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VENEZUELA

**INTEGRATED SERVICES PROGRAM FOR CITIZEN
ENTREPRENEURS (SIACE) IN THE STATE OF ZULIA**

(TC-99-12-00-3-VE)

DONORS MEMORANDUM

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ABBREVIATIONS

CESI	Committee on Environmental and Social Impact
FEDECÁMARAS	Venezuelan Federation of Associations and Chambers of Commerce
FEDEINDUSTRIA	Venezuelan Industrial Federation
IESA	Institute for Advanced Administrative Studies
INCE	National Institute for Cooperation in Education
IVSS	Venezuelan Social Security Institute
MIF	Multilateral Investment Fund
PEU	Project Executing Unit
PROMOZULIA	Zulia Development Group
SENIAT	National Integrated Customs and Tax Administration Service
SIACE	Integrated Services for Citizen Entrepreneurs
SME	Small and medium-sized enterprise

INTEGRATED SERVICES PROGRAM FOR CITIZEN ENTREPRENEURS (SIACE) IN THE STATE OF ZULIA

(TC-99-12-00-3-VE)

EXECUTIVE SUMMARY

Executing agency:	Foundation for Integrated Services for Citizen Entrepreneurs (SIACE) in the State of Zulia through a Project Executing Unit (PEU)		
Amount and source:	MIF (Window I)	US\$	800,000
	Local counterpart:	US\$	800,000
	Total:	US\$	1,600,000
Objectives:	<p>The project's general objective is to simplify the procedures for formalization and operation of businesses, improving service for citizen entrepreneurs, principally the owners of small and medium-sized businesses, in the Municipio of Maracaibo, State of Zulia. Toward this end, Integrated Services for Citizen Entrepreneurs (SIACE) will be established to integrate and unify, at a one-stop window, the procedures necessary for formalization and operation of businesses, basically small and medium-sized enterprises (SMEs). Initially, 13 national, regional, local, and private organizations, which will constitute SIACE, will participate.</p>		
Description:	<p>Six components will be implemented to achieve the project objectives: (i) workshop on startup and preparation of the technical bases for contracting related to SIACE implementation; (ii) reengineering of processes; (iii) institutional and human resources management; (iv) information systems; (v) adaptation of the physical infrastructure; and (vi) implementation of the dissemination program.</p>		
Environmental and social review:	<p>This operation was considered by the Committee on Environment and Social Impact (CESI) at its 29 March 2002 meeting. The following recommendations were made: (i) integrate the issue of the environment into the activities of the operation's components; and (ii) summarize the necessary environmental procedures in accordance with Venezuelan environmental and occupational health legislation, and make them available to the citizen entrepreneur. These recommendations are included in paragraph 3.7. This operation does not entail significant environmental impact.</p>		
Benefits and Beneficiaries:	<p>The principal beneficiaries are: (i) private businesses, which will benefit from saving time in obtaining permits and certifications from the public sector, more opportunities to formalize their registration,</p>		

greater access to lines of credit through formalization, and the opportunity to participate in public procurement processes; and (ii) the government, which will benefit from the cost reductions brought about by simplification of procedures, increased revenues due to the higher total number of taxpayers, disincentives to corruption, improvement in the entrepreneur/public sector relationship leading toward a culture of service and association, and strengthening of the current policy with respect to modernization and improvement of service from the public sector at the national, regional, and local levels.

Execution
schedule:

The project will be executed over a 24-month period, and the funds will be disbursed over a maximum period of 30 months.

Special
contractual
conditions:

In addition to the general contractual conditions applicable to this operation, the following conditions precedent to the first disbursement must be included: the executing agency must submit to the Bank, within three months following signature of the agreement: (i) evidence of the establishment and implementation of the Project Executing Unit (PEU) (paragraph 5.8); (ii) evidence of having hired the consultant for the component involving a workshop on startup and preparation of the technical bases for contracting related to SIACE implementation (paragraph 3.4); and (iii) evidence of having made available to SIACE the physical location in Maracaibo where the one-stop window will be established (paragraph 5.12). Other special conditions: the executing agency must submit to the Bank, within three months following signature of the agreement, the final version of the Operating Regulations of the program (paragraph 5.8). Within eight months following signature of the agreement, the executing agency must submit to the Bank, evidence of having hired the consulting firm that will organize and implement SIACE (paragraph 3.4).

Exceptions to
Bank policy:

None

I. ELIGIBILITY OF THE COUNTRY AND THE PROJECT

- 1.1 Venezuela was declared eligible for all types of Multilateral Investment Fund (MIF) financing on 20 September 1995. This project was declared eligible by the MIF Programming and Operations Committee on 2 February 2000. The activities proposed in this project are consistent with the project cluster on reducing regulatory burdens facing Small Business (SMEs), because they promote an environment conducive to private sector development. In particular, they promote the establishment and formalization of SMEs, facilitating domestic and international investments in productive areas.

