES: Approximately 5,000 to 7,500 small and microentrepreneurs (SMEs) in the sectors of commerce, production and services, and at least 10 institutions which provide training services to the microenterprise sector.

OBJECTIVES: The operation's principal objective is to test and demonstrate the feasibility of establishing, on a small scale, a sustainable market for training services to microenterprises, in order to improve their competitiveness and productivity. The specific objectives are: (i) to establish information and referral services to microentrepreneurs; (ii) to temporarily stimulate demand through the use of direct, partial subsidies (vouchers); and (iii) to induce and accelerate the adapting of suppliers' capacity to meet specific SME training requirements.

DESCRIPTION: These objectives will be achieved through the execution of a four-year program which will include the following components: (i) an Information and Referral Service; (ii) a Training Voucher System; and (iii) a Training Technologies Development Fund (TTDF).

(i) Information and Referral Service (IRS)

The IRS will: (i) facilitate the access of the SMEs to the available supply of training services, and eventually other non-financial SME services; (ii) orient the suppliers of these training services regarding the needs and preferences of the SMEs, and (iii) facilitate client/supplier negotiations regarding adequacy, quality and price of the training courses.

For the operation of the IRS, GVC will establish three or four strategically located *information desks* which will: (i) channel two-way information to and from suppliers and clients regarding demand preferences and course offerings; (ii) maintain a database of information on clients; (iii) establish and maintain a database on suppliers and courses;

(iv) publicize and disseminate information about the voucher program; and (v) report to GVC and the Consultative Committee (see section IV) the statistics on courses offered and demanded, and qualitative information received from potential and actual clients and training institutions (TIs).

(ii) Training Voucher System (TVS)

The TVS will: (i) promote SME demand for training through the application of a direct partial subsidy (vouchers); (ii) promote the adaptation of the existing, and potential, supply of these services to the needs and preferences of the SMEs, by requiring that the vouchers collected by the participating training institutions (TIs) be redeemed after course completion and initial payment of cash co-payment by the clients; and (iii) generate increasing sustainability of the expanded functioning of the SME training market.

Vouchers will be distributed free of charge to SMEs which meet minimum eligibility criteria. Used as direct demand subsidies which initially cover an *average* of 50% of the cost of the courses to be provided, the vouchers reduce the clients' risk and opportunity cost of taking courses. Recipients will have the liberty to use vouchers for courses offered by eligible providers of their choice, and the client will be responsible for paying the balance of the total cost of the course. The clients' cash payment is paid upon beginning the course, and the voucher is validated only if the client completes at least 75% of the training and it is signed by the training recipient. It is estimated that a total of 28,000 vouchers can be utilized during the four-year program period, to train between 5,000 and 7,500 clients.

FINANCING:

Modality:	Grant (Window II)
MIF:	US$ 900,000
Counterpart:	US$ 533,000
Total:	US$1,433,000

Letters of intent for cofunding have been received by the Canadian International Development Agency (CIDA) for US$230,000 and the United States Agency for International Development (USAID) for US$200,000. (See Para. 5.1)

TERMS:

Period for project execution:	4 years
Period for disbursements:	4 years

ENVIRONMENTAL AND SOCIAL REVIEW:	This operation was approved by CESI on September 25, 1998, and incorporates CESI's recommendations in its design.
EXCEPTIONS TO BANK POLICY:	None
THE BANK'S STRATEGY:	This operation is fully consistent with the Country Strategy which seeks to promote an enabling environment for the development of the private sector, improvements in the human resource base, and programs designed to reduce poverty and enhance living standards.
SPECIAL CONTRACTUAL CONDITIONS:	The conditions for the first and subsequent disbursements are the following:

Prior to the first disbursement, GVC will present to the Bank's satisfaction: (i) evidence of commitments by additional donors to contribute the funds required to complete project financing (Para. 5.1); (ii) evidence of having implemented the key recommendations from the recent institutional assessment that the Management Committee (Para. 4.6) has identified as conditions for project implementation; (iii) the terms of reference for the external advisory group and the PCU (Para. 4.4 and 4.7); and (iv) evidence of having initiated the bidding process for the external advisory and the PCU consultants.

Prior to the disbursement of funds required to begin the distribution of vouchers, GVC will present to the Bank's satisfaction: (i) the annual plan of operations prepared in coordination with the program's external advisory group (Para. 4.7); (ii) evidence of having developed the procedures and operating manuals for the management of the vouchers and TTDF (Para. 4.9); (iii) the monthly and annual performance indicators (benchmarks) for all aspects of the program, disaggregated by gender where appropriate; (iv) evidence of having installed the computerized management information system and developed all of the required software required for managing all aspects of the program; (v) evidence of having established and operationalized the Program Consultative Committee (PCC), including a list of deliverables to be reviewed by this committee (Para. 4.6); and (vi) the Terms of Reference for the mid-term evaluation of the program (Para. 7.4).

