

PROGRAM OF SUPPORT FOR THE PRODUCTIVE SECTOR AND SMALL-BUSINESS

(TC-99-03-03-2)

EXECUTIVE SUMMARY

EXECUTING AGENCY: Investment and Export Development Foundation (FIDE)

BENEFICIARIES: Small and medium-sized enterprises, sectoral clusters and the Honduran productive sector

OBJECTIVES: The general objective of the project is to promote competitiveness among Honduran companies, particularly small and medium-sized businesses, increasing the country's sustainable institutional capacity to design and administer programs and projects for productive development.

The specific objectives are the following: (i) to strengthen the country's institutional capacity by creating a productive project design and execution unit (PDEU) within the FIDE; (ii) to strengthen the country's existing sectoral clusters and improve competitiveness among small and medium-sized enterprises (SMEs) by cofinancing training and technical assistance; (iii) to contribute to a dialogue between the public and private sectors in the design and development of policies aimed at improving the country's productive environment.

DESCRIPTION: The program is aimed at establishing an effective and efficient mechanism to identify, design and manage business development projects. The program consists of the following components: (i) the institutional strengthening of FIDE; (ii) the strengthening of sectoral clusters; (iii) improved competitiveness among the SMEs; and (iv) contributing to the design and public-private debate of policies.

FINANCING:

Modality:	Nonreimbursable	
MIF:	Window II:	705,000
	Window IIIa:	<u>995,000</u>
Subtotal:		1,700,000
Local Counterpart:		<u>850,000</u>
Total:		2,550,000

DEADLINES:

Execution period:	36 months
Disbursement period:	48 months

**SPECIAL
CONTRACTUAL
CONDITIONS:**

Before disbursing the funds for the contribution, FIDE must submit the following to the Bank's satisfaction: (i) evidence of having hired the PDEU director, pursuant to the terms of reference and the selection method previously agreed to with the Bank (paragraph 4.2); (ii) the draft annual business plan corresponding to the project's first year of execution (paragraph 7.1); (iii) the project operating regulation (paragraph 4.3); (iv) evidence of the appointment of the three members of the FIDE board of directors who will comprise the proposal evaluation committee (paragraph 4.4).

Notwithstanding the conditions established above, after meeting the Bank's prior general conditions, a total of up to US\$20,000 may be disbursed for hiring the PDEU director and allowing him to fulfill the prior conditions (paragraph 8.2).

I. COUNTRY AND PROJECT ELIGIBILITY

- 1.1 The Donors Committee declared the Republic of Honduras eligible for Multilateral Investment Fund (MIF) financing on December 14, 1993. The project is eligible for MIF financing within the framework of the human resources facility (II) and the small business promotion facility (III-A) in developing the human resources base needed to increase investment flows and expand the private sector and to promote competitiveness among small companies in Honduras by developing sustainable institutional capacity with a view to designing and administering productive development programs.

II. BACKGROUND

- 2.1 Various studies and assessments of production in Honduras ^{1/}, carried out in recent years, show that economic liberalization in Honduras and the country's participation in more competitive markets is resulting in the need for a restructuring of the productive base, which consists primarily of micro, small and medium-sized enterprises. Currently, the business sector's productivity – and consequently economic growth – is affected by the lack of management capacity, qualified labor, market information, specialization and cooperation between companies in competitive clusters.
- 2.2 These shortcomings are aggravated by the fact that the market for (nonfinancial) business development services is extremely weak and lacks sufficient vitality. The reasons for this lack of market development are weak demand and a number of defects (externalities, imperfections, information problems, etc.). In order to correct these defects, intervention programs are required to stimulate greater demand for business development services, improve their quality and thus begin market development.
- 2.3 The weakness of the Honduran institutional environment for designing and managing productive development programs has been identified as a bottleneck in the preparation of projects to assist in developing nonfinancial services for the private sector. One

^{1/} "Competitiveness in Central America," INCAE, 1995; "Business Strategies and competitiveness support programs for small and medium-sized businesses in Honduras," Mario Castillo, 1996; "Micro, small and medium-sized industries in Honduras," José María Covelo Foundation, 1996; "Tourism in Honduras. The goal of competitiveness," Latin American Center for Competitiveness and Sustainable Development – INCAE, 1998; "Supply of non-financial services to small business: Honduras diagnostic," Tulum, 1999; *et al.*

way to improve this situation is to strengthen an agency specializing in these types of programs and assign it the execution of an umbrella operation that includes both proposals from the various productive sectors and individual small and medium-sized enterprises (SMEs), and proposals for a public-private dialogue on the design of policies favoring business and productive development. This would facilitate gains from economies of scale and encourage other institutions in the Honduras private sector to take responsibility for execution.

