

## CAPACITY-BUILDING FOR SMALL AND MEDIUM-SCALE ENTREPRENEURS IN EL SALVADOR, GUATEMALA AND PANAMA

(TC-99-02-06-3)

### EXECUTIVE SUMMARY

<b>Executing agency:</b>	National Empretec offices to be established on the initiative of the following national promoters, who will act temporarily as local counterparts. In <u>El Salvador</u> : Agrícola Industrial Salvadoreña, S.A.; <u>Guatemala</u> : Bancafé (Grupo Financiero del País); <u>Panama</u> : Fundación para el Desarrollo de la Libertad Ciudadana.	
<b>Project number:</b>	TC-99-02-06-3	
<b>Beneficiaries:</b>	Entrepreneurs in El Salvador, Guatemala and Panama	
<b>Financing:</b>	Modality:	Nonreimbursable (Facility II)
	MIF	US\$1,800,000
	Local counterpart:	US\$ 900,000
	Total:	US\$2,700,000
<b>Objectives:</b>	<p>The general objective is to create sustainable capacity to promote entrepreneurship in the three countries, strengthening the entrepreneurial spirit and formal-sector business initiatives. This will contribute to job creation and economic development. The project will support introduction of the entrepreneurial training methodology developed by UNCTAD's Empretec program, which is based on changes in behavior and attitudes. The specific objectives are to: (a) create operating structures in each country (Empretec offices) trained to successfully apply behavioral methodologies to develop entrepreneurship; and (b) build up the capacity of new and existing entrepreneurs and other institutions exposed to modernization processes to undertake new business ventures. The inclusion of women entrepreneurs is a cross-cutting objective of the entire project and special steps will be taken to inform women about the project and encourage them to participate in all of its activities.</p>	
<b>Description:</b>	<p>The project's components are:</p> <ol style="list-style-type: none"> <li><b>Creation of institutional capacity.</b> This component consists of establishing an Empretec office, cofinanced and backed by</li> </ol>	

business groups and relevant institutions in each country, and selecting and training the certified technical experts needed to make each office sustainable.

2. **Training of trainers.** Training and certification of professionals in the three countries in applying Empretec's behavioral methodology in a fully autonomous fashion.
3. **Training for new entrepreneurs.** Training for people with promising entrepreneurial profiles to enable them to acquire the behaviors and attitudes needed to undertake new ventures, including the creation of new businesses and the execution of existing business projects.
4. **Special courses.** Application of the Empretec methodology in courses to develop entrepreneurial behavior in specific situations such as: (i) privatization of public businesses or services; (ii) government reform processes and outsourcing; (iii) new exporters; (iv) agricultural entrepreneurs; (v) groups of women entrepreneurs; and (vi) other groups such as indigenous entrepreneurs, young university graduates, technology-based entrepreneurs and others.

<b>Terms:</b>	Execution period:	36 months
	Disbursement period:	48 months

**Special contractual conditions:** Prior to the first disbursement of the contribution, each temporary executing agency will present evidence to the Bank's satisfaction that: (i) an agreement has been reached with the United Nations Conference on Trade and Development (UNCTAD) for the use of Empretec methodology in its respective country; (ii) UNCTAD has granted authorization to Empretec Uruguay to participate in the project; (iii) the program director has been hired in accordance with terms of reference agreed upon with the Bank; (iv) the preliminary business plan and a timetable for the project have been prepared as agreed upon with the Bank (paragraphs 4.5, 4.6, 4.8, and 4.9).

For disbursement of the resources for components 2, 3, and 4, each executing agency will present evidence to the Bank's satisfaction that: (i) a national Empretec office has been established and is operating; (ii) new UNCTAD and the new Empretec office have agreed on the use of Empretec methodology; and (iii) the new national Empretec office has agreed to carry out its obligations under the project as executing agency (paragraphs 4.2 and 4.7).

Each temporary executing agency will have a period of 12 months from the entry into force of the agreement with the Bank to set up the

national Empretec office and start operations (paragraph 4.2). Once the provisions set forth in Article 2 (i) and (ii) of the General Conditions have been fulfilled, the MIF may disburse up to US\$10,000 per country to facilitate the executing agencies' compliance with the special conditions precedent.

### **Conditions for execution**

Each temporary executing agency will contract the services of Asociación Empretec Uruguay as a temporary support unit for execution of the project, pursuant to the requested exception to the procurement policy (paragraph 4.5)

### **Recognition of expenses from the counterpart:**

The Bank may recognize, as part of the local counterpart funds, up to US\$2,500 per country in expenses incurred by the temporary executing agencies since July 1, 1999, in the process of establishing the national Empretec offices (paragraph 4.4).

### **Exceptions to Bank policy-procurement of goods and services:**

It is proposed that Empretec Uruguay be contracted to act as a temporary support unit for execution of the project, as established in paragraphs 3.7 and 4.5.

## **I. ELIGIBILITY**

- 1.1 The Republics of El Salvador, Guatemala and Panama have been declared eligible for MIF financing. The proposed project is eligible for financing under the Fund's Human Resources Facility (II) since it provides training for trainers, which is necessary to increase investment flows and expand the private sector.

