

CONSOLIDATION OF MICROENTERPRISES IN NONTRADITIONAL MARKETS

(TC-00-12-07-9-AR)

EXECUTIVE SUMMARY

Executing agency: Latin American Center for Leadership Training and Research-LEATID (which means *Towards the Future* in Hebrew)

Financing:

MIF (Window III)	US\$ 836,000
Local contribution:	US\$ 768,000
Total:	US\$ 1,604,000

Timetable:

Execution period:	36 months
Disbursement period:	42 months

Objectives: The general objective is to contribute—by piloting a methodology for business development services based on community and technical support—to accelerating competitive insertion of microenterprises in the Buenos Aires metropolitan area in market segments with greater income-generating potential and, accordingly, greater added value.

The specific objective is to validate, through a pilot exercise, a business development services methodology based on technical support and the provision of seed capital.

Description: This project is a pilot test to disseminate on a broad scale a business development services methodology coupled with support in the form of seed capital. It targets microentrepreneurs and aims to help them to add value to their businesses by identifying new market segments that will enable them to compete successfully. The idea is to shift microentrepreneurs out of saturated markets that generate little revenue for them.

The project will identify new, nontraditional market segments with growth potential, and will conduct activities to train entrepreneurs with potential to operate in those markets. To this end, the supply of training services for microenterprises will be strengthened by transferring to consulting and/or training firms a methodology for microenterprise training and technical assistance developed by the American Joint Distribution Committee, to be adapted to the needs and features of Argentine microentrepreneurs.

The demand for technical assistance services will be linked to the newly trained supply through a matching grant fund that will partially subsidize demand. A seed capital fund will also be administered, whereby the executing agency will invest its own funds in firms that have received assistance and training and show strong potential for success.

**Special
contractual
clauses:**

In view of the need to support LEATID in the planning and management of the project, especially with fulfilling the special conditions for disbursement, the Bank will authorize disbursement of up to US\$8,000 of the component to accelerate microenterprise development for purposes of hiring the project coordinator for two months. This disbursement will be released once LEATID has fulfilled the general conditions of the technical-cooperation agreement (paragraph 4.32).

As conditions precedent to the first disbursement, the following are to be presented to the Bank's satisfaction: (i) evidence that the project coordinator has been selected (paragraph 4.6); (ii) the work plan for the first year, containing a schedule of the executing agency's activities, the planned resources, and each activity's targets (paragraph 4.6); and (iii) the terms of reference for hiring the services of the Paraguas Club (paragraph 4.9).

A copy of the agreements signed by the executing agency and the microenterprises receiving seed capital are to be forwarded to the Bank. The executing agency is to inform the Bank with regard to seed capital contributions in its semiannual reports, with detailed information on amounts and a list of microenterprises having received such contributions (paragraph 4.21).

**Exceptions to
Bank policy:**

None.

I. COUNTRY AND PROJECT ELIGIBILITY

- 1.1 The Donors Committee declared Argentina eligible for all financing modalities under the Multilateral Investment Fund on 30 November 1993. The present project is consistent with the MIF's mandate to support microenterprises and small businesses inasmuch as it will provide services to enhance the competitiveness and sustainability of these economic units.

II. BACKGROUND

A. Relevant issues for microenterprise and small business

- 2.1 According to a household survey conducted in 1996, Argentina had an estimated 1.2 million economic units that employed fewer than five employees; this was equivalent to 91% of all the country's businesses. The breakdown by sector of economic activity is revealing: microenterprises account for 71% of all registered businesses in the manufacturing industry; 95% in the trade sector; and 89% in the service sector. However, some studies have indicated that many startup microenterprises do not survive beyond their second year of operation.
- 2.2 The economic reform launched in Argentina in 1991 has hit the middle class especially hard, pushing many people to the brink of or, in fact, into poverty. According to the National Statistics and Census Bureau (INDEC), between May 1999 and May 2000, one thousand people slipped below the poverty threshold each day.¹ These are the "new poor" who have been created by the downsizing of the State and changes in the labor market. Often they are professionals, independent retailers, or skilled workers who must cope with new circumstances brought on by sociocultural changes. Many of these people have found in the microenterprise sector an appropriate niche for engaging in low-investment undertakings that involve some degree of sophistication and up to a maximum of five employees. Although they have their technical expertise and some contacts to rely upon, sustainability continues to be a serious problem.
- 2.3 Economic opening, access to new technologies and forms of production, globalization of brands and products, the arrival of world business leaders in the region, privatization, higher relative and absolute costs for production, consumption, and exportation of goods, coupled with the need to be competitive in new market niches are just a few of the phenomena that have played a role in the closing of these as well as other, more consolidated firms.
- 2.4 Aside from such structural factors, which hinder the establishment, sustainability, and survival of these businesses, there are also a number of internal factors that contribute to the situation. Often, the changes triggered by the new economic model

¹ From the 17 May 2001 issue of the Argentine daily *La Nación*.

have not been accompanied by a full understanding and adaptation to the new setting in terms of content and skills retraining. These constraints become steep barriers keeping these companies out of new markets, especially in market segments denominated for purposes of this project as *nontraditional markets*.²

- 2.5 A number of initiatives—many of them financed by the Bank and geared especially towards small and medium-sized businesses—have been launched to address the problems posed by low management and strategic capacity in this sector. Inasmuch as there are no services trained to provide specialized technical assistance to microentrepreneurs, the present project will seek to disseminate business development services targeted to microenterprises that have moved beyond the subsistence level and are focusing on capital accumulation; it will thus complement all the other initiatives funded by the Bank and other multilateral organizations in Argentina.
- 2.6 The project will provide a space that promotes business options for entrepreneurs who have the basic, interpersonal, and technical skills to run a profitable microenterprise, on the basis of a professional analysis of future scenarios for certain markets.
- 2.7 The project will be implemented by LEATID, a not-for-profit organization founded in Argentina in 1990 at the initiative of the American Joint Distribution Committee. Its purpose is to foster human development and the quality of life in all spheres, regardless of race, religion, or political affiliation, through research, social promotion, education, health care, job creation, and new undertakings. The American Joint Distribution Committee (AJDC) is a not-for-profit United States organization that was founded in 1914 to channel humanitarian aid to Jewish communities in Palestine. Today it supports and manages organizations in a fully ecumenical fashion in 70 countries. Its purpose is to provide partial funding, through strategic partnerships with local executing agencies, for innovative projects that replicate the achievements obtained through its methodological advances in Israel.
- 2.8 To implement the present project, the microenterprise acceleration methodology developed by the AJDC at the Small Business Advisory Center in Israel will be adapted by LEATID to reflect the features of Argentina's microenterprise sector. This methodology has been successfully tested in such countries as Albania, Bosnia, Israel, Macedonia, Rwanda, Serbia, and Turkey. The paradigm under which this business development services methodology has been developed consists of three components: (i) methodology to support businesses during crisis situations;

