

BUSINESS DEVELOPMENT PROGRAM FOR THE SOFTWARE INDUSTRY**(TC-99-10-05-6-UR)****EXECUTIVE SUMMARY**

Requester and executing agency:	Uruguayan Software Association (CUS)		
Beneficiaries:	Small software-producing businesses		
Financing:	Modality:	Nonreimbursable	Facility III-A
	CUS:	US\$ 729,000 (45%)	
	MIF	US\$ <u>891,000</u> (55%)	
	Total:	US\$1,620,000	
Objectives:	The main objective of the program is to help increase the competitiveness of small software-producing businesses in Uruguay in the global market. The purpose of the program is to strengthen the management of small software companies by providing: (i) training in quality and cost control; (ii) business management, financial management, marketing, and strategies for entering new markets and managing software production; (iii) support for developing a regulatory, tax, and financial framework to strengthen businesses in the sector.		
Execution schedule:	The execution period is 36 months. The disbursement period is 42 months.		
Conditions precedent:	The following activities are considered conditions precedent to the first disbursement: (i) creation and startup of the technical committee (paragraph 4.4); (ii) hiring of the program director (paragraph 4.3); and (iii) implementation of the Operating Regulations (paragraph 4.4).		
Exceptions to Bank policy:	None.		
Environmental and social review:	The Committee on Environment and Social Impact reviewed the Abstract on 2 March 2001, and had no comments on the document.		

I. COUNTRY AND PROJECT ELIGIBILITY

- 1.1 On 6 October 1993, the Donors Committee declared Uruguay eligible for all forms of MIF financing. The project is eligible because its activities support the creation and strengthening of support services that will promote the development of small software businesses and will stimulate demand for the use of such services. It will thus have a positive impact on the management and competitiveness of these companies.
- 1.2 In the working group document, the MIF identified the information technology (IT) sector as a priority area for support. Moreover, the Bank's strategy for Uruguay underscores the importance of promoting this sector. The Government of Uruguay has already initiated activities that promote greater development of the IT sector, exploiting the advantages that the country's economy offers for the sector and its potential to stimulate other productive sectors and to create high-quality jobs. The program's support for the efforts of the Uruguayan Software Association to increase the competitiveness of the sector's small businesses will help take advantage of this window of opportunity for Uruguayan software, boosting its growth by exploiting the country's advantages and the rapid growth that these businesses have posted in recent years.

II. BACKGROUND

A. Macroeconomic situation

- 2.1 From 1995 to 1999 the Government of Uruguay continued its stabilization efforts based on a nominal exchange rate anchor, reducing the fiscal deficit, and public sector restructuring. During the same period, gross domestic product (GDP) rose at an annual average rate of 3%; inflation decreased from 35.4% at the end of 1995 to 4% at the end of 1999. Although the fiscal deficit decreased from 1.7% to 1% of GDP in 1998, it rose to 2.4% in 1999 as a result of the recession in the region. Despite a rise in exports in absolute terms until 1998, the balance of trade suffered from the increased competitiveness of products from other countries due in particular to the January 1999 devaluation of the Brazilian currency. It also suffered from the general decline in commodity prices, considering that 80% of Uruguayan exports are agricultural products.
- 2.2 The Uruguayan economy has become a player on the international markets based on the competitiveness of its agriculture and services, mainly tourism and finance. In developed countries, services have replaced manufacturing as the fastest-growing sector. In past 10 years, this process has been intensified by the information technology (IT) revolution. Mass use of IT has led to increased

productivity throughout the economy.¹ Given the productive structure of the Uruguayan economy, support for the IT sector represents a great opportunity to accelerate the pace of increased productivity in the services sector.

- 2.3 Within the IT industry, the software sector has viable prospects for growth and consolidation that will enhance Uruguay's competitiveness abroad. Software production has seen steady growth since the mid 1980s, and is the sector that has experienced the most intense growth in the past five years. In 1989 the industry had sales on the order of US\$8 million, a figure that rose to approximately US\$200 million a decade later. In 1989, annual exports were under US\$250,000 but by 1993, were in excess of US\$4.5 million, and are presently estimated at US\$75 million.
- 2.4 In the early 1990s, the industry supplied approximately 800 jobs; that number now stands at 2,500-3,000, excluding operations at the computer centers of government offices, government enterprise, and major private businesses.
- 2.5 No other area of activity in Uruguay is growing as fast. In the past year the Government of Uruguay, aware of the sector's potential, has launched a series of reforms and programs to help software companies grow and consolidate themselves in the short term. Decree-laws 386/000 and 387/000 were enacted on 28 December 2000, exempting IT companies from capital gains tax for four years, and exempting sector exports from the value added tax.