- 2.4 This mechanism would further the development of the training and technical assistance market in Honduras, and provide for the establishment of a reliable executing agency experienced in the identification, design, and management of business development projects, which will eventually be able to channel resources from other international agencies interested in contributing to the productive development of Honduran competitive development.
- 2.5 The Investment and Export Development Foundation (FIDE) is a private, nonprofit institution with the potential capacity to execute programs successfully, and it could be a promising platform for country execution. The project is therefore intended to implement a new instrument with operational capacity, through practical and innovative measures to stimulate greater investment in nonfinancial services directed toward improving the competitiveness of clusters with the greatest growth potential and small and medium-sized Honduran businesses. Such intervention will also capitalize on the experience acquired in proposals for specific policies and in the capture of additional resources for financing new activities.
- 2.6 This project, in turn, falls within the framework of the effects of Hurricane Mitch, which have dramatically worsened the country's productive situation. The hurricane destroyed broad areas of the country and caused losses to crops, the means of production and basic infrastructure. This project will favor the sustainable reconstruction of the country's productive capacity and will assist in mitigating the hurricane's negative effects.

III. PROJECT DESCRIPTION

A. Objective

- 3.1 The general objective of the project is to promote competitiveness among Honduran companies, particularly small and medium-sized enterprises, increasing the country's sustainable institutional capacity to design and administer programs and projects for productive development.

- 3.2 The specific objectives are the following: (a) to strengthen the country's institutional capacity by creating a productive project design and execution unit (PDEU) within the FIDE; (b) to strengthen the country's existing sectoral clusters and improve competitiveness among small and medium-sized enterprises (SMEs) by cofinancing training and technical assistance; (c) to contribute to a dialogue between the public and private sectors in the design and development of policies aimed at improving the country's productive environment.
- 3.3 By executing this project, it is hoped that FIDE will succeed in converting its PDEU into an efficient operating platform, expert in the design and management of new projects, and in the service of the Honduran productive sector, increasing the competitiveness of the country's most dynamic clusters and small companies, and initiating a market dynamic in the provision of nonfinancial services as well as a dialogue between the private and public sectors to promote proposals for the reform of policies, regulations or institutional operations.

B. Components

1. FIDE institutional strengthening (MIF, US\$300,000)

- 3.4 This component consists in the creation of a PDEU within FIDE which will act as executing agency for this project and which in turn will be available for executing new MIF operations or those of other international cooperation agencies in the area of productive sector support.
- 3.5 The MIF contribution will cover the selection, hiring and training of a director and two technicians, specializing in the management of productive development projects for the implementation and operation of the PDEU. The PDEU personnel will be selected in a manner both competitive and transparent. Their training will cover the activity's primary tasks, both with respect to clients (such as sector and company diagnostics, the determination of attitudes to change, project design), and to the Bank (project management, standards for goods and services acquisition, etc.) and with other agencies.
- 3.6 The PDEU will engage in activities involving clients (beneficiaries) and the Bank in execution of the other three components, as well as in activities involving the identification of new operations. With respect to clients, the PDEU will perform activities such as the following: (i) project dissemination and marketing, creating awareness among business owners of the advantages that might accrue to them from this operation; (ii) support in identifying the needs of potential clients; (iii) the identification of adequate training and/or technical assistance providers; (iv) assistance in engaging such services by

clients; and (v) monitoring and evaluating the services provided to client companies.

- 3.7 With respect to the Bank, the PDEU will perform typical project management functions, in addition to serving as a bridge or link to other private sector institutions for engaging in a learning process involving the handling and management of international cooperation activities. To this end, the PDEU will organize the participation of business organizations in the workshops that the Bank regularly holds in Honduras.
- 3.8 FIDE's execution of this project will lead to learning about successful experiences and the identification of new operating proposals that could be financed by the MIF or by other international agencies, and which could be executed by FIDE or by other institutions that have acquired the capacity to do so.

