

## SUPPORT FOR MICROENTERPRISE AND SMALL BUSINESS DEVELOPMENT IN EL SALVADOR

(TC-99-08-00-2)

### EXECUTIVE SUMMARY

<b>Executing agency:</b>	The Ministry of Economic Affairs, acting through the Comisión Nacional de la Micro y Pequeña Empresa (CONAMYPE) [National Microenterprise and Small Business Commission].	
<b>Beneficiaries</b>	Microentrepreneurs and small businessmen in El Salvador.	
<b>General objective:</b>	To support the introduction of mechanisms to facilitate and promote the development of microenterprises and small businesses (MSBs).	
<b>Specific objectives:</b>	The specific objectives are to: (i) support the implementation of an institutional and policy framework that facilitates the procedures for the formalization and operation of MSBs; (ii) develop a mechanism for coordination and information-sharing among the public and private sectors and cooperation agencies for more effective use of their resources in activities to benefit MSBs; and (iii) promote the introduction of research and information systems to benefit microentrepreneurs and small businessmen in their decision-making process.	
<b>Amount and source:</b>	Modality: Cofinancing: MIF (Facility I): Total:	Grant: US\$ 370,000 <u>US\$ 850,000</u> US\$1,220,000
<b>Terms:</b>	Execution period: Disbursement period:	24 months 30 months
<b>Special contractual conditions:</b>	Prior to the first disbursement, CONAMYPE will present the following to the Bank's satisfaction: (i) a legal report describing the constitutional provisions, laws and regulations governing the validity and entry into effect of the agreement between the Bank and the Republic of El Salvador (see paragraph 4.2); (ii) evidence that the project director has been hired (see paragraphs 4.5 and 5.3); (iii) terms of reference for the international advisor (see paragraph 4.5); (iv) work program for the project containing semiannual operating targets and budgets (see paragraph 4.6); and (v) evidence that a budget allocation has been set aside to enable CONAMYPE to provide the counterpart funds for the first year of the project (see paragraph 5.2).	

Prior to disbursing the funds for the component on the regulatory and policy framework for the sector, CONAMYPE will present the following to the Bank: (i) results of consultations with the different sectors involved in MSB activities regarding the policy paper on support for the sector, prior to approval of the document by the government; (ii) a copy of the policy paper on support for MSBs approved by the government, through the Ministry of Economic Affairs; and (iii) a plan, with semiannual operational targets, for implementing the process of administrative simplification of MSB formalization requirements that do not involve legal modifications. Disbursements under the component will be subject to fulfillment of the targets established in this plan (see paragraph 8.2).

## **I. ELIGIBILITY**

- 1.1 The Donors Committee declared the Republic of El Salvador eligible for all types of MIF financing on December 3, 1993. This project was declared eligible under the technical-cooperation facility (Facility I), since it will support the development of microenterprise and small business and introduce a system for coordination and communication that will interconnect the efforts being made by different players in the sector in El Salvador.

## **II. BACKGROUND**

### **A. Reference framework**

- 2.1 The economic policy of El Salvador's new government continues to follow a model that stresses openness to international markets, which means that local companies have to be more competitive with products and services that come from abroad. This is why economic strategies should be targeted to speeding up the pace of growth and increasing participation by the public in decision-making processes and in the benefits of economic progress.
- 2.2 The government's program for 1999-2004 identifies support for small businesses and microenterprises (MSBs) as one of its main strategies. The importance of MSBs lies chiefly in their capacity to create jobs and income. In 1998, there were 472,487 MSBs in El Salvador, accounting for almost 95% of all the country's businesses. MSBs were estimated to contribute around 30% of GDP and workers in the sector made up approximately 38% of the economically active population.
- 2.3 There are many national and international programs in El Salvador, in the public and private spheres, that provide assistance for MSBs. However, the sector's development has been hampered by: (i) the absence of a regulatory and policy framework that facilitates and promotes the activities of MSBs; (ii) scant coordination among the different players working in the sector, which leads to unnecessary duplication and overlap of efforts; and (iii) the lack of mechanisms to facilitate access to information that would permit microentrepreneurs and small businessmen to make better decisions.
- 2.4 To optimize the use of resources targeted to MSBs, efforts by different public institutions, international cooperation agencies and the private sector must be coordinated. The Comisión Nacional de la Micro y Pequeña Empresa (CONAMYPE) [National Microenterprise and Small Business Commission] was established with the mandate of coordinating, facilitating, developing and promoting policies, strategies and actions to build up MSBs that are competitive and integrated into the country's economy. The Ministry of Economic Affairs, through CONAMYPE, will be responsible for facilitating implementation of this project, whose components will complement and confer additionality on the

commission's responsibilities and functions. CONAMYPE has suitable mechanisms for facilitating private sector participation in executing the project and making decisions regarding it.

- 2.5 The following section discusses the factors that affect the development of microentrepreneurs and small businessmen in three areas: (i) regulatory and policy framework; (ii) coordination among the different players in the MSB sector; and (iii) information and research.