## **II. BACKGROUND**

- 2.1 Economic growth in Central America and Panama countries largely depends on the capacity of the private sector to undertake new productive ventures involving investments by large businesses and, above all, by small and medium-scale enterprises (SMEs), since they are a relevant factor in job creation and diversification of the economy. However, the pace at which new businesses are created in Central America and Panama is too slow, which results in slackened entrepreneurial dynamism and lower job creation.
- 2.2 The business spirit and entrepreneurial capacity still face barriers to establishing new projects and creating jobs. Large economic fluctuations and instability in the past, armed conflicts, and natural disasters have created a climate of uncertainty that has largely counteracted incentives for undertaking business ventures. The situation has not favored the development of entrepreneurs, who are one of the key factors in economic growth.<sup>1</sup> Participation by women in new undertakings is, for historical and cultural reasons, far lower than by men, which points to serious under-use of local entrepreneurial potential.
- 2.3 The economies of El Salvador and Guatemala are quite well stabilized today; peace has been achieved throughout the region; and trade liberalization has opened up processes of integration and entry into the world economy, generating new business opportunities for enterprises of all sizes. In Panama, reversion of the Canal Zone has generated a host of new business opportunities. However, strong international competition, scant entrepreneurship and insufficient social appreciation of the role played by entrepreneurs continue to make it difficult to tap the region's potential in this field. The result is fewer business projects and sluggish creation of good-quality jobs in the formal sector.
- 2.4 Although there are many factors that affect the creation of new businesses, the most decisive is undoubtedly entrepreneurial culture and attitudes. The lack of entrepreneurship can be surmounted by applying innovative methods for behavioral training, which open up new avenues for expanding and improving fresh ventures

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<sup>1</sup> The correlation between entrepreneurship, measured as the capacity to create new businesses, economic growth and jobs, has been accredited in a large number of studies, including the *Global Entrepreneurship Monitor* created by the London Business School (UK) and Babson College (USA).

by small and medium-sized businesses. Of all methodologies, the changes in attitudes in developing countries brought about by the international Empretec program have had the most positive results over the longest time.

- 2.5 Empretec is an international program created by the United Nations Conference on Trade and Development (UNCTAD), whose objective is to support the development of new ventures, particularly small and medium-sized businesses. Empretec has developed and successfully applied its own methodology, which originated at Harvard University and is intended to influence aspects of individual behavior and create habits that will strengthen entrepreneurship in individuals, through the use of participative techniques. This behavioral methodology – based on research that has demonstrated that successful businesspersons act and behave in a similar way, regardless of their culture, socioeconomic context or religion – is applied to identify, select, train, advise and support individuals with the capacity to undertake new ventures.
- 2.6 The use of this methodology for over 10 years has established a series of techniques and an array of products that have been used successfully in 10 African and Latin American countries and are being introduced in new countries in Asia and the Mediterranean, including southern Europe. Independent evaluations of the Empretec program in different countries point to highly positive results. Sample surveys indicate that the entrepreneurs who benefited from the program created 50,000 jobs in the last three years alone.<sup>2</sup>
- 2.7 Empretec Uruguay has executed one of the most successful experiences. It is Empretec's most veteran agency in Latin America, has helped to introduce Empretec into other Latin American countries (Chile, Venezuela, and Colombia), and has conducted pilot programs in several countries (Bolivia, Spain, Czech Republic), has adapted the Empretec methodology to courses for intrapreneurs, and has been designated by UNCTAD as the representative of the Empretec program for Central America. Annex III gives a brief description of the behavioral methodology and the results achieved through its application.
- 2.8 The region has traditional business and management training programs intended to build better administrative and financial skills. Although some business schools in Central America have launched business-creation programs, the region is lacking programs to develop entrepreneurial capacity based on behavioral aspects. All the operators in the management training market who were consulted in El Salvador, Guatemala and Panama agreed that substantial demand exists for behavioral training for entrepreneurs.

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<sup>2</sup> "Ten Years of Empretec", Geneva, 1997; "The Empretec Program in Selected Latin American Countries: an Assessment", Lorraine Ruffing and Fulvia Farinelli, Rio de Janeiro, 1999.

- 2.9 Installation of local capacity to promote new ventures in the countries of the subregion will require the transfer of know-how and techniques used successfully in other countries and will enable counterpart agencies to continue using them in a sustainable fashion. The methodology and the end product, including a number of possible applications, have already been defined and need only to be adapted to the sociocultural context in Central America.
- 2.10 Although there is a need to build up entrepreneurial attitudes throughout all of Central America, prudent scaling of this project makes it advisable to begin in three countries and afterwards, depending on the results, to expand to the rest of the subregion. The three countries in which private counterpart agencies were identified that were willing to commit resources to the project were selected.

