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MULTILATERAL INVESTMENT FUND
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EL SALVADOR

PILOT TRAINING PROGRAM FOR MICROENTERPRISE

(TC-98-04-27-1-ES)

DONORS MEMORANDUM

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ANNEXES

Annex I: Logical Framework

APPENDIXES

Proposed resolution

INFORMATION AVAILABLE IN THE TECHNICAL FILES

Preparation:

- La capacitación para microempresas en El Salvador: Recomendaciones para una intervención del FOMIN/BID. Informe final Grupo de Asesoría Multidisciplinaria (GAMA), Montevideo, febrero, 1999.
- La demanda y la oferta de capacitación laboral para microempresas en la región Oriental de El Salvador. Informe complementario Grupo de Asesoría Multidisciplinaria (GAMA), Montevideo, mayo, 1999.
- Instituciones de formación y capacitación laboral en El Salvador. Anexo al Informe final Grupo de Asesoría Multidisciplinaria (GAMA), Montevideo, febrero, 1999.
- Encuesta Microempresarial 1998, FOMMI/DIGESTYC, San Salvador, 1999.
- Diagnóstico de la Oferta de Servicios No-Financieros para la Pequeña Empresa en El Salvador, San Salvador, 1999.
- Libro Blanco de la Microempresa, San Salvador, 1996.
- Investigación de las necesidades de capacitación detectadas en las empresas de El Salvador, INSAFORP. San Salvador, 1999.

Execution:

- Itemized budget
- Organization of the project
- Description of the voucher system and the program to improve supply
- Promotion and dissemination strategies
- Guide for monitoring and evaluation
- Institutional profiles
- The training and technical assistance market in eastern El Salvador

ABBREVIATIONS

ANEP	National Small Business Association
CONAMYPE	National Commission for Microenterprise and Small Business
EMPRENDE	Technical Assistance Project for Microenterprise and Small Business Development
FEDISAL	Salvadoran Foundation for Integral Education
GTZ	German Technical Cooperation Agency
ICAT	Training and technical assistance institutions
INSAFORP	Salvadoran Institute of Professional Training
OP	Promotion Office
UTEC	Technical Unit

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EXECUTIVE SUMMARY

Executing agency:	Salvadoran Foundation for Integral Education (FEDISAL)	
Financing:	Modality:	Nonreimbursable
	MIF (Facility)	US\$ 870,000
	Local counterpart:	US\$ 405,000
	Total:	US\$ 1,275,000
Execution timetable:	Execution period:	36 months
	Disbursement period:	42 months
Objectives:	<p>The objective of the project is to help improve the productivity of the microenterprise sector in eastern El Salvador. This will be achieved by promoting a sustainable market for training and technical assistance services designed for microenterprises in the target region. An additional aim is to demonstrate the feasibility of establishing an intervention methodology that successfully combines investments by private and government institutions and international technical cooperation.</p> <p>The specific objectives of the project are to help: (i) encourage participation and investment by microentrepreneurs in training and technical assistance activities; and (ii) improve and adapt supply to actual demand in the microenterprise sector.</p>	
Special contractual clauses:	<p>Once the general contractual conditions have been met, the Bank can disburse up to US\$10,000 to defray the cost of hiring the program's UTEC Coordinator, who will provide assistance in fulfilling the conditions precedent to the first disbursement (see paragraph 4.9).</p> <p>As a condition precedent to the first disbursement, FEDISAL will furnish evidence to the Bank's satisfaction that: (i) the technical unit (UTEC) Coordinator has been hired (see paragraph 4.9); (ii) the first annual plan has been prepared (see paragraph 7.2); and (iii) FEDISAL has entered into financial cooperation agreements with the institutions that will be its partners in the program. The agreements must specify the amount that each institution will commit to the program (see paragraph 4.5).</p>	

As a condition precedent to the disbursement for Component I, Training and Technical Assistance Vouchers, evidence will be requested that: (i) the Procedures Manual (see paragraph 4.10) has been presented to the Bank's satisfaction; and (ii) the Promotion Offices have been established in San Miguel and Zacatecoluca (see paragraph 4.11).

**Exceptions to
Bank policy:**

None.