² These are specific markets that require some sort of sophistication above and beyond the basic activity. Although the basic activity is performed in economic sectors where microenterprises are typically present, the end products offered in these markets have greater added value in terms of final product and quality offered, and thus greater possibilities for expansion and growth.

- 4.25 These business development services are targeted to microentrepreneurs to enable them to add value to their businesses by identifying new market segments in which they can compete successfully. The idea is to shift microentrepreneurs out of saturated markets that generate little revenue for them.
- 4.26 The independent consultants and consulting firms that will receive training in this methodology will be indirect beneficiaries, with the potential to replicate it with clients besides those served by the project.
- 4.27 LEATID's medium-term objective is to replicate this project in larger cities that are plagued by unemployment and impoverishment of the middle class.

D. Environment

- 4.28 This operation was reviewed by the Committee on Environment and Social Impact (CESI) on 9 March 2001, which made recommendations with regard to the project design, specifically the Operating Regulations.

E. Procurement

- 4.29 The goods and consulting services needed to carry out the project will be procured in accordance with applicable Bank procedures. Procurement will be open to all member countries of the MIF.

F. Accounting and auditing

- 4.30 LEATID and the Paraguas Club would: (a) establish and keep adequate accounting, financial, and internal controls, as well as filing systems that provide detailed information on the sources and use of project funds. Project records are to include: (i) identification of resources and the respective sources; (ii) information on project expenses, identifying MIF contributions and funds from other sources; and (iii) the necessary detail to identify goods and services procured; (b) open separate bank accounts to administer the contributions of the MIF and of the local counterpart; (c) process disbursement requests and the respective substantiating vouchers, in accordance with the Bank's disbursement policy; and (d) prepare and present to the Bank the final financial statement of the project audited by an independent firm acceptable to the Bank, as well as the reports of the revolving fund.

G. Execution and disbursement period

- 4.31 The project would be implemented over a period of 36 months and the contribution would be disbursed over a period of 42 months. In accordance with the estimated implementation requirements, a revolving fund would be set up equivalent to 10% of the MIF's contribution and would be managed through an independent account. This fund would allow resources to be available in a timely fashion in order to carry out the various activities called for.

- 4.32 In view of the need to support LEATID in the planning and management of the project, especially with fulfilling the special conditions for disbursement, the Bank will authorize disbursement of up to US\$8,000 of the component to accelerate microenterprise development for purposes of hiring the project coordinator for a period of two months. The disbursement will be released once LEATID has fulfilled the general conditions of the technical-cooperation agreement.

H. Project preparedness

- 4.33 LEATID has received approval from the AJDC to carry out the project, and the letter of commitment for the cash contribution has been received. The Operating Regulations were prepared in conjunction with the executing agency.

V. PROJECT COST AND FINANCING

A. Cost and financing

- 5.1 The project's cost has been estimated at US\$1,604,000 equivalent, of which US\$836,000 would be contributed by the MIF and US\$768,000 would be the local contribution, as follows:

Activity	MIF	Local	Total	%
<u>Component 1:</u> Linkage and integration of entrepreneurs	75,000		75,000	5.0
<u>Component 2:</u> Acceleration of microenterprise development	534,000	609,000	1,143,000	71.0
Executing unit	167,000	159,000	326,000	20.0
Evaluation and audit	30,000		30,000	2.0
Contingencies	30,000		30,000	2.0
Total	836,000	768,000	1,604,000	100
Percentage	52%	48%	100%	

- 5.2 The counterpart resources would be provided in kind up to US\$250,000 and the remainder in cash.

B. Project sustainability

- 5.3 The sustainability of this project is ensured by: the existence of a supply of training services and technical assistance geared towards the microenterprise sector; the success of microentrepreneurs working in more sophisticated market niches; and some degree of cost recovery.
- 5.4 With regard to the supply of technical assistance and training services, at least 20 entities will have the capacity and experience to guide microentrepreneurs using

an innovative methodology and having participated in a pilot process. They will thus be able to operate in new market niches and expand their clientele.

- 5.5 The microenterprises will not only have acquired expertise in management and strategy for positioning in more sophisticated market niches but will also have acquired legal status and become bankable entities, generating income and employment.
- 5.6 LEATID will have received the necessary resources for the initial investment entailed in adapting a new methodology to a setting different from the one in which it was conceived; it will have staff trained and experienced in the application of the methodology; and it will receive from the microenterprises a percentage over their income, which will allow it to replicate the project elsewhere in the country and abroad (e.g., in Chile and Uruguay) without having to incur start-up costs.

VI. RATIONALE AND RISKS

A. Rationale

- 6.1 The project's main benefit will be the development and testing of an innovative methodology that will help to generate an adequate supply of specialized technical assistance for microenterprises, since these services are currently not available in Argentina for the microenterprise sector.
- 6.2 Also, the project's focus on penetrating new growth markets with potential will help to generate a solid base of microentrepreneurs. Given the crisis that the country is currently facing, this will contribute to generating both jobs and income.
- 6.3 Lastly, the decision to adapt scientifically a business development services methodology conceived especially to serve the needs of firms in crisis conditions is especially appropriate for the microenterprise sector in Argentina, which is undergoing a strong recession and crises on internal and external markets.