### **1. Regulatory and policy framework**

- 2.6 **Regulatory and policy framework.** The obstacles to the development of MSBs that require attention in the short term include the lack of specific policies for assistance that take account of the special features of the different types of MSBs, which makes it difficult to design strategies tailored to their needs and to the sector to which they belong. Labor, environmental, mercantile and tax legislation does not consider the size and nature of different types of businesses, which makes it harder for MSBs to comply with the rules in the course of formalization and operation, thereby hampering the government's supervisory activities.
- 2.7 CONAMYPE, together with other players interested in MSBs, is preparing a policy proposal for the sector, which takes account of the aspects mentioned above and will be ready for approval by the government, through the Ministry of Economic Affairs, by the end of June, 2000. The working documents on which the proposal will be based can be consulted in the technical files. The purpose of the policy is to promote the creation of good quality jobs in more businesses by improving their market position to permit specialization and the establishment of productive chains in regions and activities whose potential can attract investments, entrepreneurial innovation and the deconcentration of productive activities.
- 2.8 **Formalization of MSBs.** CONAMYPE, the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) and the International Labour Organisation (ILO) cofinanced a study on simplifying the administrative requirements for formalization of microenterprises and small businesses in El Salvador. One of the study's conclusions was that some procedures are not based on standardized criteria, apart from being complicated and bureaucratic. Also, many of the requisites have no legal basis and respond to arbitrary rules established by government agencies. The complicated forms are difficult for users to understand and fill out. They become barriers to market access for many MSBs and make it difficult for the government to perform effective and adequate supervision. The study also stresses that the steps and requisites that MSBs must comply with in municipal registry offices differ significantly from one municipality to another, which makes it difficult to understand formalization procedures and estimate their cost on the municipal level.

- 2.9 The study concludes that one of the worst problems for microentrepreneurs and small businessmen in their relations with government and in formalizing their businesses is the great difficulty they have in obtaining information on how many and what steps they must take to enter the formal economy, what papers they must present, how much time they will have to invest and what costs are entailed.

## **2. Coordination among the different players in the MSB sector**

- 2.10 There are a large number of international agencies and public and private institutions involved in the provision and/or facilitation of technical, financial and nonfinancial services for MSBs. They are carrying out or have identified actions that could have a great impact on boosting the productive capacity of MSBs in certain sectors and regions. However, the lack of access to objective information on sector priorities and the absence of a suitable mechanism for coordinating the parties involved has resulted in duplication of efforts and proposals which might turn out to be contradictory or lead to strategic behavior that is not suitable for obtaining a more competitive sector that is better integrated into the rest of the economy.

## **3. Information and research mechanisms**

- 2.11 **Business development services.** MSBs currently face limitations and barriers on access to business development services stemming from the mismatch between the supply of job training, entrepreneurial development and technological services and sector demands. To promote the competitiveness of MSBs, support should be continued for establishing a business development services market, expanding and diversifying it, and improving its quality.
- 2.12 **Measurement of MSB performance.** In recent years, El Salvador has included a module on business dynamics in the household surveys conducted by the Directorate General of Statistics and Censuses (DIGESTYC). This information has made it possible to measure the significance of microenterprises in the country and to classify microentrepreneurs and their businesses. However, the information is not systemized, which makes it difficult to use in monitoring sector performance and measuring the impact of policies to support MSBs.
- 2.13 **Access by MSBs to information.** The project “Connecting us to the Future”, carried out by the Ministry of Economic Affairs and the World Bank in 1998, identified a series of problems with information and knowledge that affect the different players involved in MSBs in the country. They include poor flows of information between MSBs and the other market agents, which prevent them from developing a joint vision of the sector and coordinating efforts to solve its main problems. Most MSBs are unaware of the benefits of obtaining and processing information on prices, markets, clients, suppliers, technologies and the regulatory

framework, which limits the information and options available to them when it comes time to make decisions.

**B. Bank strategy for microenterprise and small business in El Salvador**

- 2.14 The project is consistent with the Bank's objective of facilitating conditions to favor the development of an efficient market for financial and nonfinancial services targeted to microenterprises.
- 2.15 The strategy for microenterprises established in the Country Paper (GN-1981-1) of June 4, 1998, includes strengthening CONAMYPE to enable it to coordinate and monitor the actions of private organizations to promote microenterprise and small business.

**C. Complementarity with other Bank programs and international cooperation agencies**

- 2.16 This project complements the actions of other programs financed by the Bank and other international cooperation agencies that assist MSBs. The Bank is currently executing three programs that are related to the present project: the first is the program to support the development and competitiveness of small business – SIAPE/ANEP (ATN/ME-4708-ES), approved in November 1994, which includes activities to support business development services. By late March, 96% of the funds had been disbursed. The fourth evaluation of this program indicates that the proposed objectives have been fulfilled. The second is the program to support a private workforce training consortium executed by the Salvadoran Comprehensive Education Foundation (FEDISA) (ATN/MH-5167-ES), approved in March 1996, which is geared to vocational training. This program has been fully disbursed and its targets were met. The final evaluation is scheduled for late May 2000. The third is the regional program for building MSB capacity (ATN/MH-6720-RG), approved in October 1999, which uses EMPRETEC methods for training small and medium-sized entrepreneurs, students and workers in the public and private sectors. This program was signed in December 1999 and progress in meeting the conditions precedent is satisfactory.
- 2.17 The following operations are also being prepared: (i) pilot microenterprise training program (TC-98-04-27-1) which will use a voucher system; and (ii) a pilot program to support small businesses and municipalities (TC-99-09-02-6) intended to outsource certain municipal services to small companies.
- 2.18 CONAMYPE has established strategic alliances with different cooperation agencies to coordinate execution of other activities. In 1996, the German government, through the GTZ, signed a technical-cooperation agreement with the government of El Salvador to execute the 'Emprende' project which is intended to boost the competitiveness of microenterprise and small business. The German government's

