

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

B O L I V I A

MODERNIZE THE BUSINESS REGISTRY SERVICE

Operation No. ATN/MT-7979-BO
Approved on August 7, 2002

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

BOLIVIA

PROGRAM TO MODERNIZE THE BUSINESS REGISTRY SERVICE

TC-02-01-03-8-BO

DONORS MEMORANDUM

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ANNEXES

Annex I Logical framework

ABBREVIATIONS

AOP	Annual operating plan
CADECOCRUZ	Cámara de la Construcción de Santa Cruz Chamber of Construction of Santa Cruz]
CAINCO	Cámara de Industria y Comercio de Santa Cruz [Chamber of Industry and Commerce of Santa Cruz]
CESI	Committee on Environment and Social Impact
CNC	Cámara Nacional de Comercio [National Chamber of Commerce]
CNI	Cámara Nacional de Industria [National Chamber of Industry]
FERE ACT	Fondo Especial de Reactivación Económica y de Fortalecimiento de Entidades de Intermediación Financiera [Special Act to Revitalize the Economy and Strengthen Financial Intermediation Institutions]
FUNDEMPRESA	Fundación para el Desarrollo Empresarial [Foundation for Business Development]
GDP	Gross Domestic Product
MIF	Multilateral Investment Fund
MSMEs	Micro, small and medium-sized enterprises
NBER	National Bureau of Economic Research
PCR	Program completion report
PDEB	Programa para el Desarrollo Empresarial Boliviano [Program for Bolivian Business Development]
SBPC	Sistema Boliviano de Productividad y Competitividad [Bolivian System of Productivity and Competitiveness]
SENAREC	Servicio Nacional de business registry [National business registry service]
SIDA	Swedish Agency for International Cooperation and Development
SIN	Servicio de Impuestos Nacionales [National Revenue Service]
SIREP	Sistema Integral de Registros Públicos [Comprehensive Public Records System]
TEU	Technical execution unit

PROGRAM TO MODERNIZE THE BUSINESS REGISTRY SERVICE

(TC-02-01-03-8-BO)

EXECUTIVE SUMMARY

Executing agency: Fundación para el Desarrollo Empresarial [Foundation for Business Development] (FUNDEMPRESA)

Financing:	Modality:	Nonreimbursable
	MIF-Facility I	US\$ US\$ 914,000
	Local counterpart:	US\$ US\$ 383,000
	Total:	US\$ US\$1,297,000

Execution timetable:	Execution period:	36 months
	Disbursement period:	42 months

Objectives: The main objective of the program is to facilitate the entry into the formal economy of businesses located in Bolivia, particularly micro, small and medium-sized enterprises (MSMEs). Its purpose is to reduce the time, cost and paperwork requirements associated with the procedures and prerequisites for formalizing businesses in Bolivia.

Specifically, as a result of this program, it is expected that: (i) the number of businesses registered in the business registry will increase by 10% per year compared to the base year; (ii) the average time for processing will be reduced from 50 to 4 days; and (iii) the transaction costs of procedures will be reduced from 1,500-2,600 bolivianos to 400-600 bolivianos.

Description: The program has four components:

1. **Consolidation of the new business registry system at the national level:** This will foster consolidation of the physical and organizational bases required for the operation of a business registry system. This system is to be privately managed, modern and transparent, with streamlined, efficient client service and points of access in all departmental capitals in Bolivia.
2. **Implementation of a quality management system:** This will assist FUNDEMPRESA in implementing a quality management system to ensure the highest quality service in the various procedures of the business registry.

3. **Awareness-building and dissemination of information to businesses:** This will support the development and implementation of a strategy to build awareness and improve communications with businesses to facilitate access throughout the national territory to information on the steps and procedures involved in registration. It will also promote formalization of businesses, particularly microenterprises and small businesses.
4. **Comprehensive procedure simplification strategy:** This will back the development of a comprehensive analysis and strategy to simplify the procedures that prevent the formation and/or formalization of businesses in Bolivia. Its purpose is the eventual establishment of a unified system for processing registrations and licenses.

Environmental and social impact:

The Technical Review Group of the Committee on Environment and Social Impact (CESI) reviewed and approved the project proposal at its meeting (TRG 18-02) on 3 May 2002. All comments were taken into account (see paragraph 4.9).

Benefits and beneficiaries:

In the short term, the new business registry system managed by FUNDEMPRESA is expected to significantly reduce the time and cost of registration procedures. As a result, all Bolivian businesses that wish to register with the business registry will benefit from more efficient and secure services. In addition, building awareness and disseminating information, along with the modernization of the registration system, will enable the formal sector to attract a greater number of businesses. Therefore, this program is expected to be particularly beneficial to MSMEs, which are currently in a vulnerable position owing to their informal nature, with no access to the benefits of legal status. They have been hindered by the costs and obstacles associated with registration, as well as their lack of information about how to register and the benefits of formalization.

Special contractual conditions:

The following must be submitted to the Bank's satisfaction, as conditions precedent to the first disbursement: (i) evidence that a technical executing unit (TEU) has been established for the program (see paragraph 4.3); and (ii) the annual operating plan (AOP) for the first year of execution (see paragraph 9.1).

Exceptions to Bank policy:

None.