### **III. PROJECT DESCRIPTION**

#### **A. Objectives**

- 3.1 The general objective is to create sustainable capacity to promote entrepreneurship in the three countries, strengthening entrepreneurial spirit and formal-sector business initiatives. This will contribute to job creation and economic development.
- 3.2 The specific objectives are to: (a) create operating structures in each country (Empretec offices) trained to successfully apply behavioral methodologies to develop entrepreneurship; and (b) build up the capacity of new and existing entrepreneurs and other institutions exposed to modernization processes to undertake new business ventures.
- 3.3 The inclusion of women entrepreneurs is a cross-cutting objective of the entire project and special steps will be taken to inform women about the project and encourage them to participate in all of its activities. This special treatment of gender issues, which is desirable in all operations, has been included in this operation as a pilot project that will be used to verify the actual impact of the specific measures to promote participation by women.

#### **B. Components**

##### **1. Creation of institutional capacity in the three countries**

- 3.4 This component consists of establishing an Empretec office in each of the three countries, cofinanced and backed by business groups and relevant institutions, and of selecting and contracting the technical experts needed to make each office sustainable. It will be necessary for UNCTAD to cede the rights to apply the methodology and to use Empretec's name, trademark and logo. Annex IV includes the minimum contractual terms and conditions that are to appear in the letters of

intent and other contracts that the United Nations concludes with the executing agencies for the cession of those rights.

- 3.5 The activities to be financed under the program include: (i) creating a legally-incorporated not-for-profit Empretec agency, corporation or foundation, under national laws; (ii) equipping a specialized local office in each country; (iii) selecting and contracting a director and an assistant for each office; and (iv) contracting a support unit.
- 3.6 The project has private promoters in each country who have offered their support and resources for establishing Empretec offices and for their operation. These promoters will create and direct the Empretec offices, whose boards will also include the most representative organizations of the business and financial community. Each office will contract a national director who will bear operational responsibility for the program. The profiles and terms of reference for the directors, instructors and consultants are described in the Operating Regulations in Annex V.
- 3.7 Each national counterpart will contract Empretec Uruguay during the project as a support unit, since it has had the greatest success in establishing and expanding Empretec offices throughout Latin America. The functions of the unit will include: (i) support for the national counterparts in establishing the Empretec offices; (ii) support in the selection and contracting of directors, assistants and instructors; (iii) support for the national directors in the promotion and logistics of the training courses and in detection of suitable markets for defining new products; (iv) liaison between the local offices and Empretec's international specialists; (v) control over the quality and homogeneity of the project in each country, including communication of its image and special treatment of gender issues; (vi) support for regional integration of the project by fostering the establishment of an Empretec network in Central America. A draft establishing the conditions for contracting the support unit can be consulted in Annex VI.
- 3.8 It is expected that the outcome of this component will be the consolidation of an Empretec office in each of the three countries, backed by representative private-sector organizations and with a plan for sustainability based on the sale of its training services to promote new ventures.

## **2. Training for trainers**

- 3.9 This component includes activities to train and certify professionals in the three countries to enable them to apply Empretec's behavioral methodology, operating in a fully autonomous fashion.
- 3.10 Training for the management teams, instructors and consultants in each country will be based on the specific methodology already described. Empretec Uruguay will mobilize instructors from Empretec in Latin America during the project

implementation stage. Training includes two stages: training in how to educate new entrepreneurs and training in how to teach special courses.

- 3.11 Training for experts in educating new entrepreneurs takes place through a learning process that includes participation in four national courses, plus one regional course for directors and one for instructors. By the end of the first year, they should be capable of applying the Empretec methodology without the need for external assistance. Each office will be able to function independently, adhering to the criteria and quality standards taken from the best practices of the international Empretec program. Training for project staff will also include specific instruction on gender considerations. Training to teach the special courses will be offered to instructors who have received certification in using the Empretec methodology and will include two national courses and one regional course for directors and instructors.
- 3.12 This component is expected to produce a critical mass of experts who have been trained and certified in teaching Empretec's behavioral methodology. Apart from the directors of the Empretec offices, a minimum of three instructors/facilitators and two consultants will be trained in each country.

### **3. Development of new ventures**

- 3.13 The purpose of this component is to train people with promising entrepreneurial profiles in the behavior and attitudes necessary to tackle new ventures, including the creation of new businesses and execution of the projects of existing businesses. This training will be based on Empretec's methodology which involves entrepreneurial behavior, motivation and attitudes and is described in paragraph 2.6 and Annex III.
- 3.14 The activities in this component include: (i) identification of the special features of the entrepreneurial profile in each country and a review and subsequent adaptation of training materials to local conditions, with special consideration of the profile of women with entrepreneurial potential; (ii) sensitization of the potential market for entrepreneurial training through publicity, stressing participation by women; (iii) announcements of courses and the requirements for participating in them; (iv) identification and selection of course participants; (v) delivery of basic 80-hour courses using the immersion technique; and (vi) provision of up to five days of technical assistance for course participants in order to provide practical support for their plans to create new businesses or new ventures.
- 3.15 Participants in the training courses ought to pay fees that will cover the direct costs of each course. However, during the first year of the project, the MIF will cover 50% of those fees and 25% in the second year, with a view to facilitating the introduction of Empretec's product into the market. In year three, participants will be required to cover 100% of course costs.