I. ELIGIBILITY OF THE COUNTRY FOR THE PROJECT

- 1.1 On December 3, 1993, the Donors Committee declared the Republic of El Salvador eligible for all modalities of financing provided by the Multilateral Investment Fund (MIF). The operation is eligible for MIF financing through the Small Enterprise Development Facility. The purpose of this operation is to help strengthen the microenterprise sector in El Salvador and improve the market for training services adapted to the needs of microentrepreneurs in departments of the country formerly under armed conflict but with great business development potential.

II. BACKGROUND

A. The microenterprise sector in El Salvador

- 2.1 As of 1998, the total number of microenterprises in El Salvador (defined as enterprises with 10 or fewer employees) was estimated at 468,717. This sector accounts for approximately 38% of the economically active population. From the standpoint of gender, 65% of these microenterprises are headed by women. The sector has been widely recognized in Latin America for its potential to contribute to national economies by generating employment and income. This potential is now gaining recognition in El Salvador, and with it, the need to help develop the sector by facilitating access to credit and business development services.

B. Eastern El Salvador

- 2.2 The eastern portion of El Salvador¹ is one of the most depressed and least economically developed areas of the country. It is also among the areas most severely affected by armed conflict, and has experienced high levels of migration as well as unemployment and underemployment. Despite the efforts at reconstruction, the area has not established a *productive* base, relegating much of the population to a subsistence-level existence. Against this backdrop, the creation of numerous microenterprises has provided a means for increasing family income. Although the country has begun to assign more importance to the microenterprise sector, government as well as international technical cooperation resources have been channeled almost exclusively to the metropolitan area of San Salvador and the country's western region, leaving the eastern region aside in its development plans for the microenterprise sector.
- 2.3 There are 118,819 microenterprises in eastern El Salvador (nearly one-third of the national total). Of these, 108,491 (91.3%) can be classified as "subsistence" (less than US\$170 in monthly sales), 6,353 (5.4%) as "simple accumulation" (monthly

¹ The departments of La Paz, San Vicente, Usulután, San Miguel, Morazán, and La Unión.

sales between US\$170 and US\$340) and 3,975 (3.4%) as “capital accumulation” (sales between US\$340 and US\$5,700). In recent years, the concentration of microenterprise development in this area of the country has created the potential for establishing a *commercial* base. And yet, despite this large number of microenterprises, and even though the sector has access to credit programs and a flow of remittances, the figures reflect a series of restrictions, both technological and in terms of internal capacity, that have hampered their growth. Microenterprises in this region have been unable to overcome their deficiencies because of a lack of qualified and professional providers of the training and technical assistance services essential for their development and growth.

C. The training and technical assistance market in eastern El Salvador

- 2.4 The scarce availability of business development services stems largely from a still incipient market for such services in eastern El Salvador. Specifically, **demand** for training and technical assistance services among microentrepreneurs is limited quantitatively and qualitatively by: (i) a lack of information on supply; and (ii) a lack of courses adapted to the sector's needs and particular characteristics. The courses that do exist take too long, are offered at times incompatible with the activities of microentrepreneurs, and in most cases require travel to the capital. The opportunity cost for microentrepreneurs is also high, in terms of the monetary investment required and the allocation of time to a non-productive activity.
- 2.5 The **supply** of training and technical assistance is centered mainly in the capital among specialized NGOs, universities, consulting firms, and individual consultants. Of the 194 institutions accredited with the Salvadoran Institute of Professional Training (INSAFORP), only 17 have their base of operations in one of the six eastern departments. In practical terms, only eight such institutions can be said to maintain a presence in the region.

D. Independent initiatives to promote the use of vouchers

- 2.6 Several institutions in El Salvador, such as Swisscontact and the GTZ are independently launching, or preparing to launch, voucher projects. Over the short and medium term, these efforts will likely be consolidated into a national voucher program for the microenterprise and small and medium-sized enterprise sector, the expected beneficiaries of which do not currently include the eastern region. The region therefore runs the risk of missing out on these initiatives if efforts are not made now to lay the groundwork for development of an effective market for quality training and technical assistance services.
- 2.7 This project would complement the activities of other Bank-financed programs for microenterprise. These include one program currently under execution and another in the process of being approved by the Bank. The first program, New Organic Fruit and Vegetable Microenterprises (ATN/ME-6283-ES) was approved in 1998

and consists of activities to improve the competitive position of agricultural producer groups through business development and marketing services. The second project, Support for the Development of Microenterprise and Small Business in El Salvador (TC-99-08-00-2-ES) is under consideration for approval by the Bank. The objective of this project is to support the implementation of mechanisms to facilitate and promote the development of microenterprise and small business.