I. COUNTRY AND PROJECT ELIGIBILITY

- 1.1 The Donors Committee declared Bolivia eligible for all modes of financing set forth in the regulatory framework of the Multilateral Investment Fund (MIF) at its meeting of 6 October 1993. The program is part of a cluster of projects entitled “Reducing Regulatory Burdens Facing Small Business” (MIF/GN-74). Such projects support simplification of registration procedures so as to facilitate greater participation of smaller-scale businesses in the formal economy.

II. BACKGROUND

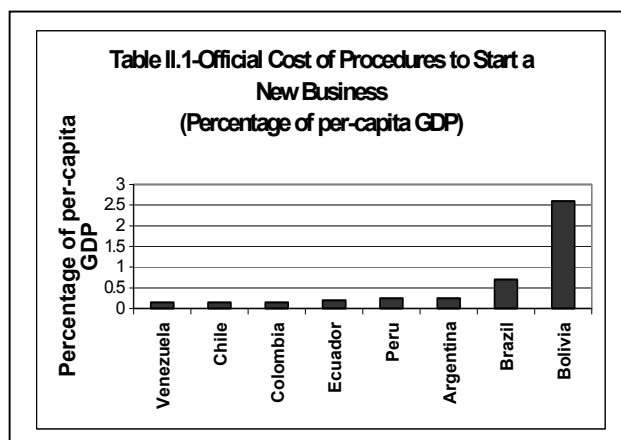
A. Context

- 2.1 Bolivia’s informal sector is one of the largest in the world, as a percentage of its economy, representing approximately 60% of all economic activity.¹ To a large degree, this factor explains the low productivity of its economy. A study by the World Bank (2001) on microeconomic limitations to greater growth indicates that the great majority of manufacturing businesses are not formalized. Therefore, they lack access to the institutional arrangements that enable economic units to achieve economies of scale, adopt new technologies and improve the factors of production.
- 2.2 One of the main reasons why so many Bolivian businesses remain in the informal sector is the high cost of registration. The cost of complying with the many regulations, procedures and steps required to register an enterprise, in terms of time and money is high. This problem was corroborated in various recent studies carried out by the World Bank and the United States National Bureau of Economic Research (NBER),² among others. The NBER study shows that among the 75 countries included, the procedures for creating and formalizing an enterprise in Bolivia are the most costly, complex and behind schedule. According to this study, there are 20 different steps required to register a commercial activity in Bolivia, a process that could take 82 business days and represents a minimum cost of 2.6 times the value of per-capita GDP. In contrast, the average for the 75 countries studied was 10 procedures, 63 days of processing and a cost of 34% of per-capita GDP. Canada’s is lowest, with only 2 steps that can be carried out in 2 days and a cost of 1.4% of per-capita GDP.

¹ Of the approximately 300,000 businesses that pay taxes, some 200,000 are in what is known as the General Regime, which is the formal sector of the economy; the remaining 100,000 businesses make up what is called the Simplified or Informal Regime. However, there are also a great many businesses on which there are no records whatsoever.

² World Bank, *Bolivia: Restricciones y oportunidades microeconómicas para un mayor crecimiento* (August 2001); and Simeon Djankov, Rafael La Porta, Florencio López-de-Silanes, Andrei Shleifer, *The Regulation of Entry*, NBER Working Paper 7892. Cambridge, MA (September 2000).

- 2.3 Given these data, it is not surprising that the most recent report on competitiveness from the World Economic Forum shows Bolivia in second-to-last place (74th out of 75 countries) in terms of ranking the quality of the business environment. Table II.1 shows the official cost of procedures to start a business in Bolivia, compared with that of other countries in the region.



B. The business registry in Bolivia

- 2.4 Article 25 of Bolivia's commercial code establishes the obligation of businessmen to register in the business registry as well as registering all related legal acts, contracts and documents. The government agency responsible for the business registry is the Servicio Nacional de Registro de Comercio [National Business registry Service] (SENAREC). Although there are six other agencies³ that must be dealt with to start up a new business, the most complicated procedures are those of SENAREC, where the process begins. Here a corporate name is reserved, a process that itself can last 30 days in the best-case scenario, for the first phase, and an additional 20 days for a second round. When business registration is obtained, the businessman is legally authorized as such and, subject to registration with the municipality (where the premises are verified), the businessman may begin business activities while the rest of the procedures are carried out. The procedures at the other agencies are free of charge and take approximately 20 to 25 days.
- 2.5 For these reasons, and in response to the private sector demand to improve SENAREC's service, the Bolivian government authorized the concession of the business registry service to Bolivian nonprofit legal entities or individuals under private law. The purpose of the concession is to establish an efficient, transparent, decentralized registration system that will facilitate business activities.
- 2.6 The rules and procedures for the concession of SENAREC are established in Article 18 of Law 2196 of the Fondo Especial de Reactivación Económica y de Fortalecimiento de Entidades de Intermediación Financiera [Special Fund to Revitalize the Economy and Strengthen Financial Intermediary Institutions] (Ley FERE), promulgated on 4 May 2001, and its regulations pursuant to Supreme Decree 26215 dated 15 June 2001. As a result of these government regulations, on

³ These six agencies are: (1) National Domestic Tax Service (SNII); (2) Office of the Mayor; (3) National Health Fund; (4) Pension Fund; (5) Ministry of Labor; and (6) The respective sectoral chamber (industry, commerce, construction, etc.).