B. The software industry

- 2.6 This significant expansion of the IT industry in Uruguay was spearheaded by a group of some 15 medium-sized enterprises that have a permanent presence in international markets through exports that already account for over 40% of total sales in the sector. Some of these companies, in their progression toward globalization, have established subsidiaries in other countries in South America.
- 2.7 There are approximately 450 companies in the IT industry, some 250 of which are involved in software development. This group of software companies consists of:
 - a. group of small and medium-sized enterprises with export potential that already have experience with exports, but require more support to attain greater penetration in foreign markets;
 - b. a large group of microenterprises with a well-trained staff, but certain shortcomings (in business and financial management, for example) that limit their ability to access the export market;

¹ The recent Economic Report to the President (2000, chapter 3) states that 50% of the increase in productivity in the United States in the latter half of the 1990s was due to mass adoption of information technology.

- c. a significant number of independent professionals who work mainly as consultants and advisers, without a consolidated business structure;
 - d. of these 250 companies, 170 are members of the Uruguayan Software Association, and can be broken down by size as follows: 70 employ from 1 to 4 persons, 66 have from 5 to 20 employees, and the rest employ more than 20 persons.
- 2.8 The companies in this sector also differ in terms of their products. The range of products and services among businesses in the sector is broad. Some offer "high tech" products (software development tools, for example); others are involved mainly in producing applications, while yet others focus on consulting services for the domestic market. Although most of the companies offer comprehensive solutions, some specialize in support services that are vital to the software industry (communications, audible response systems, connection to automated teller machines, point-of-sale terminals, online credit card authorization, hand-held computers, multimedia presentations, CD-ROMs, etc.). (The technical file contains sample Uruguayan company profiles in the sector).
- 2.9 Software is thus generally "exported" in intangible ways, and so requires specialized support. The end products can be transported on diskette, by e-mail, and on the Internet. Product usage rights are sold, and income from these sales comes in the form of royalties. Since consulting services are provided outside Uruguay, the work of Uruguayan consultants is exported to other countries. The commercial, productive, and consulting activities of foreign subsidiaries of Uruguayan companies also generate income for the country.
- 2.10 **Uruguay's strengths in this sector include:**
- a. **Good level of education and professional training.** The high literacy rate and extensive professional training has resulted in relatively significant development of the country's human capital. With respect to information technology, public and private universities and institutions provide solid basic training, enabling their graduates to perform well as professionals. Sector businesses state that the quality and quantity of human resources in the sector are sufficient to maintain and even step up the pace of growth that has been achieved so far. Presently, between short post-secondary training and full-time university programs, approximately 180 IT professionals graduate each year from the three major universities in Montevideo (Universidad ORT, Universidad de la República, and Universidad Católica). In the past seven years, approximately 850 students have graduated from the three universities in systems engineering, systems analysis, and programming, and another 400 have completed shorter courses of study (two to three years) in the same areas.

- b. **Good telecommunications infrastructure.** Uruguay has a telecommunications network that is 100% digital. The number of telephones per inhabitant—28 lines for every 100 inhabitants—is one of the highest in the region. The availability of international Internet channels is tripling with the installation of international fiber optics.
- c. **Potential to develop products for specialized markets.** Uruguayan consultants have made significant efforts to turn what could be a disadvantage—the small size of the country's economy—into business opportunities. The essentially urban, service-oriented economy dominated by small businesses has enabled Uruguayan software companies to specialize in niche markets in which they excel and export to other countries in the region. Products such as software for small pharmacies and currency exchange offices, and small markets for large global software corporations have thus become success stories for the sector.