2. Strengthening of groups of companies and sectoral clusters
(MIF, US\$750,000)

- 3.9 The objective of this component is to help groups of business owners of various sizes to improve their competitiveness, by acquiring training and/or specialized technical assistance services, on the basis of sharing the acquisition cost of such services, by performing diagnostics that result in the identification and preparation of new operations.
- 3.10 The cofinancing of proposals from groups of companies to acquire services, in addition to helping strengthen the competitive capacity of the clusters, will allow FIDE to acquire valuable experience in handling this type of operation, which in turn will contribute to its better positioning with respect to potential new donors among the international community.
- 3.11 Associations, sectoral unions, and groups of four or more companies will be eligible to submit joint proposals, provided that they: (i) demonstrate their proposal's feasibility as a function of measurable results; (ii) attest to their capacity to jointly benefit from the activities; (iii) propose objective parameters for measuring results; (iv) commit to covering a minimum of one-third of the cost thereof. The MIF financing will therefore cover up to two-thirds of the proposal's cost, up to a maximum of US\$150,000. At least one-half the companies in each group must be small and medium-sized, i.e., less than 150 employees and/or with sales of less than US\$3 million, and they must share in the benefits resulting from the acquisition of services.
- 3.12 The activities eligible for MIF financing will include the acquisition of: (a) services involving the training of labor, quality control specialists, supervisors and middle management, skills certification and management training, all applicable to homogeneous productive sectors; and (b) technical assistance

services in fields such as sectoral competitiveness plans and inter-sectoral links, business strategies, the improvement of suppliers, technical services for joint benefits, joint investment analysis and all types of services that improve the competitiveness of the proposing business group, with emphasis on the benefits corresponding to the participating SMEs. Possible sectoral proposals might be: manufacturing, logging, wood and furniture, tourism and agroindustry.

- 3.13 The PDEU will be able to contract up to 10 days of consulting services, charged to the project budget, up to a ceiling of US\$4,000 per operation, for preparation, on behalf of the groups of companies and sectoral clusters, of the joint proposals for this component. Proposals that exceed the US\$150,000 as specified in paragraph 3.11 may be processed and submitted separately to the MIF or to other international agencies. For purposes of performing diagnostics and identifying new MIF operations, the PDEU may engage up to 30 days of consulting services, up to a ceiling of US\$12,000 per operation, applying the efforts of its potential beneficiaries.
- 3.14 It is specifically hoped that FIDE will assist in producing an average of 10 studies for the identification and analysis of new operations, identify at least three new operations for a total amount in excess of US\$3 million, at least two of which must have profiles approved by the MIF Programming and Operating Committee, one the first year and the other 18 months after project execution. It is also hope that at least 30 proposals for improving the competitiveness of groups of companies and/or sectoral clusters involving 300 firms will be developed, and that this will result in the cofinancing of some 20 proposals for improving the competitiveness of 200 firms, at least one-half of which will be SMEs.

3. Improving the competitiveness of SMEs (MIF, US\$300,000)

- 3.15 This component is intended to share the costs of acquiring training services and technical assistance by individual small and medium-sized enterprises, with a view to improving their competitiveness.
- 3.16 The rationale for this component lies in reserving a specific activity in order for the country's SMEs to not fall behind with respect to the sectoral clusters and for them to have the opportunity to gain access to similar services, even individually. Given the extreme weakness of the small companies services market in Honduras, this component is aimed at increasing the demand for companies and at initiating a new market dynamic, but it does not aspire to create a sustainable intermediation structure. Such intermediation structure might be covered by a future operation, after evaluating the execution of this component.
- 3.17 The following companies will be eligible for submitting competitiveness improvement proposals: those which (i) have less

than 150 employees, sales of less than US\$3 million and which do not have among their shareholders or partners companies that do not meet these requirements; (ii) demonstrate the feasibility of their proposals as a function of results measurable by objective indices; and (iii) are willing to cover a minimum of 50% of the cost of the services. The MIF will therefore finance up to 50% of the cost of the services up to a ceiling of US\$10,000 per company.

- 3.18 The activities of this component which are eligible for cofinancing by the MIF will be the acquisition of training, technical assistance and consulting services aimed at modernizing processes, products and management, and improving the SMEs' productivity and/or positioning in the markets (see Annex III).
- 3.19 The PDEU will pay special attention to marketing of the project among potential client SMEs and may engage small consulting services of up to three days' duration, at project expense and up to US\$750, to perform business diagnostics, identify appropriate services suppliers and prepare proposals for each of the individual companies.
- 3.20 As a result of this component, it is expected that over 100 diagnostics of small and medium-sized enterprises will be prepared, at least 50 of which will include initiatives for productivity increases and modernization.