contribution involves specific technical assistance, most of which is in kind. A local GTZ office is in charge of managing the project directly and CONAMYPE acts as its local counterpart. When the project was being prepared, a meeting was held with the GTZ, CONAMYPE and members of the IDB's project team to decide on which activities each would support, in order to avoid duplication of efforts. This coordination will be maintained during project execution.

- 2.19 CONAMYPE is also coordinating activities in the field of microcredit with the United States Agency for International Development (USAID), including: (i) promotion of a law on nonbank financial intermediaries; and (ii) a project to strengthen rural microenterprises (FOMIR) executed by Development Alternatives Inc. (DAI). CONAMYPE maintains communications with other cooperation agencies that execute projects involving MSBs, such as Swisscontact, the European Union, UNDP, the World Bank, and cooperation agencies in Canada, China, Spain and Belgium and the ILO.

### **III. THE PROJECT**

#### **A. Objectives**

- 3.1 The general objective is to support the introduction of mechanisms to facilitate and promote the development of small businesses and microenterprises in El Salvador.
- 3.2 The specific objectives are to: (i) support the implementation of an institutional and policy framework that facilitates the procedures for the formalization and operation of MSBs; (ii) develop a mechanism for coordination and information-sharing among the public and private sectors and cooperation agencies for more effective use of their resources in activities to benefit MSBs; and (iii) promote the introduction of research and information systems to benefit microentrepreneurs and small businessmen in their decision-making process.

#### **B. Components**

##### **1. Regulatory and policy framework**

- 3.3 The institutional and policy framework is divided into two subcomponents: (i) regulatory and policy framework for supporting the sector; and (ii) simplification of administrative procedures for formalizing MSBs.

##### **a. Regulatory and policy framework for supporting the sector**

- 3.4 This subcomponent is intended to: (i) make recommendations on how to adjust labor, environmental, mercantile and tax rules to facilitate compliance with the policy guidelines for assisting MSBs; (ii) make recommendations on actions to tap the comparative advantages of the country's regions in promoting the development

of MSBs on the regional level; and (iii) promote actions by MSBs to mitigate the impact of their activities on the environment and introduce workplace safety measures.

- 3.5 The project will finance consulting services to perform an analysis of the legislation that affects MSBs in the environmental, mercantile, labor and tax fields, among others, and to produce guidelines for free competition and decentralization. The analysis will be used to determine the implications of this legislation for formalizing and operating MSBs and changes will be recommended to facilitate compliance with sector policy. As part of its regular functions, CONAMYPE will take steps to inform microentrepreneurs and small businessmen about the regulatory and policy framework governing their operations.
- 3.6 Consultants will be contracted to prepare an analysis of entrepreneurial activities identified as having potential on the regional level and to prepare recommendations on how to tap the comparative advantages of each region in order to promote investment, local development, entrepreneurial innovation and the creation of more and better jobs.
- 3.7 Based on the recommendations made by the Bank's Committee on Environment and Social Impact (CESI), consultants will be contracted to prepare guidelines for informing and training MSBs in the steps that are necessary to mitigate the impact of their activities on the environment and to promote safety in the workplace.

#### **b. Simplification of administrative procedures for formalizing MSBs**

- 3.8 This subcomponent will: (i) design and implement a plan of action to eliminate and/or simplify requisites governing the formalization of MSBs; (ii) publicize public sector requirements and procedures for registering a microenterprise or small company; and (iii) design, implement and disseminate processes for administrative simplification on the municipal level to facilitate formalization of MSBs in five pilot municipalities.
- 3.9 Based on the study on administrative simplification performed by CONAMYPE/GTZ/ILO, consultants will be contracted to analyze the procedures and requirements of different government agencies for formalizing MSBs, identifying the minimum necessary to enable the government to perform its supervisory functions. Agreement will be reached with the different public agencies on eliminating or simplifying steps that are not indispensable. Once the requirements have been simplified, consultants will be hired to design instruments and mechanisms for delivering this information to MSBs. The project will also finance dissemination of the information through workshops and the media.
- 3.10 This component will also finance consulting services to carry out pilot projects in five municipalities. The projects will consist of analyzing municipal procedures and



requisites for granting licenses and registration for MSBs to operate in their jurisdictions. Once the administrative restrictions are identified, a plan of action will be undertaken to simplify or eliminate them. Workshops and activities to disseminate the results of these pilot projects will be held locally and in other municipalities.