24 August 2001, SENAREC was auctioned and the business registry service was awarded to the Fundación para el Desarrollo Empresarial [Foundation for Business Development] (FUNDEMPRESA) for 20 years. FUNDEMPRESA is a nonprofit organization comprising four of the main business chambers in Bolivia: the Cámara Nacional de Industria [National Chamber of Industry] (CNI), the Cámara Nacional de Comercio [National Chamber of Commerce] (CNC), the Cámara de Industria y Comercio de Santa Cruz [Chamber of Industry and Commerce of Santa Cruz] (CAINCO) and the Cámara de la Construcción de Santa Cruz [Chamber of Construction of Santa Cruz] (CADECOCRUZ).

- 2.7 For the purpose of implementing the simplification of business registry procedures, there is no need for additional reforms to the legal framework.⁴ Furthermore, the concession agreement between the Bolivian government and FUNDEMPRESA, the government can be seen as leaving the door open for this agency to take over the administration of other government registries. In addition, both the concession agreement itself and the concession regulation have set very strict, clear rules, ensuring a significant improvement in the service provided as well as its sustainability.
- 2.8 Having invested heavily to put the business registry into operation in fulfillment of the “Transition Agreement between SENAREC and FUNDEMPRESA,” FUNDEMPRESA has requested international cooperation to finance complementary activities. These will allow it to consolidate, broaden and improve the registry’s services in the framework of a broader, long-term strategy that aims to simplify all procedures to formalize businesses. In this context, the proposed program will assist FUNDEMPRESA to consolidate and broaden the services of the business registry. It will also help it to launch information dissemination, training, and technical assistance activities designed to promote administrative simplification and facilitate the entry of small businesses into the formal economy.

C. Program strategy

- 2.9 Economic growth and the creation of opportunities is one of the three lines of action of the Bank’s operating strategy for Bolivia. This line establishes that “private investment will be the basis of economic growth in the coming years.” Therefore, in addition to macroeconomic and social stability, it is necessary to foster “a regulatory framework that provides transparent guidelines applied coherently and consistently.” The proposed program is compatible with this line of action, given that it will support simplification of the procedures for registering businesses, streamlining them and making them more effective and transparent.

⁴ In Bolivia’s new commercial code (which is coming before Congress after the change in government), provisions related to business registration have been improved in that there is a single number assigned for all legal purposes. There are also provisions to avoid great numbers of subsequent registrations, through the corrective measure that the registration number assigned is to be used automatically for other registrations.

- 2.10 The program design has also taken into account the guidelines established in the action plan of the MIF cluster “Reducing Regulatory Burdens Facing Small Business” (MIF/GN-74). The MIF approved two predecessor operations in that cluster, one in Costa Rica and the other in Colombia.⁵ The experience accumulated in these projects indicates that the implementation process is smoother when the legal framework is already in place for the reform of the registry. Implementation is also facilitated by greater participation by the private sector in managing the system and providing registry services to the businesses. The proposed program has a high probability of efficiently meeting its objectives, since the legal aspects were defined in Law 2196 and its regulations, prior to the start of the program. Also favorable is the completed transfer of business registry management via concession to a private institution that broadly represents the interests of the business sector in the country.
- 2.11 In the context of the criteria set in the MIF strategy, it can be stated that this project is **innovative** and that it will generate a **demonstration effect**. This is because the business registry services, traditionally provided by the public sector, will be managed by a private agency composed of four of Bolivia’s main business chambers. Regarding the **additionality** of the MIF’s participation, it will serve as a catalyst for consolidating and broadening an efficient and modern business registration system at the national level. The system will include quality management, and its services will be streamlined and transparent. Finally, the analysis carried out during project preparation indicates that the tariff system stipulated in the concession agreement guarantees the operating **sustainability** of the registry when MIF funds are depleted (see paragraph 5.5).
- 2.12 In addition, the program complements the Sistema Boliviano de Productividad y Competitividad [Bolivian System of Productivity and Competitiveness] (SBPC), a domestic government initiative that seeks to eliminate obstacles to productivity and competitiveness, among other objectives. One of the SBPC’s top priorities is the ongoing process of simplifying the procedures to formalize businesses. Under this priority, the SBPC plans to develop a new legal framework to back new simplified administrative procedures for formalizing businesses, thereby including other central government institutions in the reform process. This program will also complement a project of the World Bank and FUNDES-Argentina to support the simplification of procedures for registering and authorizing businesses with the municipal government of La Paz.

⁵ These operations are: One-Stop Shop for Formalizing Micro and Small Business (ATN/MT-7408-CR) and the Procedure Simplification Program for the Business Sector (ATN/MT-7186-CO).

