

# PROMOTING INSTRUMENTS FOR CONTINUOUS IMPROVEMENT IN SMALL AND MEDIUM-SIZED ENTERPRISES

(TC-00-08-02-6)

## EXECUTIVE SUMMARY

<b>Executing agency:</b>	CANE Foundation								
<b>Coexecuting agency:</b>	Servicio de Consultorías para America Latina (SERCAL)								
<b>Beneficiaries:</b>	The beneficiaries of the project include (i) 3,500 entrepreneurs in Argentina and another 2,700 in Chile who will take part in promotion activities; (ii) 740 microentrepreneurs and small businessmen in Argentina and 840 in Chile, who benefited from the training activities; (iii) 150 consultants trained in implementing quality, environmental management, and food safety systems in microenterprise and small business (SB); (iv) 60 companies in Argentina and 40 in Chile that stand to benefit from quality, environmental, and/or food safety systems; (v) strengthening of the institutional framework in Paraguay to facilitate access by small business to continuous improvement systems; and (vi) awareness building and training for at least 2,000 entrepreneurs in Paraguay through initiatives previously tested in Argentina and Chile. In Paraguay, such initiatives may also serve as a basis for broader programs to support the introduction of quality, environmental management, and food safety systems in business.								
<b>Objective:</b>	The general objective of the project is to spur the development of a services market to implement the quality, environmental and food safety management systems model and standards as tools for continuous improvement. On both the demand side and the supply side of such a market, the idea is to boost capacity, competition, and transparency in the market, thus facilitating the introduction of such systems in small businesses while enhancing their competitive position.								
<b>Financing:</b>	<table> <tr> <td>Modality: (nonreimbursable)</td><td>Human Resources Facility</td></tr> <tr> <td>MIF</td><td>US\$2,289,000 (60%)</td></tr> <tr> <td>Local counterpart:</td><td><u>US\$1,543,000 (40%)</u></td></tr> <tr> <td>Total:</td><td>US\$3,832,000</td></tr> </table>	Modality: (nonreimbursable)	Human Resources Facility	MIF	US\$2,289,000 (60%)	Local counterpart:	<u>US\$1,543,000 (40%)</u>	Total:	US\$3,832,000
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<b>Execution timetable:</b>	Execution period: 36 months Disbursement period: 42 months
<b>Environmental and social review:</b>	The Technical Review Group of the Committee on Social Impact and Environment reviewed and approved the proposal for this project on 10 November 2000. The observations made at the meeting were taken into consideration.
<b>Special contractual clauses:</b>	<p>As conditions precedent to the first disbursement, the executing agency shall demonstrate that: (i) the Operating Operations have entered into effect; (ii) the Project Executing Unit (PEU) has been established; (iii) a work plan and the disbursement schedule for the first six months of the operation have been drawn up to the Bank's satisfaction.</p> <p>During the first three months of the program, the detailed estimates of the cost of implementing the ISO and HACCP systems in SBs including the consultants' terms of reference will be submitted to the Bank. Also, within six months after start up of the program, the PEU shall submit to the Bank for the latter's nonobjection a detailed proposal setting out the procedures for selecting the beneficiaries and the consultants that stand to benefit from the project.</p> <p>Disbursement of the financing for component 4 (US\$190,000), less the sum of US\$20,000 for the financing of the detailed design portion of that component, will be conditional on submission to the Bank for the latter's approval, during year one of the project, of the following: (i) the analysis and detailed design of the project in Paraguay; (ii) an agreement, based on a model previously agreed on with the Bank, signed between the CANE Foundation and Union Industrial de Paraguay; and (iii) evidence of a commitment to provide the Paraguayan counterpart, which should amount to at least 30% of the total.</p>
<b>Exceptions to Bank policy:</b>	None.

## **I. COUNTRY AND PROJECT ELIGIBILITY**

- 1.1 Argentina, Chile, and Paraguay are eligible for all types of financing from the Multilateral Investment Fund (MIF). The present project is also consistent with the priorities of the MIF with its focus on increasing the competitiveness of small enterprise. It does so by promoting the use of continuous improvement systems in business and by providing entrepreneurs with the technical skills that are needed to implement continuous improvement systems in their businesses and in particular to assist entrepreneurs in strategic sectors.

## **II. BACKGROUND**

### **A. Development of integrated production in Chile and Argentina**

- 2.1 Over the last two decades, Chile and Argentina have been undergoing a process of economic change and a transformation in the organizational structure of production induced in part by the process of economic integration between the two countries despite the fact that Chile has not yet integrated fully into Mercosur. The levels of complementarity embrace such diverse areas as finance, trade, and industrial cooperation, spearheaded in particular by large economic groups and the extreme mobility of the labor force between the two countries. Symptomatic of this trend are the situation of electrical utilities, wine producers, department stores, gas, food, meat producers, etc. There are also significant opportunities for achieving greater integration in production between the two countries. Agribusiness in Chile, for instance, has considerable export capacity, an advantage that meshes well with Argentina's production capacity and its need to upgrade technology. Conversely, in Argentina, the heavy machinery and equipment sector enjoys advantages in certain subsectors that could be beneficial to the Chilean economy. In recent years, trade between Argentina and Paraguay has increased significantly. At the same time, production in Chile has close ties with Paraguay, particularly in the area of agribusiness.
- 2.2 In this context, microenterprise and small business run the risk of being left out of the processes under way. In order to increase their presence in the market, these companies need to broaden their complementarity in production with other companies, and to do so they must adopt internationally recognized standards of quality. Small businesses possess advantages of flexibility, market mobility, and relatively lower capital requirements, but are unable to hold their own with large companies in terms of productivity, a factor that makes it difficult to coordinate production between companies of different sizes. In fact, the use of continuous improvement systems is a tool for raising productivity and quality and increasing business competitiveness.