## **2. Mechanisms for coordination and information-sharing among the public sector, the private sector and international cooperation agencies**

- 3.11 This component will finance technical assistance services to design an information system on existing programs and institutions that serve MSBs, the geographic areas and sectors that receive assistance and those that have shortfalls in supply or demand. The project will also fund the procurement of hardware and software to implement the system, which will be used to exchange information among different institutions in the public and private sectors and donors to enable them to evaluate their own scope for action. CONAMYPE will keep the information system up to date and will be responsible for disseminating the information to sectors involved in MSB activities.
- 3.12 This component will also finance consulting services to support CONAMYPE in establishing a consultative committee to follow up on the project and provide continuity after it is completed. Under CONAMYPE's internal regulations, the consultative committee will serve as institutional liaison for its members, the different players in the public and private sectors and CONAMYPE itself. International cooperation agencies will not sit on the committee, but CONAMYPE may invite them to attend its meetings for the purpose of coordinating their actions to develop MSBs. The functions of the consultative committee, which can be consulted in the project's technical files, will be consistent with those defined in CONAMYPE's internal regulations. The committee's main activities will include: (i) providing follow up on the project; (ii) obtaining and contributing information on MSB programs in the country; (iii) presenting new initiatives, sharing information on the results of their projects, outlining success stories and lessons learned, and discussing issues that could affect project implementation or sector development in general.

## **3. Research and information**

- 3.13 This component has three subcomponents: (i) evaluation and promotion of good business practices; (ii) design of a system for monitoring MSB performance; and (iii) facilitation and promotion of the development of an interactive information system for microentrepreneurs and small businessmen.

**a. Good business practices**

- 3.14 The objective of this subcomponent is to publicize and promote good practices that have been used successfully in developing MSBs on the national and international levels. The project will finance activities such as consulting services, on-site visits, conferences and workshops to study and evaluate the applicability of successful practices of this kind. Actions in other countries to promote the involvement of the private sector, publicizing the services and products offered by microentrepreneurs, could be studied. The consultative committee will promote pilot projects for applying good practices to spur entrepreneurial development services.

**b. Systems for monitoring sector performance and the impact of policies to support MSBs**

- 3.15 The purpose of this subcomponent is to design a system to measure MSB performance and the impact of sector support policies on that performance. The actions include: (i) reviewing and updating the survey on business dynamics to obtain information for monitoring and measuring the impact of actions affecting MSBs; and (ii) design of a system to produce information for monitoring MSB performance and measuring the impact of programs to support the sector. CONAMYPE will be responsible for implementing the system and keeping it up to date.
- 3.16 MSB sector policy includes a series of indicators to measure the impact of actions to develop MSBs as a result of that policy. The project will fund consultants who will use the indicators to review the content of the survey on business dynamics and the methods used to compile information. The survey will be adapted to generate statistically reliable information for monitoring the performance of MSBs, their needs and problems, their contribution to national development, and accomplishment of the objectives of programs to support the sector. Consultants will also be contracted to design a system for analyzing the information and using it in policy decisions on the national and institutional levels. This component will also finance the hardware and software needed to implement the system.

**c. Information system for microentrepreneurs and small businessmen**

- 3.17 This subcomponent is designed to facilitate and promote the establishment of a dynamic system for information and counseling that will permit entrepreneurs to boost their productive potential through interaction with other market agents. The actions under this subcomponent will: (i) determine subjects of interest to microentrepreneurs and small businessmen; (ii) facilitate linkage through the Internet or other instruments to put MSBs in contact with different market agents; and (iii) promote use of the information system.

- 3.18 Financing will be provided for focus groups with local and international experts in MSBs to determine subjects of interest to microentrepreneurs and small businessmen. Subsequently, consulting services will be financed to: (i) determine existing Internet sites with contents of interest to microentrepreneurs and small businessmen; (ii) design a web page to facilitate links to servers that contain information; and (iii) promote the development of web sites by private entities that provide goods and services for MSBs.
- 3.19 Part of the funds to cofinance this subcomponent will be used to contract consultants to develop sites that provide information on the public sector and general information for MSBs, such as: (i) requisites for formalization and operation; (ii) measures to mitigate the environmental impact of activities; (iii) safety in the workplace; and (iv) legal, tax, mercantile and labor regulations, and others. Funds will also be used to procure part of the hardware and software needed to implement this component.
- 3.20 The market agents who are expected to interact through the site to facilitate linkage include: (i) suppliers of services for business development, credit and raw materials; (ii) MSBs and current and potential local and foreign clients; (iii) promoters of industrial fairs; (iv) public agencies responsible for sector promotion, legislation and supervision; (v) business associations; and (vi) international cooperation agencies. All these agents will be encouraged to use and establish links to the site sponsored by CONAMYPE to disseminate and exchange information on aspects such as: (i) market trends in the production of goods and services; (ii) technologies; (iii) prices of raw materials and finished products; (iv) quality standards; (v) potential domestic and foreign markets; (vi) sources of credit, training and specialized technical assistance; (vii) requirements and procedures for formalizing a company, conducting commercial transactions, filing tax returns and payments; and (viii) a guide to recommendations on complying with labor safety and environmental standards.
- 3.21 The use of this virtual space will be promoted by Infocenters,<sup>1</sup> CONAMYPE, and business development service providers. Since the vast majority of microentrepreneurs and small businessmen do not have access to the Internet or computers, CONAMYPE plans to work with the Infocenter Association and MSB