E. Salvadoran Foundation for Integral Education (FEDISAL)

- 2.8 FEDISAL is an institution distinguished by its extensive experience in the area of education and training and its wide recognition among related public- and private-sector institutions in the country. With MIF support, FEDISAL proposes to execute a voucher program to stimulate demand and raise the quantity and quality of services provided in eastern El Salvador. The aim is to develop a mechanism, described herein, to help close the gap separating microenterprise in the region in terms of access to training and technical assistance services, and prepare the region for participation in a national voucher program.

III. OBJECTIVES AND MAIN COMPONENTS OF THE PROJECT

A. Objectives

- 3.1 The objective of the project is to help improve the productivity of the microenterprise sector in eastern El Salvador. This will be achieved by promoting a sustainable market for training and technical assistance services designed for microenterprises in the target region. An additional aim is to demonstrate the feasibility of establishing an intervention methodology that successfully combines investments by private and government institutions and international technical cooperation.
- 3.2 The specific objectives of the project are to help: (i) encourage participation and investment by microentrepreneurs in training and technical assistance activities; and (ii) improve and adapt supply to actual demand in the microenterprise sector.

B. Project components

- 3.3 The project consists of the following three components: (i) a system of training and technical assistance vouchers; (ii) a system for the improvement of supply; and (iii) a promotion, information, and dissemination system.

1. Training and technical assistance vouchers (US\$425,000 MIF; US\$125,000 counterpart)

- 3.4 The training and technical assistance voucher system is a partial and direct subsidy mechanism designed to stimulate demand among microenterprises. The vouchers

give entrepreneurs the purchasing power needed to obtain the prequalified training and technical assistance services of their choice. This in turn provides an incentive for suppliers to adapt or expand their services and helps to promote competition between suppliers.

- 3.5 Training and technical assistance services will be provided in two forms: group (training courses) or individual (technical assistance). Users will be free to decide how many vouchers they will use for training courses and how many they will accumulate for the purpose of cofinancing technical assistance services. The vouchers will be distributed at no cost to eligible entrepreneurs (manufacturing, commercial, and service enterprises with fewer than 10 workers established for at least six months). Each entrepreneur will receive a booklet containing five vouchers which they can use personally or give to their workers. Each entrepreneur can receive two booklets (10 vouchers) during the three years of the program.
- 3.6 In the area of *training*, The vouchers will have a fixed value of US\$15, which is expected to cover 75% of the cost of a short-term training service (approximately 15 to 20 hours). Upon selection of the service, the entrepreneur will cover the copayment (the net cost after deducting the voucher) out of his own resources. The voucher will be turned over to the supplier once 25% of the training time has been completed, enabling the entrepreneur to determine whether the course meets his needs and allow him to discontinue the training if he wishes. Many of the training courses requested and eligible for financing will likely focus on the areas of business control and management, procedural improvements, production techniques, marketing, etc. Language programs and computer courses will not be eligible. Suppliers will be able to cash in their vouchers once the entrepreneurs have completed 70% of the course.
- 3.7 In the area of *technical assistance*, entrepreneurs will be given the flexibility to accumulate and use the same vouchers to cofinance the cost of technical assistance services. They will have the option to use no fewer than three and no more than five vouchers per service to cover a maximum of 60% of the cost incurred. The type of service to be financed includes business diagnostic assessments, technological production and innovation, market studies, quality standards and compliance, financial management, etc. Suppliers will be able to cash in their vouchers upon 100% completion of the service.
- 3.8 Over a period of three years, 36,000 vouchers would be distributed to approximately 4,600 microenterprises for the financing of training and technical assistance services. At the completion of courses or technical assistance, entrepreneurs will have the opportunity to evaluate the services and determine their usefulness. This information will be used in making future decisions for the benefit of other entrepreneurs.