The contracts signed between the Bank and GVC, and between GVC and the external advisory group, will include a clause which states that if the results of

the mid-term evaluation show that key program targets are unacceptably low (> 20% below established targets), the Bank reserves the right to cancel the project and future disbursements.

I. COUNTRY ELIGIBILITY

1.1 The MIF Donor's Committee has declared Guyana eligible for all forms of MIF financing on November 2, 1995.

II. BACKGROUND

A. Country Context

2.1 From 1966 to 1988, Guyana was managed under a state-dominated economic system, which controlled more than half of the economy. Private sector activities were limited principally to small scale agriculture, construction, some services, small manufacturing, mining and trading. A severe economic decline ensued and by 1988, Guyana's productive output was only 68% of 1976 levels, inflation was rampant, and poverty was widespread. However, since 1988, Guyana has followed an economic recovery program which focused on fiscal, monetary and exchange rate rationalization. As a result, between 1991 and 1997, the Guyanese economy was able to achieve an impressive compound GDP growth rate of over 7% annually, stabilize the inflation and exchange rates, and begin to consolidate overall structural reform. The Government now supports the private sector as Guyana's main "engine of growth", and is gradually seeking to improve the policy and enabling environment for the private sector. Despite a contraction in 1998, economic projections through 2000 continue to look optimistic.

2.2 The above-mentioned reforms have had a direct impact on the small and microenterprise (SME) sector. It is estimated that about 50% of the 41,000 public employees who were retrenched, have become "self-employed" in the informal sector. Recent studies have inferred that micro-enterprises employ 50% of the total work force, or approximately 145,000 people, and account for 50% of Guyana's GDP. By sector, an estimated 40% of these microenterprises are in retail activities, 27% in agriculture, 23% services and 9% manufacturing, and the large majority of all microbusinesses are located along the coastal plains, especially near Georgetown and New Amsterdam.

2.3 In a rapidly changing economic environment such as Guyana's, with increasing levels of competition, microentrepreneurs face a series of constraints which limit their competitiveness in both the growing national and global markets. Among others, these include: (i) out-dated machinery and equipment; (ii) low levels of understanding about international markets and competition; (iii) poor product quality due to lack of knowledge about quality standards, market preferences and production processes; and (iv) a general lack of management and administration skills. 1/

1/ These constraints were identified in the Enterprise Development Strategy paper for Guyana, produced by Region 3 in January 1998.

B. <u>Non-financial services for small and microenterprises</u>

2.4 The market for non-financial services for SMEs is characterized by: (i) the existence of highly subsidized government training programs, many of which are free of charge and of doubtful quality; and (ii) obligatory training in basic business administration and book-keeping linked to credit delivery, sponsored mainly by donors. In general, there is an overall lack of quality non-financial services adapted to the specific needs of the microenterprise sector, and low levels of outreach and sustainability in existing services. Consequently, most SMEs have not been able to adequately address their needs for non-financial services which would allow them to improve their competitiveness. Although some owners and workers are able to improve their skills through technical or vocational training programs, most cannot afford this option as it usually comes at the high cost of having to abandon their daily work for months at a time, in order to attend the courses given by existing technical training institutes.

2.5 Demand for non-financial services to the sector is limited by: (i) difficulty in identifying quality service providers which offer courses tailored to the specific needs of the microentrepreneur; (ii) poor quality of the content and usefulness of the services currently available; (iii) microentrepreneurs' lack of awareness of the potential impact on profit of an investment in the right kind of business development service; and (iv) limited capacity of potential clients to make their collective preferences known to service providers, and negotiate the nature and price of these services.

2.6 With respect to supply of non-financial services, given the characteristics of the training market, it is not surprising to also observe only a limited number of training providers. There are currently at least five institutions providing training in the appropriate modality or **format** 2/ for the SME market, but which require improvements in course content and quality. It is estimated that another five to seven training institutions could easily enter the market if they were provided with adequate incentives. This would include vocational schools as well. In order to do this, they would need improved information regarding the size of the potential market for their product, the type of product (content and modality) in demand, and some mechanism to reduce the cost and risk of entering this market niche.