C. Challenges for small businesses in the software sector

2.11 Despite Uruguay's comparative advantages and the strong performance by certain software companies, most enterprises in the industry still have weaknesses and shortcomings that limit their international competitiveness. In addition, for the sector to develop properly, policies, strategies, and specific measures are necessary to boost the industry's international competitiveness. In terms of standardization, some companies produce software packages that meet international standards, while others produce programs adapted to Uruguayan standards.

2.12 **Weaknesses and limitations include:**

- a. **Local market size.** The Uruguayan economy, with a GDP of just over U\$20 billion, is a small market for rapid expansion of a national software industry. This means that the strategy for sector development necessarily entails an increasing globalization process for the companies. The industry's foreign clients are generally very large, large, or medium-sized businesses, compared with the size of Uruguayan enterprises. The domestic market does not constitute a sufficient test bench for the software industry.
- b. **Lack of status abroad as a software producer.** Uruguay does not have a tradition as an exporter of high-tech products. This poses a problem when it comes to entering global markets, which do not view Uruguay as a producer of high technology, making it difficult for Uruguayan products to penetrate those markets. As the quality of Uruguayan software becomes standardized, a solid position will be attained in foreign markets. The lack of an international quality standard is a nontrade barrier to foreign market access.

- c. **Marketing logistics.** One of the basic obstacles to the competitiveness of the Uruguayan software industry concerns marketing logistics. This obstacle affects companies that are already operating in the international market, but it is particularly relevant to companies seeking to establish a permanent presence in that market. There is a widespread lack of knowledge about potential markets for Uruguayan products, the needs and specific demands of potential users, and the ways in which these markets operate. Although companies do manage to identify local partners in the target markets and make initial contacts with them, they do not know how to develop a scheme to maintain ongoing relationships in order to expand the sales of Uruguayan products.
- d. **Regulatory and financial considerations.** Since this is a very new sector, it is essential that the CUS participate as a trade association in formulating public policies and regulations that support the development of the software industry. Like most countries in the region, however, Uruguay lacks an adequate regulatory framework in this area. Another difficulty facing the sector, owing to its nature, is a lack of venture capital.

D. MIF participation

- 2.13 The Government of Uruguay has expressed interest in fostering greater development of the country's IT sector, in light of the advantages of the Uruguayan economy in the sector and its potential to stimulate other productive sectors and to generate high-quality jobs. However, given current budgetary constraints, in the context of a protracted recession and the fiscal deficit, the government cannot allocate resources to promote the sector at a critical time for takeoff of its activities, particularly in the area of software. Nonetheless, Uruguayan software companies have posted high growth rates in recent years, and they have the potential to grow even more if they can become international, breaking through the narrow domestic market. Only a few companies have managed to do that, and the others need incentives to overcome barriers to entering certain markets and to increase their ability to conquer larger, more demanding markets.
- 2.14 The MIF has identified the IT sector as a priority area for support. The Bank has indicated that the sector is eligible under its strategy for Uruguay. MIF support for the efforts of the Uruguayan Software Association to increase the competitiveness of small businesses in the sector will help the Uruguayan software industry seize the window of opportunity it now has to make significant strides by drawing on the country's advantages, while strengthening the trade association in its role as an intermediary for services and a representative of its interests.

III. PROGRAM OBJECTIVES AND ACTIVITIES

A. Objectives

- 3.1 The main objective of the program is to help increase the competitiveness of small Uruguayan software-producing businesses in international markets. In the present context of economic globalization, this objective will be achieved by strengthening the management and cooperation capacity of the businesses and their entrepreneurial spirit. The purpose of the program is to strengthen management of small software companies by providing: (i) training in quality and cost control; (ii) business management, financial management, marketing, and strategies for penetrating new markets and managing software production; and (iii) support for developing a regulatory, tax, and financial framework to consolidate businesses in the sector. The program will have a logical framework for its activities. Annex I presents a summary of the logical framework.