II. BACKGROUND

A. Frame of reference

- 2.1 The city of Maracaibo, with 1,865,000 inhabitants, is the capital of the state of Zulia (3.7 million inhabitants) and the second largest city in Venezuela, after Caracas. Zulia plays a key role in Venezuela's economy as extensive oil reserves are located at Lake Maracaibo. The area is growing remarkably fast, as is the city of Maracaibo, which is highly dependent on the oil economy and commercial activities associated with the narrows connecting Lake Maracaibo with the Gulf of Venezuela. In addition, businesses in Zulia maintain close commercial ties with Colombia, which borders Venezuela.
- 2.2 There are no current figures for Venezuela's SME sector. However, according to FEDEINDUSTRIA [Venezuelan Industrial Federation], in 2000 there were approximately 63,000 businesses in Maracaibo classified as medium, small, and micro enterprises. Of these, only about 950 were in the manufacturing sector, and the rest were associated with the trade and service sectors. That same year, there were 15,000 taxpaying businesses registered with the Revenue Department of the Mayor's Office. Thus, there is a large gap between existing businesses and taxpaying businesses. This is largely associated with the lack of an appropriate institutional framework that promotes formal status.
- 2.3 In Venezuela, and particularly in the state of Zulia, the difficulties faced by entrepreneurs include high costs and protracted time periods for formalizing their businesses, as well as for maintaining formal status and meeting their obligations vis-à-vis the various State authorities. The complexity of the procedures, the lack of adequate information regarding the procedures that businesses must follow with government entities, and the excessive bureaucratic red tape are impediments to the formal business sector's ability to create new jobs, raise the high numbers of entrepreneurs without formal status in Venezuela, and increase the likelihood of corrupt activities. These public inefficiencies have a negative impact on society, increasing business costs and the prices of goods and services.

- 2.4 In 1999, the Institute for Advanced Administrative Studies (IESA-Zulia) conducted a survey of microentrepreneurs, who pointed to the public sector bureaucracy as one of their main problems in connection with obtaining permits and certifications. To start a new business, certifications are needed from at least 12 public entities at the three levels of government. These are procedures that apply to all businesses regardless of their sphere of activity. The public entities that citizen entrepreneurs must visit to formalize their businesses are: **National government:** (i) the Ministry of the Interior and Justice—Commercial Registry Office; (ii) the Ministry of Finance—the National Integrated Customs and Tax Administration Service (SENIAT); (iii) the Ministry of Labor—Certification of Freedom from Labor-related Tax Obligations; (iv) the Venezuelan Social Security Institute (IVSS); (v) the National Institute for Cooperation in Education (INCE); (vi) the Fondo Mutual Habitacional [Mutual Housing Fund]—registration through a bank in the national savings and loan system; **Government of Zulia:** (vii) the Prefecture of the Municipio of Maracaibo; (viii) the Regional Health Service; **Office of the Mayor of Maracaibo:** (ix) the Municipal Office of Urban Planning (OMPU)—Industry and Commerce License (industry and commerce business tax); (x) the Municipal Revenue Department (DRM), which recently became the Autonomous Municipal Tax Administration (SAMAT); (xi) the Survey Board; and (xii) the fire department.
- 2.5 In addition, to set up a new business, entrepreneurs must go to the bar association to pay the business's registration fee, the accountants association to draw up the enterprise's initial balance sheet, and the different banks designated by each of the institutions for payment of assessments, taxes, charges, and fees, in addition to a considerable amount of photocopying (including maps), revenue stamps, and stamped paper. The process of setting up and registering a business takes more than two months—and sometimes up to six months—of work by the entrepreneur. This includes making the applications, filling out forms, paying for the revenue stamps, waiting for replies, and meeting the organizations' various requirements. In addition to these general procedures, which apply to all businesses regardless of their sphere of activity, there is a series of specific procedures related to the type of activity the business will carry out.
- 2.6 In particular, the Government of Zulia and the Office of the Mayor of the Municipio of Maracaibo have made progress in implementing modern models of management, restructuring their institutional organization, and streamlining their human resources. This process is an attempt to move state and local operations toward a results-based management model, in which the government concentrates on setting policy and establishing regulatory and oversight frameworks, seeking to make the citizen the focus of attention. These reforms have also been developed in consultation with the various actors of organized civil society and enjoy the active participation of trade organizations of local entrepreneurs.
- 2.7 The proposal to integrate and unify all the procedures necessary to formalize and operate businesses at a one-stop window, has already been successful in other

countries. Unification is essential to decreasing businesses's operating costs, integrating different organizations' processes and procedures, increasing the efficiency of government spending, decreasing corruption, and enhancing transparency. In this context, it is necessary to simplify and, in some cases, even eliminate procedures that are not relevant to certification, compliance monitoring, and guidance for entrepreneurs in Venezuela.

- 2.8 This initiative has developed within the framework of the modernization process in the State of Zulia and in keeping with other international experiences. It seeks to improve service to the citizen entrepreneur in the Municipio of Maracaibo, State of Zulia, and to simplify the various procedures with national, regional, and local public organizations. As will be explained in detail below, the proposal is to locate the government offices responsible for those procedures in one place, with a plan for personalized, quality service, to reduce lost time and, therefore, costs to entrepreneurs, encouraging them to operate with formal status.