B. Risks

- 6.4 The project presents two kinds of risks: (i) lack of demand among microenterprises for technical assistance; and (ii) sustainability of the project.
- 6.5 To mitigate the first risk, the project includes activities for direct, mass promotion; demand will also be stimulated by the matching grants subsidies and the subsequent provision of seed capital. Furthermore, LEATID has its own, internal demand that is sufficiently widespread as a result of the various projects it has implemented, which have created lasting links with microentrepreneurs and their representative organizations.

- 6.6 The second risk arises from the fact that the methodology and its success are the result of its having been applied in communities with a strong sense of belonging and the fact that it is based on the hypothesis that the non-subsistence microenterprise sector—given the lack of adequate attention for its degree of development and the strong impact of the country's recession—suffers from consequences of economic and market exclusion that are similar to those suffered by the crisis-stricken isolated communities for which the methodology was developed. Accordingly, the project is viewed as a pilot project that will adapt the methodology by using the same technical, cultural, and scientific bases, with the expectation that its application will generate the anticipated success among microentrepreneurs and that it will be adopted by numerous training and consulting entities that could replicate it.

VII. MONITORING AND EVALUATION

A. Monitoring

- 7.1 The logical framework (see Annex I) presents elements for the project's execution, monitoring, and evaluation. LEATID will be responsible for monitoring and preparing the respective reports. Semiannually it is to prepare a progress report documenting the activities performed during the period. The reports—whose format will be agreed upon with the Country Office in Argentina—are to include monitoring of compliance with the performance indicators contained in the logframe, a work plan, and a disbursement schedule for the following period. The progress report is to be delivered to the Country Office within the 30 days following the close of each six-month period. These reports will serve as input for the executing agency to prepare a final report within the three months preceding project completion. The Country Office will use the reports to follow up on the project.

B. Evaluation

- 7.2 The project calls for two evaluations, to be conducted by an international consultant specialized in financial and nonfinancial services for small businesses and microenterprises, selected by the Bank and hired by the executing agency with resources from the contribution. The first evaluation will be conducted upon disbursement of more than 30% of the total or at 12 months after the first disbursement, and will cover the following aspects as a minimum: (a) the institutional capacity of the executing agency; (b) implementation of the services called for under the project; (c) the need for new services; (d) the size and type of beneficiary companies; (e) the quality and cost of services offered through the training and technical assistance activities; and (f) user satisfaction, as determined through interviews with at least 20 beneficiaries selected at random from among the consulting firms and the entrepreneurs. The report should indicate any necessary

remedial action to ensure proper execution of the project, as well as suggest the suspension of disbursements in the event structural defects arise in execution. Disbursements could resume once the executing agency demonstrated that it had taken the necessary steps to remedy the deficiencies. If structural defects are detected in execution of any of the components, disbursements would be canceled permanently.

- 7.3 The second evaluation will be conducted three months before the final disbursement and is to analyze: (a) the degree to which the project's specific objectives have been attained; (b) the number, size, and type of beneficiary firms; (c) the quality and cost of services offered; (d) user satisfaction, as determined by a survey of participating firms; (e) the project's sustainability once the MIF's contribution has been finalized; and (f) basically, it will measure—through analysis of comparative figures from the firms surveyed—the degree of actual insertion in new markets.

VIII. SPECIAL CONTRACTUAL CONDITIONS

- 8.1 In view of the need to support LEATID in the planning and management of the project, especially with fulfilling the special conditions for disbursement, the Bank will authorize disbursement of up to US\$8,000 of the component to accelerate microenterprise development for purposes of hiring the project coordinator for two months. This disbursement will be released once LEATID has fulfilled the general conditions of the technical-cooperation agreement (paragraph 4.32).
- 8.2 As conditions precedent to the other disbursements, the following are to be provided to the Bank's satisfaction: (i) evidence that the project coordinator has been selected; (ii) the work plan for the first year, containing a schedule of the executing agency's activities, the planned resources, and each activity's targets (paragraph 4.6); and (iii) the terms of reference for hiring the services of the Paraguas Club (paragraph 4.9).
- 8.3 A copy of the agreements signed by the executing agency and the microenterprises receiving seed capital are to be forwarded to the Bank. The executing agency is to inform the Bank with regard to the seed capital contributions in its semiannual reports, with detailed information on amounts and a list of microenterprises having received such contributions (paragraph 4.21).

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND
NOT FOR PUBLIC USE

ARGENTINA

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IN NONTRADITIONAL MARKETS**

(TC-00-12-07-9-AR)

DONORS MEMORANDUM

This document was prepared by the project team consisting of: María Victoria Sáenz de Lleras, Project Team Leader (SDS/MSM); María Elena Nawar (MIF); Héctor Castello (COF/CAR); Emilio Cueto (LEG/OPR); and Manuel Glagovsky (consultant).

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ANNEXES

Annex I Logical framework

APPENDIXES

Proposed resolution

BASIC SOCIOECONOMIC DATA

The basic socioeconomic data for Argentina are available on the Internet at the following address:

English:

<http://www.iadb.org/int/sta/english/staweb/>

Spanish:

<http://www.iadb.org/int/sta/spanish/staweb/>

INFORMATION AVAILABLE IN THE TECHNICAL FILES (SDS/MSM)

1. Terms of reference for the project coordinator
2. LEATID bylaws and background information
3. Paraguas Club bylaws and background information
4. Itemized project budget
5. Project performance monitoring report
6. Operating Regulations

ABBREVIATIONS

AJDC American Joint Distribution Committee

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Objectives:	<p>The general objective is to contribute—by piloting a methodology for business development services based on community and technical support—to accelerating competitive insertion of microenterprises in the Buenos Aires metropolitan area in market segments with greater income-generating potential and, accordingly, greater added value.</p> <p>The specific objective is to validate, through a pilot exercise, a business development services methodology based on technical support and the provision of seed capital.</p>	
Description:	<p>This project is a pilot test to disseminate on a broad scale a business development services methodology coupled with support in the form of seed capital. It targets microentrepreneurs and aims to help them to add value to their businesses by identifying new market segments that will enable them to compete successfully. The idea is to shift microentrepreneurs out of saturated markets that generate little revenue for them.</p> <p>The project will identify new, nontraditional market segments with growth potential, and will conduct activities to train entrepreneurs with potential to operate in those markets. To this end, the supply of training services for microenterprises will be strengthened by transferring to consulting and/or training firms a methodology for microenterprise training and technical assistance developed by the American Joint Distribution Committee, to be adapted to the needs and features of Argentine microentrepreneurs.</p>	

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² These are specific markets that require some sort of sophistication above and beyond the basic activity. Although the basic activity is performed in economic sectors where microenterprises are typically present, the end products offered in these markets have greater added value in terms of final product and quality offered, and thus greater possibilities for expansion and growth.