- 3.16 The project will make efforts to have as many female entrepreneurs as possible participate in the courses. Two activities will be carried out for that purpose. One will facilitate access by women to the project through communications strategies targeted explicitly to them and the other will reduce barriers to their access. An expert on gender linked to the regional coordination unit will provide advisory services for this component. The expert will receive training in the behavioral methodology and will review the training materials from the gender standpoint, together with an international expert from Empretec. Targets will be established to increase participation by women in these activities, based on the situation encountered in each country.
- 3.17 The expected outcome of this component is seven courses in each country to train 25 entrepreneurs each (half of whom are already established and half of whom are new) for a total of 525.

#### **4. Special courses**

- 3.18 This component consists of using the behavioral methodology to train specific groups of individuals, such as the members of large organizations that are undergoing change (intrapreneurship) and groups of small businesspeople with shared characteristics.
- 3.19 International experience indicates that training for entrepreneurs has been successful in the following situations: (i) privatization of public businesses or services in which employees pass from the public to the private sector in organizations that require new entrepreneurial activities inside the company (how to deal with risks and take initiatives); (ii) government reform and outsourcing processes in which former employees have to become entrepreneurs, initially performing the same activity but from a private sector standpoint; (iii) new exporters who require radical changes in entrepreneurial attitudes and behavior to develop strategies for internationalization; (iv) agricultural entrepreneurs, who must change from being producers into being entrepreneurs; (v) groups of women entrepreneurs who frequently come up against discrimination; and (vi) other groups that face similar behavioral challenges, such as young university graduates, indigenous entrepreneurs, technology-based businesspeople, and others.
- 3.20 This component can only begin once local capacity is in place for teaching the behavioral methodology (instructors and facilitators) which is expected to be available 12 months after the project begins in each country.
- 3.21 The national project directors, supported by their respective boards and by the coordination unit, will detect market opportunities for the behavioral training products and will establish execution targets for each year.

- 3.22 The direct costs of the training activities included in this component should be financed by the beneficiaries. However, the MIF may finance up to 50% and 25% of these costs in years two and three, respectively, for programs targeted to specific groups of small entrepreneurs. The MIF contribution will largely be used to finance general project management costs, the cost of creating local capacity, and publicity for the initial experiences in El Salvador, Guatemala and Panama.
- 3.23 The special courses are keys to the sustainability of the program after MIF financing has ended, since in future income from them will have to gradually cover project overhead, in addition to direct costs.
- 3.24 The expected outcomes of this component are five courses per country for special clients, with 25 participants per course, for a total of 375 entrepreneurs trained.

## **IV. EXECUTION**

### **A. Executing agencies**

- 4.1 The following national promoters will serve as the project's temporary executing agencies: Agrícola Industrial Salvadoreña, S.A. (Grupo Agrisal) in El Salvador; Bancafé (Grupo Financiero del País) in Guatemala; and Fundación para el Desarrollo de la Libertad Ciudadana in Panama. They will sign separate agreements with the Bank and act as national counterparts until the Empretec offices are formally established, which will take over all the rights and obligations of the national promoters and execute the project. The temporary agencies will have 12 months to establish the national Empretec offices.
- 4.2 Evidence that the national Empretec offices have agreed to carry out the project as executing agencies pursuant to the terms agreed upon with the Bank will be a condition precedent to the disbursement of resources for project components 2, 3, and 4. The temporary agencies will have a period of 12 months, counted from the date of approval of the operation by the MIF, to set up the national Empretec offices. Evidence that the national Empretec offices have been established will be a condition precedent to the disbursement of resources for project components 2, 3, and 4.
- 4.3 The criteria for selecting the counterpart agencies were: identification with the program's objectives; solidity and prestige in the business world; economic capacity to make the counterpart contributions; and commitment to respect autonomy in program management. In El Salvador, the Agrisal Group, headed by Mr. Roberto Murray, includes the La Constancia brewery and coffee and fertilizer companies, marketing companies, hotels, and others. In Guatemala, the Grupo Financiero del País, headed by Mr. Manuel Eduardo González, includes the Bancafé Bank which has the largest coverage in the country, as well as insurance,

marketing and storage companies. In Panama, the Fundación para el Desarrollo de las Libertades Ciudadanas, headed by Mr. Roberto Eisenmann, who is also president of Mi Banco, is linked to civil society and different business-creation projects. Annex VII includes basic information on the national promoters that have already made a commitment to the project and the entities in each country that have expressed an interest in forming part of the Empretec offices that are created.

- 4.4 The national promoters will create and direct an incorporated Empretec office headed by a board open to membership by associations and individuals with links to the business sector in each country. Since the legal incorporation of these offices may take some time, costs of up to US\$2,500 incurred by the promoters since July 1, 1999, to establish them may be recognized from the local counterpart. Annex VIII includes draft articles of incorporation that could be adopted by the Empretec offices.