- 3.9 **Control system.** To ensure the fair and transparent use of vouchers, and thus avoid improprieties or fraud, the program will establish a control system based on an electronic database for the entry of information on voucher distributions by the technical unit and promotion offices, which will be continually updated by the program promoters. This database will be used to compile information from all microentrepreneurs receiving vouchers. A register will be kept of institutions, private firms, and individual consultants eligible for the vouchers and accredited to provide services. The dates of voucher distribution, redemption, and collection will also be registered. Information will be entered into the database by means of: (i) voucher numbers for user identification (individuals or firms); (ii) supervision in the field through regular visits to the windows and unscheduled visits to training and technical assistance providers; (iii) the requirement of signed, sworn statements by participants and training providers certifying that participants were present for at least 70% of the course hours and 100% of the technical assistance; (iv) for workers receiving training, vouchers endorsed by their microentrepreneur employers; (v) in cases where the duration of technical assistance is more than two days, service providers will be required to provide the UTEC with any diagnostic assessments or proposals prepared for the beneficiary firm; and (vi) annual audits to ensure the proper use and distribution of vouchers. These measures will be reviewed semiannually to address unforeseen contingencies. Beneficiary microenterprises and/or providers failing to comply with program rules will be prohibited from continued participation in the program.

2. Improvement of supply (US\$100,000 MIF; US\$50,000 counterpart)

- 3.10 Intervention in the services market will encourage the adaptation of supply, but at a gradual pace. There are new methodologies and modern approaches to training and technical assistance that are not available to all service providers, because of certain economic and informational barriers. The objective of this component is to provide an instrument to accelerate the adaptation of existing supply to the specific needs of microenterprises and to help mobilize supply existing in the metropolitan area of San Salvador toward the project region.
- 3.11 The resources for this component are to be used to support approximately 18 service providers selected according to pre-established criteria to receive training and technical assistance enabling them to: (i) adapt their services to the needs of microentrepreneurs; (ii) acquire and adapt modern methodologies; (iii) receive training in adult education, technical production matters, and managerial functions; and (iv) improve the management of supply. The beneficiary service providers will be required to coinvest in their improvement program, and, throughout the course of the project, no provider may receive support in excess of 10% of the amount initially allocated to the component.
- 3.12 The resources for this component will not cover the infrastructure or fitting-out of training and technical assistance institutions (ICATs). The project will function in

response to requests from service providers but may also offer suggestions for their consideration. Eligibility will extend to ICATs, consulting firms, and individual consultants that have entered into agreements with FEDISAL certifying that they currently offer services in the program region or are prepared to establish permanent operations in the region to begin providing such services.

3. The promotion, information, and dissemination system (US\$92,860 MIF; US\$54,750 counterpart)

- 3.13 The promotion, information, and dissemination system will facilitate greater access to information on the voucher program, on the availability and quality of courses and on the ranking of institutions.
- 3.14 A promotion campaign will be conducted through the mass media, including radio, television, the press, fliers, posters, brochures, folders, and broadcasts. The campaign will promote: (i) greater awareness among microenterprises about the project and its advantages; (ii) greater awareness of business opportunities for service providers; and (iii) readily available information about how the mechanism would operate and the rights and duties of the various stakeholders (entrepreneurs and service providers), thus reducing the risk of collusion or adverse reactions to the project among microenterprises and providers.
- 3.15 The information and dissemination system will be equipped with a continually updated database on accredited providers, user evaluations, and voucher recipients. FEDISAL will enter into agreements with local institutions, such as municipalities, associations, and postal offices for the display of information panels and the operation of promotional windows to provide information on the project and distribute the vouchers. Under this component, MIF resources will be used to hire consulting services to formulate the promotion strategy and procure minor equipment for use by the promoters.

IV. EXECUTING AGENCY, BENEFICIARIES, PARTNERS, AND IMPLEMENTATION MECHANISMS

A. Executing agency: FEDISAL

- 4.1 The Salvadoran Foundation for Integral Education (FEDISAL) is a private nonprofit organization founded in 1993 by business leaders and members of the Salvadoran Salesian community with the aim of contributing to economic and social development in El Salvador through education. On December 31, 1998, FEDISAL had total assets of US\$950,000 and a net worth of approximately US\$900,000. FEDISAL is a highly prestigious organization recognized for the high professional level of its staff. FEDISAL's institutional capacity is outstanding, given its broad experience in administering a variety of national education

programs, notably through INSAFORP, CONAMYPE, various international institutions, and with the Bank in a vocational program entitled "Program to support the development of a private employment training consortium" (ATN/MH-5167-ES). Execution of this latter project, in the amount of US\$4 million, will be completed in July 2000, and has been recognized as highly successful and very efficiently executed, having achieved all project goals.