**B. The concept of continuous improvement: ISO 9001 and 14000 and HACCP**

- 2.3 ISO 9000 and 14000 standards are based on processes more than on products and apply to a company as a whole. ISO 9000 and 14000 were created to help strengthen business capacity in quality and environmental management systems. The degree of ISO 9000 and 14000 effectiveness depends on the commitment of business managers to the concept of continuous improvement, the underlying principle in most quality improvement programs.
- 2.4 In the international arena, the tendency to harmonize import and export procedures at all levels has become the driving force behind adoption by the food industry and government of uniform quality control standards. In the food industry, there is an overriding need for a standardized product quality control system. Hazard Analysis Critical Control Points (HACCP) was selected as the system for attaining this objective by the Codex Alimentarius in 1993. In providing for the adoption of these systems, the countries require that imports be subject to the same requirements as the output of national industry, thus forcing exporting countries to adopt the same measures.

**C. Supply and demand in implementing ISO and HACCP systems**

- 2.5 That Chile is generally oblivious to the importance of the ISO system and the benefits of continuous improvement methods is reflected in the fact that there are only 177 companies in the country with ISO 9000 certification and 10 with ISO 14000 certification.<sup>1</sup> Although the system has been embraced more broadly in Argentina, where nearly 2000 companies have ISO 9000 certification and approximately 90 ISO 14000 certification<sup>2</sup>, it would appear that the high number of certifications have not maintained sufficiently consistent quality and depth of analysis. Paraguay, where only 21 companies have ISO 9000 production certification, finds itself in an embryonic stage in terms of incorporating modern management and quality improvement systems.
- 2.6 In both Paraguay and Argentina, a number of ISO 9000 and 14000 certification companies have established a presence, particularly Bureau Veritas, Société Générale de Surveillance S.A. (SGS), Asociación Española de Normalización y Certificación (AENOR), Lloyd's Registrar, and the British Standards Institute (BSI). However, the services and advisory assistance that small businesses need in order to begin introducing continuous improvement systems and achieve certification are extremely limited and inconsistent in these two countries. In Chile, the absence of a transparent and competitive market for this type of service has substantially raised the cost of introducing such a system (approximately

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<sup>1</sup> Monthly bulletin of Corporación de Fomento de la Producción (CORFO, March 2000).

<sup>2</sup> Official information of the Argentine government available on the Internet at <http://www.inti.gov.ar/cal/certif.htm>.

US\$30,000, before certification). The situation appears to be more problematic still in Paraguay, where the high cost of introducing an ISO system poses a major hurdle that circumscribes considerably the possibility of smaller companies, and even medium-sized ones, having access to certification.

- 2.7 In Chile, a survey of over 500 manufacturing companies conducted by the Instituto Nacional de Normalización (INN) in December 1998 puts the market situation in a nutshell. According to the survey, the main factors restricting the use of ISO standards from the standpoint of companies are the perception of an inadequate economic return, a lack of human resources within the SBs themselves, problems in identifying a suitable supply of support services, and insufficient financing. That these are the principal factors coming into play in the Argentine situation as well is confirmed by studies carried out by General Sarmiento National University.

#### **D. Justification for the project**

- 2.8 The aim of the present project is to contribute to the development of a services market for introducing continuous improvement ISO and HACCP systems, thus facilitating access by SBs to such services and to the benefits in terms of competitiveness that would flow therefrom. Considering the factors hampering the development of such a services market in the three countries and the findings of the INN study, the present project seeks: (i) to determine the impact that continuous improvement systems would have in terms of competitiveness, in light of its economic benefits; (ii) heightening the awareness of and providing training to company management; (iii) augmenting the supply of services and making it more transparent through training, dissemination of information, and assistance from CANE and SERCAL, two institutions committed to SB development.
- 2.9 **Foundation CANE**, a nonprofit institution, whose mission is to support small and medium-sized enterprises (SMEs) through training and comprehensive advisory assistance more than exceeded the quantitative objectives set for the MIF project in support of new business projects that it carried out so effectively. The SERCAL Foundation, a leading consulting firm that specializes in microenterprise and small business initially established in 1983, is the oldest of its kind in Chile. Both institutions have had extensive experience in support for microenterprise and small business in their countries. Yet, they complement one another since CANE has expertise in marketing, publicity, and mass training while SERCAL's specialty is in technical assistance and methodology for effectively bringing such assistance to microenterprise and small business.
- 2.10 This same strength makes it very attractive to have CANE and SERCAL start the task of developing these mechanisms in Paraguay. Once the methodology for training and introducing ISO and HACCP systems in Chile and Argentina have been tested and proven effective, the project will offer small businesses in Paraguay an opportunity to have access to continuous improvement systems. A preliminary

analysis shows that the institution best able to undertake project activities in Paraguay is Union Industrial Paraguaya (UIP), one of the country's major entities in the area of production with experience in providing assistance to business and in implementing technical assistance programs.