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<sup>1</sup> Infocenters are an initiative of the Infocenter Association, consisting of a countrywide network of 100 facilities with 20 computers each, that will offer Internet services and computer training. To implement the initial project of 100 Infocenters, the association has received a soft loan of US\$10 million from the Salvadoran government. It will operate through franchises that will be chosen based on the following criteria: (i) at least 40 percent of the 100 initial Infocenters will be located in semi-rural areas; (ii) 50 percent of the franchises will be administered by commercial for-profit companies and 50% by not-for-profit institutions and organizations; and (iii) 10 institutional Infocenters will be parent centers operated by the association.

service providers so that microentrepreneurs can obtain printed information from them. CONAMYPE will also make an information and documentation center available to MSBs, where they can receive assistance in searching for information on the system. It will be possible to access the information system through any individual computer that has Internet access.

### **C. Beneficiaries**

- 3.22 The direct beneficiaries of this project will be the 470,000 MSBs in El Salvador, the public and private institutions that offer services for MSBs, and CONAMYPE.

## **IV. PROJECT EXECUTION**

### **A. Executing agency**

- 4.1 The project will be executed by the Comisión Nacional de la Micro y Pequeña Empresa (CONAMYPE) [National Microenterprise and Small Business Commission], which was established under Executive Decree 48 of May 3, 1996. The decree stipulated that the commission was to be chaired by the country's Vice-President. On June 25, 1999, it was amended to make the Minister of Economic Affairs chair of the commission. The number of members was reduced from eleven to five, as follows: (i) a representative of business associations in the MSB sector; (ii) a representative of NGOs active in the sector; (iii) a representative of national support programs; (iv) a delegate appointed by El Salvador's President; and (v) the Minister of Economic Affairs who chairs the commission.
- 4.2 To perform its work, CONAMYPE has a government budget channeled through the Ministry of Economic Affairs. It also receives technical support from GTZ in implementing specific activities and for operational development. The Bank's technical-cooperation funds for the components and specific activities described in this document will be channeled to CONAMYPE through the ministry as well. Prior to the first disbursement under the project, CONAMYPE will present a legal report describing the constitutional provisions, laws and regulations governing the validity and entry into effect of the agreement between the Bank and the Republic of El Salvador.
- 4.3 CONAMYPE's main functions are to: (i) formulate national policy for the sector and promote projects, programs and actions to spur the development of MSBs; (ii) coordinate the implementation of national policy with national and international public and private institutions; (iii) keep abreast of developments in the sector in order to formulate actions for its promotion; (iv) facilitate and maintain communications with national and international public and private institutions that offer financial and nonfinancial services for the sector; (v) continually examine the

impact of sector policies, strategies and actions; and (vi) speak for MSBs, while not excluding other public and private interlocutors.

- 4.4 To carry out its mandate, CONAMYPE has an executive director, supported by a group of professionals divided into two areas: technical and administrative/financial. For coordination purposes, the technical area is subdivided into three areas that coordinate functions related to: (i) the institutional framework; (ii) entrepreneurial development; and (iii) research, dissemination and promotion. CONAMYPE's current structure permits it to provide the technical, administrative, accounting and financial support necessary for project execution.

**B. Organization for project execution**

- 4.5 Project funds will be used to hire a director and an international advisor who will work under the coordination of the executive director of CONAMYPE. The terms of reference for the project director can be consulted in the technical files. Presentation to the Bank of evidence that the project director has been hired and that terms of reference have been established for the international advisor will be conditions precedent to the first disbursement.
- 4.6 The project will be executed through contracts with local and international consultants or firms, as applicable, which will be supervised by the project director. They will work in close coordination with CONAMYPE's area specialists. Presentation to the Bank of a work program for the project containing semiannual operating targets and budgets will be a condition precedent to the first disbursement. The Bank's standard procedures will be followed in contracting the consultants and procuring goods for the project.
- 4.7 **Execution period.** The project will be executed in 24 months and disbursements will be made in 30 months.
- 4.8 The executing agency will maintain an appropriate system for internal accounting and administrative control of project funds. The accounting system will be organized to provide the documentation necessary to verify transactions and facilitate the timely preparation of financial statements and reports. The project's records are to be kept in a way that: (i) identifies the sums received from the different sources; (ii) reports spending in accordance with the chart of accounts approved by the Bank; (iii) includes the details necessary to identify the goods procured and services contracted; and (iv) demonstrates the costs of activities in each component.

**C. Private sector participation**

- 4.9 The private sector will be one of the project's main players and beneficiaries. A consultative committee which will help to execute the components will be established to enable the sector to participate in project decision-making and

follow-up. The committee will include private sector representatives and will meet at least once a month, in keeping with CONAMYPE's internal regulations. International cooperation agencies will not sit on the committee but may be invited to attend its meetings. The committee's main activities include: (i) following up on the project; (ii) obtaining and contributing information on the country's MSB programs; and (iii) presenting new initiatives, sharing information on the results of their projects, success stories and lessons learned, and discussing issues that could affect project implementation and sector development in general.