4. Contribution to the design and public-private debate of policies (MIF, US\$200,000)

- 3.21 This component is intended to contribute technical support to facilitate dialog between the public and private sectors on specific policy problems, regulations or institutional operations affecting the competitiveness of the Honduran productive sectors.
- 3.22 Eligibility for the presentation of proposals through FIDE will correspond to business groups or associations which represent a significant portion of the productive sector to which the issues they intend to address relate, and who have the cooperation of the country's major union organizations.
- 3.23 Activities capable of being financed by MIF will include engaging highly specialized consulting services for the diagnostic and proposal of reforms within the regulatory framework, operating inspection and monitoring services, establishing commercial agreements, preparing policies for small and medium-sized business and removing obstacles to the free operation of markets and business activity, at all times within the framework of respect for the country's social and environmental conditions. Also eligible for financing will be expenses for the establishment of six "negotiation tables" for discussing specific proposals between the public sector, the private sector and civil society.

- 3.24 The MIF contribution for each specific proposal may not exceed US\$50,000 and will be required to have counterpart support for at least 20% of the MIF contribution.
- 3.25 FIDE must obtain the Bank's prior nonobjection to engage consulting services charged against this budget component, regardless of amount. It will also notify the Executive of the Honduras government in advance of the anticipated scope of the proposals to be carried out, and inform the international cooperating agencies active in Honduras.
- 3.26 It is hoped that as a result of this component at least six specific proposals will be prepared for the reform of regulations or institutional operations with a view to improving the business environment for the country's productive sectors of the country.

IV. EXECUTION

A. Executing agency

- 4.1 The project executing agency will be the Investment and Export Development Foundation (FIDE), a nonprofit entity created in 1984. FIDE has business support, has been involved in various country competitiveness studies, has contributed to various legal reform and policy initiatives relating to business development, and has proven capacity to engage in high impact activities in the Honduran productive sector. It also has offices in Tegucigalpa and San Pedro Sula, for which reason it may easily cover the national territory.
- 4.2 For purposes of operating the project, FIDE will establish the PDEU within its structure, as a highly professionalized unit, having a director with headquarters in Tegucigalpa, a technical expert in the San Pedro Sula office, and a third mobile technical expert between the two capitals. FIDE will provide all administrative, computer, communications, accounting, logistics and internal procedures support, including a management information system that makes it possible to provide detailed monitoring of project execution.
- 4.3 The executing agency will engage the necessary consulting services. This will be done in accordance with Bank procedures in order to ensure optimum quality.

B. Operating method

- 4.4 The PDEU will be responsible for publicizing the project among Honduran business owners, identifying potential clients, hiring where necessary, supervising consulting services for preparing the

proposals for components 2, 3, and 4 and submitting such proposals, accompanied by an appraisal, to the Proposal Evaluation Committee (paragraph 4.5) for consideration and possible approval. The necessary operating procedures will be established in a project Operating Regulation. The PDEU director may authorize cofinancing engagements for a total of up to US\$10,000 charged to the MIF contribution, which must be approved *ex post* by the Bank.

- 4.5 FIDE will establish a Proposal Evaluation Committee (PEC) for selecting service acquisition proposals for each component requiring a MIF contribution of over US\$10,000. The Evaluation Committee will consist of the three members of the FIDE administrative board, a member appointed by the Bank from among individuals of acknowledged business reputation in Central America, and the FIDE Executive Chairman, who shall preside. The PDEU director shall attend the PEC with right to speak but not vote.
- 4.6 The PEC shall meet on a monthly basis, examine the proposals as they are submitted, approve the best technical proposals, be fully transparent, and determine the MIF contribution for each of them up to the project ceiling. No company or group of companies may obtain financing for more than three projects, each of which must be sufficiently distinguished from the other.
- 4.7 When the MIF contribution to a proposal is less than US\$50,000, except in the case provided for in component 4 (paragraph 3.26) the PEC decision shall be validated by the Bank *ex post* in order to gain project operational flexibility. However, when it is more than US\$50,000 it must obtain the Banks nonobjection *ex ante* for the decision to be completely valid.

C. Environment and social impact

- 4.8 The Bank's Committee on Environment and Social Impact (CESI) debated this operation at its TRG 14/99 meeting on April 16, 1999, and recommended that the training activities also include such issues as labor rights, particularly of working women, production, efficiency and conservation of natural resources and clean technology, and its relevance for the community's well-being, as well as its importance to penetration in international markets.