B. Components

- 3.2 To address the software sector's needs, several meetings were held with owners of small companies, during which the various alternatives for program activities were discussed, taking into account the limited resources available to the companies and the MIF. The program will help companies organize around software sector value chains. Specifically, the program will improve the various aspects of small software company management, taking the particular profile of each into consideration and generating competitive platforms in the domestic and foreign markets that favor the convergence of products, markets, and technologies. To that end, the program includes the following components:
- a. **The quality** component includes efforts to introduce quality standards for software production, and for management of small businesses in the sector. Establishing basic performance standards will foster the international integration of those businesses. Work will focus particularly on training and technical assistance for small software businesses, so that they incorporate specific internationally accepted software quality standards such as CMM (Capability Maturity Model) and SPICE (Software Process Improvement and Capability Determination). CMM was developed at Carnegie-Mellon University in Pittsburgh, Pennsylvania, United States of America; SPICE has been proposed by the International Organization for Standardization (ISO) for use by the international community.

The training activities will include such topics as: (a) general knowledge, concepts, and ethics; (b) software quality management (planning, monitoring, corporate training model for quality issues); (c) software processes (development and maintenance methods, management process and changes in technology); (d) management of software projects (planning, monitoring,

implementation), (e) metrics (measurement theory, analytical techniques, software measurement); (f) software validation and verification, inspection, and testing; (g) software auditing (types, methodology, and planning of audits); (h) management of software configuration (planning and identification of software configuration, control, monitoring, and registration). Technical assistance will be designed to improve production processes and implement quality control systems in the companies on an ongoing basis. These activities will mainly target company employees.

- b. **The component for strengthening business management** includes training and specialized consulting activities for small software producers for: (a) strategic planning and financial administration as basic management tools that enable small businesses in the sector adapt to changes in technology and to the dynamics of international markets; and (b) international market penetration through market identification and training in setting up software marketing systems within the companies. The possibility of entering into agreements and partnerships with foreign firms in order to begin or increase exports will be examined.

In general, the training activities seek to: (a) give business owners the basic tools they need for strategic planning, business management, and marketing logistics; (b) promote their involvement in rounds of business discussions and in trade promotion events; (c) train business owners to direct quality processes in their companies; (d) provide owners with analytical tools, improve their awareness of the experiences of other business owners in the software industry in Uruguay and beyond and enhance their ability to assimilate them, and (e) where necessary, improve the working conditions of employees and assist companies in introducing environmental practices in keeping with national legislation.

The executing agency will prepare a list of consulting firms and individual consultants for use by the beneficiary companies. The requirements for including consultants on this list will be set forth in the Operating Regulations.

- c. **The standards component** includes consulting services to support actions that the CUS may promote as a trade association, participating actively in defining public policy and a regulatory framework to foster sector development. Consulting services under this component will focus on: (a) designing tax mechanisms that promote the growth and strengthening of businesses in the sector; and (b) analyzing ways of identifying appropriate financing schemes to promote greater fluidity in the high-risk technology innovation process in the sector, since the profile of software companies, which have a relatively high proportion of intangible assets, makes it difficult for them to access sources of venture capital.

- 3.3 As a clearinghouse for these companies, the CUS will assist small software firms in assessing their technical and managerial problems. It will help them hire technical assistance services, the cost of which it will share with the beneficiary companies, during the program on a gradually declining basis. It will subsequently evaluate the results achieved through the use of these services and disseminating those results. The consultants hired will be specialists in quality systems, business management, management internationalization, software marketing, intellectual property, tax regulations, and suitable financing mechanisms for the sector. They must have expertise in high-tech business management, since world-class software companies are managed according to very specific standards.

IV. PROGRAM EXECUTION

A. Executing agency

- 4.1 The Uruguayan Software Association (CUS) will be the executing agency for the program. The CUS has 170 member companies that produce and market software in Uruguay, out of a total of some 250 such companies in the country. All but approximately 10 medium-sized software companies are microenterprises and small businesses. The mission of the CUS is to promote the development of the IT industry in Uruguay, representing the sector in defending its rights and fostering research, training, and the promotion of its member companies in both the domestic and international markets. Presently the CUS is structured to perform its trade association activities, which it does adequately.² The program will have a technical committee to supervise its activities, a director responsible for program activities, an administrative coordinator, and secretarial support staff. The program will strengthen the institutional capacity of the CUS so that it can expand its support for software companies, including its action as a trade association with respect to the public sector.
- 4.2 The CUS lobbied the Ministry of Economic Affairs and Finance for enactment of decree-law 386/000 of 28 December 2000, exempting sector businesses from the Industry and Trade Income Tax (IRIC), and decree-law 387/000 of 28 December 2000, exempting service exports from VAT. The Education and Culture Committee of the Chamber of Deputies also approved the Copyright Act, which is now under review by the respective Senate committee. The CUS will be called upon to respond to a series of inquiries by the committee before the bills can be enacted. The CUS will also be responsible for building public support for passage of these initiatives, which will smooth the way for approval of these laws and decrees. From its founding, the CUS has played a proactive role in the industry's growth, helping