- 2.11 The similarities between production systems in Chile and Argentina and the complementarity of the sectors, and the close trade relations between these countries and Paraguay, give this project a regional flavor. In fact, its regional context makes it possible to capitalize on the advantages and economies of scale to broaden the impact, improve the quality of operations, and lower the unit cost of interventions. For instance: (i) the training will use common consultants and take advantage of the work and experience in each country; (ii) the project may result in the possibility of negotiating a price for certification, by organizing groups of companies; (iii) the design for experiences in different sectors is under consideration, thus achieving in-service training that will result in cross-transfers between countries; and (iv) the shared technical management will benefit from CANE's and SERCAL's mutually complementing strengths to enhance the impact of the project in the three countries.

**E. Relationship with other Bank projects**

- 2.12 The project complements the activities envisaged for the MIF quality standards and certification program to be carried out in Argentina given its emphasis on strengthening the national certification and quality standards system. This same project provides for a component to foster quality improvement in SBs, which is aimed at supporting the partial quality management model linked to the National Quality Prize.
- 2.13 Also, the present project is designed to heighten awareness and stimulate the demand for and the supply of services, in the hope of producing a significant quantitative impact. This approach complements activities being pursued with Bank support in the two countries, which focus primarily on establishing subsidy systems for the use of consulting services directly by companies and, particularly for ISO and HACCP certification.
- 2.14 The Bank's technology innovation and development program (CH-0160) in Chile represents a major step towards increasing certification, particularly amongst SMEs, and disseminating total quality methods linked to the National Quality Prize. The present project supplements the technology program, by concentrating on (i) microenterprise although this focus is not exclusive; (ii) heightening awareness amongst entrepreneurs and disseminating information on continuous improvement systems; and (iii) business training. However, the executing agencies will be required to coordinate activities with CORFO, the entity in charge of the technology program quality component (CH-0160), particularly the training for

consultants, thus ensuring that activities are consistent and coherent with one another.

### **III. OBJECTIVES AND COMPONENTS OF THE PROGRAM**

#### **A. Objectives**

- 3.1 The general objective of the program is to spur the development of a services market for standards and an ISO and HACCP management systems model as tools for continuous improvement. On both the demand side and the supply side of such a services market, the idea is to boost capacity, competition, and transparency in the market, thus facilitating the introduction of such systems in small businesses (SBs) with a view to increasing their competitive position.
- 3.2 To achieve this general objective, the project seeks: (i) to substantially increase demand on the part of SBs for continuous improvement systems; (ii) to secure a more extensive supply of specialized services more attuned to the needs of SBs; (iii) to establish a commercial position for ISO and HACCP systems and clear recognition of this fact in the market place; and (iv) to develop an awareness in Paraguay of the topic and to have an institution, in principle the UIP, with the capability of supporting SB.

#### **B. Description of the program**

- 3.3 To achieve these objectives, the program has been divided into four components: (i) stimulating demand, (ii) ISO and HACCP positioning; (iii) training and implementing on a trial basis ISO and HACCP continuous improvement systems; and (iv) introducing the program in Paraguay.
- 3.4 The project will concentrate on promoting the use of continuous improvement systems and sensitizing entrepreneurs to the need for adopting such systems in their businesses. In fact, in the countries targeted systems do exist to subsidize certification and even the introduction of quality systems. This projects fits in with the aim of honing competitiveness and increasing the efficiency of the business services markets for the introduction of continuous improvement systems.
- 3.5 The strategy covers activities of varying degrees of depth and specialization depending on the business sector targeted. The first component consists of relatively simple activities of high technical quality of very short duration that have been adapted to different business sectors. The purpose of these activities is to heighten awareness amongst entrepreneurs through the introduction of management techniques. It is also expected to have considerable quantitative impact in terms of beneficiaries. The second component is designed to improve the coverage of market agents, demand, and supply through more specific complex actions, training of potential demand and service delivery, and proposing the implementation of some

activities for demonstration purposes. The third area of activity is dissemination of the concept of ISO and HACCP systems. This entails identifying a concrete business strategy for the "sale" of ISO and HACCP certification and the dissemination, at certain levels of society including both market agents and educational centers, of the importance of introducing management practices that facilitate the implementation of such systems. Ultimately, the project will support a similar project in Paraguay, drawing on the experience in Chile and Argentina.

**Component 1: Stimulating demand and promoting the program amongst entrepreneurs (MIF US\$661,100; Local counterpart US\$621,000)**

- 3.6 This component, aimed at microentrepreneurs and small businessmen, will help businesses gain an understanding and knowledge of quality processes such as ISO and HACCP, and their importance in raising competitive potential and thus stimulate demand for continuous improvement systems. These activities include (i) technical coordination, (ii) awareness building events for entrepreneurs, and (iii) events to build awareness amongst small businessmen. The experience with other initiatives shows that different types of sensitization events are needed for microenterprise and small business.
- 3.7 **Technical coordination.** All of these awareness building and business promotion activities to boost demand in each country will call for skilled technical supervision. To accomplish this, a technical coordinator, who is an expert in awareness building and promotion events and activities, will be used. The technical coordinator will report to the project director (see Annex V in the technical archives with terms of reference).
- 3.8 **Awareness building for microentrepreneurs.** The project will provide support for a number of seminars in Argentina and Chile, each of four hours duration, targeted to garnering the broadest participation possible by entrepreneurs. Each event will cover a specific topic, to be determined by the technical coordinator, who will provide guidance to a large entrepreneurial group.
- 3.9 **Awareness building for small businessmen.** This activity differs from the previous one in that the events planned are not simply intended to promote the use of ISO standards but also to spark interest amongst small businessmen in attending specific training courses and promote the development of ISO systems. These events will comprise (i) international seminars consisting of one-day events hosted by an eminent international speaker; they will be attended by entrepreneurs and executives from small businesses; and (ii) working lunches to promote the advantages of ISO standards, particularly as they relate to opportunities abroad, and the possibility of placing production with large local businesses.