## **B. Mode of operation**

- 4.5 To avoid creating a coordination structure whose cost would have a negative impact on project sustainability, each executing agency will hire Empretec Uruguay as a temporary support unit, within one month after the agreement is signed with the MIF. The unit's functions will include: technical assistance for the national executing agencies; training for directors, assistants and instructors; promotion of participation in the project by women; homogenization of the project's image in each country; and quality control of the services based on Empretec's international standards. Empretec Uruguay will require written authorization from UNCTAD to participate in the project. Evidence of such authorization is a condition precedent to the first disbursement.
- 4.6 The project operates on a model that is similar to a franchise, in which products, methodologies and procedures for installation and quality control have already been defined and constitute a trademark. UNCTAD will cede the right to exclusive use of the trademark free of charge to the executing agency in each country, which will be responsible for maintaining the established quality standards and complying with the objectives of its mission.
- 4.7 In order to formalize the capacity of the temporary executing agencies to use the Empretec methodology in their respective countries, as a condition precedent to the first disbursement evidence will be required of the agreement between UNCTAD and each such executing agency that includes, as a minimum: (i) the authority UNCTAD grants each agency to use the Empretec trademark and methodology free of charge in its country, while the national Empretec offices are being set up; (ii) UNCTAD's commitment to allow the national Empretec offices to use the Empretec trademark and methodology, under the same conditions, once those offices have been established. As a condition precedent to disbursement of the resources for components 2, 3, and 4, once the national Empretec offices have been

established, evidence will be required of the agreement between UNCTAD and those offices, under which UNCTAD grants the offices the right to register the license to use the Empretec trademark and methodology free of charge.

- 4.8 The executing agencies will establish guidelines for the project in each country and delegate decisions on day-to-day operations to the respective national directors, always respecting their professionalism and autonomy, in accordance with Empretec's methods.
- 4.9 The executing agencies will be responsible for preparing a business plan in their country within one month after the first disbursement, which will include: a strategy for publicizing the project and selecting and training entrepreneurs; identification of national requirements and special products for each country and a marketing strategy; price policy; operating objectives; and a strategy for financial sustainability.
- 4.10 The national directors will coordinate their action plans with the suppliers of financial and nonfinancial services for businesses and will try to find synergies with other programs that support SMEs.
- 4.11 The project will last for three years in each country, but the Empretec offices will continue after the end of MIF support. The training financed by the Bank for directors and instructors should be coordinated to achieve economies of scale and take advantage of trips by international instructors. For logistical reasons, the start-up of the Empretec offices in each country will be coordinated to take place within the four months following signature of the MIF agreement. The disbursement period will be 48 months.

**C. Environmental and social impact**

- 4.12 The Bank's Environment and Social Impact Committee (CESI) considered this operation at meeting TRG25/99 on July 6, 1999, and recommended that: (i) environmental management aspects, particularly in the exporting sector, be included in the training activities to the extent possible; and (ii) mechanisms be considered in the process of promoting the project and selecting participants to favor the inclusion of women, indigenous peoples and other groups that may encounter entry barriers.

**D. Status of project preparation**

- 4.13 Preparation of the operation is well advanced. The counterparts have expressed in writing their intention of establishing an Empretec foundation or corporation and some have already begun the process. Empretec's earlier experience in other Latin American countries has produced key materials for starting up the project, such as profiles, tasks, selection methods and the training plan for technical staff; terms of

reference for the coordination unit; Operating Regulations and model by-laws for the operation of the executing agencies (Annexes IV to VIII).

## V. COST AND FINANCING

- 5.1 The project will cost an estimated total of US\$2.7 million. MIF will provide US\$1.8 million on a nonreimbursable basis. The local counterpart will be US\$900,000 or one third of the total cost, at least one half of which will be in cash.
- 5.2 The detailed budget is presented in Annex II and the three-year financing table for the three countries combined is presented below.

**Table V-1**  
(in US\$ thousands)

Activity	MIF contribution	Local counterpart	Client contribution	Total
1. Empretec offices	390	345	-	735
2. Training for trainers	480	-	-	480
3. New entrepreneurs	270	215	100	585
4. Special courses	270	140	100	510
5. Support and quality control	105	-	-	105
6. Miscellaneous	285	-	-	285
- Women entrepreneurs	90	-	-	90
- Auditing	15	-	-	15
- Evaluation	60	-	-	60
- Contingencies	120	-	-	120
Total	1,800	700	200	2,700

- 5.3 The MIF contribution will chiefly cover the salaries of the national directors, the costs of transferring Empretec methodology through training for trainers at each local office, a percentage of the direct costs of the courses for entrepreneurs and the special courses in the first two years, technical support and quality control for the project, and activities to promote participation by women, such as contracting a consultant to review the course materials, development of a gender awareness course for directors and technical experts, and publicity for the project among women's groups.
- 5.4 The local contribution, up to 50% of which may be in kind, will consist of facilitating physical infrastructure, logistics and administrative support for the offices in each country and for the overall operation of components 2, 3 and 4. Each executing agency must make a commitment through a resolution of its board to directors to make the local contributions in the amounts and at the times agreed upon with the Bank and to back the activities launched by the project after the MIF contribution has been used up.