B. Compatibility with the Bank's program and the MIF's strategy

- 2.9 This project is in keeping with the Bank's strategies in Venezuela, particularly with consolidation of State reform, which seeks to increase the efficiency of institutional and technical processes to reduce tax evasion, streamline the bureaucratic system, and promote private sector participation in service delivery.
- 2.10 In line with the criteria established in the MIF's strategy, this project is **innovative** for Venezuela and will act as a catalyst, given that Maracaibo's experience will demonstrate that it is possible to simplify procedures with the participation of the private sector, represented the SIACE Foundation. MIF support is crucial to promoting coordination among public and private institutions. Therefore, it contributes the **additionality** necessary to facilitate achievement of formal status by businesses and stimulate economic development. Finally, the rate system to be developed, and the commitment of the Municipio of Maracaibo and the Government of Zulia to continue this project after MIF support ends, guarantee SIACE's operational **sustainability**.

III. OBJECTIVES AND DESCRIPTION

A. Objectives

- 3.1 The project's general objective is to simplify the procedures for formalization and operation of businesses, improving service for citizen entrepreneurs, principally the owners of small and medium-sized businesses, in the Municipio of Maracaibo, State of Zulia. Toward this end, Integrated Services for Citizen Entrepreneurs (SIACE) will be established to integrate and unify, at a one-stop window, the procedures necessary for the establishment and operation of businesses. Initially,

13 national, regional, local, and private organizations, which will constitute SIACE, will participate (see list in paragraph 5.11).

- 3.2 The project's specific objectives are: (i) to reduce time periods and opportunity costs associated with establishing and formalizing a business; (ii) to improve access to information for entrepreneurs, enabling them to address their respective commitments, including the specific procedures required to obtain formal status for a business in a specific area of activity; (iii) to unify and integrate, at a one-stop window, the services necessary to carry out all the general procedures that entrepreneurs must complete with national, regional, and local organizations, in order to set up and operate a business; and (iv) to create a model that can be extended to other cities and regions of Venezuela.
- 3.3 The proposal goes beyond the mere implementation of what would be the joint tenancy of organizations located in a single building, each with its own procedures and forms. The goal is to revise, integrate, and improve the procedures and to locate all the organizations associated with the generally applicable national government procedures required to set up a business, and all the business-related procedures of the Government of the State of Zulia and the Office of the Mayor of Maracaibo, in a single building. The user will receive guidance and assistance in obtaining all the required documents, and it is expected that all the procedures will be incorporated into a single application. In this management model, the documents do the walking, not the user.

B. Project description

- 3.4 The project includes six components for addressing the specified deficiencies and achieving the proposed objectives. Component 1 (holding a workshop on startup and preparation of the technical bases) will be carried out by an international private consultant (over a three-month period), and the hiring of that consultant will be a condition precedent to the first disbursement. Components 2 through 5 (organization and implementation of SIACE) will be carried out by a consulting firm to be hired within eight months after the agreement is signed.¹ Component 6 (execution of the dissemination program) will be carried out by the Project Executing Unit (PEU).

1. Workshop on startup and preparation of the technical bases for contracting related to SIACE implementation

- 3.5 A startup workshop with all the participating entities will be held with the support of the international private consultant during execution of Component 1 in order to

¹ This time period was calculated taking into account the three months needed for the private consultant to hold the workshop on startup and preparation of the respective technical bases (Component 1) and the five months to hire the consulting firm.

integrate the activities of the various participating entities and prepare the technical bases. Other integration workshops, also with all the participating organizations, should take place during execution of the subsequent components and would be carried out jointly by the PEU and the international consulting firm hired to organize and implement SIACE. The workshops are expected to help the participating entities develop detailed participation agreements.

- 3.6 Under this component, the private consultant will prepare the technical bases for the international bidding, which will culminate in the hiring of a consulting firm to organize and implement SIACE. These technical bases should include the following activities, which will be carried out by the consulting firm: (i) reengineering the processes to make procedures more efficient; (ii) establishment of the organizational structure and the profile and number of SIACE's human resources; (iii) analysis of potential changes to the regulatory framework; (iv) design and implementation of information systems to be developed or integrated; (v) design and implementation of Internet web pages to disseminate information; (vi) implementation of a telephone service center; (vii) identification of training needs for the personnel involved with the new systems; (viii) adaptation of the physical infrastructure and layout; and (ix) structuring of the SIACE management model.

2. Reengineering of processes

- 3.7 In this component, the consulting firm will review the regulatory framework and determine what technical support is needed for simplifying administrative handling of the procedures. The firm will also document the amount of time and costs to the businesses and establish baseline indicators. Needs for change in the current technical, regulatory, organizational, and financial (rates) aspects, telecommunication and information systems, and physical infrastructure will be analyzed. Simplification procedures will also be set up in an effort immediately to eliminate unnecessary red tape identified from the outset, and manuals will be prepared for the new work processes, rules and procedures, and the new organization, including each of the functions established. This reengineering of processes for procedures to be simplified will be zero based to the extent possible; that is, it will entail designing new work processes based on the expected products and services, and not merely changing the current processes. The processes to be revised will include those related to environmental protection and the occupational safety regulations related to the procedures and services to be implemented by SIACE.
- 3.8 The consulting firm will also design a SIACE dissemination program to raise entrepreneurs' awareness by marketing the project. This program will be implemented through presentations at meetings of business associations, events, advertising information points, printed material, newspaper articles, and radio and—if possible—television advertising.

