

# Abstract of Project Proposal

UPDATED - December 21, 1998

## I.

### Summary of General Information

Country : Guyana	Project ID: TC-9807069
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Project Name: <b>Training for Small and Micro Entrepreneurs: Pilot Voucher Program</b>	
Sector: Microenterprise	
Executing Agency:	Guyana Volunteers Consultancy (GVC)
Estimated Total Cost:	US\$2,075,000
IDB-MIF Contributions:	US\$1,450,000 (70%)
Counterpart Contributions:	US\$ 625,000 (30%)

## II. Project Objectives and Beneficiaries

The objective of the project is to strengthen and help deepen the private sector market for business and technical training services aimed at small and micro entrepreneurs in Guyana, through improved information flows, using vouchers as temporary incentive mechanisms which will result in a self-sustaining market. At present, the supply of business development services (BDS) is minimal and what services exist are generally of low quality and non-responsive to the needs of small and micro entrepreneurs. This project would represent a departure from previous public sector dominated, supply-side activities and the overly theoretical emphasis in curriculum development and course offerings.

Direct beneficiaries of the program are expected to be 7,500 to 15,000 small and micro entrepreneurs annually (by the end of the third year), and several privately owned and public business development service providers. The geographic focus of the project will be in the areas of highest population density along the Caribbean coast, based principally out of "information desks" in the Georgetown metropolitan area, Linden, and New Amsterdam.

An indirect yet perhaps equally important benefit will be the demonstration effect the program will have for both the public and private sectors. The successes achieved in this program will serve as a model for future public policy interventions which are executed by private sector entities. To the extent that the Ministry of Education observes the training market being effectively expanded and bolstered through private sector activity, it can apply and share the lessons learned with other public sector activities.

## III. Project Activities and Expected Outcomes

The project envisions four components: (i) a system of vouchers to be distributed to microentrepreneurs, which will cover about 50% of the price of the training courses; (ii) technical assistance to improve and accelerate the responsiveness of the service delivery capacity of training institutions, with particular emphasis on pedagogical innovations; (iii) a reference information system which will improve information flows to connect the microenterprise demand with potential suppliers of training; and (iv) technical assistance and financial support to the executing agency to rate training providers, to publicize the names of qualified providers and their course offerings, and to administer the voucher program. To reduce uncertainty about the capacity and number of BDS suppliers, and the demand of training services by small and micro entrepreneurs, the project will include specific benchmarks for performance which will be continually monitored, and a thorough and in-depth mid term evaluation will be undertaken (at the latest by month 18). Based on this monitoring and evaluation, steps will be taken either to overcome shortcomings or to terminate the project if the prospects for improvement are poor.

A. *Voucher Component* (\$560,000 - 39% of MIF Funds and US\$560,000 as counterpart contribution)

MIF funds will be used to provide a direct subsidy to microentrepreneurs wishing to receive training. Vouchers that partially cover the cost of courses in accounting, inventory management, marketing, and various other sector-specific technical topics will be distributed, using a means test. Recipients will have the liberty to use vouchers for courses offered by providers of their choice. The recipient will be responsible for financing the uncovered part of the course in cash. The cash payment is made at the beginning of the course and the voucher is used as the final payment.

*B. Training Services Development (\$100,000 - 7% of MIF Funds)*

A limited amount of funds will be used to purchase consultancy services to strengthen selected providers in improving their pedagogical capacity and training techniques, in order to better and more rapidly adapt the product to meet the demand of the potential customers. This component seeks to give the service providers international expert advice on how to structure training programs that respond to and meet client needs and to strive for financial self-sustainability.

*C. Reference Information System (\$295,000 - 20% of MIF Funds)*

This system is the vehicle through which two-way information regarding demand and supply of training services will be enhanced. It includes the establishment of three to four strategically located *information desks* and a simple information system, which will also be used for the distribution of the vouchers.

*D. Project Execution (\$495,000 - 34% of MIF Funds and US\$65,000 as counterpart contribution)*

This component will include the cost of administrative support, operating expenses, monitoring, and evaluation. The executing agency will install and operate the voucher system, training development, and reference information system, as well as inspect and approve a list of qualified providers, provide feedback information regarding customer preferences to suppliers, distribute the vouchers, prevent fraudulent behavior through monitoring, and make final payments to service providers. The executing agency will likely require the support of a full-time, resident international expert, as well as periodic technical advice from senior training specialists with experience in voucher programs.

*E. Expected Outcomes*

1. Increase in the number of private sector business development service providers.
2. Improvement in the cost recovery rates among business development service providers.
3. Increase in number and quality of courses offered as measured by demand and market growth.
4. Increase in number of clients demanding courses and increased willingness to pay a greater proportion of costs.
5. Increased understanding and appreciation within public sector of how public policy can be promoted through the private sector.