D. Project preparation stage

- 4.9 FIDE has already pre-identified project clusters and potential clients, as well as several possible themes for policy dialogue and for maintaining close contact with the country's business community. Of particular importance among the sectors identified are wood processing, garment making, tourism, and agribusiness. It has also identified the PDEU personnel profile and the means of engaging in their selection. The plan for personnel training and the identification of possible trainers is in the design stage.

V. COSTS AND FINANCING

- 5.1 The project's total cost is US\$2,550,000, of which the MIF will contribute a total of US\$1,700,000 on a nonreimbursable basis. The counterpart contribution totals US\$850,000, i.e., 33% of the total project cost, at least one-half of which will be cash. The project will be executed over three years, with a disbursement schedule of four years.
- 5.2 The project budget, a detail of which may be found in Annex II, and its financing table, is shown below:

US\$000

ACTIVITIES	MIF	COUNTERPART	TOTAL
Component 1. FIDE	300	200	500
Component 2. CLUSTERS	750	350	1,100
Component 3. SMEs	300	230	530
Component 4. POLICIES	200	40	240
SUNDRY	150	30	180
TOTAL	1,700	850	2,550

- 5.3 The MIF contribution will be intended for financing the FIDE's PDEU and to cofinancing for engaging training and technical assistance services.
- 5.4 Institutions in Honduras have been greatly limited by the availability of resources, particularly cash contributions, which in the unusual situation created following Hurricane Mitch, has been aggravated. For this reason, it is proposed that the sums paid by the companies participating in the acquisition of eligible services be considered as a counterpart contribution (see Annex II). The anticipated procedure would consist in the advance deposit of at least 25% of the cost of such services by the companies, thereby avoiding possible problems relating to the *pari pasu* application in the disbursements. The disbursements will be used to set up a revolving fund of up to 10% of the MIF contribution.
- 5.5 The precarious circumstances of the Honduran production sector and the weakness in the country's market for nonfinancial services are an obstacle to the PDEU's sustainability within the FIDE. This may be assured, however, to the extent that it is capable of attracting new projects from the MIF or the international community, receiving compensation for managing them. In addition, FIDE may charge project client companies an intermediation fee, provided that it not be charged against the MIF contribution, but rather constitute

an additional contribution from the companies. The sustainability of FIDE as an institution is guaranteed by the return on its own equity and by charging for the intermediation services it provides.

VI. JUSTIFICATION AND RISKS

A. Justification

- 6.1 The MIF has had low relative contributions in Honduras, which remains in second-to-last of countries receiving support in Central America. Among the causes most contributing to these poor results are the weak capacity for project execution, which has been aggravated by the fact that approved projects encounter disbursement difficulties. The concentration of efforts in strengthening an institution (FIDE) capable of processing and managing future projects would help the productive sector as well as other international agencies, and they could then channel their resources through such institution, thereby contributing to its sustainability.

B. Risks

- 6.2 Project feasibility is based on existing demand by the Honduran productive sector and on the experience and capacity of the executing entity. However, three risks have been detected which must be minimized in the project implementation phase: the demand for services, special interests and social-labor and environmental conditions.
- 6.3 Although the potential demand for training and technical assistance by Honduran companies is high, the low awareness of global competitiveness goals, the lack of experience in acquiring outside services and the low availability of counterpart funding could result in actual demand being less than what is expected. Project dissemination and consulting services for business diagnostics will contribute to the creation of awareness among business owners as to the need to adopt positive attitudes to change, and will mitigate this risk. Furthermore, in the event that greater demand arises in some components than in others, the Bank will be able to evaluate the appropriateness of reassigning funds among the components, short of institutional strengthening, which show the greatest demand.
- 6.4 The awarding of assistance to the sector groups and private companies always entails the risk of benefiting certain vested interests, which will be substantially minimized through the establishment of clear ground rules and the use of transparency to be set out in a set of operating regulations.

- 6.5 The risk associated with productivity improvements in key sectors of the Honduran economy is that it will be achieved at the expense of working conditions and the environment. Accordingly, it has been established that proposals that fail to take these considerations into account will not be approved. The consultancies engaged to prepare the proposals by companies will observe such conditions and should help to eliminate this risk.