**Component 2: Training and introduction of systems** (MIF US\$872,000; Local counterpart US\$349,000)

- 3.10 This is the component that more directly seeks to deepen the market for services related to the implementation of continuous improvement systems. To this end, the actions pursued will be more comprehensive than in the previous component, mainly in the area of training. Demand-related action will be carried out, providing training to microentrepreneurs and the management of small businesses in introducing ISO management standards and HACCP. On the supply side, special activities will be offered to consultants specialized in implementing such systems. Such activities will culminate with the development of a model experience for demonstration purposes, to introduce standards at 100 microenterprises and small businesses.
- 3.11 This component will be carried out in the Greater Buenos Aires area in Argentina and in the Santiago region of Chile. However, training activities will be offered in other communities across the country, where microenterprises and small businesses have a major presence. This component includes (i) a marketing strategy, (ii) microentrepreneur training, (iii) small business training, (iv) training for consultants, and (v) the introduction of pilot ISO and HACCP systems. These activities will be organized by the project coordinators with the help of specialized experts.
- 3.12 All of the beneficiaries of this component, entrepreneurs and/or business operators and specialized consultants will pay a registration fee for enrollment in training courses, thus helping to defray the cost of these activities. Their participation is an important condition for the eligibility of beneficiaries. In the case of training for consultants, the beneficiaries will: (i) cover on average 50% of the cost, with fees increasing until participants are paying the full amount upon completion of the project; and (ii) commit to providing working time free of charge for implementing the systems in SBs, to offset the remainder of the cost. In the case of ISO and HACCP systems, entrepreneurs will also defray the cost of this service on an increasing basis. In neither case will MIF resources be drawn on to finance CANE or SERCAL activities. The role of these institutions will be to act as intermediaries in dispensing services efficiently to SBs.
- 3.13 **Technical coordinator.** All of these activities to boost supply will require qualified technical supervision. To accomplish this aim, a technical coordinator specializing in ISO systems and their implementation will be used throughout the project. The technical coordinator will report to the project director (see Annex V in the technical archives with the terms of reference).
- 3.14 **Market strategy.** Under the project, consultants will be hired to design and implement a marketing strategy to attract the companies targeted and bring them closer together. This activity entails: (i) designing a marketing strategy based on

studies to determine the best way of keeping the sectors targeted, microenterprise, small business, and consultants, informed of the different products according to the cultural characteristics of each country; (ii) disseminating information on supply, thus providing information on channels and resources the market can offer for implementing ISO and HACCP standards through advertising in the written media and on radio and television; (iii) designing and maintaining a Web page with information on project activities and how to participate in them, and the results of the project as well as other information to promote the initiative and the use of ISO and HACCP systems; and (iv) information and sales of training events to the businesses targeted through traditional mechanisms and marketing networks.

- 3.15 **Training for microentrepreneurs.** A total of 55 16-hour courses, with capacity for 20 entrepreneurs, will be offered (25 in Argentina and 30 in Chile). A consultant will be hired during the first six months to plan these courses and prepare a manual that will include content, design, and graphics. The idea is for the courses to include an introduction to the concept of continuous improvement and a presentation on the benefits of quality, environmental, and food safety systems.
- 3.16 **Training for entrepreneurs and/or managers of small businesses.** Twenty-four 20-hour courses with capacity for 20 participants per event will be offered in Argentina (12) and in Chile (12). As in the case of the previous activity, a consultant will design these courses. In this case, the courses will be more knowledge intensive and should lead to the introduction of ISO and HACCP continuous improvement processes. Accordingly, the courses will be offered during the first two years of the project.
- 3.17 **Training for consultants.** Twelve 120-hour courses will be offered in Chile (five) and in Argentina (seven). Each event will be attended by 10 to 15 consultants, with an overall target of 150 consultants by the end of the training. The courses will have a modular format and also include topics pertaining to continuous improvement concepts and standards, and training intended specifically to introduce them. Most of the courses will concentrate on quality management systems (ISO 9000) although one or two of the courses in each country will target environmental management (ISO 14001) and food safety systems (HACCP). As part of the design, a special manual will be prepared for implementation of continuous improvement systems. Consultants receiving training will be required to sign a commitment to introduce ISO and/or HACCP systems.
- 3.18 Participants in consultants courses will be selected through an open competition and consultants wishing to attend the courses will be selected by means of a transparent procedure to be determined by the Project Executing Unit (EU) and approved by the Bank during the first six months of the program. The local consultants will receive some on hands training in implementing ISO and HACCP systems in participating companies (see paragraph 3.20) working under the supervision of

experienced technical specialists (see Implementation Manual available in the project technical files).