- 5.5 Once the initial investment has been made, operations will be sustained through the fees paid by the participants, which will cover all the direct costs of training and, starting at the end of the second year of the project, will begin to cover the overhead of the Empretec offices in each country. The financial projection presented in Annex II shows the break-even point for the recovery of operating and total costs. It has been explicitly established that the MIF will not finance a second stage of this project in these same countries.
- 5.6 Advances will be made available to each executing agency through a revolving fund of up to 10% of the MIF contribution. The Bank's Country Office in each country will take basic responsibility for supervising execution.

## **VI. JUSTIFICATION AND RISKS**

### **A. Justification**

- 6.1 Private businesses in the region, particularly SMEs, are at a critical point in which they must face up to international competition. To do so, they can tap the business opportunities offered by an open economy. Development of the skills of local entrepreneurs is a key factor for the growth of a new entrepreneurial sector that is adapted to economic liberalization and which can create stable jobs. This project will serve to introduce behavioral methodologies to build up the entrepreneurial capacity of the countries in the zone. The special effort to include women in the project is based on lowering barriers to carrying out business and on tapping the entrepreneurial potential of one half of the population.
- 6.2 The project fits in with Bank strategies to strengthen the private sector and will contribute to the better execution of other Bank operations to support the development of SMEs in the region. Concretely, the MIF operations in Guatemala (ATN/ME-6537) and El Salvador (ATN/ME-4708), among others, are intended to improve the acquisition of know-how for the management of SMEs and facilitate their access to technical assistance services. The present project will create new attitudes and behavior in a group of entrepreneurs (men and women), which will complement other Bank operations.

### **B. Risks**

- 6.3 The feasibility of the project is based on the success that the Empretec program has had in introducing its behavioral methodology in other countries in different parts of the world. However, three types of risks have been detected: those relating to efficient adoption of that methodology in el Salvador, Guatemala and Panama; the risk relating to the scaling of potential demand for behavioral training; and the related risk regarding the sustainability of the three Empretec offices in the subregion.

- 6.4 The first risk is contained by the function to be performed by the coordination unit in adapting the methodology to the countries of the subregion and by the commitment of the executing agencies to respect the procedures and conditions of transparency and autonomy in management that have been applied internationally. From the standpoint of operations, the risk is also attenuated by the support of the regional coordination unit, which will train the local staff, provide initial assistance with methodology, logistics and development for the national directors, and control the quality of the training provided.
- 6.5 The risk that demand will be lower than expected could materialize from the failure to differentiate this project sufficiently from other existing sources of training. To limit it, a communications strategy has been planned to clarify the specific nature of behavioral training and its applicability to the needs of businesses of different sizes, plus its inclusion of gender considerations.
- 6.6 Although the Empretec offices can be sustained with moderate levels of activity, there is the risk that their market for special programs may not be large enough in a given country to cover overhead starting in the third year. This risk has been reduced through two alternatives: first, the members of the executing agency in a given country could maintain their contribution to office overhead; second, the trainers in that country can act as external instructors, with the support of organizations in any of the neighboring countries. In the last resort, if the project is not viable in any of the countries, the Bank's Country Office could cancel it.

## **VII. MONITORING AND EVALUATION**

- 7.1 Monitoring will be based on the annual progress reports that the executing agencies present to the Bank through the Country Office in each country, which will describe the activities carried out, budget execution, counterpart disbursements and compliance with the objectives established for each country, and will be accompanied by a report on the activities carried out by the coordination unit. Based on each progress report, the Country Offices will recommend corrective measures for any shortcomings detected.
- 7.2 The project will create an information system to monitor compliance with the quantitative goals, such as the number of candidates (men and women) for training, the number selected and the number actually trained, which will also look at motivation and the level of maturity of the projects from a gender standpoint. The system will also include the results of project monitoring, including surveys of user satisfaction and the impact of the training on their business activities and the objective results of their projects, measured in terms of the jobs created and maintained.

- 7.3 The project performance indicators are established in the logical framework presented in Annex I and they will measure capacity to build entrepreneurial spirit, the results obtained by the individuals trained, and the impact of that training on their business performance.
- 7.4 The Bank will use project funds to contract an independent consulting firm, after discussing the terms of reference with the executing agencies, that will perform two evaluations of the project in each country – one 18 months after it begins and one six months before MIF participation ends. The first of these evaluations will focus on the start-up of the project in each country, including the tailoring of Empretec's methodology to the Central American context, with special attention to gender considerations; and on subsequent updating of that methodology based on the lessons learned over its 10 years of life. The results of the evaluation will be discussed with the national executing agencies, which will prepare plans to remedy any shortcomings detected.
- 7.5 The second evaluation will consider compliance with the objectives and activities as established in the logical framework, analyze financial execution, including counterpart contributions, income earned from the sale of services, the capacity of the executing agencies to manage the projects sustainably, and the impact of the projects on creating new business ventures.
- 7.6 The evaluation reports will contain a specific section on participation by women in each of the project's activities, analyzing the results in comparison with the baseline for participation by women in businesses, draw conclusions on the impact of the special activities to publicize the project among women, on the access barriers they encounter and on the final results obtained by women in comparison with men.