III. PROGRAM OBJECTIVES AND COMPONENTS

A. Objectives

- 3.1 The general objective of the program is to facilitate the entry into the formal economy of businesses located in Bolivia, particularly micro, small and medium-sized enterprises (MSMEs). Its purpose is to reduce the time, cost and paperwork requirements associated with the procedures and prerequisites for formalizing businesses in Bolivia. Specifically, it is expected that as a result of the program: (i) the number of businesses registered with the business registry will increase by 10% per year compared to the base year; (ii) the average time required to carry out the business registration process will be reduced from 50 to 4 days; and (iii) the transaction costs of procedures will be reduced from 1,500-2,600 bolivianos to 400-600 bolivianos.
- 3.2 To achieve these objectives, the plan seeks to: (i) support the consolidation of a business registry system that will be privately managed, modern and transparent, with streamlined, efficient client service and points of access in all departmental capitals in the country; (ii) build awareness, especially in the MSME sector, about the advantages of formalization and facilitate access to information and services related to business registration procedures; and (iii) promote a process of analysis and private-public dialogue that lays the foundation for a unified system of processing registrations and licenses to authorize businesses. For these purposes, support will be provided for the following components:

B. Component 1 – Consolidation of the new business registry system (MIF US\$147,000, local counterpart US\$170,000)

- 3.3 This component will help FUNDEMPRESA consolidate the physical and organizational foundation needed to operate a business registry service at the national level with computerized, digital connections among all the departments in the country. To this end, the program will support the following activities: (i) procurement of basic software (licenses for various software packages such as Exchange Server, ADABAS, MS Project, etc.) and routers⁶ that will allow for installation of a business registry system in the nine departments of Bolivia; (ii) hiring of specialists to train FUNDEMPRESA personnel in charge of operating the system, both at the central office and at all departmental offices; (iii) procurement of scanners and hardware required to digitize the archived data that SENAREC delivered to FUNDEMPRESA. This archive contains all the original files and documents that have been authorized for registration, as well as all the procedures carried out by the users, both in hard copy and in magnetic format;

⁶ Routers are devices that provide communication among and integration of Local Area Networks (LANs), using them to create Wide Area Networks (WANs).

(iv) digitization of 30,000 files in SENAREC's archived data. This activity, to be fully financed by local counterpart funds, will allow for more efficient service and more secure preservation of all information; and (v) development of information manuals and guides for business registry users.

- 3.4 Prior to the start of the program, FUNDEMPRESA procured an application program from the Bogota Chamber of Commerce entitled "Sistema Integral de Registros Públicos" [Comprehensive Public Records System] (SIREP).⁷ The purpose of this system is effective management of information on the various licenses, registrations, renewals, certifications and all the commercial acts subject to registration. This software is a specially designed application, providing ease of management of a large database, and information in text and in image form. It can be managed at the user level in the nine departmental offices that will be run by FUNDEMPRESA. The software was purchased at a cost of US\$250,000 with funds provided by the Swedish Agency for International Cooperation and Development (SIDA)⁸. The procurement of the SIREP application is, therefore, not part of the activities of this component. It will not be financed with MIF funds or considered part of the local counterpart contribution.
- 3.5 As a part of project preparation, the Bank contracted an external consultant to evaluate the technical viability of SIREP. The conclusion of this work was that SIREP is a valid option for FUNDEMPRESA as information technology support for its business registry. Additionally, thanks to the close relationship of the Colombian Chamber personnel with their Bolivian counterparts, and the ease of adapting SIREP, this application software for managing the business registry was able to be transferred to FUNDEMPRESA through a cooperation agreement between the chambers, including the technical assistance and training needed for the proper functioning and maintenance of the system.
- 3.6 FUNDEMPRESA has made progress in the installation and implementation of SIREP, and has carried out some of the modifications required to adapt it to Bolivian conditions. It has also installed the hardware and completed initial testing of the system. SIREP was in fact put into operation in late June. Still pending are final adaptations, consolidation of the system among the rest of the departmental offices, and training personnel. The activities in this component will allow for broadening of the registration network and consolidation of a modern, automated registration system at the national level, with duly trained personnel. The system will provide services in the capital cities of each of Bolivia's nine departments.

⁷ During the public bidding process for SENAREC, FUNDEMPRESA analyzed the various existing business registry systems in use in Latin American countries and concluded that the Sistema Integral de Registros Públicos (SIREP) of the Bogota Chamber of Commerce was the software system most suitable for operating the registry in Bolivia.

⁸ In addition, SIDA will contribute US\$30,000 to finance training activities.

C. Component 2 – Implementation of a quality management system (MIF US\$65,000, local counterpart US\$20,000)

- 3.7 Using a quality assurance system to manage a business registry is a new yet necessary tool for ensuring the highest quality service in handling the various procedures of Bolivia's business registry. To this end, the program will finance a system for the continuous monitoring, assurance and improvement of productivity and quality. It will be based on execution of sequences for listing problems, selecting them, analyzing the main causes, defining corrective actions and evaluating them as well as defining the security measures that provide for continuity of results. The following activities are planned for this purpose: (i) contracting of a specialist consultant to oversee the quality analysis, implementation and certification process of the business registry service; (ii) obtaining a commitment from FUNDEMPRESA's board of directors to quality management and the related creation and training of a quality committee; (iii) development of an institutional analysis and quality manuals; (iv) training and instruction of personnel in the quality system (management, new procedures and system requirements modules); (v) application of quality standards to the procedures and operations of the registry; (vi) performance of audits prior to quality certification; and (vii) performance of surveys to measure client satisfaction, including ex ante surveys to establish benchmarks and ex post surveys to evaluate the impact of quality management.