3. Institutional and human resources management

- 3.9 This component builds on the reengineering of processes and quantification of necessary resources, and includes implementation of the new procedures and processes for formalizing and operating businesses. It also includes implementation of an office management model that provides for the incorporation of a general coordinator, the participation of the various entities in the SIACE problem-solving process, and the establishment of a model for the economic, financial, and institutional sustainability of SIACE.
- 3.10 In this component, the consulting firm will: (i) establish, in conjunction with the participating entities, the number and profile of the personnel needed to set up SIACE; (ii) support the evaluation and selection of personnel currently working in the organizations that will become part of SIACE; and (iii) develop the necessary training programs. Before service to the public begins, human resources staff must complete short courses in training and awareness raising vis-à-vis the new model. These courses should be organized according to the profile established and the personnel evaluations.
- 3.11 Evaluation of the quality of the services offered at the office will involve collecting the opinions of those who use the services, if possible on a touch screen computer at the SIACE exit.

4. Information systems

- 3.12 This component will support the implementation of information and computer systems in SIACE, the development of Internet web pages, and the implementation of a telephone service center for entrepreneurs. The implementation of these systems, with improvements to the information networks and equipment, will preferably be carried out by using and integrating systems already available. Special attention will be given to the possibility of remote access to the participating entities' central databases as a means of expediting delivery of SIACE services.

5. Modification of the physical infrastructure

- 3.13 This component includes the design and setup of the service site and changes to the existing infrastructure in the building selected for the one-stop window. It also includes implementing the established layout, and purchasing and installing furniture and equipment.

6. Execution of the dissemination program

- 3.14 Based on the design prepared by the consulting firm (see paragraph 3.8), a program of activities to disseminate information about SIACE will be carried out. The PEU will be responsible for executing this program.

IV. COST AND FINANCING

A. Cost

- 4.1 The estimated project cost is US\$1.6 million, of which US\$800,000 (50%) is comprised of MIF technical cooperation funding and US\$800,000 (50%) is the counterpart funding to be contributed, in equal parts, by the Government of Zulia and the Office of the Mayor of Maracaibo through contributions to the SIACE Foundation. At least 50% of the local contribution will be in cash. By letter dated 17 April 2002, the Governor of the State of Zulia confirmed that US\$400,000 in the government budget had been earmarked for the SIACE Project. Also, by official letter dated 23 April 2002, the Mayor of the Municipio of Maracaibo confirmed that US\$400,000 in the municipal budget was available as local counterpart funds for the project. The detailed budget is presented in Annex II.

(US\$ Equivalent)

DESCRIPTION	MIF	COUNTERPART	TOTAL	%
I. Project Executing Unit (PEU)		255,000	255,000	15.9
II. Workshop on startup and preparation of the technical bases (Component 1)	36,000		36,000	2.3
2.1 Consulting services	36,000		36,000	2.3
III. SIACE organization and implementation (Components 2 to 6)	703,000	534,000	1,237,000	77.3
	600,000	45,000	645,000	40.3
3.1 Consulting services		130,000	130,000	8.1
3.2 Rental of premises		60,000	60,000	3.8
3.3 Physical changes to existing infrastructure		80,000	80,000	5.0
3.4 Maintenance of premises		71,000	71,000	4.4
3.5 Office furniture and equipment	58,000	38,000	96,000	6.0
3.6 Computer and network equipment		70,000	70,000	4.4
3.7 Telephone exchange	45,000	40,000	85,000	5.3
3.8 Execution of dissemination program				
IV. Auditing	10,000		10,000	0.6
V. Evaluation	40,000		40,000	2.5
VI. Contingencies	11,000	11,000	22,000	1.4
TOTAL	800,000	800,000	1,600,000	100.0
PERCENTAGE	50.0	50.0	100.0	

B. Financing

- 4.2 MIF resources finance all the consulting services for preparation of the international bidding documents and conditions, as well as project auditing and evaluation. The MIF also pays part of the cost of consulting services for SIACE organization and implementation, procurement of computer equipment, and execution of the dissemination program. The counterpart funds finance the PEU in full, as well as the rental of the premises where SIACE will be located, including the physical

changes necessary to adapt the premises, the maintenance expenses (water, electricity, etc.) for those premises, office furniture and equipment, and the telephone exchange. The MIF will also partially finance the consulting services for the organization and implementation of SIACE, the computer equipment, and execution of the dissemination program.

- 4.3 Once all the conditions precedent to the first disbursement have been met, the Bank may advance funding from the contribution to establish a revolving fund in an amount not to exceed 10% of the contribution. These funds must be managed in a special bank account in the program's name. Within 60 days of the end of each calendar half, the PEU must submit status reports on the money in the revolving fund under its control.