- 3.19 **Introduction of the systems.** The implementation of systems within the project's narrow scope represents, particularly in potentially rich markets, only one very concrete way of applying the methodology for introducing continuous improvement systems in SBs, the sector targeted by the training. The work of the consultants trained in companies incorporating ISO and HACCP systems is an important condition for fulfilling the minimum requirements of the training process. During program execution, the systems will be introduced at 100 companies (60 ISO 9000 or 14001 and 40 HACCP, of which 60 will be in Argentina and 40 in Chile) with the support of specialized consultants, some of whom will have been trained under the program. Generally speaking, local consultants will be used, but international consultants may also be hired to resolve problems and assist the beneficiaries with specific problems that the local consultants are unable to address. The costs of introducing the systems will be financed in part with MIF resources through a declining subsidy that will average out to the equivalent of 25% over the life of the project.
- 3.20 Companies in which the system is to be implemented with the financial support of the program will need to meet the following requirements: (i) be located in Greater Buenos Aires (Argentina) or in the Santiago region (Chile); (ii) be a small business with less than 100 employees; (iii) be in one of the priority sectors identified in the program studies, mentioned in the first component; and (iv) must not be related to or affiliated with the partners or management of the CANE and SERCAL foundations (see Implementation Manual available in the project technical files).

### **Component 3: ISO and HACCP positioning (MIF US\$125,000)**

- 3.21 This component will facilitate recognition of ISO and HACCP certification and finance activities for positioning these systems in the Argentine and Chilean markets not only amongst small businesses but also amongst professionals and students. The activities described below will facilitate recognition of the importance of ISO and HACCP quality standards as tools for continuous improvement, cost savings, and penetration of new markets. Through the dissemination of best practices, the project will have a broader impact on the different economic agents and largely supplement the activities to promote certification under IDB-financed projects in the countries (see paragraphs 2.13 and 2.14).
- 3.22 **Positioning profile.** The aim of this activity is to identify sectors with higher potential demand for ISO and HACCP and to outline the benefits of continuous improvement systems in a particular setting. Under the project, three studies will be performed in Argentina and Chile to identify those manufacturing sectors with a high SB presence that have the greatest potential for: (i) securing foreign sales,

(ii) supplying large companies or local consortiums; and (iii) cross and associated exporting (Chile and Argentina).

- 3.23 **Dissemination of best practices.** This activity seeks to broaden the direct impact of the project by disseminating the results, best practices, and lessons learned through activities such as: (i) a manual on implementing systems for consultants that contains the procedures used in training and implementing ISO and/or HACCP standards; (ii) case studies based on successful experiences for use in the curricula of business schools; and (iii) a promotional video for entrepreneurs, government authorities, consulting firms, etc.

**Component 4: Introduction of the program in Paraguay** (MIF US\$210,000; LOCAL US\$90,000)

- 3.24 The aim of this component is to set the stage for Paraguay to design and carry out a program encouraging the introduction of continuous improvement systems, particularly ISO and HACCP. The experience of CANE and SERCAL with services for microenterprise and small business as well as the experience with the present project could be very beneficial to Paraguay. Also, the present project affords an opportunity for testing the methodology and identifying ways of promoting continuous improvement systems in small and medium-sized businesses implementing an initial action to heighten awareness and strengthening the institutional framework needed to better reach this sector.
- 3.25 To this end, this component includes preparatory activities to be carried out in Paraguay in year one of the project in order to map out in greater detail the activities planned and to verify the UIP's commitment and its effective capacity to carry out the project. Commencing in year two, activities will be pursued to stimulate demand for ISO and HACCP systems and to boost the supply of services for incorporating these systems in business. However, these activities will not be so numerous as to have the massive impact on stimulating demand that is the intent of the first two components in Argentina and Chile. This component will simply serve as a pilot project to open the way for a broader program.
- 3.26 In order to design specific activities in Paraguay, an experienced international consultant will be hired to prepare the necessary information and in particular (i) relevant information and studies to identify areas of production with a strong SB presence with the potential to export and/or supply large companies; (ii) number of dissemination events, which will not account for more than 15% of the program; (iii) number of courses to be offered and their cost, adopting the modules designed for the courses in Argentina and Chile for entrepreneurs and consultants; and (iv) introduction of ISO and HACCP, their cost and market value for the pilot project.

- 3.27 Commencing in year two, the following specific activities will be carried out in Paraguay: (i) stimulating demand amongst SBs for ISO and HACCP systems; (ii) business training, with a focus on small business, for introducing such standards; (iii) training for local consultants in implementing the systems; and (iv) a pilot project to introduce the systems in a limited number of businesses, to be considered as demonstration cases. Also, these activities will make it possible to demonstrate the effective capacity of UIP in carrying out ongoing promotion and assistance activities for implementing ISO and HACCP systems in SBs.
- 3.28 In implementing this component, CANE will enter into an arrangement with UIP or any other entity that is ultimately selected, whereby the latter acts as coexecuting agency for these activities in the country, but under the direction and responsibility of CANE. This arrangement will include details of the activities planned and their cost. The local counterpart to be provided by Paraguay will be at least 30%.