VII. MONITORING AND EVALUATION

- 7.1 The Bank will monitor the project based on the following: (i) the annual business plan that the executing agency will prepare and which will include, among other things, quantifiable objectives and execution schedules, the means of attaining such objectives, and a financing plan that establishes a plan for counterpart contributions. Submission of the draft annual business plan for the first year of execution will be a prior condition for the initial disbursement of the contribution; (ii) annual progress reports for executing the project which include the fulfillment of objectives; (iii) evaluation meetings which will be carried out within 30 days after the submission of each progress report; and (iv) annual financial auditing reports and management reports performed by an independent outside auditing firm acceptable to the Bank. The management auditing report will also include a random review of a significant number of approved proposals that have received MIF contributions.
- 7.2 The executing agency will supervise engagement of consulting services *ex post* for amounts up to US\$50,000. All engagements exceeding that sum, as well as those needed to execute component 4 of the project, will require the Bank's prior nonobjection. The Bank, through its Country Office in Honduras, may hold periodic inspections to verify proper progress on the project and consistency of the activities being financed with the objectives being sought. If significant project execution problems become visible in the reports submitted by the executing agency or from the inspection, the Bank reserves the right to reassign project resources among its components.
- 7.3 The Bank will engage an independent consulting firm to prepare two evaluations, charged against the project budget. The first evaluation will be performed when 50% of the funds have been disbursed or 18 months after the first disbursement whichever occurs first and the second one will be done six months after completion of the project. The evaluations will analyze fulfillment of the project objectives in accordance with the attached logical framework (Annex I), and will detail success in execution, a list of the direct and indirect costs thereof and the generation of counterpart resources, the level of client satisfaction, the

quality of the services provided and the impact generated thereby on companies or client collectives. In order to be able to obtain the latter, it will be necessary that the PDEU require that the various component proposals include a clear definition of the starting point and of the results they expect to obtain.

VIII. PRIOR AND CONTRACTUAL CONDITIONS

- 8.1 Before disbursing the Contribution funds, FIDE must submit the following, to the Bank's satisfaction: (i) evidence of having hired the director of the executing unit in accordance with the terms of reference and the selection method previously agreed to with the Bank; (ii) the draft annual business plan corresponding to the first year of project execution; (iii) the project's operating regulations; (iv) evidence of having appointed the three members of the FIDE board of directors who will join the project evaluation committee.
- 8.2 Notwithstanding the conditions established above, upon fulfillment of the Bank's prior general conditions, the sum of up to US\$20,000 may be disbursed for hiring the PDEU director and allowing him to fulfill the prior conditions.

HONDURAS
PROGRAM OF SUPPORT FOR THE PRODUCTIVE SECTOR AND
SMALL BUSINESS
TC-99-03-03-2

LOGICAL FRAMEWORK

Summary of objectives	Verifiable indicators	Means of verification	Assumptions
competitiveness among Honduran particularly small and medium-sized	<p>Annually, four years after signing the agreement:</p> <ul style="list-style-type: none"> - Production by participating companies (base year beginning of project). - Increase in productivity among participating companies (base year beginning of project). - Increase in sales by participating companies (base year beginning of project). 	<ul style="list-style-type: none"> - Account ledgers and production control - Financial statements - Evaluation surveys 	<ul style="list-style-type: none"> - Political and economic maintained
sustainable institutional capacity to manage productive development and projects in Honduras.	<ul style="list-style-type: none"> - Increased capacity of FIDE to execute productive development projects. - Improved capacity of organizations to execute productive projects. - Increased interest of bilateral and multilateral organizations to invest in operations in Honduras. - For the first year the abstract of one operation prepared in the MIF project portfolio, another operation after 18 months and another operation for the third year. 	<ul style="list-style-type: none"> - Results of the project evaluation 	<ul style="list-style-type: none"> - Policies favorable to the development of NGOs

Summary of objectives	Verifiable indicators	Means of verification	Assumptions
ed country institutional capacity, by strengthened unit within the FIDE for and executing productive projects.	<ul style="list-style-type: none"> - PEC created and operating efficiently 6 months after signing the agreement. - Increase in demand for consulting and training services on the part of Honduran companies. - Number of requests for competitiveness projects and SME increases annually. - Number of operations by IDB/MIF and other international organizations increases annually. - 85% of funds for components 2 and 3 disbursed in 3 years. 	<ul style="list-style-type: none"> - Inspection reports and visits - Promotional campaign report - Project evaluation reports 	<ul style="list-style-type: none"> - The dynamism of each retained - Business owners aware training is an investment - Maintenance of professional efficiency among the FI management - Cofinancing of company capacity of FIDE's activi
competitiveness of the country's existing clusters is strengthened and improved e cofinancing of diagnostics and studies	<p>Upon completion of the second quarter of the third year:</p> <ul style="list-style-type: none"> - 10 identification and analysis studies completed. - 30 proposals for competitiveness improvement in sectoral clusters completed; 60% result in pilot competitiveness projects. - 200 firms participating in the project. 		<ul style="list-style-type: none"> - There is demand for this service on the part of th and they are willing to p
medium-sized enterprises are ed and improved through cofinancing and technical assistance.	<ul style="list-style-type: none"> - At least 50% of the proposals mentioned above must be SMEs. 		