(ii) strengthening of leadership and entrepreneurship; and (iii) presence of outreach workers to support entrepreneurs during the transformation process. Technical follow-up is provided for roughly 60 hours per microenterprise in the form of specific training and technical assistance in line with the firm's degree of maturity, help with developing a business plan suited to new market niches, and seed capital.³

- 2.9 The seed capital not only enhances the companies strategically and competitively, but it helps to ensure the project's sustainability. The returns yielded by these investments will be used to replicate and upscale this pilot project at the regional level.
- 2.10 This methodology owes its success partly to the fact that it has been tested in closed communities that share a set of deep-rooted cultural values.⁴ A unique feature of the project at hand is that it will disseminate on a mass scale a broad-based community methodology to be applied in the extensive community of microenterprises in Argentina.
- 2.11 The project seeks to help create a local supply of external providers of business development services that is capable of meeting the challenges posed by microenterprises, especially those that have reached a stage of possible transformation but, because they lack an appropriate strategic vision, they are unable to adapt in order to enter market segments that are growing and would enable them to consolidate themselves as generators of income and employment.

III. THE PROJECT

A. Objectives

- 3.1 The project's general objective is to help to accelerate the competitive insertion of microenterprises in the Buenos Aires metropolitan area in market segments with greater income-generating potential and thus greater added value.
- 3.2 The specific objective is to validate, through a pilot exercise, a business development services methodology based on technical support and the provision of seed capital.

³ In practice, this contribution is made in the form of a subordinated loan.

⁴ Examples of this type of methodology can be seen, for instance, in the Asian communities of Washington, D.C., and in isolated Jewish communities.

B. Description

- 3.3 The project will identify new, nontraditional market segments with growth potential,⁵ and will conduct activities to train entrepreneurs with potential to operate in those markets. To this end, the supply of training services for microenterprises will be strengthened by transferring to consulting and/or training firms a methodology developed by the AJDC for serving microenterprises, to be adapted to the needs and features of Argentine microentrepreneurs.
- 3.4 The demand for technical assistance services will be linked to the newly trained supply through a mass promotion and mobilization effort targeting microenterprises through direct mailings, in addition to the administration of a matching grant fund that will partially subsidize demand. A seed capital fund will also be established, whereby the executing agency will invest its own funds in firms that have received assistance and training and show strong potential for success.

C. Components

- 3.5 The project has two components: (i) linkage and integration of entrepreneurs; and (ii) acceleration of microenterprise development.

1. Linkage and integration of entrepreneurs (MIF-US\$75,000)

- 3.6 With a view to opening the project's opportunities to microenterprises that are smaller in scale or outside the Buenos Aires area, LEATID will hire the services of Asociación Civil Paraguas Club to promote horizontal and vertical integration of the microentrepreneurs so that they can later present themselves to receive the package of business development services and seed capital. It will seek to promote demand for entrepreneur training, build partnerships among them, and promote their reactivation and enhancement of their management. Roughly 20% of the clients to be served with the AJDC methodology have a relatively small business base and are underserved by training organizations.
- 3.7 The main activities to be carried out are: (i) 90 meetings to motivate and integrate entrepreneurs; and (ii) dissemination of activities through publications and Web pages.
- 3.8 The expected outputs are: (i) up to 1,000 entrepreneurs taking part; (ii) presentation by the Paraguas Club of up to 45 enterprises in response to calls issued by LEATID to take part in the selection for training and technical assistance services; and

⁵ The following markets will be targeted in order to identify niches for greater added value: clothing, leather goods, and footwear; fashion and jewelry; software and multimedia; tourism and entertainment; chemicals and pharmaceuticals; home furnishings, e.g., lighting fixtures, furniture, carpets, painting; catering and restaurants.

(iii) replication of the entrepreneur linkage methodology in at least two branches of the Paraguas Club at locations outside Buenos Aires (to be determined).

2. Consolidation of microenterprise development (MIF – US\$534,000; local contribution – US\$609,000)

- 3.9 This component aims at competitive insertion of microenterprises in specific market segments through specialized technical and financial assistance approved by the executing agency.
- 3.10 Activities will be conducted in four areas: (i) identification of nontraditional market segments; (ii) adaptation of the AJDC methodology to conditions in Argentina and training of consultants and consulting firms; (iii) promotion and mobilization of microenterprises; and (iv) “acceleration”⁶ of microenterprise development.
- 3.11 To **identify nontraditional market niches** with potential for successful microenterprise performance, LEATID will analyze nine nontraditional market sectors and segments where microenterprises could compete successfully; these sectors have been identified tentatively and are listed in the Operating Regulations.
- 3.12 To **adapt the methodology to conditions in Argentina and train consultants**, LEATID will issue an open call to individual consultants and consulting firms that meet the following criteria: (i) have experience working with microenterprises or small businesses; (ii) have experience as an expert consultant in the areas of productivity and preparation of business plans; (iii) are willing to sign a contract with LEATID stating their agreement to work with the target sector; and (iv) accept the rates and form of payment established in the project. The consultants/firms to receive training will be selected by a selection committee set up for this purpose and composed of the project coordinator, a representative of LEATID, and an invited representative of the sector’s needs and interests. If possible, a representative of the banking sector will also be invited to sit on the committee.
- 3.13 To **promote the project and mobilize microenterprises** to take part in a competition, direct mailings and the mass media will be used. Microenterprises will be selected according to the following basic eligibility criteria: (i) qualify as a *microenterprise* under applicable country legislation; (ii) not have more than five employees; (iii) be able to present financial statements for the preceding year; (iv) already be operating in the market; (v) be in compliance with local environmental legislation; and (vi) not have received any previous subsidies from the same fund; in other words, they can only receive matching grants from the fund once during the project’s life and with MIF resources.