² The CUS is a small, very active organization, with a board of directors, a manager, and secretarial support, and the enthusiastic backing of its members. This small structure will be maintained during program execution.

to create enabling conditions for Uruguayan software companies to grow. The CUS is also involved in coordinating actions with associations of IT companies in the rest of Latin America and in the European Union. It held a conference of Latin American associations in Montevideo, at which the Latin American Information Technology Industry Association (ALETI) was established by Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Panama, Venezuela, and Uruguay, with Spain as an observer.

- 4.3 The program director will work with the companies to identify their needs, help them select consultants, and assist them in their relationships with those consultants. The director will select the companies that will receive financial support from the program under components (a) and (b), pursuant to the eligibility criteria approved by the technical committee. The director will also prepare annual plans, coordinate and supervise program activities, standardize management procedures, and promote the shared use of instruments, methods, and experiences. An administrative coordinator will assist the director. The director will be selected by a competition, based on terms of reference and selection criteria previously agreed upon with the Bank. Hiring of the program director is a condition precedent to the first disbursement. The CUS agrees that in the first year of program execution, the cofinancing resources used will be greater than the program's administrative costs, and in the second year the ratio will be at least 1.5:1. (These indicators are stipulated in the logical framework).
- 4.4 The technical committee will be comprised of two members from the CUS, one member from the Universidad ORT de Uruguay, one member from the Universidad de la República, and one member from the Uruguayan Government Online Initiative.³ In order to operate, the technical committee must have a quorum of at least four members, and its decisions will be made by simple majority. One of its functions will be to select the program director and approve the annual work plans and draft agreements to be signed by the companies and the CUS. In addition, the committee will evaluate the progress of program activities and the director's performance. The program will be carried out in compliance with the Operating Regulations (in the program's technical file).⁴ Notices will be published in the media to announce courses, seminars, technical assistance, and other events in the sector. Eligible companies may submit applications to receive technical assistance for quality control, management, and other areas based on an assessment of their needs that they identify jointly with the program director.
- 4.5 To participate in the program, companies must sign an agreement with the CUS. The companies may hire eligible technical assistance providers, and, provided that compliance with the conditions of the agreement has been verified, they will be

³ The creation and start-up of the technical committee are conditions precedent to the first disbursement. The committee will be required to begin its operations with at least four members.

⁴ Implementation of the Operating Regulations is a precondition for the first disbursement.

reimbursed for the costs incurred as follows: 60% for the first year, 50% for the second, and 40% for the third.

- 4.6 Presently, the CUS offers its members training activities that are fully financed by monthly member dues. For the training events scheduled during program execution, the program will cover 80% of these costs, and the companies will cover the remaining 20%. The program will cover all costs for general promotion of the sector. For these two services, the CUS will hire Uruguayan consultants and international consultants in cases where the expertise of Uruguayan consultants is inadequate according to the Operating Regulations. The CUS maintains a register of consulting firms and individual consultants that will be expanded during the program.

B. Program beneficiaries

- 4.7 The program will benefit small businesses in the sector (250) through its training initiatives, sector promotion activities, and support for the development of a regulatory framework. Technical assistance for quality, marketing, and financial management will be available for approximately 60 businesses. In order to participate in the program, the small software companies must: have legal status; have a technical, administrative, and financial control organization that will enable them to use the allocated resources appropriately; have annual sales of no more than US\$8 million; have less than 50 employees; accept the CUS Code of Ethics; have been in existence for at least one year; and agree to contribute their own funds to program activities as necessary. Service providers interested in participating in the program must have the appropriate human resources in terms of technical expertise, experience, and quality, the financial wherewithal to operate, and a good track record performing similar work.