## **VIII. SPECIAL CONTRACTUAL CONDITIONS**

- 8.1 Prior to the first disbursement of the contribution, each temporary executing agency will present evidence to the Bank's satisfaction that: (i) an agreement has been reached UNCTAD for the use of Empretec methodology in its respective country, including the elements described in paragraph 4.6; (ii) UNCTAD has granted authorization to Empretec Uruguay to participate in the project; (iii) the program director has been hired in accordance with terms of reference agreed upon with the Bank; (iv) the preliminary business plan and a timetable for the project have been prepared as agreed upon with the Bank (paragraphs 4.5, 4.6, 4.8, and 4.9).
- 8.2 For disbursement of the resources for components 2, 3, and 4, each executing agency will present evidence to the Bank's satisfaction that: (i) a new national Empretec office has been established and is operating; (ii) that UNCTAD and the new Empretec office have agreed on the use of Empretec methodology; and (iii) the new national Empretec office has agreed to carry out its obligations under the



the project as executing agency (paragraphs 4.2 and 4.7). Each temporary executing agency will have a period of 12 months from the entry into force of the agreement with the Bank to set up the national Empretec office and start operations (paragraph 4.2). Once the provisions set forth in Article 2 (i) and (ii) of the General Conditions have been fulfilled, the MIF may disburse up to US\$10,000 per country to facilitate the executing agencies' compliance with the special conditions precedent.

- 8.3 **Conditions for execution.** Each temporary executing agency will contract the services of Asociación Empretec Uruguay as a temporary support unit for execution of the project, pursuant to the requested exception to the procurement policy (paragraph 4.5)
- 8.4 **Recognition of expenses from the counterpart.** The Bank may recognize, as part of the local counterpart funds, up to US\$2,500 per country in expenses incurred by the temporary executing agencies since July 1, 1999, in the process of establishing the national Empretec offices (paragraph 4.4).
- 8.5 **Exceptions to Bank policy: procurement of goods and services.** It is proposed that Empretec Uruguay be contracted to act as a temporary support unit for execution of the project, as established in paragraphs 3.7 and 4.5.

## LOGICAL FRAMEWORK

Summary of objectives	Indicators	Means of verification	Main assumption
<p>able capacity to promote in each of the Central America and Panama.</p>	<p>Jobs created and maintained by the businesses benefiting from the project.</p>	<ul style="list-style-type: none"> <li>Evaluations and follow-up report</li> <li>Certification of instructors</li> <li>Surveys</li> <li>Registration of new businesses</li> <li>Financial statements of the executing agencies</li> <li>Financial statements of the businesses</li> </ul>	<p>Traditional business training is not enough to promote the creation of new businesses.</p> <p>Macroeconomic conditions in the region remain stable and favor new investments.</p> <p>The countries are sensitized to behavioral training and there is demand for it among entrepreneurs.</p>
<p>g structures in each of the six subregions trained to use methodologies to develop</p> <p>capacity of new and existing businesses or of other institutions to launch and organization processes to launch new undertakings in Central America</p> <p>clusion of female entrepreneurs in the program.</p>	<p>Number of businesses created by the participants in the workshops.</p> <p>Growth in existing businesses.</p> <p>Number of entrepreneurs assisted each year.</p> <p>Growth in the number of entrepreneurs assisted each year.</p> <p>Number of women assisted each year.</p> <p>Growth in the number of women assisted each year in comparison with the baseline for participation by women in SMEs.</p>	<ul style="list-style-type: none"> <li>Qualitative and quantitative studies</li> <li>Reports by the executing agencies</li> <li>Surveys of user satisfaction</li> <li>Result of the project evaluation</li> </ul>	<p>The behavioral methodology, on technical and technical assistance levels allows for a substantial improvement in performance of entrepreneurs.</p>
<p><b>Institutional capacity in Central America and Panama</b></p> <p>Empretec office backed by relevant institutions in each of the subregion, with the resources needed to make each office</p>	<p>Establishment and operation of the Empretec offices.</p> <p>Contracting of a regional coordination unit.</p> <p>Detection of market opportunities for new products.</p>	<ul style="list-style-type: none"> <li>Existence of the offices, whose quality will be verified periodically</li> <li>Self-sustainability of the Empretec offices after a given period of time</li> <li>Annual progress reports by the executing agencies</li> </ul>	<ul style="list-style-type: none"> <li>The impact of behavioral training will provide entrepreneurs with greater access to business opportunities in the open economy.</li> <li>Only limited adaptation of the methodology applied in other countries will be needed.</li> </ul>