⁶ According to the AJDC methodology, “acceleration of entrepreneurial development” means processing and fostering microbusiness ideas quickly so as not to lose the idea’s entrepreneurial drive. To do so, all the necessary factors need to be interconnected in order to bring about immediate startup of a business proposal.

- 3.14 Lastly, **to accelerate microenterprise development**, the project will: (i) link up entrepreneurs chosen by the selection committee with consulting/training entities that have received training technology and technical assistance for microentrepreneurs; (ii) administer a matching grant fund that will directly reimburse microenterprises for 50% of the cost of technical assistance and training;⁷ and (iii) provide seed capital from LEATID in specific projects.
- 3.15 The expected output of this component is the validation of the methodology, which will make it possible to gather lessons learned for possible replication or upscaling elsewhere in the country or abroad. This will be achieved through: (i) analysis of at least nine economic sectors to locate market niches with greater added value; (ii) at least 20 technical assistance and training service entities that have received technical strengthening and are offering quality services to microenterprises; (iii) roughly 200 microentrepreneurs who have received training; (iv) approximately 90 microentrepreneurs who are active in nontraditional, growth market segments; and (v) seed capital provided to approximately 35 selected microenterprises.

IV. PROJECT EXECUTION

A. Executing agency

- 4.1 The project will be implemented by LEATID. Since its founding in the 1990s, LEATID has managed projects to set up trust funds to provide seed capital for organizations in Central America. It has experience promoting AJDC's technical expertise among business preincubators in Argentina, Brazil, and Uruguay; and its work has focused on projects involving self-employment and the creation of job exchanges, such as the *Centro de Orientación para el Desarrollo Laboral* in Argentina and the *Centro Integral de Expansión Laboral* in Uruguay.
- 4.2 LEATID has been active in the microenterprise sector since 1994, supporting the design and implementation of projects directly or through other organizations. Among the former are the Volunteer Network, a pilot project to design and implement cooperative microenterprises in service market niches that are easily accessible to entrepreneurs with limited technical backgrounds. As of this writing, four associative microenterprises have been established in the areas of commercial baking, message delivery, and transportation, providing self-employment for 60 persons directly and another 90 indirectly. These four cooperative microenterprises are independent and self-sustaining after two years.

⁷ Maximum amount of reimbursement: 50% of US\$3,600 per firm, at the rate of 60 hours at US\$60 each, on average.

- 4.3 Another project worthy of mention is the *Organización para la Rehabilitación del Trabajo* [Work Rehabilitation Organization] of Argentina, which has provided basic Internet training to 500 microentrepreneurs. Today, all 500 have personal computers with Internet access, they have institutional Web pages, and they are interconnected. They were the first microentrepreneurs in Argentina to implement and use e-commerce.
- 4.4 LEATID was involved in the preparations and institutional support for the re-engineering of Fundación Banco de Mayo and its conversion to Fundación CANE, and in strengthening the Asociación Mutual Israelita Argentina's CODLA job center, a project that has provided job retraining for 800 microentrepreneurs. It also supported the setting-up of the Tzedaka Foundation, which provides comprehensive support to low-income microentrepreneurs through training and credit, and is currently one of the executing agencies of projects under the Social Capital Trust Fund.
- 4.5 LEATID's normal methodology is to implement specific projects—for which cash contributions are provided by the AJDC—to build strategic partnerships with other civil society organizations and the government. It also receives funding from individuals, service fees, seminars, consulting services, and conferences. For this project, LEATID will receive cash contributions from the AJDC, which has already committed US\$400,000 to the project.

B. Implementation arrangements

- 4.6 An executing unit will be set up and will include the project coordinator, who will be selected by means of a publicly issued call, and an administrative/accounting assistant.⁸ As a condition precedent to disbursement, the following must be presented to the Bank's satisfaction: (i) evidence that the project coordinator has been selected; and (ii) the first annual work plan, which should contain a schedule of activities of the executing agency, the planned resources, and the targets of each activity.
- 4.7 The executing unit will be responsible for: (i) approving the project's Operating Regulations and any amendments thereto (in which case the Bank's *no objection* will be required); (ii) coordinating activities to identify nontraditional market segments for microenterprises; (iii) coordinating training for trainers/consultants in the AJDC technical assistance methodology for microenterprises; (iv) defining basic eligibility criteria for microenterprises to receive training and/or investment; (v) disseminating and promoting the project; (vi) setting up the selection committee in charge of selecting microentrepreneurs; (vii) linking entrepreneurs with entities that have received technical assistance technology for microenterprises; (viii) administering the matching grant fund; (ix) defining the eligibility criteria to

⁸ The terms of reference for the contracts are included in the Operating Regulations.

determine which microentrepreneurs will receive financial support; (x) designing, developing, and implementing the system to monitor and evaluate financial contributions to selected microenterprises, and determining performance indicators; (xi) approving semiannual reports submitted by the project coordinator, prior to presentation to the Bank; (xii) disseminating the results obtained; and (xiii) monitoring compliance with the project's performance indicators and objectives as set forth in the logical framework (see Annex I).

1. Implementation of the linkage and integration of entrepreneurs

- 4.8 To carry out this component, LEATID will hire the services of Asociación Civil Paraguas Club, which seeks to create work by using available idle resources within a framework of solidary integration. Since its founding in 1996, the Paraguas Club has provided training to over 2,000 microentrepreneurs and has been able to help over 200 to set up business. Its service methodology is aimed at strengthening microentrepreneurs' businesses, for which purpose it provides basic training, training in negotiation, and delivery of inputs needed for formalizing their operations.
- 4.9 The strategic partnership with the Paraguas Club makes it possible to work with various microenterprise sectors and foster graduation from lower to higher levels of development. In fact, while LEATID has experience with microentrepreneurs and small business operators with relatively higher levels of development, the Paraguas Club's experience is based on microentrepreneurs seeking to accumulate capital or still operating at a subsistence level. A condition precedent to the first disbursement will be presentation, to the Bank's satisfaction, of the terms of reference for hiring the services of the Paraguas Club.