#### **IV. EXECUTING UNIT AND BENEFICIARY**

- 4.1 The duration of the project will be three years (36 months for execution and 42 months for disbursement). The project counterpart will be the CANE foundation in Argentina. The executing agencies will be CANE in Argentina, SERCAL in Chile (see Annex VI in the technical files for the Agreement of Understanding between CANE and SERCAL), and Unión Industrial Paraguaya (UIP) in Paraguay. For project activities in Paraguay, CANE will sign an agreement with UIP (see paragraph 3.25).
- 4.2 CANE has geared itself to providing training, offering over the years a number of interactive courses, conferences, and seminars tailored to the needs of SMEs. Its activities have included comprehensive advisory services for SMEs and management consulting for institutions in the private sector. SERCAL specializes in microenterprise and SME services. In pursuing these tasks, it has developed methodologies suited to quality and continuous improvement systems. It offers services in management consulting for business and other institutions in the private sector, policy design and instruments, and training for the public and private sectors.
- 4.3 The two entities taking part in project execution possess a high degree of complementarity. CANE has a fine record with one MIF program (creation of new companies) in marketing, dissemination, and mass training, particularly to companies, and SERCAL in providing technical assistance to business.
- 4.4 CANE will establish an Execution Unit to carry out the project. The project counterpart funding will be used to hire a Project Director and an Administrative Assistant, whose terms of reference appear in Annex V in the technical files. CANE will be responsible for coordinating activities and administering project activities. It

will also handle management control and budget management, using procedures established and agreed on with the Bank.

- 4.5 **Supervision and monitoring.** The Country Office in Argentina will be in charge of project supervision, with technical support from headquarters, particularly the Office of the MIF given that the present initiative is part of the MIF's ISO program.
- 4.6 CANE through its representative will submit to the Bank semiannual progress reports within 30 days after the end of each six-month period, and a final report within 30 days after the final disbursement. CANE through the project execution unit will monitor the project and prepare the appropriate project reports. Every six months, a progress report describing the activities carried out during the period just ended must be prepared. In addition, a work plan and a disbursement schedule will be prepared for the subsequent period. These reports, following a format previously agreed on with the Country Office, will describe the status of project activities, finances, and the results.
- 4.7 **Disbursements.** The nonreimbursable funding will be disbursed and goods and services procured in accordance with Bank/MIF standards. A revolving fund of up to 10% of the IDB nonreimbursable funding will be established. This sum was recommended by the Project Team and is considered justified given the initial expenses that will be incurred. The nonreimbursable funds will be disbursed and goods and services procured in accordance with Bank/MIF standards.
- 4.8 **Accounting and audits.** CANE will be responsible for (a) establishing and keeping proper accounting, financial, and internal records, as well as files to provide details on the source and application of program funds. The program records must record (i) amounts received by source, (ii) program expenses, with a breakdown by MIF and source of funding, and (iii) particulars for identifying goods and services procured; (b) opening separate bank accounts specifically for administering the MIF contribution and the local counterpart funds; (c) processing disbursements requests to the Bank; and (d) preparing audits of program financial statements and semiannual reports on the revolving fund for submission to the Bank.
- 4.9 **Beneficiaries.** The project beneficiaries include (i) 3,500 entrepreneurs in Argentina and 2,700 in Chile who will take part in promotion activities; (ii) 740 microentrepreneurs and small businessmen in Argentina and 840 in Chile, who benefited from the training activities; (iii) 150 consultants trained in the implementation of ISO and HACCP systems in microenterprise and small business; (iv) 60 companies in Argentina and 40 in Chile that stand to benefit from quality, environmental, and/or HACCP systems; and (v) strengthening of the UIP, the institutional entity in Paraguay, to facilitate access by small business to continuous improvement systems; (vi) awareness building and training for at least 2,000 entrepreneurs in Paraguay through initiatives previously tested in Argentina and Chile. Such initiatives may also serve as a basis for broader programs to support the

introduction of ISO and HACCP systems in business. Specifically, the Bank is supporting the Paraguayan government with a special program. This project could provide some elements for the design and help stimulate demand by business.

- 4.10 **Preparedness.** Project preliminaries are nearing completion, with the design, the budget, and activities planned for Argentina and Chile having been prepared with the different actors participating in the project and the technical assistance of experts in this field and the Bank team. In the case of Paraguay, although the counterpart has been identified and agreement has been reached on implementing the activities described, the final sizing of this component will depend on the results of the analysis performed in year one of the project.

## V. COST AND FINANCING

- 5.1 The cost of the program is estimated at the equivalent of US\$3,832,000, of which US\$2,289,000 will be in the form of a nonreimbursable contribution from the MIF (Human Resources Facility) and the remaining US\$1,543,000 will be local counterpart funding as shown in the table below (the detailed budget is given in Annex II which is available in the technical files).
- 5.2 **Sustainability.** The sustainability of the project is linked to the development of supply and demand for quality management, environmental, and food safety services. The sustainability will be based on the development of this market and not on the strengthening of executing agencies which will in fact become another link in the institutional and professional network which is to be consolidated. The project will also generate earnings (sale of manuals, registration fees for courses and workshops) which will be used exclusively to provide long-term services that are needed to keep the market functioning (maintaining databases, consultants' references, ongoing training, etc.). The revenue raised in fees charged to the beneficiaries over the project's three-year duration, amounting to US\$831,600 will become part of the program financing, in addition to the local contribution (see Annex II available in the technical files). This revenue will ensure that upon completion of the project there will be sufficient funding to cover operating costs associated with business support activities.