**IV. Estimated Cost and Financing.**

The total cost of the project will be approximately US\$2,075,000 of which MIF will provide US\$1,450,000 in nonreimbursable funds, and the clients and beneficiaries will provide a counterpart of US\$625,000, of which an estimated US\$560,000 will be in cash, over three years.

**V. Organization Capabilities of the Executing Agency**

Although the initial abstract recommended the Private Sector Center (PSC) to be the executing agency, this option presented the potential for inherent conflicts of interest due to their role as a provider of training services. However, in a recent analysis mission to Guyana, the project team re-assessed the institutional alternatives, and now recommends the Guyana Volunteers Consultancy (GVC) as the most appropriate institutional partner.

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. It's Board and staff are made up of competent and experienced business persons. The project team, the Representation, the Ministry of Education and international donors such as USAID and CIDA consider GVC to be a strong option as the executing agency because of : (i) its affinity with the microenterprise sector; (ii) institutional stability; (iii) its success in executing institutional strengthening and business development projects funded by USAID, CIDA, UNICEF and UNDP during the past three years; and (iv) its high levels of expressed interest in this operation. 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.

## **VI. Project Justification**

*Demand:* Approximately 50 percent of the active labor force (140,000 - 150,000) is found in the small and micro business sectors, which face clear challenges in upgrading owner and employee skills, maintaining and enhancing competitiveness, penetrating new markets, and introducing new services and products. Based on estimates of the number of microentrepreneurs currently receiving training in Guyana (almost 1% of potential demand), and referential percentages from similar training markets and voucher programs in other Latin American countries, it is estimated that between 5% and 10% of the potential demand could be feasibly converted into projected effective demand in the medium term, meaning 7,500 to 15,000 microentrepreneurs annually.

*Supply:* The suppliers of business development services in Guyana are few and weak. Public sector entities (Guyana Technical Institute, Guyana Industrial Training Institute, Institute of Adult and Continuing Education-University of Guyana) have dominated the provision of vocational and business development services, but have been plagued with poor quality in service delivery, inadequate training formats and recurrent budgeting difficulties, resulting in a lost of credibility and effectiveness. Private sector service providers include the Adult Education Association of Guyana, Consultative Association of Guyanese Industry, Ltd., and a number of small computer, accounting, and secretarial schools. Many courses offered are not geared to entrepreneurs' specific training needs and several larger institutes are quite dependent on government subsidies. In order help satisfy the need for better human capital formation in the small and micro business sectors, the project will use vouchers and direct technical assistance to non-financial service providers to develop a market-based, demand-led, high quality program. This project will strive to make significant contributions in two areas: (i) to develop a "client responsive" curriculum and (ii) to introduce cost recovery policies. In initial consultations with potential providers during the recent field work, there was evidence of some preliminary indications of responsiveness of the supply of services to the demand which would be induced with the vouchers.

Through increasing information available to service providers and potential micro and small enterprise clients, and through temporary demand stimulation, this pilot program seeks to create a sustainable market for training services which will be maintained on its own momentum and dynamism after the voucher system is phased out.

## **VII. Linkages to Country Strategies**

The proposed operation is fully consistent with the Country Strategy that seeks to promote human resource development and the strengthening of private sector organizations. It will also provide a pertinent point of reference for a new operation to be developed in Guyana which will work on the improvement of public sector vocational training programs.

## **VIII. Issues**

The issues initially identified in the original abstract were: (1) a possible conflict of interest for the executing agency as both administrator and training provider; (2) the suspected thinness of the service provider market which may not permit

sufficient competition and coverage; (3) the prevention of fraudulent resale of vouchers; and (4) the total financing needed to have an impact given the absorptive capacity of relevant institutions.

The recent analysis mission addressed these issues and, to a large extent, resolved points (1), (2) and (3). (Details are available in the Aide Memoire of the mission.) In addition to estimating a sufficient supply of service providers based on the updated analysis of the market, the project team redimensioned the operation to reflect its best estimates of demand for microenterprise training and the absorptive capacity of training institutions. Furthermore, the project team analyzed the measures necessary for reducing the risk of fraud to a minimum, and will include these measures in the Plan of Operations.

The principal outstanding issue is that of the source of counterpart funds. Inasmuch as this operation can be seen as a public policy intervention being implemented through the “shell” of a private sector institution, the project team recommends that the clients’ cash contribution towards the training courses be considered as the counterpart contribution to the operation. This is feasible for two reasons: (i) MIF funds for vouchers will be disbursed “pari passu” and upon the condition of the clients’ payment for the first half of the cost of the training, thus ensuring no voucher funds are spent without a counterpart disbursement; and (ii) the executing agency should not have to contribute its own funds to support activities which are basically public policy.

## **IX. Recommendation**

RE3/OD6 and the Guyana Country Office support this proposal and recommend its approval.