

NETWORK OF BUSINESS SERVICE CENTERS

(TC-94-05-20)

EXECUTIVE SUMMARY

REQUESTER: La Unión Industrial Argentina [Argentine Industrial Union] (UIA)

EXECUTING AGENCY: UIA

BENEFICIARIES: Small businesses in the areas involved in the project

FINANCING: Nonreimbursable technical-cooperation funding

MIF:	US\$ 8,475,000
Local contribution:	US\$ 2,908,100
Total:	US\$11,383,100
Revenue from user charges:	US\$ 3,871,560

IMPLEMENTATION SCHEDULE: Execution period: 4 years
Disbursement period: 4 years 6 months

ENVIRONMENTAL CLASSIFICATION: The Environment Committee, at its meeting of November 8, 1994, classified this as a Category II operation.

OBJECTIVES: To trigger a dynamic process of development among small businesses by expanding the market for business services in accordance with demand from such businesses. The aim is to ensure that at least one third of the firms which are the project's potential beneficiaries make use of services to boost their competitiveness, drawing largely on those available locally.

DESCRIPTION: In order to achieve the above objectives, the project will support the creation of a network of business service centers, to be coordinated by a unit based in the UIA, and consisting of four centers in the following districts: Rafaela-Esperanza-San Francisco (Santa Fe Province); Mar del Plata (Buenos Aires Province); San Rafael (Mendoza Province); and the Province of Entre Ríos. The centers will be responsible for fostering demand for business services from small businesses and for enabling such demand to be met by channeling the supply of qualified services. In particular, the centers will focus on: (i) identifying the needs of small businesses by means of specialized diagnostic studies; (ii) offering training in entrepreneurship, management and technical

areas, data on markets and technology, plus information and assistance in the financial field; (iii) organizing in-plant sectoral technical assistance initiatives and training; (iv) fostering cooperation between companies in the areas of exports, access to services and financing; (v) promoting the creation of new companies; and (vi) promoting the globalization of productive systems.

At the outset, the centers' activities will be aimed at spurring demand for services from the enterprises, either by promoting the services - in particular, those that have the greatest impact and are most widely used - or by conducting the specialized diagnostic studies. In this connection, while a fee will be collected for the services from the start, the revenue from those sales will not be used to cover the centers' fixed and variable operating expenses until the end of the project, thus allowing them to become self-supporting.

The centers will be autonomous. New corporate bodies are to be set up to ensure their effective operation to serve the enterprises, independently of any changes in the management of chambers of commerce.

At the same time, the centers will carry out their activities through contracts for specialized services, and will seek maximum operating collaboration with all agencies providing services for small businesses in each district - particularly with the agencies promoting the centers themselves.

BENEFITS:

The minimum universe of small businesses that will benefit directly from the project will number at least 3,500. The very significant indirect benefits will consist of the strengthening of sustainable intermediary institutions in the private sector, along with the acquisition of competitive skills by the local production system. In any case, the initial investment entailed by the project will foster dynamic growth in the market for business services.

RISKS:

The risks involved in the projects may be identified as: (i) the business organizations' lack of experience in the direct performance of services and/or in fostering access to highly professional business services in a systematic and coordinated fashion; and (ii) the possibility of a limited response from the enterprises. Nevertheless, the training programs for members of the centers' staff and the provision of

tutorial instruction by operators of successful similar centers, plus the personalized diagnostic studies and basic assistance provided for the enterprises should limit those risks. At any rate, the bulk of the project resources will be used to perform services, so that the use of such funding will be guided by demand from the enterprises. In the event that, by the end of the project, demand from the enterprises is found to be less than anticipated in the project analysis, the centers will be able to adapt their operations to actual market conditions. The existence of a reserve fund will enable the centers to make the necessary adjustments and/or investments to maintain their operating capacity.

**THE BANK'S
COUNTRY STRATEGY:**

The project is consistent with the Bank's strategy for Argentina, since it fosters the efficiency and competitiveness of the private sector. This operation complements the execution of other activities now being conducted by the Bank in the country to promote the development of small business.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

In addition to the general contractual conditions applicable to this operation, the following special conditions should be included:

- a. As conditions precedent to the first disbursement of resources from the MIF contribution, the executing agency is to present to the Bank:
 - Evidence that it has established the project coordination unit and assigned to that unit the staff and duties agreed upon with the Bank.
 - Evidence that it has opened an account in which the contribution funds will be deposited.
 - Evidence that the Operating Regulations for the project have entered into effect.
 - Evidence that the director of the coordination unit has been preselected pursuant to the Bank's rules and procedures.
- b. Disbursement of the contribution funds earmarked for the business service centers will be subject to the executing agency's presentation of the following items to the Bank:
 - Evidence that the respective center has been

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- The signed agreement, as previously agreed upon with the Bank between the executing agency and the respective center, setting forth: (i) the rights and responsibilities of the parties in regard to execution of the project; and (ii) the resources which the center must contribute as its donation to execution of the project.
- c. In addition, it shall be established that the executing agency is to undertake to:
- Present the mechanism to stipulate the distribution of resources earmarked for rewarding those centers that are most efficient in terms of income raised and the volume of services performed (see paragraph 4.14). Such presentation shall take place during the first year following the initial disbursement.
 - Set up a reserve fund containing the sums withheld from revenue from the sale of the project services (see paragraph 3.34).
 - Establish a separate income statement (see paragraph 4.17).
 - Conduct external evaluations of the program pursuant to the terms set forth in Chapter VI.

EXCEPTION:

Given the nature, short-term status and number of consultants (specialized advisors), and in the case of contracts providing for fees of no more than US\$30,000, it is recommended that - as it has in similar instances - the Bank conduct a posteriori monitoring of compliance with the procedures used to select and engage these consultants and with MIF eligibility conditions, especially in regard to the origin of the goods and services to be obtained (see paragraph 4.9).