**in US\$ equivalent**

<b>ITEM</b>	<b>MIF</b>	<b>LOCAL</b>	<b>TOTAL</b>	<b>%</b>
I. Awareness building and business training	661,000	621,000	1,282,100	33.5
II. Training and implementation of systems	886,000	349,000	1,221,000	32.2
III. ISO and HACCP positioning	125,000		125,000	3.3
IV. Promotion and training in Paraguay	210,000	90,000	300,000	7.8
Executing Unit	167,000	445,000	626,400	16.0
Evaluation	60,000	--	60,000	1.2
Audits	45,000	--	45,000	1.2
Contingencies	134,500	37,500	172,500	4.9
<b>TOTAL</b>	<b>2,289,000</b>	<b>1,543,000</b>	<b>3,832,000</b>	<b>100.0</b>
<b>Percentage</b>	<b>59.7%</b>	<b>40.3%</b>	<b>100%</b>	

## **VI. BENEFITS AND RISKS**

### **A. Benefits**

- 6.1 The benefits flowing from the project include (i) promotion and dissemination of the economic and environmental benefits of ISO management and HACCP systems thanks to the consolidation of supply and demand; (ii) improved competitiveness of SMEs, with favorable effects on economic growth and job creation; (iii) improvements in environmental quality in areas served by SMEs; (iv) creation of a slate of local consultants skilled in implementing ISO and HACCP systems; and (v) better institutional understanding (communities, companies, authorities) of environmental responsibilities.

### **B. Risks**

- 6.2 Amongst the potential projects are (i) the possibility that future demand for services is less than projected; and (ii) financial constraints on companies could prove a greater obstacle than envisaged to their participation. To attenuate the first risk, the project provides for a strong awareness building effort, specifically in quality management, environment, and HACCP so that companies understand the benefits of such services and demand them. The second risk would be minimized through a gradual reduction in the technical assistance subsidy that the project provides to participating SMEs. There is a further risk in Paraguay that small companies may still be unwilling to adopt continuous improvement systems such as ISO and HACCP and/or the UIP is unable or lacks the capacity to carry out the project. In this case, the funds for component 4 will not be disbursed.



## **VII. EVALUATION AND PERFORMANCE INDICATORS**

- 7.1 The Bank will use the project resources to hire private consultants to perform two evaluations - a midterm evaluation when at least 50% of the funding has been disbursed and a final evaluation within three months after completion of the project and before the final disbursement. The midterm evaluation will look at (a) the extent to which scheduled activities have been accomplished and the monitoring indicators set out in the project logical framework (Annex I); (b) the performance of CANE-SERCAL activities; and (c) the results of monitoring the different project activities. The final evaluation will concentrate on the impact of the project, using a methodology, based on the logical framework, to be prepared by CANE-SERCAL and approved by the Bank.
- 7.2 The main supervisory tools will be the evaluation and monitoring reports entrusted to the independent consultants, as well as the regular progress reports prepared by the management of CANE-SERCAL, together with the Project Director. On the basis of outside evaluations and the progress reports, the Country Office will undertake an analysis, with the help of headquarters if necessary, to determine whether the project should be continued, suspended, or cancelled.
- 7.3 CANE-SERCAL will put together quantitative and qualitative indicators for observation and for the midterm and final project evaluations. The qualitative indicators will include (i) the type of company evaluated based on established eligibility criteria; (ii) the specific services offered or extended to the companies; (iii) environmental benefits achieved through the implementation of the recommendations; (iv) an evaluation performed by the participants; and (v) the impact of the project, including the results of the study to monitor the companies.
- 7.4 The quantitative indicators for observation and evaluation of the project will consist of (i) the impact of the project, including the results of supervision and participation by companies in the program (companies evaluated, recommendations issued and estimates of the amounts needed to implement them, recommendations implemented); (ii) the impact of the events of awareness building and training (training events completed and participants in each event); (iii) the impact on demand for ISO and HACCP systems (information requests received by CANE-SERCAL, revenue from participation and services); and (iv) efficiency of the program as a function of cost.
- 7.5 The MIF's ISO performance indicators will be used to measure the performance of individual companies in order to identify those that have implemented ISO systems most successfully. These indicators will be monitored by the PEU. The indicators include (i) the scope of the environmental management and quality systems being introduced in participating SMEs, (ii) the degree of compliance with environmental regulations, and (iii) the level of improvement in quality and environmental activity

resulting from participation in the project. This survey and the guidelines for administering it are available in the technical files.

### **VIII. EXCEPTIONS TO POLICIES AND PROCEDURES**

- 8.1 No exceptions to Bank policies are envisaged.

### **IX. SPECIAL CONTRACTUAL CONDITIONS**

- 9.1 As special conditions precedent to the first disbursement, the executing agency shall demonstrate that (i) the Operating Operations have entered into effect; (ii) the Project Executing Unit has been set up; and (iii) a work plan has been prepared and a timetable for disbursements in the first six months of the program drawn up, to the Bank's satisfaction.
- 9.2 During the first three months of the program, an itemization of the estimated cost of implementing ISO and HACCP systems in participating SBs, including the terms of reference of participating consultants, must be presented to the Bank. Also, within six months after start up of the program, the PEU shall submit to the Bank for the latter's nonobjection a detailed proposal setting out the procedures for selecting the beneficiaries and the consultants that stand to benefit from the project.
- 9.3 Disbursement of financing for component 4 (US\$190,000), less the sum of US\$20,000 for the financing of the detailed design portion of that component, will be conditional on submission to the Bank for the latter's approval during year one of the project of the following: (i) the feasibility analysis of the project in Paraguay; (ii) an agreement, based on a model previously agreed on with the Bank, signed between the CANE Foundation and Union Industrial de Paraguay; and (iii) evidence of a commitment to provide the Paraguayan counterpart, which should amount to at least 30% of the total.