2.7 The fundamental hypothesis of this operation is that the training market is distorted, dysfunctional and operating far below capacity because both suppliers and clients lack the necessary information

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2/ Appropriate format is generally characterized by courses which: (i) last 20 to 40 hours; (ii) are external, rather than in-house; (iii) teach practical and specific topics which have a direct impact on the bottom line; (iv) are offered in the evenings and weekends; (v) use active learning methods and practical exercises; and (vi) are offered in highly accessible locations.

which would allow them to make informed economic decisions regarding training. By significantly improving information flow, and providing direct and partial demand subsidies, some of the imperfections can be addressed and the market can be stimulated to expand and consolidate. The expected result in the long run is a broader and deeper market which efficiently and sustainably provides training services to SMEs.

C. The Bank's strategy in Guyana

2.8 The Bank's strategy, as outlined in the Country Paper (GN-2014-1, dated October 1998), includes: (i) promoting an enabling environment for the development of the private sector; (ii) increasing the absorptive capacity of the social sector, and improving the human resource base; and (iii) fostering programs designed to reduce poverty and enhance living standards. This operation is fully consistent with these goals inasmuch as it seeks to develop a market for non-financial services, which will help to improve human resources, and ultimately have a positive impact on incomes and employment opportunities for microentrepreneurs. Additionally, the Guyana Enterprise Development Strategy identifies non-financial services as an important component of priority activities required by the sector.

III. PROJECT OBJECTIVES AND BASIC COMPONENTS

A. Objectives

3.1 The project's general objective is to test and demonstrate the feasibility of establishing, on a small scale, a sustainable market for training services to microenterprises in Guyana, in order to improve their competitiveness and productivity.

3.2 Specifically, the project will seek to reduce the asymmetrical and insufficient flow of market information to both the supply and demand sides. To achieve this the operation proposes: (i) to establish information and referral services to microentrepreneurs; (ii) to temporarily stimulate demand through the use of direct, partial subsidies (vouchers); and (iii) to induce and accelerate the adapting of suppliers' capacity to meet specific SME training requirements.

B. Project Components

3.3 The project has three components: (i) an *Information and Referral Service* (IRS); (ii) a *Training Voucher System* (TVS); and (iii) a *Training Technologies Development Fund* (TTDF).

of the courses to be provided, the vouchers reduce the clients' risk and opportunity cost of taking courses 4/. Recipients will have the liberty to use vouchers for courses offered by eligible training providers of their choice, and the client will be responsible for paying the balance of the total cost of the course. The clients' cash payment is paid upon beginning the course, and the voucher is validated only if the client completes at least 75% of the training and it is signed by the training recipient.

3.9 This type of training program in similar countries tends to reach up to 10% of the SME population. In Guyana, the number of people involved in SME is estimated at approximately 150,000, with a tendency to increase over time (potential demand). An estimated 1,200 people are currently attending training courses which use similar modalities (current reported demand). Additionally, over 90% of the Guyanese SMEs surveyed listed information and/or training as non-financial services which they would like to acquire. The experience of voucher programs in other countries demonstrates that each client uses an average of two to three vouchers per year. Based on these figures, it is estimated that the project will generate an expected total client volume of about 1,000 to 1,500 in year 1 and 5,000 - 7,500 by year 3. For year 3, this figure approaches 5% of the active SME population in Guyana. 5/ This translates into a total of 28,000 vouchers during the first three years of voucher distribution: 3,000 in year 1 (8 months, with one point of distribution), 10,000 in year 2 (three points of distribution), and 15,000 in year 3.

3.10 Using current pricing information and projected cost structures for the improved quality training courses to be offered, the cost of the courses is estimated at US$2 per person/hour, or approximately US$40 for a standard 20-hour course. This would represent a slight increase from current cost structures, which in the median are US$1.70 per person/hour. Aiming for an approximate subsidy of 50% for the initial phase, the value of the voucher has been projected at US$20. With this level of subsidy it is expected that the program will have the desired impact in the market, while not oversubsidizing the least expensive courses. Following the mid-term evaluation, the value of the voucher will be reduced to represent an estimated subsidy of 25% of the average course cost. However, the Bank reserves the right to modify the value of the voucher, in consultation with the Management Group (see paragraph 4.6), based on the analysis and recommendations of the mid-term evaluation, and other pertinent data available.

4/ Training providers will develop courses in accordance with the demand expressed by voucher clients. However, examples of the types of courses would include both technical and general courses in electronics, marketing, mechanics, quality control, tailoring, food production, handicrafts, etc.

5/ As a point of reference, the growth path for the experimental voucher program in Paraguay grew from an average of 300 vouchers per month in the first year, to 747 per month in the second year.