Summary of objectives	Verifiable indicators	Means of verification	Assumptions
<p>relationship between the public sector and the private sector for the design and execution of reforms aimed at improving the country's business environment has been formalized.</p>	<ul style="list-style-type: none"> - 6 specific reform proposals carried out that improve the business environment. - More than 6 sessions of the negotiation tables held in three years. 		<ul style="list-style-type: none"> - Political will between FDI and Government to facilitate dialogues.
	BUDGET IN US\$		
<p>Activity 1: Executing unit</p> <p>Activity 2: Groups and clusters</p> <p>Activity 3: SMEs</p> <p>Activity 4: Policies</p>	<p>500,000</p> <p>1,100,000</p> <p>530,000</p> <p>240,000</p> <p>180,000</p> <p>2,550,000</p>	<ul style="list-style-type: none"> - Budget execution report - Financial statements - Program progress reports 	<ul style="list-style-type: none"> - Business owners are willing to participate in the program - There is sufficient supply of interested agencies and individuals - Leading companies from different sectors are interested in participating. - Disbursements from the government to the participating entities are timely and sufficient

BUDGET

COST AND FINANCING

ACTIVITIES	MIF US\$	COUNTERPART US\$	TOTAL US\$	MIF	FIDE
COMPONENT 1. FIDE	300	200	500	60%	40%
Executing unit fees	270	20	290	93%	7%
Personnel training	25	-	25	100%	0%
Office, administration and logistics	-	150	150	0%	100%
Equipment	5	10	15	33%	67%
Project dissemination	-	20	20	0%	100%
COMPONENT 2. CLUSTERS	750	350	1,100	68%	32%
Consulting services for proposal preparation	180	40	220	82%	18%
U.S. travel and <i>per diems</i>	-	25	25	0%	100%
Training	280	140	420	67%	33%
Technical assistance	290	145	435	67%	33%
COMPONENT 3. SMSCs	300	230	530	57%	43%
Diagnostics / proposal preparation	80	5	85	94%	6%
U.S. <i>per diems</i>	-	5	5	0%	100%
Technical assistance	120	120	240	50%	50%
Training	100	100	200	50%	50%
COMPONENT 4. POLICIES	200	40	240	83%	17%
High-level consulting	180	32	212	85%	15%
Negotiation tables	20	8	28	71%	29%
SUNDRY	150	30	180	83%	17%
Audits	-	10	10	0%	100%
Evaluations	40	-	40	100%	0%
IDB representative on the PEC	30	-	30	100%	0%
Contingencies	80	20	100	80%	20%
TOTAL	1,700	850	2,550	67%	33%

BUDGET

COUNTERPART IN KIND vs. COUNTERPART IN CASH

ACTIVITIES	TOTAL COUNTERPART	KIND	CASH	
			FIDE	OTHER*
COMPONENT 1. FIDE	200	160	40	0
Executing unit fees	20	0	20	0
Personnel training	0	0	0	0
Office, administration and logistics	150	150	0	0
Equipment	10	10	0	0
Project dissemination	20	0	20	0
COMPONENT 2. CLUSTERS	350	0	25	325
Consulting services for proposal preparation	40	0	0	40
U.S. travel and <i>per diems</i>	25	0	25	0
Training	140	0	0	140
Technical assistance	145	0	0	145
COMPONENT 3. SMSCs	230	0	5	225
Diagnostics / proposal preparation	5	0	0	5
U.S. <i>per diems</i>	5	0	5	0
Technical assistance	120	0	0	120
Training	100	0	0	100
COMPONENT 4. POLICIES	40	8	0	32
High-level consulting	32	0	0	32
Negotiation tables	8	8	0	0
SUNDRY	30	20	10	0
Audits	10	0	10	0
Evaluations	0	0	0	0
IDB representative on the PEC	0	0	0	0
Contingencies	20	20	0	0
TOTAL	850	188	80	582
* Small and medium-sized enterprises, company associations, clusters, government, etc.				