- 4.10 Most of the activities to be carried out under each of the components will be subcontracted to private organizations, individual consultants or consulting firms. The evaluation and dissemination of best practices in business development will permit the entities to promote and offer these kinds of services, learn about and apply practices that have been successful in other countries, and provide information about their own practices. As mentioned in paragraph 3.20, different market agents can use the virtual information system targeted to microentrepreneurs and small businessmen to consult and provide information and to seek strategic alliances in the production of goods and services.

#### **D. Project preparation status**

- 4.11 Project preparation is well advanced: (i) working documents are available to be used as the basis for preparing MSB assistance policies; (ii) CONAMYPE has already prepared fiches for its operating program which set forth the activities needed to accomplish the objectives established in this document and are available in the project's technical files; (iii) CONAMYPE has already identified, and in some cases contracted, the local experts who will coordinate its technical areas; (iv) during the project preparation stage, contacts were made with the main players, who expressed an interest in participating; and (v) CONAMYPE already has a budget to provide the local counterpart funds for year one of the project.

### **V. PROJECT COST AND FINANCING**

- 5.1 The project will cost US\$1,220,000, with the MIF providing US\$850,000 and CONAMYPE US\$370,000 from government funds through the Ministry of Economic Affairs, with at least 50 percent of that figure in cash. The following table summarizes project costs, which can be examined in detail in the project's technical files.

**Table V-1**  
**Summary of project costs by component**

<b>Component</b>	<b>MIF</b>	<b>CONAMYPE</b>	<b>Total</b>
1. Regulatory and policy framework	308,000	130,000	438,000
1.1 Regulatory and policy framework for sector support	127,000	60,000	187,000
1.2 Administrative simplification for MSB formalization	181,000	70,000	251,000
2. Coordination and information-sharing among the public and private sectors and international cooperation agencies	61,000	37,000	98,000
3. Research and information	224,000	90,000	314,000
4. Operating and administrative costs	30,000	90,000	120,000
5. Project technical director	94,000		94,000
6. International technical advisor	58,000		58,000
7. Mid-term and final evaluations	30,000	3,000	33,000
8. Contingencies	45,000	20,000	65,000
Total	850,000	370,000	1,220,000

- 5.2 Since CONAMYPE works with many agencies and donors, one condition precedent to the first disbursement will be presentation of evidence that the budget contains provision for the counterpart for year one of the project.
- 5.3 The Bank will retroactively recognize US\$30,000 spent prior to March 1, 2000, from the counterpart contribution. The funds are earmarked for contracting: (i) the project director and (ii) the consultant to analyze the requisites for formalizing MSBs and design the plan of action for their simplification. The consultants will be contracted in accordance with the Bank's standard procedures.
- 5.4 Since the project will require fluid financing, the Bank will establish a revolving fund for a maximum of 10 percent of the total approved.

## VI. JUSTIFICATION AND RISKS

### A. Justification

- 6.1 El Salvador's economic model stresses liberalization which makes it necessary for the country's enterprises to become more competitive with products and services from abroad. Proper implementation of a strategy to support the business development of MSBs will help speed up economic growth. Including smaller companies in this process will undoubtedly help to increase public participation in decision-making and in the benefits of economic progress. The project is justified since it promotes the establishment of a system to support MSBs which will permit

different public institutions, international cooperation agencies and the private sector to coordinate their efforts to promote and develop the sector, optimizing the use of resources and boosting the sector's competitiveness and productivity.

- 6.2 The technical assistance that the Bank will provide for CONAMYPE with MIF funding will establish mechanisms for coordination, information and dissemination that will facilitate the actions of the private sector that works with MSBs and those of microentrepreneurs and small businessmen in general. It will also permit the public sector to carry out its responsibilities for supervision and control of the activities of economic agents.

## **B. Risks**

- 6.3 This operation has two main risks. First, it might be promoted as an action limited to the current government, whose support will disappear under future administrations. To reduce this risk, CONAMYPE will be supported by a consultative committee which will have different representatives from the private sector, thus providing continuity for the actions resulting from the project. International cooperation agencies will not sit on the committee but may attend its meetings to coordinate their activities. The mid-term and final evaluations of the project will include workshops to disseminate the lessons learned from implementing this project.
- 6.4 The second risk is that some of the subcomponents might only produce documents and not actions. To reduce this risk: (i) all the documents produced by the consultants must contain recommendations and a plan of action for their implementation; and (ii) the consultative committee and CONAMYPE's technical secretariat will be responsible for carrying out and promoting activities to implement the consultants' recommendations and plans of action.

## **VII. PROJECT MONITORING AND EVALUATION**

- 7.1 **Reports.** CONAMYPE will present semiannual progress reports on the project to the Bank. The reports will contain: (i) information on the technical assistance received and the results; (ii) information on publicity activities and their results; (iii) a description of progress in complying with the goals established in CONAMYPE's operating fiches for project execution, which form part of the project's technical files; (iv) problems and corrective actions in the event that any of the goals are not complied with; and (v) a financial report on the use of program funds.
- 7.2 **Mid-term and final evaluations** To ensure compliance with project objectives, evaluations will be performed in two stages. The mid-term evaluation will be carried out when 50 percent of the funds have been disbursed and the final



evaluation will be performed after the program is completed. The Bank will use technical-cooperation funds to contract consultants to perform both evaluations. Each evaluation will be accompanied by a workshop on the lessons learned from project implementation.