- 4.2 Although FEDISAL provides training services, it will operate in a second-tier capacity in this project, which means that it will not provide training and technical assistance services directly to microentrepreneurs but will rather act as a service facilitator and intermediary.

B. Project beneficiaries

- 4.3 The project is intended to provide benefits on the side of demand as well as supply. Project beneficiaries on the demand side would consist of microenterprises in eastern El Salvador in the "simple-accumulation" and "capital-accumulation" segments. A percentage of "subsistence" microenterprises (10%) would also be included. The program would address the needs of a projected 4,600 microenterprises through approximately 20,000 technical assistance and training services over the project's three-year execution period.

- 4.4 The supply side would be represented by institutions, individual consultants, and providers of training and technical assistance services for microenterprises in the project region. Work would be conducted with 25 ICATs and approximately 35 independent consultants. Technical assistance would be furnished through the improvement component to 18 providers.

C. Contributing partners

- 4.5 For the purpose of coordination and advisory assistance, FEDISAL will receive financial – and in some cases technical – support from other Salvadoran institutions. FEDISAL will enter into agreements to that effect with each contributing institution. These agreements all specify the amounts to be contributed, the scope and duration of the joint activities, and the responsibilities of the contributing partner in connection with the program. These agreements will be requested as a condition precedent to the first disbursement. The contributing partners are identified in the following paragraphs.

- 4.6 The National Commission for Microenterprise and Small Business (CONAMYPE) was established by executive decree in 1996 to facilitate and coordinate the establishment of policies and instruments for the development of microenterprises and small businesses through second- and third-tier activities.

- 4.7 The Salvadoran Institute of Professional Training (INSAFORP) was established by legislative decree in 1993 with the mission of meeting needs for qualified and

certified human resources to improve business productivity and product quality. INSAFORP is an autonomous institution headed by a tripartite board composed of entrepreneurs, workers, and functionaries. Its operations are financed with State resources and a contribution of 1% of payroll from businesses with 10 or more workers.

- 4.8 The German Technical Cooperation Agency (GTZ) is active in promoting private sector development in El Salvador. GTZ has conducted several projects in El Salvador, including a recent program to improve the competitive position of small- and medium-sized enterprises in cooperation with the National Small Business Association (ANEP). Another recent project, the Technical Assistance Project for Microenterprise and Small Business Development (EMPRENDE) is attempting to contribute in cooperation with CONAMYPE to the establishment of sustainable and competitive structures conducive to development and consolidation of the microenterprise sector.

D. Organization of the program

- 4.9 FEDISAL will set up a **Technical Unit (UTEC)** under its training department. The UTEC will be headed by a Technical Coordinator and staffed by a Training Specialist, an Administrator/Accountant (whose salaries will be financed with MIF resources), and a secretary (whose salary will be financed from the counterpart). The Technical Coordinator must be hired as a condition precedent to the first disbursement, for which purpose a preliminary disbursement of US\$10,000 will be made to place him under contract so that he can help prepare the first annual plan and fulfill the other conditions precedent. The UTEC will operate in San Miguel. FEDISAL, which is based in San Salvador, will ensure that the UTEC is properly equipped in terms of administrative support, communications, accounting functions, logistics, and the establishment of internal procedures required for detailed monitoring of project execution. Relatively minor computer equipment for execution will be purchased with MIF resources and counterpart cofinancing.
- 4.10 The **Technical Committees** are non-permanent bodies set up by the Technical Coordinator to provide project support in specific areas (the development of operating guidelines and regulations on voucher access, the development of criteria and mechanisms for rating and accrediting supply, the definition of indicators, the design of a monitoring and control system, and the formulation of guidelines for the promotion and information campaign). Membership will be established by invitation and will include the Technical Coordinator, the Training Specialist, and other specialists, possibly from CONAMYPE and INSAFORP. FEDISAL will also hire an international consultant to provide support for UTEC in developing an operating procedures and rules manual, preparation of which is a condition precedent to the disbursement for Component 1. The cost of this consultancy will be covered by the counterpart resources. The manuals and regulations will be based on those used in other voucher programs financed with Bank resources.