3. Training Technologies Development Fund (TTDF)

3.11 The Bank recognizes the limitations of the non-financial service providers in Guyana, and has included this project component to address them. The TTDF will support the identification, diffusion and application of pedagogic and administrative innovations and teaching technologies within the participating TIs, in order to accelerate the process of adapting supply to specific SME requirements. It seeks to give the TIs expert advice and training in how to structure training products that respond to client needs and to strive for financial self-sufficiency.

3.12 In order for a TI to benefit from the TTDF, it must complete at least three training courses within this program. Preference will be given to TIs which present a joint request with other qualified TIs. Requests will address the acquisition or adaptation of training technologies that are deemed commonly useful for these TIs in developing more adequate training courses, as requested by SMEs. The subsequent development of these specific courses will then be the full responsibility of the individual TI. To assure similar possibilities of access to TTDF funding for all TIs, information regarding TTDF proposal presentation and funding guidelines will be explained to all participating TIs and also included in the text of the Participation Agreements signed with the GVC. Requests for the TTDF will be reviewed and approved by the PCU (see para. 4.4) and GVC, with input from the technical advisory. The Bank reserves the right to make routine inspections of the activities funded by the TTDF.

3.13 The preference for joint development of requests by TIs seeks to: (i) underline the basic thrust of the program, which is not to promote individual TIs or their specific courses, but rather the expansion and improvement of the training services market, through increased competition based on improved pedagogic and management technologies; (ii) assure a greater impact of applied resources, in terms of wider diffusion and application of the corresponding innovations; and (iii) diminish the risk of arbitrary use of funds.

3.14 The cost of each approved request will be shared between the TTDF and the participating TIs, with the TTDF covering up to 50% of the total cost. Any one request cannot exceed 10% of the total initial amount of TTDF funds, and any single TI can only participate once as direct recipient of the TTDF, except in circumstances deemed justifiable by the executing agency, and approved by the Bank. This policy will be reviewed in the program evaluation.

IV. EXECUTING AGENCY AND MECHANISM

4.1 The project will be executed by the Guyana Volunteers Consultancy Ltd.(GVC). In order to carry out the proposed activities, GVC will hire local consultants and establish three operational units: (i)

Program Coordination Unit (PCU); (ii) *Information Desks*; and (iii) the *Program Consultative Committee* (PCC).

A. <u>Guyana Volunteers Consultancy Ltd. (GVC)</u>

4.2 The Guyana Volunteers Consultancy Ltd. (GVC) is a private sector organization, founded in 1993 with support from the Canadian International Development Agency (CIDA) as part of a strategy to satisfy the demand for consulting, technical assistance and business advisory services by small enterprises, NGOs, sectoral small business associations and Guyanese community organizations. It currently works with over 130 community organizations on capacity building and over 40 others in the introduction of new products and technologies for the market. It is also active in managing the Canadian Executive Service Organization (CESO) program through which Canadian volunteers provide technical assistance to organizations in Guyana. Its Board and staff are made up of competent and experienced business persons.

4.3 GVC is considered to be the best suited organization to act as the executing agency because of: (i) its existing structure, staff and administrative and operational systems suitable for project execution; (ii) its affinity with the microenterprise sector; (iii) institutional stability; (iv) its success in executing institutional strengthening and business development projects funded by USAID, CIDA, UNICEF and UNDP during the past three years which demonstrate its ability for expedient program implementation; and (v) its high levels of expressed interest in this operation. The selection of GVC as executing agency is supported by COF/CGY, the Ministry of Education and other international donors active in Guyana. This option also eliminates any potential conflict of interest concerns, given that GVC is currently not a provider of training services to the sector and does not have plans to carry out training activities in the future. Through this operation, GVC will be able to expand its linkages to and coordination with activities which support the SME sector, thus enhancing its reputation and allowing it to position itself as one of the major players in the Guyanese SME sector.

4.4 GVC will set up a *Program Coordination Unit* (PCU), and shall assign to the PCU the human and material resources necessary for Program operations, including a Program Coordinator and other operational and administrative personnel.

4.5 GVC will establish *Information Desks* in at least three cities strategically selected in order to achieve maximum outreach and information dissemination (see paragraphs 3.5 and 3.6) The information desks will be supervised by and report to the Program Coordination Unit.