C. Sustainability

- 4.4 Once SIACE has been implemented, the rates set for the procedures are expected to make the project sustainable and cover the system's administrative and operational costs without incurring excessive costs for the entrepreneurs, which would tend to reinforce evasion and noncompliance. If these revenues are insufficient at the outset, financial sustainability will be assured by the financial contribution of the Government of the State of Zulia and the Office of the Mayor of Maracaibo, which will cover the respective deficit until it can be eliminated.

V. EXECUTING AGENCY AND EXECUTION MECHANISM

A. Executing agency

- 5.1 The executing agency for the project is the Foundation for Integrated Services for Citizen Entrepreneurs, through a Project Executing Unit (PEU). The SIACE Foundation, established on 17 May 2002, is a private non-profit entity.
- 5.2 The Foundation's objective is to stimulate economic and business development by: (i) improving services for citizen entrepreneurs in the State of Zulia, principally the owners of small and medium-sized businesses, by simplifying and minimizing the processes, steps, procedures, and legal requirements for formalization and operation of their activities, reducing the time needed to carry them out; (ii) improving access to information for all entrepreneurs; (iii) providing technical and legal assistance to facilitate the activities of the SMEs; (iv) increasing the efficiency of spending by the associated government agencies; and (v) supporting the establishment of other, similar services at the local, regional, national, or international levels.
- 5.3 Management and administration of the Foundation is the responsibility of a board of directors composed of five members who will be appointed as follows: the Governor of the State of Zulia will appoint a regular member and an alternate to represent the Government of Zulia; the Mayor of the Municipio of Maracaibo will

appoint a regular member and an alternate to represent the Mayor's Office; the Vice President of Venezuela and President of the Federal Government Council will appoint a regular member and an alternate to represent Venezuela's Executive Branch, and the members of the private business sector who sit on the Advisory Council will appoint two regular members and two alternates to represent the private sector of the State of Zulia. The board of directors will appoint the chairman and the managing director of the Foundation from among the representatives of the Governor and the Mayor's Office. During the first two years of the SIACE Foundation's operation, the Governor's representative will serve as chair. The board of directors' functions in connection with project execution are to approve the Operating Regulations of the program, the annual operating plans, the detailed proposed annual budget, the contracts for the project coordinator and PEU staff, and the contracts for consulting services.²

- 5.4 The Foundation also includes an Advisory Council consisting of a representative from each of the 19 institutions that signed the SIACE Promotion Agreement.³ The Advisory Council's most important functions include: (i) being familiar with the Foundation's annual report of activities; (ii) being familiar with the Foundation's general policies and development plans; (iii) supporting the Foundation's activities so it achieves its objectives; and (iv) appointing the interim members of the board of directors if the respective authorities fail to do so.
- 5.5 One of the participating organizations is the Zulia Development Group (PROMOZULIA), a private nonprofit association that promotes development in the region. It has approximately 100 member entrepreneurs and receives funds from its members and the government. Its participation in SIACE is considered important, since it is one of the most active employers' organizations in the State of Zulia. The participation of private business sector representatives on the Foundation's board of directors ensures that the project beneficiaries' interests will be taken into account.

² See list of functions in the Operating Regulations of the program (Annex VI).

³ This institutional agreement between the SIACE Project Promotion Committee and the regional and municipal government authorities was signed on 12 July 2001 in order to coordinate the parties' efforts to implement the SIACE project. The signatories are: PROMOZULIA, FEDECÁMARAS [Venezuelan Federation of Associations and Chambers of Commerce], Cámara de Pequeños y Medianos Industriales del Zulia [Chamber of Small and Medium-sized Manufacturers of Zulia] (CAPIMIZULIA/FEDEINDUSTRIA), the Chamber of Commerce, Unión Empresarial del Comercio y los Servicios del Estado Zulia [Business and Services Association of the State of Zulia] (USEZ), Cámara de Industriales [Chamber of Manufacturers], Cámara Empresarial de la Zona Industrial de Maracaibo [Business Chamber of the Maracaibo Industrial Zone] (ACIL), Cámara de Industria y Comercio del Municipio Cabimas [Chamber of Industry and Commerce of the Municipio of Cabimas] (CAICOC), Cámara Petrolera, Capítulo Zulia [Petroleum Chamber, Zulia Chapter], Cámara de la Construcción [Construction Chamber], Cámara Inmobiliaria del Zulia [Real Estate Chamber of Zulia], Asociación de Comerciantes e Industriales de Zulia [Association of Merchants and Manufacturers of Zulia] (AIZ), Centro Internacional de Negocios [International Business Center] (CIN), Asociación de Agentes Aduanales del Estado Zulia [Association of Customs Agents of the State of Zulia], University of Zulia (LUZ), Rafael María Baralt Experimental University (UNERMB), Rafael Belloso University (UREB), and IESA-Zulia.