D. Component 3 – Awareness-building and dissemination of information to businesses (MIF US\$190,000, local counterpart US\$75,000)

- 3.8 This component has two complementary goals: (a) to promote formalization of businesses through a campaign to build awareness among targeted groups of MSMEs; and (b) to facilitate access throughout Bolivia to information on the steps and procedures⁹ to register and formalize businesses. Through these objectives, the program will support development and implementation of a strategy to build awareness and improve communications with businesses. To achieve these objectives, the program will finance the following activities: (i) contracting of specialized consulting services to develop the analysis and communications strategy; (ii) contracting of a technical adviser in communications; (iii) development and printing of manuals, information guides and other materials for promotion and communication with businesses; (iv) contracting of mass communications media and the means to verify them; and (v) drafting and performance of surveys (ex ante and ex post) to measure the impact of the campaign on awareness and communications.

⁹ Including information on environmental procedures required for formalization.

E. Component 4 – Comprehensive procedure simplification strategy (MIF US\$380,000, local counterpart US\$75,000)

- 3.9 This component supports the development of a strategy and action plan, agreed upon among the main participants in the public and private sector, with the ultimate goal of establishing a unified set of procedures. Its immediate goal is to simplify the procedures that hinder the creation and/or formalization of businesses in Bolivia. Specifically, it will conduct a detailed review of the various administrative standards and procedures in Bolivian law affecting the organization and registration of businesses. It will document the related time and cost entailed for businesses and establish baseline indicators on both the national and departmental levels. This analysis must also consider the requirements to which businesses are currently subject in matters of environmental protection, as well as worker health and safety, at the various administrative levels.
- 3.10 On this basis, a proposal will be drawn up to reduce regulatory barriers to the formalization of businesses in Bolivia, in coordination with other reform initiatives already under way (see paragraph 2.12). The proposal will be discussed and agreement reached in a series of workshops with key participants in the public and private sphere. This component will include activities designed to exchange experiences and best practices with other countries so as to build a consensus and develop an overall strategy to reform formalization procedures. The idea is to promote a common vision and a cooperative environment between the business sector and the related public sector agencies.
- 3.11 In summary, the activities to be carried out in this framework will include: (i) contracting a specialized consulting firm to develop an analysis, baseline indicators and a comprehensive strategy to create a simplified system of procedures to formalize businesses; (ii) the exchange of experiences and best practices from around the world, with internships in two countries in North and South America; and (iii) strategy workshops to discuss and reach agreement on the proposed alternatives. It is expected that one of the alternatives to be considered will be implementation of a single registration system, a kind of one-stop shop.

IV. PROGRAM EXECUTION

A. Executing agency

- 4.1 The program will be executed by FUNDEMPRESA, a private institution whose objective is to provide, promote and disseminate information about the business registry service. It also seeks to promote formalization and training of entrepreneurs, and business development. FUNDEMPRESA was founded in October 2001 by four business chambers—the National Chamber of Industry (CNI), the National Chamber of Commerce (CNC), the Chamber of Industry and

Commerce of Santa Cruz (CAINCO), and the Chamber of Construction of Santa Cruz (CADECOCRUZ). These chambers are widely known in Bolivia, and together, they have a presence in all nine departments of the country. These chambers also have a great capacity to elicit cooperation, which enables FUNDEMPRESA to assume this role in the private and public sector. This is particularly important for component 4, development of a comprehensive procedure simplification strategy. In addition, one of the chambers, CAINCO, has an established history with the MIF, given that it is currently managing a MIF program, "Commercial Arbitration and Conciliation" (ATN/MT-7180-BO).¹⁰

- 4.2 The charter and by-laws of FUNDEMPRESA establish that it is an independent, autonomous, nonprofit joint agency, which may admit as members other nonprofit legal entities subsequent to its incorporation that meet the requirements stated in its by-laws and regulations. FUNDEMPRESA is directed and managed by a board of directors composed of the representatives of four founding chambers. The main positions on the Board are held by the directors accredited by their respective institutions, on a rotating basis, in succession.
- 4.3 To execute the program, the board of directors has appointed an executive group that will be responsible for making decisions linked to the project. The executive group will comprise a designated member of FUNDEMPRESA's board of directors and the general coordinator of the Programa para el Desarrollo Empresarial Boliviano [Program for Bolivian Business Development] (PDEB)¹¹ who will serve as part-time program manager. The participation of the PDEB coordinator in the executive group will ensure proper coordination with the cooperating agencies and effective management based on broad prior experience with projects financed by international agencies such as the MIF. The director appointed by FUNDEMPRESA will provide services pro bono, while one-third of the cost of the general coordinator's salary will be recognized as a local counterpart contribution. FUNDEMPRESA, in turn, will create a technical execution unit (TEU) to develop the program components and activities. Evidence that a TEU has been established will be a condition precedent to the first disbursement.
- 4.4 The main responsibilities of the executive group will be to: (i) prepare and implement the procedure for selecting and hiring the rest of the TEU personnel; (ii) ensure that all the mechanisms for program administration and execution are in place; (iii) supervise fulfillment of the program's targets and objectives;

¹⁰ Pursuant to its latest MPPMR (31 Dec 2001), this program is being executed satisfactorily and has a high probability of reaching its objectives.