4.6 GVC will also set up a *Program Consultative Committee (PCC)* to provide overall strategic guidance, direction and advice to program executive management, and facilitate dissemination of results and

dialogue with civil society at large. Among its responsibilities will be to review and make recommendations on the annual operational plans, semi-annual program reports, and the mid-term evaluation and its findings. Membership on this Committee could include, but may not be limited to, the program coordinator, a representative of the GVC Board, a technical advisor from the Ministry of Education, representatives from other potential donor organizations, and possibly representatives from the microenterprise sector and training institutions. Nevertheless, final approval of annual operational plans, input into and approval of the evaluation and its results, and decisions on key policy issues such as the value of the vouchers, will be given by the Bank, in consultation with the Management Committee. The Management Committee will be composed of one delegate from each of the three donor organizations 6/.

4.7 In order to bolster its technical and operational capacity, GVC will require quality technical expertise and program backstopping. GVC will contract the services of an external technical advisory, which will be an international consulting firm with relevant skills and experience. GVC will follow Bank procurement procedures and the final selection will be approved by the Bank. The technical advisory will set up and coordinate all activities needed to start the program, advise the PCU and the PCC in all matters related to the its implementation, and develop the technical capacity of GVC to effectively carry out program activities. The need for a resident international advisor is justified by the lack of specific experience in this kind of program locally, and the lessons learned from other similar BDS operations in the region.

B. Execution and Disbursements

4.8 The program will be executed in 48 months and the disbursements will take up to 48 months. The operation will be executed in two stages of 24 months each.

1. Stage 1 (Months 1 - 24)

4.9 The first stage (months 1 - 24) includes: (i) contracting the international technical advisory; (ii) the establishment of the PCU, Information Desks and PCC with the assistance of the technical advisory; (iii) the final development of the annual work plans, procedures and criteria for the three program components; and (iv) the first 14 months of program operations, including major publicity and information dissemination campaigns. A mid-term evaluation will be carried out by month 24 of the operation, or once 50% of voucher funds have been disbursed, whichever comes first. See part VII.C.

6/ Other program donors are the Canadian International Development Agency (CIDA) and the United States Agency for International Development (USAID).

2. Stage 2 (Months 25 - 48)

4.10 Based on the results of the mid-term evaluation, the Bank, in consultation with the Management Committee and GVC, will decide whether: (i) the operation should continue, with adjustments recommended in the evaluation; or (ii) the achievement of program targets is unacceptably low to justify the operation's continuation. In the case of continued operation, a task of this second stage will be to begin to design a strategy for eventual phase out of the program.

C. Level of Program Preparation

4.11 The program is considered to be at an adequate level of preparation based on the following points: (i) the Ministry of Education and the sponsoring institution are in agreement with the general design of the operation; (ii) other major international cooperation actors in Guyana agree that this pilot program is merited, and have expressed possible interest in future program support; (iii) there is general interest on behalf of both the private and public sectors in Guyana in the implementation of a demand-driven, private sector non-financial services development program; and (iv) lessons learned from similar operations financed by the Bank have been incorporated into the design of the present operation.

D. Environment and Social Impact

4.12 The Bank's Committee on Environmental and Social Impact (CESI) assessed this operation in their meeting TRG 36/98 on September 25, 1998, and recommended that: (i) the technical assistance to TIs in curriculum development should include topics on occupational health and safety and environmental management that are related to the training products being developed; and (ii) the operation consider whether any special measures are needed to provide indigenous groups with access to the program. Though the demand-driven market-oriented approach of the program largely leaves training course content selection to free demand-supply interaction, the program's referral information function will assure that *environmental and work safety issues* are taken into consideration by TIs for course design, and by potential program participants as dimensions of concern for course selection.

4.13 *Gender-bias* and *indigenous peoples participation* issues are basically communications, outreach and training design challenges, which need to ensure *adequate outreach* to social groups and communities that might be discriminated against by a more general public announcements campaign. The decision to locate two Information Desks outside Georgetown seeks to emphasize, and facilitate, effective program outreach to more marginalized groups. In consultation with local experts in gender issues, GVC will develop and implement appropriate measures to ensure gender balance in access to information and opportunities to participate in the training, and set appropriate targets based on the local context.

The fulfillment of CESI's recommendations will form part of the monitoring and evaluation process.

V. COST AND FINANCING

A. Costs

5.1 The cost and financing of the proposed program, estimated at US$1,435,000, is presented in the following table. The MIF will contribute US$900,000 in non-reimbursable funds. The counterpart funds will be provided by GVC (with $430,000 in funds obtained from other international donors 7/) and participating training institutions (US$75,000). The counterpart contribution for the Program Coordination Unit is expected to be provided in-kind by GVC 8/. In addition, the regulations governing the use of the training vouchers will ensure that the training clients will contribute up to US$560,000 in cash towards the TVS. Although these funds will not be considered as counterpart for budgetary purposes, they constitute a major local contribution to program execution.