## LOGICAL FRAMEWORK

ACTIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
the competitiveness of Argentina, Chile, and Paraguay	Improvements in SME productivity rates	Periodic evaluations of target group performed by the Project Executing Unit	Macroeconomic policy and m remain stable so that countries can maintain their competitive
hand in the services market management and HACCP systems standards as tools for improvement, with a focus on demand and the supply side of	<ol style="list-style-type: none"> <li>1. Heighten awareness on the importance of using ISO and HACCP in microenterprise and small business</li> <li>2. Boost consultancy capacity to transfer knowledge in implementing ISO and HACCP standards to operators, employees, and consultants</li> <li>3. The methodology developed is transferred to institutions in Paraguay</li> </ol>	<p>Final report on program</p> <p>Final evaluation report on program</p>	<p>Quality and management cont importance in national and int market</p> <p>There is an adequate response sectors involved</p> <p>There is interest on the part of entrepreneurs and professiona part in training courses</p>
TS			
s building and business	A. 3,500 entrepreneurs in Argentina and 2,700 in Chile have participated in promotion activities	Final report on program	There is growing demand for s quality and environmental ma and HACCP systems
and implementation of	B. 740 entrepreneurs in microenterprises and small businesses in Argentina and 840 in Chile benefited from training activities. 150 consultants have taken part in training courses. 60 companies in Argentina and 40 in Chile have benefited from implementation of quality standards	Final evaluation report on program	Activities in Argentina and Ch successful enough to be replic Paraguay
HACCP positioning	C. Marketing elements are identified for continuous improvement systems in sectors with a large SB presence		There is sufficient interest in B justify the proposed activities

ACTIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
ation in Paraguay	D. The methodology for dissemination, training, and implementation of quality standards has been transferred to institutions in Paraguay. At least 2,000 entrepreneurs have taken part in some activities		
S			
s building events for erprise	Holding of 25 seminars in Argentina and 20 in Chile during program	Semiannual progress reports (describing activities completed)	
s building events for small	In year one, holding of 6 international seminars in Argentina and 6 in Chile	Reports approved by Project Executing Unit and IDB	
	During first two years, 60 working lunches organized in Argentina and 60 in Chile		
marketing strategy	During first six months, 6 communication strategy studies for microenterprise, small business, and consultants conducted (3 in Argentina and 3 in Chile)	Progress report (description of activities completed, with a copy of book, video, and paper outlining the successful experiences)	
ation of program	Web page, publication of articles, and telemarketing activities	Semiannual progress reports (describing publications and telemarketing activities completed)	
or microenterprise	During program, 25 courses offered in Argentina and 20 in Chile	Semiannual progress reports and outside evaluations	
	During first six months, design of course and course manual. Provided to participants	Semiannual progress reports (describing activities completed)	
or small business	During first two years, 12 courses organized in Argentina and 12 in Chile	Semiannual progress reports (describing activity completed and a copy of manual)	
	During first six months, design of course and course manual. Provided to participants	Semiannual progress reports (describing activities completed)	
or consultants	During program, 7 courses offered in Argentina and 5 in Chile to train 150 consultants	Semiannual progress reports (description activity completed and a copy of manual)	

ATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>ation of systems</p> <p>ed advisory services hired</p>	<p>During first six months, design of course and course manual. Provided to participants</p> <p>Implementation of systems in 60 companies in Argentina and 40 in Chile</p> <p>Technical assistance for special cases</p>	<p>Semiannual progress reports (describing activities completed)</p> <p>Agreement approved by Project Executing Unit and the IDB</p> <p>Semiannual progress reports (describing activities completed)</p>	
<p>udies, positioning profile</p> <p>ation of best practices</p>	<p>By the end of first six-month period: 3 studies for Argentina and 3 for Chile</p> <p>In year 3</p> <ul style="list-style-type: none"> <li>- Book on lessons learned</li> <li>- Identification of 4 successful experiences</li> <li>- Holding of event to present book and experiences</li> <li>- Production of video with business experiences</li> </ul>	<p>Reports approved by Project Executing Unit and the IDB</p>	
<p>program in Paraguay</p> <p>nt with Union Industrial de</p> <p>formally established in</p>	<p>In year one, study conducted and program activities and components proposed</p> <p>In year one, negotiation of agreement</p> <p>In years two and three, awareness building events held and training offered, and implementation</p>	<p>Agreement signed with the Bank's nonobjection</p> <p>Semiannual progress reports (describing activities completed)</p>	

**PROPOSED RESOLUTION**

**REGIONAL. NONREIMBURSABLE TECHNICAL COOPERATION PROGRAM FOR  
PROMOTING INSTRUMENTS FOR CONTINUOUS IMPROVEMENT IN  
SMALL AND MEDIUM ENTERPRISES**

**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, on behalf of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the Fundación CANE and to adopt such other measures as may be pertinent for the execution of the plan of operations incorporated in the donors memorandum referred to in Document MIF/AT-\_\_\_\_\_ with respect to a technical cooperation for Promoting Instruments for Continuous Improvement in Small and Medium Enterprises.
2. That up to the amount of two million two hundred and eighty nine thousand dollars of the United States of America (US\$2,289,000) is authorized for the purpose of this resolution, chargeable to the Human Resources Facility of the Multilateral Investment Fund.
3. That the above-mentioned sum is to be provided on a nonreimbursable basis.