B. Execution and coordination plan

- 5.6 Initially, the participating entities will have to maintain their own services in addition to a SIACE service point. Over the long term, with the reduction in unit costs of service and the proper functioning of the SIACE office, this strategy can be reviewed. But there is no intention of dismissing personnel, since the large number of businesses without formal status has created pent-up demand.
- 5.7 The Program will be executed by the PEU, which will be established within the SIACE Foundation. Its responsibilities will be to: (i) prepare the final version of the Operating Regulations for approval by the board of directors; (ii) prepare and execute the annual operating plans; (iii) contract for and oversee goods and services; (iv) manage the funds in accordance with the Bank's procedures; (v) process requests for disbursement of the contribution; (vi) prepare the account statements of resources used; (vii) submit administrative and technical reports to the Bank; and (viii) monitor compliance with indicators of program performance and objectives in accordance with the program's logical framework.
- 5.8 The PEU will consist of a general coordinator, a technical manager, a financial management specialist, and a logistical support assistant. The functions of the PEU staff are set forth in the draft Operating Regulations in Annex VI. The establishment and implementation of the PEU are conditions precedent to the first disbursement. Approval of the final version of the Operating Regulations will be a special condition in the agreement.
- 5.9 A technical council, consisting of management and technical personnel from all the organizations involved in setting up the one-stop window, will be established to support project execution and to ensure consistency of SIACE operations and project results. The members will share the technical details of the project and help provide solutions for its effective operation.

C. Execution and disbursement period

- 5.10 The project will be executed over a two-year period, and the funds will be disbursed in a maximum of 30 months. These time periods are supported in the project work schedule.

D. State of preparation

- 5.11 During the missions undertaken by the Bank, the various organizations necessary for the structuring of SIACE were contacted and made aware of the project. Also, a survey was taken of the principal business procedures and the way they currently function. To demonstrate their intention to participate actively in the program, the

13 principal organizations involved⁴ have submitted to the Bank formal letters stating their intent to implement the necessary procedures at the proposed one-stop window.

- 5.12 SIACE's operating location has been identified. The building, known as "Edificio 2000," has a usable area of 871 square meters, of which SIACE, in its initial phase, will occupy approximately 510 square meters. Once SIACE is functioning, it will be possible to increase the number of participating organizations and the number of services offered, occupying some or all of the area not used initially. A letter from the Office of the Mayor of Maracaibo, dated 7 March 2002, confirmed the availability of the premises. As a condition precedent to the first disbursement, the executing agency must submit formal evidence of having made available to SIACE the physical location in Maracaibo where the one-stop window will be implemented.

E. Accounting and auditing

- 5.13 The PEU must maintain an adequate internal accounting and administrative control system for program funds. The accounting system must be organized so as to provide the documentation necessary to verify transactions and facilitate the timely preparation of financial statements and reports. The program records must be maintained so that they: (i) allow for identification of the amounts received from the different sources; (ii) set forth program expenses, in accordance with the chart of accounts the Bank has approved, including funds from the contribution as well as the other funds that must be contributed for the program's overall execution; (iii) include enough detail to identify the goods procured and the services contracted for, as well as how those goods and services are used; and (iv) show the cost of activities in each component. During program execution, the PEU must submit, annual financial statements and a final financial statement of the disbursements from the contribution and the local counterpart funds. These financial statements must be audited by a firm of independent auditors acceptable to the Bank and submitted in accordance with the Bank's audit requirements.

⁴ In principle, these organizations include: the Ministry of Interior and Justice (Commercial Registry Office); SENIAT; the Ministry of Labor; IVSS; INCE; the Government of Zulia; the Office of the Mayor of Maracaibo; PROMOZULIA, the Maracaibo Chamber of Commerce; FEDECAMARAS ZULIA; the Zulia State Bar Association; the Public Accountants Association of the State of Zulia; and Banco Occidente del Descuento for business services and registration in the national savings and loan system for the Fondo Mutual Habitacional [Mutual Housing Fund].

VI. MONITORING AND EVALUATION

A. Monitoring

- 6.1 The PEU must submit semiannual progress reports to the Bank's Country Office within 30 days following the end of each half year, and a final report within 30 days following the final disbursement. These will take into consideration the results of the various activities, their contribution to achieving the project objectives, statistics on services provided at the one-stop window, research on the users' opinions of the quality of service, and the benchmarks indicated in the logical framework. These reports will follow a format previously agreed upon with the Bank, and will include project activities, financial position, and results. The Country Office will use these reports to monitor the project's progress [see MIF Project Performance Monitoring Report (MPPMR) in Annex VII] and to prepare a project completion report (PCR) within three months following the final disbursement.