	MIF	COUNTERPART	TOTAL	%
I. SERVICES				
1. Information & Referral Service	$100,000	$ 50,000	$150,000	
2. Training Voucher System	$380,000	$180,000	$560,000	
3. Training Technology Development Fund	$ 50,000	$100,000	$150,000	60%
SUBTOTAL	**$530,000**	**$330,000**	**$860,000**	
II. PROGRAM COORDINATION UNIT				
1. Consultants/Personnel	$96,000		$96,000	
2. Supervision	$12,000		$12,000	
3. Administration	$36,000		$36,000	
4. Program support	$30,000	$30,000	$60,000	
SUB-TOTAL	**$174,000**		**$204,000**	14%
III. TECHNICAL ADVISORY	$145,000	$145,000	$290,000	20%
IV. EVALUATIONS/SEMINARS (including surveys)	$30,000	$30,000	$60,000	4%
V. CONTINGENCIES	$21,000		$21,000	1%
GRAND TOTAL	**$900,000**	**$535,000**	**$1,435,000**	**100%**

B. Sustainability

5.2 **At the beneficiary level:** The purpose of this program is to stimulate the necessary conditions so that the TIs offering

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7/ Both CIDA and USAID have presented letters of intent to the Bank and GVC to contribute US$230,000 and US$200,000, respectively, towards the counterpart contribution.

8/ GVC is not required to contribute its own cash resources to this project because they are acting as a sponsor for a project identified by the Bank, from which they will derive only minimal direct benefits.

training services to SMEs can become profitable and sustainable in the medium to long run. It is expected that this will be achieved through a gradual reduction in the amount of the subsidy provided to SMEs (value of the voucher) for the training courses being offered. This will tend to reduce the subsidy dependence of the TIs as their supply increasingly meets the demand of the SME sector, and the percentage of the course prices paid by SMEs from their own resources increases.

5.3 **At the institutional level**: The know-how and technology of the design and management of information and voucher distribution programs will be transferred to the executing agency through its collaboration with the technical advisory. Once the advisory completes its assignment, it is expected that GVC will maintain the technical, administrative and management capacity to continue to carry out the program. This will take place through the daily, hands-on co-management of program activities, as well as through specific sessions through which the external advisory will train GVC staff and consultants.

5.4 **On a macro or policy level**, this operation can provide a learning and demonstration effect to the private sector, the Government of Guyana (GOG), and the international donor community that the development of a public good (more efficient markets) can be effectively carried out by a private sector agency. Furthermore, it would provide insights and concrete experience to the GOG in the relevance of innovative market mechanisms and the design of intelligent subsidies in other public policy interventions.

5.5 **At the financial level**: The vouchers and TTDF are temporary subsidies used to stimulate the market, and as such, their financial sustainability is not a goal of the program. Nevertheless, the information and referral centers will remain as an important part of a functioning non-financial services market, whose costs are relatively low. An ideal place for these centers could be in a sectoral or representative trade organization, which could eventually either charge a fee for services to group members, or cross-subsidize from other profitable services.

VI. PROJECT JUSTIFICATION AND RISKS

A. Justification

6.1 The analysis of the present situation of SME training in Guyana shows evidence of a ***clear case of market failure***, which determines a significant gap between potential demand for training from an expanding and increasingly competitive SME sector, and the existing supply of adequate SME training products, both in terms of content and modes of delivery.

6.2 The overall volume of transactions is low, the supply is short in variety and restricted in variability, while adequate modes of

delivery for SME training are scarce among training institutions. At the same time, changes in the economic environment are increasing pressures on SMEs to adapt and flourish under these new conditions, all of which implies an increasing need for training.

6.3 The observed market failure in the SME training services market is due to ***information problems***, and related ***risk aversion*** by potential market participants, which ultimately express themselves in the lack of an adequate market for SME training products. This is evidenced by: (i) potential SME trainees *lack information* regarding the full scope of existing training products and their suppliers; (ii) potential suppliers *lack information* about the size of the potential market, and the specific requirements of the potential clients; (iii) potential SME trainees find the *investment risk* of the existing long and academic-type courses to be too high (in terms of fees, or opportunity costs, or both); and (iv) the few potential suppliers that are aware of the existence of some previously identified demands from SMEs, find the *investment risk* of developing additional courses for an unknown market, to be also too high.

6.4 The proposed interventions of this operation seek to address this market failure through mechanisms which seek to significantly reduce problems in information flow and availability, and to reduce the initial investment risk faced by SMEs and TIs as explained above.

B. Risks

6.5 The main risks of the program include those associated with: (i) an adequate supply response; (ii) a slower than expected demand response; and (iii) the proper use of vouchers.