¹¹ PDEB is a project coordinated by CAINCO, with the participation of the Chambers of Industry of La Paz and Cochabamba, and the sponsorship of SIDA. Since 1992, PDEB has fostered economic competitiveness and business development in Bolivia under a system of work whereby projects are executed directly with organizations that represent the business/industrial sector.

- (iv) approve annual operating plans (AOPs) and their related budgets, and monitor their fulfillment; (v) ensure the rational use of the operation's funds in order to meet the program's targets; and (vi) approve the terms of reference and contracts; and (vii) approve program disbursements. FUNDEMPRESA's designated director will serve as liaison between FUNDEMPRESA's board of directors and the TEU. The general responsibility of the executive group is to monitor and supervise the project. The program manager, in turn, with the support of TEU personnel, will be responsible for coordinating implementation of the entire program, in other words, day-to-day project management.
- 4.5 The main responsibilities of the TEU will be to: (i) prepare and execute AOPs; (ii) coordinate program activities with complementary initiatives of the SBPC and the World Bank (see paragraph 2.12); (iii) contract and supervise goods and services; (iv) monitor the management and rational use of the operation's funds through established procedures; (v) develop the procedures for requesting contribution disbursements; (vi) draw up financial statements regarding funds used; (vii) submit technical and administrative reports to the Bank; and (viii) monitor fulfillment of the program's performance indicators and objectives, established in the logical framework. Standard Bank procedures will be followed for selecting and contracting consulting services, and for procurement of assets with MIF funds estimated not to exceed the equivalent of US\$140,000. Consultants and consulting firms can be contracted only from MIF-eligible countries.
- 4.6 The TEU will consist of a technical coordinator, an administrative/accounting consultant and a secretary. The technical coordinator will report directly to the manager and will have the following responsibilities: (i) organize program activities; (ii) develop the terms of reference for the various administrative processes; (iii) carry out the administrative processes of contracting the various consulting services and procurement; (iv) handle payment requests; (v) handle the monitoring, quality control and verification of assignments; (vi) draft progress reports and reports on the completion of assignments; and (vii) monitor program accounting.
- B. Program beneficiaries**
- 4.7 In the short term, it is anticipated that the new business registry system managed by FUNDEMPRESA will allow for a significant reduction in the times and costs of registration procedures. As a result, all Bolivian businesses that wish to be registered in the business registry will benefit from more efficient and secure services. (There are currently 14,000 registry users who will benefit from the program's activities.) Moreover, the awareness-building and information activities, along with the modernization of the registration system, are designed to attract a greater number of businesses to the formal sector. Therefore, it is expected that this program will particularly benefit MSMEs that are currently in a vulnerable position due to their informality and inability to access the benefits of legal status. These

benefits now elude them because of the costs and obstacles presented by registration, the lack of information about how to register and the benefits of formalization. Formalization of the MSMEs will also allow workers' rights to be guaranteed, through creation of formal employment.

C. State of program preparation

- 4.8 The program is in the advanced stages of preparation, with the concession of the business registry and the transition agreement between the government and FUNDEMPRESA carried out. Similarly, the implementation of SIREP is under way, with some of the initial testing already completed. FUNDEMPRESA has also charged its own personnel with carrying on service in the departments. To this end, it has leased offices to the chambers of commerce in each of the cities to ensure the physical space required for user service. Moreover, it already has the terms of reference for the consultants that will be contracted with program funds. Finally, FUNDEMPRESA has worked closely on project development, which will facilitate the subsequent signing of the agreement with the Bank and implementation of the project.

D. Program linkage to environmental issues

- 4.9 Based on CESI's suggestions at its 3 May 2002 meeting (TRG 18-02), the following have been incorporated into the program design: (i) that the analysis and strategy activities of component 4 consider the environmental protection requirements to which businesses are subject, as well as worker health and safety, at the various administrative levels; and (ii) that the information dissemination activities of component 3 include information on environmental procedures required for formalization of businesses.

V. COST AND FINANCING

- 5.1 The program's cost is estimated at the equivalent of US\$1,297,000, of which US\$914,000 will be contributed by MIF and US\$383,000 will come from the local counterpart, as broken down in Table V-1.

TABLE V-1 BUDGET AND SOURCES OF FINANCING <i>(in US\$)</i>			
Category	MIF	LOCAL CONTRI-BUTION	TOTAL
1. Component I - Consolidation of the System	147,000	170,000	317,000
1.1 System Software + Routers	92,000		92,000
1.2 Training*		40,000	40,000
1.3 Scanners and hardware	40,000		40,000
1.4 Digitizing archived data		130,000	130,000
1.5 Developing Information Guides	15,000		15,000
2. Component II - Quality Management	65,000	20,000	85,000
2.1 Quality systems advisement	36,000		36,000
2.2 Quality work committee		15,000	15,000
2.3 Training	16,000	5,000	21,000
2.4 Preliminary audits	8,000		8,000
2.5 Quality surveys	5,000		5,000
3. Component III- Awareness and Dissemination	190,000	75,000	265,000
3.1 Advisement in strategy development	25,000		25,000
3.2 Strategy implementation	155,000	75,000	230,000
Printed materials	35,000	10,000	
Communications campaign	15,000		
Service promotion	35,000	50,000	
Contracting the mass media	70,000	15,000	
3.3 Carrying out surveys	10,000		10,000
4. Component IV - Comprehensive Strategy	380,000	75,000	455,000
4.1 Analysis, strategy and action plan	340,000	50,000	390,000
4.2 Exchange of international experiences	30,000		30,000
4.3 Consensus-building workshops	10,000	25,000	35,000
5. Administration - Technical Execution Unit	77,000	43,000	120,000
6. External audits and evaluations	45,000		45,000
7. Contingencies	10,000		10,000
TOTAL	914,000	383,000	1,297,000
%	70%	30%	100%
* The local counterpart contribution includes US\$30,000 from SIDA.			