B. Evaluation

- 6.2 During the first three months of the project, the Bank, using MIF funds, will contract with a consulting service specializing in evaluation. This consulting service will be responsible for designing the methodology of and implementing the project evaluations. In the first five months of the project, the consulting service must complete the following tasks: (i) design the evaluation methodology; (ii) define the indicators to be collected during project execution, ensuring that they include quantity, quality, and time; and (iii) design a monitoring system for indicator collection and analysis. Once the system has been designed, the evaluation consulting service will be responsible for the following: (i) periodically reviewing the monitoring system, which will be administered by the PEU to ensure collection of the appropriate information; and (ii) drawing up evaluation reports on two occasions. First, a midterm evaluation of the project results will be carried out once at least 50% of the MIF funds have been disbursed or 50% of the time period for execution (24 months) has elapsed. This evaluation will analyze the project's progress as of that date and recommend adjustments to the design or goals, if necessary. Second, at the end of project execution, a final evaluation will be undertaken. It will consider the project's impact on the beneficiaries, taking into account the benchmarks indicated in the logical framework and the sustainability of the services in order to make the necessary adjustments and propose implementation of other offices in other Venezuelan states.

VII. RATIONALE AND RISKS

A. Rationale

- 7.1 The principal benefits for the entrepreneurs are: saving time in obtaining permits and certifications from the public sector, the opportunity to formalize their registration with the public sector, access to lines of credit through formalization, and participation by SMEs in public procurement processes. The principal benefits for the Municipio of Maracaibo are: cost reduction due to simplification of procedures, increased revenues due to the higher total number of taxpayers, discouragement of corruption, improvement in the entrepreneur/public sector relationship leading toward an increasingly service- and association-oriented culture, and strengthening of the current policy of modernizing and improving service from the government and the Office of the Mayor of Maracaibo.
- 7.2 This project is included in two MIF work areas pursuant to the Working Group Report: development of small business and improvement of market operations. The MIF has approved two operations under this cluster, one in Costa Rica (ATN/MT-7408-CR) and another in Colombia (ATN/MT-7186-CO). A third project is being prepared in Bolivia (TC0201038). The experience accumulated from these projects indicates that the execution process is more expeditious when there is greater private sector participation in system administration and service delivery to the businesses. The proposed program has a high probability of meeting the established objectives efficiently, since SIACE broadly represents the interests of the Venezuelan business sector.
- 7.3 SIACE implementation in the State of Zulia would be a model for the entire country. As an innovative project in Venezuela, it can be developed as a pilot experiment with MIF funds, with the prospect of replication in the other Venezuelan cities with business potential. The simplification of procedures will have an impact not just in Zulia, but perhaps also in the rest of the country, via the national organizations that would take part in SIACE (SENIAT, Commercial Registry, INCE, Registry of Public Suppliers, IVSS, and others).

B. Risks

- 7.4 The principal risk is the reaction of the employees and organizations that currently provide the services, since the establishment of another office could generate resistance, even due to the difficulty of having the organizations pay for their share in the new center. To minimize this risk, it is essential to ensure that current employees are aware (see paragraph 3.10) of the importance of improving the quality of service.
- 7.5 Another risk is that, with the expected integration of procedures over the long term, the entrepreneurs will not have the option of carrying out a partial registration of

their businesses in only some of the public organizations. The initial entry will automatically be carried over to all registrations, and this may decrease the users' interest in registering the business. An awareness campaign among the entrepreneurs is needed to avoid this risk.

- 7.6 A third risk is that the executing agency of the project is newly established and lacks project execution experience. This risk has been minimized, considering that: (i) the constituent entities—the Government of the State of Zulia and the Office of the Mayor of Maracaibo—offer continuity and the guarantee of local counterpart funds; (ii) many of the procedures covered by the SIACE belong to offices subordinate to these two public entities; (iii) the participation of private business sector representatives on the Foundation's board of directors ensures that the beneficiaries' interests will be taken into account; and (iv) the technical council will comprise management and technical personnel from all the organizations involved to ensure the operation's consistency.

C. Environmental impact

- 7.7 This operation was considered by the Committee on Environment and Social Impact (CESI) at its 29 March 2002 meeting. The following recommendations were made: (i) integrate the issue of the environment into the activities of the operation's components; and (ii) summarize the necessary environmental procedures in accordance with Venezuelan environmental and occupational health legislation, and make them available to citizen entrepreneurs. These recommendations are included in paragraph 3.7. This operation does not entail significant environmental impact.

VIII. CONDITIONS PRECEDENT AND CONTRACTUAL CONDITIONS

- 8.1 In addition to the general contractual conditions applicable to this operation, the following conditions precedent to the first disbursement must be included: The executing agency must submit to the Bank, within three months following signature of the agreement: (i) evidence of establishment and implementation of the Project Executing Unit (PEU); (ii) evidence of having hired the consultant for the component involving a workshop on startup and preparation of the technical bases for contracting related to SIACE implementation; and (iii) evidence of having made available to SIACE the physical location in Maracaibo where the one-stop window will be established. Other special conditions: The executing agency must submit to the Bank, within three months following signature of the agreement, the final version of the Operating Regulations of the program. Within eight months following signature of the agreement, the executing agency must submit evidence to the Bank of having hired the consulting firm that will organize and implement SIACE.