6.6 *RISK: There is uncertainty as to whether the temporarily subsidized demand will effectively stimulate a supply response from existing and potential service providers which is sufficient (both in quantity and quality) to meet the demand.*

6.7 MITIGANT: The transparency and accessibility of the IRS will make information available to existing and new TIs on an equal basis, effectively lowering some barriers to market entry. Likewise the TTDF plays a major role in lowering TIs' investment costs in the adaptation of courses to meet the demand, and in transferring and applying appropriate training technologies to improve course quality. In addition, the full financial value of the voucher component represents an interesting additional source of revenue available to be captured by the training provider market, which is an additional financial incentive to TIs.

6.8 *RISK: There is a risk that microentrepreneurs may not increase their demand for training because they are accustomed to receiving training for free or at a lower cost.*

6.9 MITIGANT: As an important part of the information dissemination, emphasis will be placed on the *quality* and *specific content* of the courses being offered to the sector, in order to differentiate this product from other existing training opportunities. It is expected that SMEs will be enticed to increase their demand for a better product which has a direct impact on the bottom line of their business. Furthermore, efforts will be made to coordinate with other major donors in Guyana in order to avoid new programs which could potentially undercut a training market which seeks cost recovery through fees.

6.10 *RISK: There is a risk regarding the proper and transparent use of vouchers, and regarding the compliance of TIs to stipulated conditions for their usage.*

6.11 MITIGANT: These risks are addressed in the program design through the establishment of an adequate *incentive structure* for overall risk deterrence, and additionally, though the use of *training services controls* and *voucher circulation controls*. The incentive structure seeks to make compliance rewarding, and reduce the benefits of incorrect and corrupt practices, by making voucher disbursement *personalized, partially subsidized, paid upon course completion,* and highly *atomized,* thus raising the costs, and reducing the benefits, of collusion between participants and training institutions for incorrect use of the vouchers. Training services and voucher circulation controls include: participatory agreements with prospective TIs, advance course approval, cross-signing of vouchers by TIs and participants prior to cashing, random on-site inspections, and periodic surveys of both TIs and participants, among other controls.

VII. PROJECT PERFORMANCE CRITERIA AND EVALUATION

A. Monitoring

7.1 The Bank will monitor this project based on a four-year business plan to be developed by the GVC, to the Bank's satisfaction, in the first quarter of the project's execution. This plan will include planned operational and financial targets and activities for each program component based on the indicators in the Logical Framework (Annex I). GVC will also develop Annual Operational Plans which detail the targets and activities to be achieved each calendar year, and which will allow for adjustments to the business plan based on program results.

B. Reports

7.2 Within 60 days after the close of each calendar semester, the GVC will present semi-annual reports to the Bank. These reports will include detailed information regarding program progress and the achievement of the benchmarks and targets established in the

business plan and annual operational plans. If the reports were to indicate significant problems in program execution, the Bank reserves the right to suspend disbursements until GVC shows evidence of having taken the necessary measures to adequately address the problems.

C. Evaluations

7.3 GVC will sub-contract two surveys (one for SMEs and one for TIs) after 12 months of TV distribution, or once 50% of voucher funds have been utilized, whichever comes first. These will seek to measure the degree of the participants' satisfaction with the program, indications of possible operational improvements and existing unmet demands. The results will be used as inputs for the mid-term and final evaluations, together with the semi-annual progress reports.

7.4 The program proposes two evaluations to be contracted by the Bank. The mid-term evaluation, which will have the possibility of recommending early program termination if intermediate results are unacceptably off target (> 20% below targets), will analyze: (i) progress of planned activities and achievement of targets and benchmarks as established in the logical framework; (ii) functioning of the three program components; (iii) results of the satisfaction surveys; (iv) information regarding the environmental and social aspects as established in this document; and (v) the accumulated amount of subsidy transfer to the market, from which recommendations will emerge regarding the implementation of the reduction in the voucher subsidy and/or a market exit strategy.

7.5 The final evaluation will focus on the overall impact of the program and its performance with respect to the achievement of its general and specific objectives, and make recommendations regarding whether to finalize or extend the market intervention, based on the level of market consolidation and sustainability of provision of training services to SMEs. This will include guidelines for an eventual phase-out strategy for the use of vouchers. GVC will present the terms of reference for the final evaluation prior to the disbursement of funds for the second 24 month operations stage. Using the results of the final evaluation, GVC will coordinate a seminar to disseminate the results and lessons learned through this operation to national and international donors, policy makers, and other interested public and private institutions.