4.11 The **Promotion Offices (OPs)**, under the UTEC, will be the operational units of the project. Each OP will be headed by a Promoter and will come in direct contact with users (microentrepreneurs) and service providers. One OP will be located in San Miguel, together with the UTEC, and the other in Zacatecoluca. Establishment of the OPs will be requested as a condition precedent to the disbursement for Component 1. Vouchers will be furnished to the entrepreneurs through the Promotion Offices, and OP Promoters will be responsible for setting up and managing the **Promotion Windows (windows)** and keeping them active. The windows are designed to serve as the point of contact with microenterprises (through municipalities, associations, and other groupings) with a view to continually promoting the project by means of information panels and possibly public awareness campaigns. FEDISAL will enter into agreements with local institutions for the establishment of such windows.

4.12 The **Advisory Committee** will provide support and advice to the UTEC. It will be composed of representatives from FEDISAL, CONAMYPE, INSAFORP, and GTZ – the latter as local entities contributing financially to the project with an interest in including this program in their strategy for coordinating a national program. The Technical Coordinator will also take part in meetings of the Advisory Committee, which will focus primarily on supporting the analysis of information generated by the project and offering feedback. The Advisory Committee will meet at least quarterly, but in addition can be convened at any time by the Technical Coordinator.

E. Committee on Environment and Social Impact

4.13 The Bank's Committee on Environment and Social Impact considered this operation at the TRG meeting on May 29, 1998, and recommended that the issues of occupational safety and hygiene, solid waste, and the management of social and environmental impact be included among the training and technical assistance activities.

F. Status of project preparation

4.14 The project is considered to have reached an advanced stage of preparation for the following reasons: (i) the terms of reference for hiring the coordinator have been duly prepared; and (ii) a draft of the bilateral agreements with the contributing organizations has been prepared and is being circulated for approval and signature by the various parties concerned. As an additional step prior to signature of the bilateral agreements, FEDISAL will sign a letter of understanding with the contributing institutions.

V. COST AND FINANCING

A. Cost

- 5.1 The project will be implemented over a period of three years. The estimated cost of the project is US\$1,275,000. MIF will contribute US\$870,000 (68%) and the counterpart will amount to US\$405,000 (32%), to be contributed by FEDISAL and the contributing partners CONAMYPE, INSAFORP, GTZ, and others. If FEDISAL is unable to collect funds from the contributing partners, it assumes responsibility for making up the difference required to fully constitute the counterpart for this program. Direct contributions from the target group (microenterprises and service providers), believed to amount to more than US\$200,000, are not considered part of the counterpart. Bank procedures will be followed for the procurement of goods and services.

Table 1

Components	MIF	Counterpart		Total
		in cash	in kind	
Component 1. Training and technical assistance vouchers	425,000	125,000	0	550,000
Component 2. Improvement of supply	100,000	50,000	0	150,000
Component 3. Promotion	92,860	54,750	0	147,610
Monitoring, evaluation, and audits	69,700	0	0	69,700
Executing unit	152,950	16,050	0	169,000
Technical assistance	0	10,300	40,400	50,700
Fitting out/equipment	16,333	7,000	0	23,333
Support for coordination and supervision	0	68,000	0	68,000
Administrative costs	0	33,500	0	33,500
Contingencies	13,157	0	0	13,157
Total	870,000	364,600	40,400	1,275,000

B. Financial sustainability

- 5.2 The project's financial sustainability will depend on three sources of support after the MIF resources have been exhausted. A significant achievement of this pilot project was to have convinced public institutions to finance the national counterpart. This opens good prospects for continuity (and thus relative sustainability) of the initiative even after the MIF cofinancing has been wound up.
- 5.3 With respect to sustainability of the voucher program, it is proposed to explore the possibility of interesting large private-sector companies in sponsoring partial activities. A number of commercial and manufacturing firms have presumably

targeted eastern El Salvador as a market segment and would be interested in using funds from their promotion and marketing budgets to sponsor vouchers displaying their logos and product messages.

- 5.4 As users gain confidence in the products and services provided they should become more willing to pay for them, which will in turn enable providers to improve the quality of their supply. Over the medium term, efforts will therefore be made to reduce the level of subsidies and increase the portion paid by entrepreneurs, thereby accelerating cost recovery.