- 5.2 Most of the MIF funds (63%) will be used to support the activities of components 3 and 4. The funds of the counterpart, FUNDEMPRESA, will be allocated for use in all components of the program. Since SIDA already has an agreement signed with CAINCO, one of the FUNDEMPRESA's founding chambers, SIDA has decided to transfer its cooperation funds through CAINCO.

A. Execution and disbursement periods

- 5.3 The proposed program will be executed over a period of 36 months, and disbursement of the funds from MIF's contribution will be carried out within a period of 42 months. In accordance with the estimated needs of program execution, a revolving fund will be set up equivalent to 10% of the total amount. This amount will enable the program to have funds available for carrying out the various planned activities in a timely manner.
- 5.4 In the evaluations category, financing is provided for the participation of FUNDEMPRESA personnel in events related to the respective MIF cluster, such as workshops and conferences.

B. Sustainability

- 5.5 The sustainability of this project is guaranteed by the tariff system established by the Bolivian government in the bidding process for the business registry system of Bolivia. To this end, in the concession agreement, the government set different procedural baskets, reference tariffs, and the method of adjusting these tariffs. This was done to guarantee the sustainability of the service even if there is no significant increase in the number of registry users. The agreement also included a productivity factor, which is a mechanism to allow the prices for procedures to be maintained at reasonable levels. Registry service tariffs, procedural baskets, productivity factors and the method for adjusting tariffs may be revised, under extraordinary circumstances, by Bolivia's Ministry of Economic Development, at the request of FUNDEMPRESA.
- 5.6 The projection for revenues from registry service tariffs and fees, along with estimates of FUNDEMPRESA's annual operating costs, allows for development of cash flows that show an internal rate of return of about 20%. If these projections hold and the number of users increases, it is expected that FUNDEMPRESA may be able to reduce its tariffs. This would be the expected result of the program's awareness-building and improvement of communications, and the tariff reduction would have obvious benefits for the business sector.

C. Accounting and auditing

- 5.7 FUNDEMPRESA must maintain a suitable accounting/administrative internal control system for program funds. The accounting system must be organized to provide the documents needed to verify transactions and facilitate the timely preparation of financial statements and reports. Program records must be kept in order to: (i) allow for identification of sums received from the different sources; (ii) in conformity with the chart of accounts approved by the Bank, record program expenses for funds from the contributions as well as for other funds that will have to be contributed for its full implementation; (iii) include the necessary breakdown

for identifying goods procured and services contracted as well as the use of said goods and services; and (iv) show the cost of the activities in each component. The execution agency must submit a final financial statement with respect to the expenses incurred with the MIF contribution and with the local counterpart contribution. An opinion on these financial statements must be provided by a firm of independent auditors acceptable to the Bank and submitted in accordance with the Bank's auditing requirements.

VI. PROJECT RATIONALE AND RISKS

A. Rationale

- 6.1 It is well-known that the way countries regulate the organization of businesses has a significant impact on their economies. International experience shows that the most competitive countries develop an efficient, transparent framework that facilitates the organization of businesses as well as domestic and foreign investment. In Bolivia, as is evident in the section on background, business registration procedures are one of the most immediate and critical obstacles to the formalization of businesses and thus to their productivity and competitiveness. Faced with this situation, the Bolivian government has set business registry reform in particular, and procedure simplification, in general, as priority action areas. This priority is consistent with Bank and MIF guidelines and strategies to promote a favorable environment for business development.
- 6.2 By establishing the SBPC and passing the laws and regulations authorizing the concession of the business registry to the private sector, the Bolivian authorities have shown their willingness and commitment to the simplification of procedures. It is, therefore, an appropriate time to promote the consolidation and modernization of the business registry, and for initiating a set of complementary activities designed to broaden and deepen administrative reform in favor of a simplified system for formalizing businesses.
- 6.3 The proposed program will help reduce processing costs and times at the business registry. This objective will be verifiable through the system in operation, the number of procedures handled and the response time for each client—information that will be available at FUNDEMPRESA. In addition, in order to move one step beyond modernization of the business registry, the program will take advantage of the MIF's participation to stimulate other activities. These will include building awareness, disseminating information and providing technical assistance to promote formalization of businesses. Moreover, the successful execution of this project will provide a significant demonstration effect regarding the role of private initiative in the efficient management of procedures generally handled by the public sector.