C. Procurement of goods and hiring of consulting services

- 4.8 The CUS will comply with Bank policy on appropriate use of the contribution, and the origin and eligibility of goods and services. The Bank will conduct an ex post review of consulting service contracts for amounts below US\$50,000.

D. Execution and disbursement schedule

- 4.9 A 36-month execution period and a 42-month disbursement period are planned. A revolving fund in the amount of 10% of the MIF contribution will be created, based on a budget of expenses duly justified upon program startup. The detailed schedule of activities can be found in the technical files.

E. State of program preparation

- 4.10 During program preparation, meetings were held with CUS authorities and other sector representatives, to ensure a participatory program design process. Several

sector businesses indicated their willingness to cofinance program activities. The terms of reference for the selection and hiring the director and the draft Operating Regulations have been prepared and reviewed by the Bank team. The physical premises already have been designated. The CUS has established contact with potential members of the technical committee, who have confirmed their interest in participating in the program. The competition for selection of the director is in preparation. The CUS has indicated its complete agreement with the proposed program.

V. COST AND FINANCING

A. Cost

- 5.1 The total cost of the program is US\$1.62 million. The MIF financing would amount to US\$891,000 (equivalent to 55% of the total), and the local counterpart—which the CUS has formally committed to providing—would amount to US\$729,000, or 45% of the total. A table of program costs is presented below.
- 5.2 The MIF contribution will be used to finance: (i) cofinancing incentives for businesses, to promote the use of training services and technical assistance, as well as participation in business cooperation programs; (ii) part of the program director's honoraria; (iii) honoraria for Uruguayan and international consultants; and (iv) part of the promotion and marketing campaign.

TABLE V-1 PROGRAM COSTS (in US\$ thousands)				
CATEGORY	MIF	LOCAL COUNTERPART	TOTAL	%
Administration	71.1	233.4	304.5	18.8
Quality component	235.5	109.4	344.9	21.3
Management component	504.2	311.2	*815.4	50.3
Standards component	36.0	69.0	105.0	6.5
Evaluation, auditing, and contingencies	44.2	6.0	50.2	3.1
TOTAL	891.0	729.0	1,620.0	100%
Percentage	55.0%	45.0%	100%	

* Of this total amount, US\$580,000 is earmarked for marketing activities and US\$138,000 for business management activities.

- 5.3 Companies may apply for nonreimbursable contributions of up to US\$6,000 under the quality component and up to US\$3,000 for the business management strengthening component. The nonreimbursable contribution limit per company

will be US\$10,000 over the life of the program. The percentage of cofinancing will be gradually decreased during the program execution period, as follows: 60% for the first year, 50% for the second, and 40% for the third.

B. Sustainability

- 5.4 The program is viable and will be sustainable provided that it can attract a significant number of businesses interested in services and serves as an effective instrument for channeling services to them. The critical factors for its success are its ability to motivate businesses during the startup phase and to channel services under appropriate conditions. If more companies become members of the CUS, it will be able to increase its inflows to cover the program's increasing fixed costs.
- 5.5 Once the execution phase of the program is completed, the CUS will continue to offer similar services to its members, but nonreimbursable funding will not longer be available. The CUS will continue to finance its administrative expenses through its regular revenues, but the beneficiary companies will then be charged the full cost of the services at market rates. The companies will pay 50% of training costs, and the CUS will cover the remainder from its own funds. The sector promotion activities will be fully financed from the regular income of the CUS, which will increase owing to improvements in the general performance of its members and the recruitment of new members. The financial viability of the CUS to continue the program activities after the MIF resources are no longer available was verified. The program's technical file includes a cash flow analysis for the three years after program completion.

VI. PROGRAM JUSTIFICATION AND RISKS

- 6.1 **Justification.** The proposed program will help strengthen the competitiveness and development of small software companies in an open market through improved business management. To that end, the program combines: (i) broad based marshaling of software companies, thereby ensuring a positive impact on the software industry (including a demonstration effect); and (ii) implementation of innovative programs that can be replicated after evaluation, designed precisely to improve the productivity and competitiveness of software companies. Lastly, the program will build up a base of consultants trained to work with small software companies, duly qualified and evaluated for the quality of their work by both the companies and the program.
- 6.2 The expected outputs of the program are: (i) strengthening of the managerial capacity of small software companies in Uruguay, so that they can exploit market opportunities and their competitive advantages in IT; and (ii) technical studies to assess obstacles in the regulatory framework, tax system, and access to sources of

venture capital and making recommendations for government measures to support the sector. All this will lead to a continuous increase in sector exports.