MATRIX OF LOGICAL FRAMEWORK
INTEGRATED SERVICES PROGRAM FOR CITIZEN ENTREPRENEURS (SIACE) IN THE STATE OF ZULIA, VENEZUELA
(TC9912003VE)

NARRATIVE SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>OBJECTIVE:</p> <p>To contribute to local business development by facilitating the entry of Maracaibo businesses into the formal economy through improved citizen entrepreneur services.</p>	<p>Rate of informal status is reduced in relation to the base year.</p>	<ul style="list-style-type: none"> • Evaluation report. • Final project report. • Government statistics on formal status of businesses. 	<p>Abolishment and simplification of regulations at the national, regional, and local level, to facilitate compliance with business obligations.</p>
<p>PURPOSE</p> <p>To simplify the procedures and reduce the amount of time needed for formalization and operation of businesses, principally small and medium-sized businesses, in the Municipio of Maracaibo, State of Zulia.</p>	<ul style="list-style-type: none"> • At the end of project execution, the average time for the establishment and formalization of an enterprise decreases from two months to one week. • In the second year, the number of new enterprises registered increases by a cumulative 20% in relation to the base year. 	<ul style="list-style-type: none"> • Evaluation reports. • Records kept by SIACE and the Municipio of Maracaibo. • Chart of accounts. • Audited financial statements. 	<ul style="list-style-type: none"> • A leadership role played by the Office of the Mayor of the Municipio of Maracaibo and the Government of the State of Zulia. • Selection and availability of a building in a good location, of the appropriate size, and with features suitable for SIACE implementation. • Good coordination, integration, and acceptance by the entities that currently provide the services.
<p>COMPONENTS</p> <p>1. Workshop on startup and preparation of the technical bases for contracting related to SIACE implementation.</p>	<p>Six months after project initiation:</p> <ul style="list-style-type: none"> • Participating organizations identify procedures to be simplified immediately. • Bidding documents and conditions for the design and implementation of SIACE agreed to by the Board of Directors. <p>Eight months after project initiation:</p> <ul style="list-style-type: none"> • Consulting company hired. • Design of SIACE evaluation methodology complete. 	<ul style="list-style-type: none"> • Detailed participation agreement signed by all participating organizations. • Semiannual progress reports submitted to the Bank. • Project evaluation report. • Evaluations of workshops. • Consulting company contract. • Evaluating company contract. 	<p>Government, municipal, regional, and national administrations maintain their interest in good service to the small and medium-sized business sector, and support the project.</p>

NARRATIVE SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
2. Reengineering of processes.	<p>Twelve months after initiation:</p> <ul style="list-style-type: none"> • Simplification model designed, including model of fees and technical needs, as well as needs in the areas of systems, infrastructure, and operations. • Manuals for new processes approved by the board of directors. • Profile and amount of SIACE human resources established. • Proposal for regulatory changes made and agreed to with the respective entities. <p>Eighteen months after initiation:</p> <ul style="list-style-type: none"> • Procedures simplified or eliminated. • SIACE management model established and implemented. 	<ul style="list-style-type: none"> • Consulting company's report. • Semiannual progress reports submitted to the Bank. • Project evaluation report. 	SIACE satisfactorily fulfills its function, and the project coordinator is supported by the technical council. The board of directors approves the consulting company's proposal.
3. Institutional and human resources management.	<p>At the end of the project:</p> <ul style="list-style-type: none"> • Efficient business registration system implemented at a one-stop window in Maracaibo. • Average of at least 1,500 people served per month. • Human resources of all participating organizations selected and trained. • Target entrepreneurs use the one-stop window and 70% are aware of the one-stop window's existence. • Improved quality of service. 	<ul style="list-style-type: none"> • Consulting company's report on SIACE implementation. • Statistics on the number of people served at SIACE. • SIACE financial statements. • Semiannual progress reports submitted to the Bank. • Project evaluation report. • Evaluations of short-term training courses. 	<p>The participating entities' employees cooperate with the simplification process for procedures and with SIACE operation.</p> <p>The participating entities approve the human resources and budgets SIACE needs to operate.</p>
4. Information systems.	<p>At the end of the project:</p> <ul style="list-style-type: none"> • Average of 2,000 hits a month on the web page. • Average of 3,000 instances per month of service provided over the telephone at the telephone service center. • User satisfaction increases, given the improvement in information networks. 	<ul style="list-style-type: none"> • Semiannual progress reports submitted to the Bank. • Evaluation report on implementation of web page, telephone exchange, and information systems. 	The participating entities' information systems are combined.
5. Modification of the physical infrastructure.	User satisfaction with the one-stop window facilities.	<ul style="list-style-type: none"> • User surveys. • Project evaluation report. 	The location made available by the Municipio is satisfactory for SIACE operations.

NARRATIVE SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
6. Execution of the dissemination program.	<p>At the end of the project:</p> <ul style="list-style-type: none"> • Target entrepreneurs providing feedback on SIACE operation. • SIACE model adjusted on the basis of evaluations and expanded to other Venezuelan cities and states. 	<ul style="list-style-type: none"> • Semiannual progress reports submitted to the Bank. • Project evaluation report. • Reports document SIACE customer satisfaction. • Evaluation of monitoring system. 	<p>The entrepreneurs find advantages in SIACE, use its services, and are prepared to pay for them.</p>