PROJECT OPERATING GUIDELINES

The purpose of these guidelines is to guide the executing entity's actions in implementing this project. In this sense, following are some guidelines on institutional strengthening, project dissemination and marketing, beneficiary identification processes, the types of proposals that will be eligible for financing from the MIF contribution, and the selection of service providers.

Institutional strengthening

One of the primary objectives of this operation is to create new capacity in Honduras to identify, design, execute and evaluate cooperation projects for productive development in the country. The executing agency, once having consolidated its own team, will seek to turn its experience into support for other private sector entities in order for them to become progressively involved in the management tasks of projects that may have support from the international community (paragraph 3.5).

Project publicity

The program publicity tasks must include holding workshops and presentations to business groups to explain the benefits they might obtain and the steps they must take to participate in the operation (paragraph 3.4). The invitations must also provide an opportunity to all companies, particularly small and medium-sized enterprises, but forms of mass media with costs disproportional to the potential number of project clients will not be used.

Marketing

In addition to the generic project publicity activities, it is anticipated that it will be necessary to engage in direct marketing among potential clients identified within the framework of a sales strategy previously established by the executing agency. This will require the dedication of a portion of the PDEU team and the supply of short-term consulting services to engage in diagnostics and prepare proposals from groups of companies (paragraph 3.14) or from small and medium-sized enterprises (paragraph 3.19), in an effort to fulfill the objectives identified for each component.

Client/beneficiary eligibility

The eligibility of groups of companies as set forth in paragraphs 3.11 and 3.12 refers to a wide range of possible clients linked by a proposal that generates collective benefits for all of them. It therefore ranges from the so-called sectoral clusters which are intended to incorporate projects of general benefit to the sector, to groupings of a limited number (but at all times four or more) of companies that submit a joint

proposal generating benefits for all of them. In the latter case it is not necessary for them to belong to the same sector but for them to be linked, such as between suppliers and clients, or that they simply benefit from a set of common service costs. The PDEU must emphasize that the proposal's benefits are distributed in balanced fashion between the members of the business group, particularly among the SMEs comprising it.

The eligibility of the SMEs as defined in paragraph 3.17 must be understood as referring to Honduran companies in all sectors of economic activity.

Type of proposals eligible for MIF financing

The training and technical assistance services eligible for the financing of components 2 and 3 (paragraphs 3.13 and 3.18) also cover a wide range of possibilities. The training services include that of labor, middle management, technicians, directors and managers of companies, in different types of courses, workshops, on-the-job training, etc. Training will preferably consist in the development of curricula and new methodologies, particularly skills-based, training of trainers and teaching materials. The technical assistance services will include, for example, the preparation of technical and investment feasibility studies, financial advising, the design of sales and/or export plans, the implementation of quality control systems and advising on the technological modernization of processes and products. Given the wide range of business services being considered, it is not prudent to place an explicit limit on the type of services. However, the PDEU will prioritize proposals for the acquisition of services that generate the greatest added value in the productivity of client companies.

Selection of service providers

The PDEU must maintain a data base of service providers of various specialties, Honduran and or international, in order to advise project clients in their selection and hiring. However, the final decision for the hiring of any service will at all times correspond to the beneficiary company or group of companies, who may opt for any supplier that has proven its professionalism and relevant experience to perform the work assigned to it.

The cost of the service may exceed the amount provided for in components 2, 3 and 4 provided that the excess is covered in its entirety by the companies. The PDEU will ensure that service costs correspond to market prices.

PROPOSED RESOLUTION

HONDURAS. NONREIMBURSABLE TECHNICAL COOPERATION FOR A PROGRAM TO SUPPORT PRODUCTIVE SECTORS AND SMALL AND MEDIUM ENTERPRISES

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the Fundación para la Inversión y Desarrollo de Exportaciones (FIDE), 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 a program to support productive sectors and small and medium enterprises.
2. That up to the amount of US\$705,000, or its equivalent in other convertible currencies, is authorized for the purpose of this resolution, chargeable to the resources of the Human Resources Facility of the Multilateral Investment Fund.
3. That up to the amount of US\$995,000, or its equivalent in other convertible currencies, is authorized for the purpose of this resolution, chargeable to the resources of the Small Enterprise Development Facility of the Multilateral Investment Fund.
4. That the above-mentioned sum is to be provided on a nonreimbursable basis.