- 6.3 **Complementarity with other ongoing programs.** Promoting the competitiveness of software companies entails services that are specific to the sector, which are not presently provided directly or indirectly by any institutions in Uruguay. The proposed program will therefore supplement other programs financed by the Bank and the MIF to strengthen the business sector in Uruguay. These include, specifically: (i) the export startup program (ATN/ME-6049), now in its final stage of execution, designed to promote the internationalization of export startups in specific sectors and to establish procedures for the internationalization of small businesses in various sectors in which Uruguay already has international standing, primarily serving small businesses in agribusiness production; (ii) the business development center program (ATN/ME-6604), being executed by the Chamber of Industry, and focusing on serving the needs of small manufacturing businesses in a range of sectors; (iii) the program for SME competitiveness through ISO standards (ATN/MH-7254), to be executed by the Uruguayan Technical Standards Institute (UNIT) and the Uruguay Exporters Union, which program will finance the general implementation of ISO quality standards in businesses (for software production, quality standards are very specific); and (iv) the technology development program (loan 1293/OC-UR), which primarily targets projects in the value chain of the agriculture and industry sectors, relating to technology issues that include process and product engineering, industrial design, and packaging for exports.
- 6.4 **Risks.** Two main risks have been identified: (i) a critical mass of demand may not be generated as a result of the public information campaign; to address this risk, the program includes plans for public announcements of its activities, creating extensive transparency in its administration; and (ii) the program may not be capable of generating an attractive supply of services (a defect in the businesses-CUS-consultants chain); which risk is being addressed by hiring specialized consultants and through training courses to structure the activities that will generate the necessary supply.
- 6.5 The sustainability of the program is based on strengthening business management. The training and technical assistance activities for the companies will be indirect sources of program resources. Additionally, the experience gained by the CUS during program execution is expected to enable it to continue the training and technical assistance activities after the program execution period, since the economic growth of sector businesses will significantly boost CUS income and, consequently, its ability to meet the new challenges that the industry will face in the future.

VII. MONITORING, EVALUATION, AND AUDITING

- 7.1 The program will be monitored through semiannual progress reports, consultant reports, and the financial statements of the program and the executing agency. The semiannual reports will include information on: (i) the technical assistance received by the companies and its results; (ii) the training activities carried out, and their results; (iii) the performance indicators set forth in the logical framework; and (iv) the corrective actions taken if any of the targets were not attained.
- 7.2 The CUS will forward audited semiannual reports to the Bank's Country Office within 30 days after the end of each six-month period, and a final report within 30 days after the end of the program execution period. The reports will follow a format previously agreed upon with the Country Office, and will include program activities, finances, and results. The Country Office will use the semiannual reports and the final report, as well as periodic meetings with the executing agency, to monitor program progress and to prepare a performance report for headquarters within three months after disbursement in full.
- 7.3 Two outside evaluations of the program will be conducted, to which end the Bank will hire independent consultants using MIF resources. The Bank will require that the consultant hired submit the first evaluation by month 18 or once 33% of the MIF contribution has been disbursed, and the second evaluation in the final month of the program execution period. The Bank will require that the consultant evaluate the following: (i) program execution to date; (ii) the positive aspects and the problems encountered during execution; (iii) the quality of the services, the degree of user satisfaction, and the impact of the services on management of the companies; (iv) compliance with the schedule of gradually decreasing percentages of nonreimbursable contributions and consistency with the sustainability strategy; and (v) the proposed schedule of activities for the remainder of the execution period.
- 7.4 The executing agency will maintain adequate internal accounts and financial control of the project funds. The accounting system will be organized to provide the necessary documents, make it possible to verify transactions, and facilitate the timely preparation of financial statements and reports. The project files will be arranged in such a way as to be able to identify the amounts received from the various sources; to report on project expenditures pursuant to an accounts chart approved by the Bank, making a distinction between the MIF's contributions and funds from other sources; and to include details necessary to identify the goods procured and services contracted, as well as the use of such goods and services. The executing agency will also open separate and specific bank accounts for management of the MIF contribution and the local counterpart funds; will process disbursement requests and related expenditure justifications, in accordance with the Bank's procedures in the area of disbursements; and will present a final financial

statement to the Bank, audited by an independent firm acceptable to the Bank, and the semiannual financial reports on the status of the revolving fund.