- 7.3 The mid-term evaluation will include: (i) a review of progress in each of the activities specified in the project's components and subcomponents; (ii) an evaluation of the mid-term results of the project in comparison with the objectives; and (iii) proposals for corrective actions in the event that the original objectives are not complied with. The final evaluation will examine accomplishment of project objectives.

### **VIII. SPECIAL CONTRACTUAL CONDITIONS**

- 8.1 Prior to the first disbursement, CONAMYPE will present the following to the Bank's satisfaction: (i) a legal report describing the constitutional provisions, laws and regulations governing the validity and entry into effect of the agreement between the Bank and the Republic of El Salvador; (ii) evidence that the project director has been hired; (iii) terms of reference for the international advisor; (iv) work program for the project containing semiannual operating goals and budgets; and (v) evidence that a budget allocation has been set aside to enable CONAMYPE to provide the counterpart funds for the first year of the project.
- 8.2 Prior to disbursing the funds for the component on the regulatory and policy framework, CONAMYPE will present the following to the Bank: (i) results of consultations with the different sectors involved in MSB activities about the policy document on support for the sector, prior to approval of the document by the government; (ii) a copy of the policy document on support for MSBs approved by the government, through the Ministry of Economic Affairs; and (iii) a plan, with semiannual operational targets, for implementing the process of administrative simplification of MSB formalization requirements that do not involve legal modifications. Disbursements under the component will be subject to fulfillment of the targets established in this plan.

## SUPPORT FOR MICROENTERPRISE AND SMALL BUSINESS DEVELOPMENT IN EL SALVADOR

(TC-99-08-00-2)

### LOGICAL FRAMEWORK

Summary of objectives	Verifiable indicators	Means of verification	Assumptions
	By June 2003		
development of s and small businesses that are integrated into the country's	<ul style="list-style-type: none"> <li>(i) A policy is designed for the sector that helps to boost its productivity and competitiveness.</li> <li>(ii) Changes are made in legislation to facilitate and promote the development of MSBs.</li> <li>(iii) Simplification of the process of formalizing MSBs increases the number that are formalized.</li> <li>(iv) The information system permits microentrepreneurs to boost their productivity, be competitive and join the country's economy.</li> <li>(v) The performance of MSBs can be measured in terms of the impact of the policies for their development.</li> </ul>	<ul style="list-style-type: none"> <li>• System to monitor the performance of MSBs.</li> <li>• Comparison of the list of administrative requisites to formalize MSBs in 1999 and 2003.</li> <li>• Household surveys.</li> <li>• El Salvador's socioeconomic indicators.</li> </ul>	<ul style="list-style-type: none"> <li>• Sector policy has been supported promoted by the public and private and donors.</li> <li>• Coordination has prevented duplication efforts and expanded the scope of development services.</li> <li>• The Salvadoran economy remains</li> </ul>
Implementation of mechanisms promote the development of s and small businesses.	<ul style="list-style-type: none"> <li>(i) The different groups that participate in the development of MSBs are familiar with the policy for MSBs.</li> <li>(ii) Proposals have been made to implement the recommendations on the changes in legislation needed to comply with sector policy.</li> <li>(iii) Microentrepreneurs know about and apply measures in the labor, environmental and tax areas, as established in the respective legislation.</li> </ul>	<ul style="list-style-type: none"> <li>• Workshops and dissemination activities.</li> <li>• Brochures to publicize the policy and requirements for formalizing MSBs.</li> <li>• Evaluation of the productive sectors and potential services for developing MSBs and an action plan for promoting them.</li> </ul>	<ul style="list-style-type: none"> <li>• The policy for the MSBs is applied supported by the different players in the sector.</li> <li>• The policy identifies the most important productive sectors and services promoting the development of MSBs.</li> <li>• There is active participation by players in the MSB sector.</li> </ul>