VI. JUSTIFICATION AND RISKS OF THE PROJECT

A. Justification

- 6.1 The project is a pilot initiative to test a model that has been used in other countries of the region and adapted to the conditions encountered by microentrepreneurs in eastern El Salvador. Efforts will be made to achieve a demonstrator effect showing that the voucher mechanism can be used to generate demand and thus provide incentives for the development of a business services market.
- 6.2 This project is also consistent with a number of independent efforts by the government and international cooperation agencies to use vouchers as a catalyst to support other sectors, such as small and medium-sized enterprises, in such areas as business development and environmental services. These independent efforts are expected eventually to form part of a national voucher program benefiting various sectors in various contexts. It should also be noted that before this project was presented, eastern El Salvador did not figure among the government's initiatives or those of other international agencies. Thanks to their participation in this project, the region has now entered into their plans. With the coordination of several institutions, this project is also expected to benefit the eastern region by laying the groundwork for a better and more efficient business services market.

B. Risks

- 6.3 There are two risk factors: (i) inadequate supply; and (ii) misuse of the vouchers.
- 6.4 *Inadequate supply.* Supply in the project area is currently limited. To mitigate this risk, the improvement component of the project will be used as an instrument to support the adaptation of supply. In addition, promotional activities will be conducted to make service providers in San Salvador aware of the business possibilities that exist in eastern El Salvador and thus encourage them to provide services there.
- 6.5 *Misuse of the vouchers.* Voucher programs in general present a certain degree of risk in terms of the fraudulent use of vouchers and procurement of training services.

To mitigate this risk the project will include a control system employing a database and additional instruments to avoid fraud.

VII. MONITORING AND EVALUATION

A. Control system

- 7.1 The control system will be the responsibility of the UTEC and will be updated jointly by the UTEC and the Promotion Offices. The system will be used to: (i) monitor increases in the number of users and courses as well as progress in implementing internal project processes; (ii) verify compliance with procedures and requirements by the various participants, thus avoiding fraud; and (iii) compile baseline information for subsequent evaluations. The results of the control system will be presented in quarterly reports to FEDISAL and the Advisory Committee.

B. Monitoring

- 7.2 International consulting services will be hired with the MIF financing to design a monitoring system to structure and guide the compilation of operational information and impact, to be used for the purposes of evaluation. The system will receive data from the Control System and will also focus on program efficiency and impact. The information compiled will be presented for the Bank's no objection as follows: (i) three annual plans (one as a condition precedent to the first disbursement) covering, *inter alia*, quantitative objectives and execution timetables, means of achieving the objectives, and a financing plan for the counterpart resources; (ii) semiannual progress reports on program execution, including the fulfillment of objectives; and (iii) annual financial reports conducted by an independent external auditing firm acceptable to the Bank.

C. Intermediate and final evaluations

- 7.3 The project would entail two evaluations: intermediate and final. The intermediate evaluation would be conducted 18 months after project startup, provided that at least 25% of the vouchers have been issued. The final evaluation would be conducted 42 months after project startup. The intermediate evaluation will analyze and make recommendations concerning progress with project implementation and justification for maintaining or lowering the value of the vouchers. The evaluations will analyze the fulfillment of objectives according to the Logical Framework (Annex I), such as: (i) the increase in productivity among participating enterprises (expressed as a percentage); (ii) the degree of microentrepreneur satisfaction with the courses offered; (iii) the increase (as a percentage) in investment by participating enterprises in training and technical assistance services; and (iv) the percentage of increase in supply and improvement in services. The Bank will be

responsible for hiring the consulting firm to establish the monitoring and evaluation system (framework and guidance).

VIII. EXCEPTIONS TO BANK POLICY

- 8.1 None.

IX. SPECIAL CONTRACTUAL CONDITIONS

- 9.1 Once the general contractual conditions have been met, the Bank can disburse up to US\$10,000 to defray the cost of hiring the program's UTEC Coordinator, who will provide assistance in fulfilling the conditions precedent to the first disbursement. As a condition precedent to the first disbursement, FEDISAL will furnish evidence to the Bank's satisfaction that: (i) the technical unit (UTEC) Coordinator has been hired; (ii) the first annual plan has been prepared; and (iii) FEDISAL has entered into financial cooperation agreements with the institutions that will be its partners in the program. The agreements must specify the amount that each institution will commit to the program.
- 9.2 As a condition precedent to the disbursement for Component I, Training and Technical Assistance Vouchers, evidence will be requested that: (i) the Procedures Manual has been presented to the Bank's satisfaction; and (ii) the Promotion Offices have been established in San Miguel and Zacatecoluca.