2. Implementation of the matching grants

- 4.10 Applications for training or assistance through matching grants will be processed in strict order of receipt. Materials will be delivered in advance to explain the project's rules and provide the list and specialties of approved consultants.
- 4.11 Applications will be examined by the selection committee convened for this purpose by the executing unit. The evaluation criteria will be designed in such a way as to establish which plans are viable and will help to attain the project's objectives and are thus eligible to receive nonreimbursable contributions in the form of matching grants. The following main features will be evaluated: (i) the firm, its expectations, and the market in which it operates; (ii) its possibilities for penetrating nontraditional market niches; (iii) its current competitive position; and (iv) the proposed training and assistance plan (PCAP).
- 4.12 The selection committee will establish the criteria for rating proposals, evaluate applications on the basis of those criteria, and approve applications for cofinancing.

It should also verify that the PCAP is consistent in terms of: (i) fulfillment of eligibility criteria; (ii) whether scheduled hiring activities reflect objectives; (iii) services requested; (iv) implementation schedule; (v) service costs; and (vi) compliance with legal formalities. Applicants will be informed of the acceptance or refusal of requests for financing of 50% of training and/or consulting services within 10 working days.

- 4.13 Entrepreneurs whose PCAP is approved agree to hire approved service providers, follow the terms of reference of approved quotations, comply with schedules, and pay the cost for services in their proposal.⁹ The executing unit will guide the firm in hiring the necessary advisory services. All training and/or technical assistance contracts signed by firms and project-approved organizations must be cleared by the executing unit prior to start-up.
- 4.14 The contract is to include the following elements, as a minimum: (i) issues to be addressed by the training or technical assistance; (ii) total cost and form of payment; (iii) duration of services; (iv) expected outcomes; (v) conditions for rescission of the contract; and (vi) statement from the beneficiary firm that its project will not have any negative environmental impact.
- 4.15 Reimbursement of 50% of the funds invested by entrepreneurs may be done *pari passu* with the payments made by the entrepreneur to the consulting firm. To be reimbursed, entrepreneurs must present the respective invoices and a clear summary description of the results obtained, as well as any documentation and materials utilized in the training, if applicable.
- 4.16 Entrepreneurs must inform the executing unit, in advance, of the date, place, and time of each training event or technical assistance session. The executing unit reserves the right to attend these sessions. If no such advance notice is provided, the executing unit reserves the right not to reimburse the 50% agreed upon. Notice may be provided by fax.
- 4.17 Each firm taking part in the project may receive up to a maximum of US\$1,800 in support from the MIF.

3. Administration of the seed capital fund

- 4.18 The concept of seed capital as embodied in the AJDC's methodology refers to small cash contributions to finance a specific activity required for a firm to position itself strategically in a new market. Each firm can receive up to a maximum of US\$10,000 in capital or social contributions to finance activities such as the translation of a product catalogue, a business trip abroad, development of samples and new products for export, participation in trade fairs, etc.

⁹ Account will be taken of prevailing market rates for similar levels of support.

- 4.19 To be eligible to receive seed capital, prospective beneficiaries must: (i) have participated in the technical assistance program since the beginning; (ii) have presented a business plan that is consistent with the executing unit's sector priorities; (iii) not have a total indebtedness ratio (total liabilities/total assets) over 65%; (iv) present a business plan with an annual internal rate of return of around 22%; (v) have sufficient management capacity to implement the project in terms of level of education, experience, and training; (vi) present an uncomplicated project than can feasibly be executed; and (vii) the microenterprise leading entrepreneur must be solvent.
- 4.20 Taking as a basis the firm's business plan, the executing unit will analyze the main components to be financed that might hinder or delay acceleration of the project. In each case, the amounts and percentages will be determined in keeping with the investments to be made and the expected outcomes.
- 4.21 Microenterprises selected for acceleration must sign an agreement with the executing unit setting forth the obligations assumed by LEATID to accelerate the firm's competitive insertion into nontraditional markets and the microentrepreneur's obligation to: (i) include LEATID's contribution as part of the firm's capital for accounting purposes; (ii) pay LEATID an annual success commission for assistance and monitoring as a percentage of sales, to be agreed upon by the parties and which will vary according to sales; (iii) pay LEATID an amount over the seed capital contribution, which will also be agreed upon by the parties depending on the amount of the investment and the expected outcomes; and (iv) repay to LEATID the amount of the contribution in nominal terms upon expiration of the respective timeframe. A copy of these agreements is to be forwarded to the Bank. The executing agency is to inform the Bank with regard to the seed capital contributions in its semiannual reports, with detailed information on amounts and a list of microenterprises having received contributions.
- 4.22 The contract should also specify how long the contribution will appear as part of the firm's capital and the planned exit strategy, the options being full payment at the end of the period or gradual divestment over the period. An essential part of LEATID's technical assistance during this period will be to make the microenterprise and the entrepreneurs bankable, so that they may have access to financial sector resources that will allow them to keep the firm capitalized.
- 4.23 Equity holdings in accelerated microenterprises may not extend for more than five years. The expected maximum time of holding is three years.

C. Beneficiaries

- 4.24 The beneficiaries of the project would be the microenterprises of the Buenos Aires metropolitan area that are going concerns and are seeking to enter and become competitive on nontraditional markets.

- 4.25 These business development services are targeted to microentrepreneurs to enable them to add value to their businesses by identifying new market segments in which they can compete successfully. The idea is to shift microentrepreneurs out of saturated markets that generate little revenue for them.
- 4.26 The independent consultants and consulting firms that will receive training in this methodology will be indirect beneficiaries, with the potential to replicate it with clients besides those served by the project.
- 4.27 LEATID's medium-term objective is to replicate this project in larger cities that are plagued by unemployment and impoverishment of the middle class.

D. Environment

- 4.28 This operation was reviewed by the Committee on Environment and Social Impact (CESI) on 9 March 2001, which made recommendations with regard to the project design, specifically the Operating Regulations.

E. Procurement

- 4.29 The goods and consulting services needed to carry out the project will be procured in accordance with applicable Bank procedures. Procurement will be open to all member countries of the MIF.