Summary of objectives	Verifiable indicators	Means of verification	Assumptions
	<ul style="list-style-type: none"> <li>(iv) Policies exist to promote MSBs on the regional level.</li> <li>(v) The requisites for formalizing microenterprises have been simplified and publicized.</li> <li>(vi) The five pilot municipalities have facilitated and promoted processes for the formalization of microenterprises and small businesses.</li> <li>(vii) The system for coordination and information-sharing among the private and public sectors and donors involved in developing MSBs prevents unnecessary duplication of efforts and covers geographic areas and sectors hitherto not served. Coordination and/or information-sharing allows for discussion of national issues that could affect the players involved in the sector.</li> <li>(viii) The impact of the policies implemented in the sector can be measured and performance monitored.</li> <li>(ix) An information and interactive communications system for microentrepreneurs exists that provides them with more information on the market, legislation affecting them, access to credit, marketing and sales channels, improvements in production techniques, service providers, etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Activities to promote the development of sectors with MSB potential implemented.</li> <li>• Manuals that identify the steps that microentrepreneurs and small businesses can take to comply with labor, environmental and tax legislation.</li> <li>• Action plans for the administrative simplification of requirements for formalizing MSBs on the municipal level (five pilot municipalities).</li> <li>• Reports on programs in El Salvador to support MSBs, broken down by geographical areas, types of services, types of microenterprises served, etc.</li> <li>• Information generated by the system to measure the impact of promoting and implementing sector policies.</li> <li>• CONAMYPE web page with links to pertinent information for microentrepreneurs and small businesses.</li> </ul>	<ul style="list-style-type: none"> <li>• The participating entities are coordinating their efforts more effectively.</li> <li>• Five municipalities are willing to participate in the pilot project.</li> <li>• DYGESTIC conducts household surveys annually and includes the module on MSBs to study market dynamics.</li> <li>• Donors and the private sector are able to channel information on the project to the municipalities implementing for MSBs.</li> <li>• CONAMYPE is able to bring the entities together and lead the process of coordination and information-sharing among donors and the private sector.</li> <li>• The Infocenters, some city governments and the entities that provide services for the development of businesses and microcredit are involved in providing virtual information for microentrepreneurs and small businesses.</li> </ul>
<p>and policy framework.</p> <p>for coordination and information-sharing for the public and private sectors and international agencies.</p>	<ol style="list-style-type: none"> <li>1. Analyses and recommendations on the changes in legislation needed to comply with sector policy and to promote MSBs on the regional level.</li> <li>2. Executive branch directive simplifying formalization procedures that do not require legislation.</li> </ol>	<ul style="list-style-type: none"> <li>• Materials to publicize policies.</li> <li>• Evidence of workshops held.</li> <li>• List of participants in the workshops.</li> </ul>	<ul style="list-style-type: none"> <li>• The government and CONAMYPE are able to carry out their responsibilities for project execution.</li> <li>• The private sector participates actively in project execution.</li> </ul>

Brief summary of objectives	Verifiable indicators	Means of verification	Assumptions
<p>and information.</p>	<ol style="list-style-type: none"> <li>3. Campaign to publicize and promote the simplified procedures for formalizing MSBs.</li> <li>4. Informative materials on MSB programs in El Salvador, their location, coverage, and activities.</li> <li>5. Indicators on the performance of MSBs and policy impact.</li> <li>6. Internet site to transmit and promote information targeted to microentrepreneurs.</li> </ol>	<ul style="list-style-type: none"> <li>• Guide on administrative procedures to formalize MSBs.</li> <li>• Reports on coordination and information meetings.</li> <li>• Reports on MSB progress and policy impact.</li> <li>• Number of people who visit and use CONAMYPE's web site.</li> <li>• Consultants' reports.</li> </ul>	
<p>an analysis and make recommendations on adjusting labor, rental, mercantile and tax in to facilitate compliance with policy guidelines.</p> <p>an analysis and make recommendations on the actions that are promoted to tap the diverse advantages of the country's regions for spurring the development of MSBs on the regional</p> <p>the application of measures to the impact of MSB activities that environment and workplace</p> <p>and implement a plan of action to and/or simplify the procedures for formalizing MSBs.</p> <p>public sector requirements and procedures to formalize microenterprises and businesses.</p>	<p>See the detained budget in the project's technical files.</p>	<p>For all activities, the means of verification are:</p> <ul style="list-style-type: none"> <li>• CONAMYPE's accounting records.</li> <li>• Auditors' reports.</li> <li>• Copies of contracts.</li> <li>• Project director's reports.</li> </ul>	<ul style="list-style-type: none"> <li>• The project is approved.</li> <li>• The Salvadoran government provides counterpart funds.</li> </ul>

Summary of objectives	Verifiable indicators	Means of verification	Assumptions
<p>Implement and publicize municipal procedures for setting MSBs in five pilot municipalities.</p> <p>Develop an information system on municipalities and institutions that serve different geographic areas and sectors, including those with shortfalls in services and those with shortfalls in demand.</p> <p>Establish a consultative committee to coordinate communication and cooperation among the different players in the public and private sectors and municipal cooperation agencies.</p> <p>Identify and promote good practices for municipal development.</p> <p>Develop a system to monitor performance of municipalities.</p> <p>Develop and promote the development of a reactive information system for entrepreneurs and small businesses (SBn).</p>			

PROPOSED RESOLUTION

EL SALVADOR. NONREIMBURSABLE TECHNICAL COOPERATION FOR  
“SUPPORT FOR MICRO AND SMALL ENTERPRISE DEVELOPMENT IN  
EL SALVADOR.”

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the República de El Salvador and to take such additional measures as may be pertinent for the execution of the project memorandum referred to in Document MIF/AT- with respect to a technical cooperation project for “Support for micro and small enterprise development in El Salvador.”
2. That up to the amount of US\$850,000, or its equivalent in other convertible currencies, is authorized for the purpose of this resolution, chargeable to the resources of the Technical Cooperation Facility of the Multilateral Investment Fund.
3. That the above-mentioned sum is to be provided on a nonreimbursable basis.