LOGICAL FRAMEWORK

OBJECTIVES	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Improve the productivity (economic growth) of the microenterprise sector in El Salvador.	<ul style="list-style-type: none"> After three-and-a-half years, a 10% increase in productivity (sales relative to human resources utilized) for 50% of the microenterprises participating in the project. 	<ul style="list-style-type: none"> National household surveys Central Bank survey (volume of economic activity index) Surveys of microentrepreneurs Executing agency records Quarterly reports Intermediate project evaluation Final project evaluation 	
Participate in training and investment by microentrepreneurs in training and technical assistance activities; and help to adapt demand in the microenterprise sector.	<ul style="list-style-type: none"> After three-and-a-half years, a 50% increase in training and technical assistance investment by the participating microenterprises. After three-and-a-half years, 50% of the services expanded and adapted to demand requirements. 	<ul style="list-style-type: none"> Surveys of microentrepreneurs Executing agency records Quarterly reports Intermediate project evaluation Final project evaluation 	<ul style="list-style-type: none"> The training provided is of high quality and produces concrete results for microenterprises. Providers are interested in and maintaining demand in El Salvador. Other organizations provide training to the target group of microenterprises, with subsidies greater than those provided through the project.
Provide training and technical assistance to microenterprises and disseminate information and dissemination of supply.	<ul style="list-style-type: none"> 20,000 training and technical assistance activities. 4,600 microenterprises served. 10 local accredited ICATs and 15 accredited ICATs in San Salvador interested in providing services in eastern El Salvador draw on the supply improvement fund. 35 consultants accredited. Absolute number of services provided by accredited ICATs in the eastern region increases by 30%. 	<ul style="list-style-type: none"> Executing agency records Quarterly reports Intermediate project evaluation Final project evaluation 	<ul style="list-style-type: none"> Entrepreneurs are aware of and technical assistance investments. Demand for nonfinancial services increases.

OBJECTIVES	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>I: <u>demand: vouchers for training assistance</u></p> <p>on of the manual for the unit</p> <p>ment of instruments and es</p> <p>ment of management software</p> <p>visory services (international g firm)</p> <p>on of vouchers</p>	<ul style="list-style-type: none"> • Manual prepared in the first three months of execution • Instruments and procedures developed in the first three months of execution • Software purchased and installed in the second and third months of execution • International consultancy completed in the first three months of execution • 36,000 vouchers distributed to 4,600 microenterprises between the 5th and 30th months of execution 	<ul style="list-style-type: none"> • Executing agency records • Quarterly reports • Intermediate project evaluation • Final project evaluation 	<ul style="list-style-type: none"> • Infrastructure is adequate, quality and quantity, f implementation • Entrepreneurs are open to in the program • Instructors are inte participating • The promotion camp conducted regularly and ef • Disbursements from t sources are timely and suff
<p>I: <u>of supply</u></p> <p>on of the manual for the unit</p> <p>ment of instruments and es</p> <p>ment of management software</p> <p>visory services (international g firm)</p> <p>l assistance for service</p>	<ul style="list-style-type: none"> • Manual prepared in the first three months of execution • Instruments and procedures developed in the first three months of execution • Software purchased and installed in the second and third months of execution • International consultancy completed in the first three months of execution • Technical assistance provided to 18 enterprises and/or consultants 		

OBJECTIVES	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>III</p> <p><u>Information</u></p> <p>of the campaign</p> <p>on/information workshops for providers, printing of fliers, local radio and newspaper, and mobile publicity</p> <p>of voucher booklets</p> <p>of supply catalog</p> <p>ing for and selection of</p> <p>of assistance and voucher on windows.</p>	<ul style="list-style-type: none"> • Campaign designed by the third month of execution • 15 events scheduled and conducted and other activities performed periodically throughout program execution • 3 distributions of the voucher booklets throughout program execution • 3 distributions of supply catalogs throughout program execution • 11 advertising notices published throughout program execution • Windows open in month 3 and operating throughout program execution 		

PROPOSED RESOLUTION

**EL SALVADOR. NONREIMBURSABLE TECHNICAL COOPERATION FOR
MICRO-ENTERPRISE PILOT TRAINING PROGRAM.**

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the "Fundación para la Educación Integral Salvadoreña" and to take such additional measures as may be pertinent for the execution of the project memorandum referred to in Document MIF/AT- with respect to a technical cooperation project for micro-enterprise pilot training program.
2. That up to the amount of US\$870,000, or its equivalent in other convertible currencies, is authorized for the purpose of this resolution, chargeable to the 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.