B. Risks

- 6.4 One of the program's risks is the possibility that the change of government will foster policies that distort incentives for formalizing businesses through implementation of a new registration system. In addition, a risk inherent in component 4 is that the new government will have no interest in continuing the simplification of procedures fostered by the SBPC. Components 3 and 4 envisage awareness-building and information activities for the new government authorities, so as to mitigate these risks. Moreover, members of FUNDEMPRESA are in the process of signing agreements to adhere to the SBPC. Through its Country Office in Bolivia, the Bank has also joined the SBPC support and monitoring committee along with other international cooperation agencies. Such support strengthens the entire process and ensures effective coordination of initiatives to simplify procedures.

VII. MONITORING AND EVALUATION

A. Monitoring

- 7.1 The executing agency must submit: (i) an annual operating plan; (ii) semiannual progress reports to the Bank's Country Office within 60 days of the conclusion of each half-year period; and (iii) a final report within 60 days of the last disbursement. The reports must cover the results of the various activities as well as their contribution to the fulfillment of the program objective and the indicators in the logical framework. These reports will follow a format previously agreed upon with the Bank and must include program activities, financial position and results. The Country Office will use these reports to monitor the program's progress and prepare a program completion report within three months of the last disbursement.

B. Evaluation

- 7.2 The program includes two evaluations to be carried out by a consultant specializing in matters of administrative simplification, selected and contracted directly by the Bank. The midterm review will be performed upon completion of the first 18 months after the first disbursement and will include at least the following items: (i) progress achieved in the implementation of the program's components, in accordance with the logical framework; (ii) performance of the TEU; (iii) level of satisfaction among business registry users; and (iv) degree of participation of the various participants involved in component 4. The final evaluation will be carried out three months before the final disbursement and must analyze: (a) the degree of completion of the program's specific objectives in accordance with the indicators established in the logical framework; (b) the consolidation of the business registry system on the national level; (c) the institutional and financial sustainability of the registry; and (d) the level of acceptance of the strategy for simplifying procedures

among the various sectors involved and the possibility that it will be implemented after the project is completed.

VIII. EXCEPTIONS TO POLICIES AND PROCEDURES

- 8.1 There are no exceptions to Bank policies.

IX. SPECIAL CONTRACTUAL CONDITIONS

- 9.1 Conditions precedent to the first disbursement will be the submission to the Bank's satisfaction of: (i) evidence that the program's technical execution unit has been established; and (ii) the AOP for the first year of implementation.

PROGRAM TO MODERNIZE THE BUSINESS REGISTRY SERVICE
TC-02-01-03-8-BO
LOGICAL FRAMEWORK

NARRATIVE SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
GOAL			
Facilitate the entry into the formal economy of businesses located in Bolivia, particularly micro, small and medium-sized enterprises (MSMEs).	The rate of informality is reduced in comparison with the base year.	National statistics on the number of businesses registered and from the sole taxpayer registry.	
PURPOSE			
Reduce the time, cost, procedures and requirements for formalizing businesses in Bolivia.	As of the end of the project: <ul style="list-style-type: none"> • increase the number of businesses registered with the business registry by 10% per year compared to the base year. • reduce the average time required to process registrations at the registry from 50 to 4 days. • reduce the transaction costs of business registry procedures from 1500-2600 bolivianos to 400-600 bolivianos. 	Records of FUNDEMPRESA and the Ministry of Economic Development.	Micro- and macroeconomic conditions for the business start-up are favorable and there are incentives for operating in the formal economy.
COMPONENTS			
1. New business registry system in operation at the national level.	<ul style="list-style-type: none"> • New business registry system implemented and in operation in the national office and in the nine departments as of the end of the project. 	<ul style="list-style-type: none"> • Semiannual Progress Reports submitted by FUNDEMPRESA to the Bank. • Midterm and final project evaluations. 	<ul style="list-style-type: none"> • FUNDEMPRESA fulfills its function satisfactorily. • Rules set in the concession agreement are upheld.

NARRATIVE SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
2. Quality management system implemented.	<ul style="list-style-type: none"> By the end of the project, a system of control, quality assurance and continuous improvement of productivity and quality implemented and in operation. User satisfaction increases, once FUNDEMPRESA is in charge and starts providing service. 	<ul style="list-style-type: none"> Semiannual progress reports submitted by FUNDEMPRESA to the Bank. Midterm and final project evaluations. External quality audits. User satisfaction surveys carried out by FUNDEMPRESA. 	Users identify the improvements in the system.
3. Program to build awareness and disseminate information to the businesses in operation.	<p>By the end of the project:</p> <ul style="list-style-type: none"> between 70% and 80% of the target group businesses are familiar with the new business registry system, compared with the baseline. between 40% and 50% of the target group businesses can identify the advantages of formalization. 	<ul style="list-style-type: none"> Surveys about perceptions carried out by FUNDEMPRESA among businesses in the target groups. 	Economic environment is favorable for the businesses to be receptive to the messages of the communications and to act on them.
4. Design of comprehensive strategy to simplify procedures completed.	<ul style="list-style-type: none"> By the end of the project, the action plan to simplify procedures has been designed and agreed upon among the relevant public and private participants. 	<ul style="list-style-type: none"> Semiannual progress reports submitted by FUNDEMPRESA to the Bank. Midterm and final project evaluations. 	Public and private sector participants are willing to participate in the procedure simplification process and decide to carry on with the strategy.