Summary of objectives	Indicators	Means of verification	Main assumption
<p><b>Trainers</b></p> <p>Teams to provide behavioral entrepreneurs and special entrepreneurship.</p> <p><b>Creation of new business ventures</b></p> <p>Individuals with promising profiles in the behaviors and skills to undertake new ventures, creation of new businesses or the expansion of existing businesses.</p> <p><b>Specialized services</b></p> <p>Specialized methodology in training for specific groups, organizations in the process of entrepreneurship) and groups of small businesses who share common traits.</p>	<p>Training of a local team of at least three or four instructors per country who can be certified by the end of the first 12 months.</p> <p>Seven courses in each country, three in year one and four in the next two years, training 175 new entrepreneurs per country.</p> <p>Businesses created and expanded by participants in the workshops for new business ventures.</p> <p>Definition and application of special programs based on each country's needs.</p> <p>Five courses offered for special clients, training 125 people per country.</p>	<ul style="list-style-type: none"> <li>• Progress reports</li> <li>• Register of participants in the basic workshops</li> <li>• Project evaluation results</li> <li>• Project evaluation results</li> <li>• Register of participants in the special workshops</li> <li>• Income earned to gradually cover program overhead</li> </ul>	<ul style="list-style-type: none"> <li>• Qualified candidates for training found in each country.</li> <li>• There is no interference in the work of the instructors.</li> <li>• Potential demand for behavioral change is high, making the project viable.</li> <li>• Entrepreneurs are aware that technical assistance is an investment.</li> <li>• Potential demand for behavioral change is high, making the project viable.</li> <li>• The supply of training and technical assistance is strengthened and improved.</li> </ul>
<p>Legally-incorporated agency and specialized local office in each country.</p> <p>Contract a director and an external coordinator.</p> <p>Directors and an average of two consultants in each country.</p> <p>Using experts certified by the special features of the project in each country and give consideration to participation in the project by women.</p>	<p>Budget in US\$ executed in 42 months.</p>	<ul style="list-style-type: none"> <li>• Reports by the regional coordinator and the follow-up missions</li> <li>• Certification of instructors and consultants in each country</li> <li>• Records of applications in each country for each activity.</li> <li>• Project evaluation results</li> </ul>	<ul style="list-style-type: none"> <li>• There is technical capacity in each country to direct the local effort and establish the technical team.</li> <li>• There is a market for basic business activities.</li> </ul>

Summary of objectives	Indicators	Means of verification	Main assumption
the activity, schedule the identify and select candidates  120-hour courses using the technique. e participants in the courses e days of technical assistance. ccess to the program by gh communications strategies of barriers to entry. dividualized training for os.			

PROPOSED RESOLUTION

REGIONAL. NONREIMBURSABLE TECHNICAL COOPERATION FOR A REGIONAL  
PROGRAM FOR THE DEVELOPMENT OF SMALL AND MEDIUM ENTREPRENEURS IN  
CENTRAL AMERICA AND PANAMA

The Donors Committee of 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 La Constancia S.A. of the República de El Salvador, and to take such additional measures as may be pertinent for the execution of the project memorandum described in document MIF/ AT- with respect to a technical cooperation for a Regional Program for the Development of Small and Medium Entrepreneurs in Central America and Panamá..
2. That up to the amount of US\$600,000, or its equivalent in other convertible currencies, is authorized for the purpose of this resolution, chargeable to the resources of the Human Resources Facility of the Multilateral Investment Fund.
3. That the above-mentioned sum is to be provided on a nonreimbursable basis.

PROPOSED RESOLUTION

REGIONAL. NONREIMBURSABLE TECHNICAL COOPERATION FOR A REGIONAL  
PROGRAM FOR THE DEVELOPMENT OF SMALL AND MEDIUM ENTREPRENEURS IN  
CENTRAL AMERICA AND PANAMA

The Donors Committee of 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 Bancafé of the República de Guatemala, and to take such additional measures as may be pertinent for the execution of the project memorandum described in document MIF/ AT- with respect to a technical cooperation for a Regional Program for the Development of Small and Medium Entrepreneurs in Central America and Panamá..
2. That up to the amount of US\$600,000, or its equivalent in other convertible currencies, is authorized for the purpose of this resolution, chargeable to the resources of the Human Resources Facility of the Multilateral Investment Fund.
3. That the above-mentioned sum is to be provided on a nonreimbursable basis.

PROPOSED RESOLUTION

REGIONAL. NONREIMBURSABLE TECHNICAL COOPERATION FOR A REGIONAL  
PROGRAM FOR THE DEVELOPMENT OF SMALL AND MEDIUM ENTREPRENEURS IN  
CENTRAL AMERICA AND PANAMA

The Donors Committee of 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 Fundación para el Desarrollo de la Libertad Ciudadana of the República de Panamá, and to take such additional measures as may be pertinent for the execution of the project memorandum described in document MIF/ AT- with respect to a technical cooperation for a Regional Program for the Development of Small and Medium Entrepreneurs in Central America and Panamá..
2. That up to the amount of US\$600,000, or its equivalent in other convertible currencies, is authorized for the purpose of this resolution, chargeable to the resources of the Human Resources Facility of the Multilateral Investment Fund.
3. That the above-mentioned sum is to be provided on a nonreimbursable basis.