VIII. SPECIAL CONTRACTUAL CONDITIONS

8.1 Prior to the first disbursement, GVC will present to the Bank's satisfaction: (i) evidence of commitments by additional donors to contribute the funds required to complete project financing; (ii) evidence of having implemented the key recommendations from the recent institutional assessment that the Management Committee has

identified as conditions for project implementation; (iii) the terms of reference for the external advisory group and the PCU; and (iv) evidence of having initiated the bidding process for the external advisory and the PCU consultants.

8.2 Prior to the disbursement of funds required to begin the distribution of vouchers, GVC will present to the Bank's satisfaction: (i) the annual plan of operations prepared in coordination with the program's external advisory group; (ii) evidence of having developed the procedures and operating manuals for the management of the vouchers and TTDF; (iii) the monthly and annual performance indicators (benchmarks) for all aspects of the program, disaggregated by gender where appropriate; (iv) evidence of having installed the computerized management information system and developed all of the required software required for managing all aspects of the program; (v) evidence of having established and operationalized the Program Consultative Committee (PCC), including a list of deliverables to be reviewed by this committee; and (vi) the Terms of Reference for the mid-term evaluation of the program.

Incl. gender targets & strategy

8.3 The contracts signed between the Bank and GVC, and between GVC and the external advisory group, will include a clause which states that if the results of the mid-term evaluation show that key program targets are unacceptably low (> 20% below targets), the Bank reserves the right to cancel the project and future disbursements.

LOGICAL FRAMEWORK ANALYSIS

	OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Purposes	• Test and demonstrate the feasibility of establishing a sustainable private sector market for training services to microenterprises in Guyana, in order to improve their competetiveness and productivity.	• Total yearly value of Program-supported training market transactions represent a substantial (not less than 30%) portion of the estimated potential yearly market • Correlation of demand-supply diversification • Sufficient qualified suppliers to cover market expansion • Monthly variations in vouchers disbursement under 10%	• IRS and TVS registers • TI and ME surveys	
Targets	Through the use of an Information and Referral Service (IRS), a Training Voucher System (TVS) and a Training Technology Development Fund (TTDF): • Inform and refer at least 7,500 Guyanese ME participants to the training course (or other non-financial service) of their choice • Facilitate the training of 7,500 MEs in relevant business courses, through the use of 28,000 vouchers • Facilitate the development of new training technologies in at least 10 local training institutions (TIs)	• Number of queries and referrals processed by the IRS • Number of vouchers redeemed by TIs • Number of TTDF interventions successfully completed	• Query register at the Program desks, published newsletters and press releases, beneficiaries surveys • Supervision registers of direct PCU control of approved courses and activities; • TI surveys, TVS and TTDF statistics • Register of supply-strengthening activities approved by the PCU and GVC	• The ME training services market has information and risk aversion problems that hamper its full potential development • The ME have unsatisfied demands for training services adequate to their requirements • There is a sufficient number of existing and potential TIs capable of carrying out training services market expansion given indications of expanding demand
Products	• An Information and Referral Service with info on available supply of ME business services, especially training, together with info on ME needs and preferences regarding training contents and modalities • A Training Voucher distribution System for MEs • A Training Technology Development Fund for participating TIs	• Number of ME queries answered and referrals made • Number of TIs registered (and their courses) • Activities and courses supervised by the PCU • Number of vouchers redeemed • Reports to TIs on ME preferences and their unsatisfied demands • Reports and referrals on available ME training and other business services	• IRS register • TVS register • TI register • Supervision reports • Periodic evaluation reports and surveys	• The impact of a demand-oriented partial subsidy system is leveraged by an adequate and updated provision of information regarding the ME training market, and by the promotion of appropriate training technologies • The MEs are willing to pay part of the cost of the fees requested by participating TIs, at fee levels that allow for market expansion and consolidation • There are a sufficient number of TIs willing to develop the initial courses for Program participation, based on expected market expansion due to subsidy and greater information on supply

PROPOSED RESOLUTION

GUYANA. NONREIMBURSABLE TECHNICAL COOPERATION FOR THE DEVELOPMENT OF THE MICROENTERPRISE TRAINING SERVICES MARKET

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 Multilateral Investment Fund, to enter into such agreements as may be necessary with the Guyana Volunteers Consultancy Ltd. (GVC), and to take such additional measures as may be pertinent for the execution of the project referred to in Document MIF/AT- , with respect to a technical cooperation for the development of the microenterprise training services market.

2. That up to the amount of US$900,000, or its equivalent in other convertible currencies, is authorized for the purpose of this resolution, chargeable to the 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.