F. Accounting and auditing

- 4.30 LEATID and the Paraguas Club would: (a) establish and keep adequate accounting, financial, and internal controls, as well as filing systems that provide detailed information on the sources and use of project funds. Project records are to include: (i) identification of resources and the respective sources; (ii) information on project expenses, identifying MIF contributions and funds from other sources; and (iii) the necessary detail to identify goods and services procured; (b) open separate bank accounts to administer the contributions of the MIF and of the local counterpart; (c) process disbursement requests and the respective substantiating vouchers, in accordance with the Bank's disbursement policy; and (d) prepare and present to the Bank the final financial statement of the project audited by an independent firm acceptable to the Bank, as well as the reports of the revolving fund.

G. Execution and disbursement period

- 4.31 The project would be implemented over a period of 36 months and the contribution would be disbursed over a period of 42 months. In accordance with the estimated implementation requirements, a revolving fund would be set up equivalent to 10% of the MIF's contribution and would be managed through an independent account. This fund would allow resources to be available in a timely fashion in order to carry out the various activities called for.

- 4.32 In view of the need to support LEATID in the planning and management of the project, especially with fulfilling the special conditions for disbursement, the Bank will authorize disbursement of up to US\$8,000 of the component to accelerate microenterprise development for purposes of hiring the project coordinator for a period of two months. The disbursement will be released once LEATID has fulfilled the general conditions of the technical-cooperation agreement.

H. Project preparedness

- 4.33 LEATID has received approval from the AJDC to carry out the project, and the letter of commitment for the cash contribution has been received. The Operating Regulations, which must be approved as a condition precedent, were prepared in conjunction with the executing agency.

V. PROJECT COST AND FINANCING

A. Cost and financing

- 5.1 The project's cost has been estimated at US\$1,604,000 equivalent, of which US\$836,000 would be contributed by the MIF and US\$768,000 would be the local contribution, as follows:

Activity	MIF	Local	Total	%
Component 1: Linkage and integration of entrepreneurs	75,000		75,000	5.0
Component 2: Acceleration of microenterprise development	534,000	609,000	1,143,000	71.0
Executing unit	167,000	159,000	326,000	20.0
Evaluation and audit	30,000		30,000	2.0
Contingencies	30,000		30,000	2.0
Total	836,000	768,000	1,604,000	100
Percentage	52%	48%	100%	

- 5.2 The counterpart resources would be provided in kind up to US\$250,000 and the remainder in cash.

B. Project sustainability

- 5.3 The sustainability of this project is ensured by: the existence of a supply of training services and technical assistance geared towards the microenterprise sector; the success of microentrepreneurs working in more sophisticated market niches; and some degree of cost recovery.

- 5.4 With regard to the supply of technical assistance and training services, at least 20 entities will have the capacity and experience to guide microentrepreneurs using an innovative methodology and having participated in a pilot process. They will thus be able to operate in new market niches and expand their clientele.
- 5.5 The microenterprises will not only have acquired expertise in management and strategy for positioning in more sophisticated market niches but will also have acquired legal status and become bankable entities, generating income and employment.
- 5.6 LEATID will have received the necessary resources for the initial investment entailed in adapting a new methodology to a setting different from the one in which it was conceived; it will have staff trained and experienced in the application of the methodology; and it will receive from the microenterprises a percentage over their income, which will allow it to replicate the project elsewhere in the country and abroad (e.g., in Chile and Uruguay) without having to incur start-up costs.

VI. RATIONALE AND RISKS

A. Rationale

- 6.1 The project's main benefit will be the development and testing of an innovative methodology that will help to generate an adequate supply of specialized technical assistance for microenterprises, since these services are currently not available in Argentina for the microenterprise sector.
- 6.2 Also, the project's focus on penetrating new growth markets with potential will help to generate a solid base of microentrepreneurs. Given the crisis that the country is currently facing, this will contribute to generating both jobs and income.
- 6.3 Lastly, the decision to adapt scientifically a business development services methodology conceived especially to serve the needs of firms in crisis conditions is especially appropriate for the microenterprise sector in Argentina, which is undergoing a strong recession and crises on internal and external markets.

B. Risks

- 6.4 The project presents two kinds of risks: (i) lack of demand among microenterprises for technical assistance; and (ii) sustainability of the project.
- 6.5 To mitigate the first risk, the project includes activities for direct, mass promotion; demand will also be stimulated by the matching grants subsidies and the subsequent provision of seed capital. Furthermore, LEATID has its own, internal demand that is sufficiently widespread as a result of the various projects it has implemented,

which have created lasting links with microentrepreneurs and their representative organizations.

- 6.6 The second risk arises from the fact that the methodology and its success are the result of its having been applied in communities with a strong sense of belonging and the fact that it is based on the hypothesis that the non-subsistence microenterprise sector—given the lack of adequate attention for its degree of development and the strong impact of the country's recession—suffers from consequences of economic and market exclusion that are similar to those suffered by the crisis-stricken isolated communities for which the methodology was developed. Accordingly, the project is viewed as a pilot project that will adapt the methodology by using the same technical, cultural, and scientific bases, with the expectation that its application will generate the anticipated success among microentrepreneurs and that it will be adopted by numerous training and consulting entities that could replicate it.

VII. MONITORING AND EVALUATION

A. Monitoring

- 7.1 The logical framework (see Annex I) presents elements for the project's execution, monitoring, and evaluation. LEATID will be responsible for monitoring and preparing the respective reports. Semiannually it is to prepare a progress report documenting the activities performed during the period. The reports—whose format will be agreed upon with the Country Office in Argentina—are to include monitoring of compliance with the performance indicators contained in the logframe, a work plan, and a disbursement schedule for the following period. The progress report is to be delivered to the Country Office within the 30 days following the close of each six-month period. These reports will serve as input for the executing agency to prepare a final report within the three months preceding project completion. The Country Office will use the reports to follow up on the project.

B. Evaluation

- 7.2 The project calls for two evaluations, to be conducted by an international consultant specialized in financial and nonfinancial services for small businesses and microenterprises, selected by the Bank and hired by the executing agency with resources from the contribution. The first evaluation will be conducted upon disbursement of more than 30% of the total or at 12 months after the first disbursement, and will cover the following aspects as a minimum: (a) the institutional capacity of the executing agency; (b) implementation of the services called for under the project; (c) the need for new services; (d) the size and type of beneficiary companies; (e) the quality and cost of services offered through the

training and technical assistance activities; and (f) user satisfaction, as determined through interviews with at least 20 beneficiaries selected at random from among the consulting firms and the entrepreneurs. The report should indicate any necessary remedial action to ensure proper execution of the project, as well as suggest the suspension of disbursements in the event structural defects arise in execution. Disbursements could resume once the executing agency demonstrated that it had taken the necessary steps to remedy the deficiencies. If structural defects are detected in execution of any of the components, disbursements would be canceled permanently.

- 7.3 The second evaluation will be conducted three months before the final disbursement and is to analyze: (a) the degree to which the project's specific objectives have been attained; (b) the number, size, and type of beneficiary firms; (c) the quality and cost of services offered; (d) user satisfaction, as determined by a survey of participating firms; (e) the project's sustainability once the MIF's contribution has been finalized; and (f) basically, it will measure—through analysis of comparative figures from the firms surveyed—the degree of actual insertion in new markets.

VIII. SPECIAL CONTRACTUAL CONDITIONS

- 8.1 As conditions precedent to the first disbursement, the following are to be provided to the Bank's satisfaction: (i) evidence that the project coordinator has been selected; (ii) the work plan for the first year, containing a schedule of the executing agency's activities, the planned resources, and each activity's targets (paragraph 4.6); and (iii) the terms of reference for hiring the services of the Paraguas Club (paragraph 4.8).
- 8.2 A copy of the agreements signed by the executing agency and the microenterprises receiving seed capital are to be forwarded to the Bank. The executing agency is to inform the Bank with regard to the seed capital contributions in its semiannual reports, with detailed information on amounts and a list of microenterprises having received such contributions (paragraph 4.21).
- 8.3 The amount of up to US\$8,000 will be advanced prior to the establishment of the revolving fund in order to allow the executing agency to hire the project director, who will be in charge of ensuring fulfillment of all conditions precedent, specifically with regard to the preparation of the first annual work plan (paragraph 4.32).

LOGICAL FRAMEWORK

MIF – TC-0012079 – Consolidation of Microenterprises in Nontraditional Markets

NARRATIVE SUMMARY OF OBJECTIVES	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>Goal: Help to improve the conditions for development of microenterprises in the Buenos Aires metropolitan region</p> <p>Purpose: By way of a pilot experiment, validate a business development services methodology based on technical support and the provision of seed capital</p>	<ul style="list-style-type: none"> Up to 9 economic sectors have been analyzed At least 20 business development service suppliers are training microentrepreneurs with this methodology 35 firms that have received seed capital are consolidated in nontraditional markets 	<ul style="list-style-type: none"> Publication Final project report 	<ul style="list-style-type: none"> There are nontraditional market niches in which microentrepreneurs can participate if they receive proper training and seed capital Argentina enters a period of economic growth The new leadership in the Ministry for Economic Affairs remains stable
<p>Components: 1. <i>Linkage and integration of microentrepreneurs</i></p>	<ul style="list-style-type: none"> 1,000 entrepreneurs linked up 45 firms presented by the Paraguas Club to compete for subsidies of 50% of training and technical assistance costs Replication of the Paraguas Club methodology in at least two locales outside the Buenos Aires metropolitan region 	<ul style="list-style-type: none"> Project status reports Documentation received for the competitive process Report of the proposal evaluation committee Evaluation committee report on action plans Surveys of program and nonprogram microenterprises and large firms Publication 	<ul style="list-style-type: none"> There are consulting firms interested in providing appropriate training in the microenterprise market The microenterprises are willing to invest in training and technical assistance The firms that make good use of training and technical assistance services, complying with the performance indicators agreed upon with the consultant, are interested in receiving seed capital

NARRATIVE SUMMARY OF OBJECTIVES	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>2. <i>Acceleration of microenterprise development</i></p>	<ul style="list-style-type: none"> • 200 microentrepreneurs trained technically to participate in nontraditional markets • 90 microentrepreneurs re-engineered in those markets • 35 microenterprises selected to receive seed capital • At least 20 consulting firms trained, strengthened technically, and in a position to provide quality services to the microenterprise sector 		
<p>Activities:</p> <p>1.1 90 meetings for motivation and integration of entrepreneurs.</p> <p>1.2 Dissemination of activities by means of publications and Web pages.</p> <p>1.3 Replication of the methodology in two other cities (creation of the management and consulting team in each locale; organization of meetings for motivation and integration of entrepreneurs.</p> <p>2.1 Empanelment of the selection committee.</p> <p>2.2 Open call to consultants and trainers, and selection of firms to be strengthened.</p> <p>2.3 Adaptation of the AJDC's technology.</p> <p>2.4 Training and approval of selected agencies.</p> <p>2.5 Evaluation of the training.</p> <p>2.6 Identification of nontraditional market niches in nine sectors of the economy.</p> <p>2.7 Promotion of the project through the media.</p> <p>2.8 Selection of microenterprises to participate.</p> <p>2.9 Linkage of the training supply to demand, audit of the signature of the agreement with rights and responsibilities of the parties.</p>			<ul style="list-style-type: none"> • The AJDC will provide US\$400,000 in cash.

NARRATIVE SUMMARY OF OBJECTIVES	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
2.10 Evaluation of compliance with targets and responsibilities. 2.11 Reimbursement of 50% of the training and technical assistance costs 2.12 Evaluation of firms' performance to select which ones will receive seed capital.			

PROPOSED RESOLUTION

ARGENTINA. NONREIMBURSABLE TECHNICAL COOPERATION FOR A PROGRAM OF CONSOLIDATION OF MICROENTERPRISES IN NONTRADITIONAL MARKETS

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 Centro Latinoamericano de Capacitación e Investigación para la Conducción Institucional- LEATID, 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 for a Program of Consolidation of Microenterprises in Nontraditional Markets.
2. That up to the amount of eight hundred thirty six thousand dollars (US\$836, 000), or its equivalent in other convertible currencies, shall be authorized for the purpose of this resolution, chargeable to resources of the Small Enterprise Development Facility of the Multilateral Investment Fund.
3. That the above-mentioned sum is to be provided on a nonreimbursable basis.