VIII. CONDITIONS PRECEDENT TO THE FIRST DISBURSEMENT

- 8.1 The following activities will be conditions precedent to the first disbursement: (i) creation and startup of the technical committee (paragraph 4.4); (ii) hiring of the program director, whose final terms of reference must be agreed upon with the Bank (paragraph 4.3); and (iii) implementation of the Operating Regulations (paragraph 4.4).

IX. SOCIAL AND ENVIRONMENTAL CONSIDERATIONS

- 9.1 Where applicable, technical support services for small businesses relating to software production processes will promote the adoption of measures to mitigate any adverse environmental impact. Additionally, occupational safety and health issues will be addressed. The results of actions carried out with regard to software production and the environment will be evaluated in the progress reports on the program.

X. EXCEPTIONS TO POLICIES AND PROCEDURES

- 10.1 No exceptions to Bank policies and procedures are proposed.

LOGICAL FRAMEWORK (Summary)
BUSINESS DEVELOPMENT PROGRAM FOR THE SOFTWARE INDUSTRY
(TC-99-10-05-6-UR)

OBJECTIVES	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>Contribute to increasing the competitiveness of small software-producing businesses in Uruguay in the broader market.</p>	<p>Upon program completion:</p> <ul style="list-style-type: none"> - Increase in productivity in participating businesses. - Increase in export activity of some participating businesses. 	<ul style="list-style-type: none"> - Evaluation/surveys. - Accounting records and financial statements. - Participating businesses will be monitored continuously in order to obtain information for evaluation of sector productivity. 	<ul style="list-style-type: none"> - Macroeconomic stability. - Consolidation of the integration process. - Continued CUS support program.
<p>Improve the management of small software businesses with international quality systems, productivity and cost control, business administration, financial administration, and</p>	<p>Upon program completion:</p> <ul style="list-style-type: none"> - Increase in investment in training and technical assistance. - Increase in sales by software service providers. 	<ul style="list-style-type: none"> - Surveys of small software firms. - Program evaluation findings. 	<ul style="list-style-type: none"> - Sufficient demand for services. - Willingness on the part of companies to pay for services.
<p>OUTPUTS</p> <p>Technology transfer activities and implementation of quality standards for software production.</p>	<ul style="list-style-type: none"> - Number of businesses receiving technical assistance for quality plans. - Number of businesses receiving training in quality. 	<ul style="list-style-type: none"> - Reports on plans and quality training. 	

OBJECTIVES	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>Strengthening business management</p> <p>training and consulting services in international planning, strategy, financial management, and marketing; and internationalization of companies, by exploring the possibility of joint ventures and partnerships with larger firms or improvements in products and processes to begin/increase exports.</p> <p>Work for standards and access to capital</p> <p>consulting services to adapt regulations to the standards of the World Trade Organization, and attention on intellectual property rights. The design of suitable financing mechanisms to facilitate fluidity in the high-risk technology innovation process in the future will be studied.</p>	<ul style="list-style-type: none"> - Number of businesses receiving technical assistance in marketing. - Number of businesses participating in marketing and financial management seminars. - Number of market studies performed. - Number of businesses participating in trade missions and international seminars. - Number of studies on standards. 	<ul style="list-style-type: none"> - Reports on training in marketing and finances. - Reports on studies analyzed. - Reports on trade missions. <p>Reports on the studies performed.</p>	<ul style="list-style-type: none"> - Potentially interested companies participating in the process of improving quality, business management and internationalization of their products. - Uruguay's macroeconomic performance remains essentially unchanged.

OBJECTIVES	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
ACTIVITIES			
Quality component Technical assistance in quality Training in quality	<ul style="list-style-type: none"> – 30 technical assistance projects for quality plans at an average cost of US\$6,000 for 30 enterprises – 12 events for training in quality at US\$10,000 for 400 enterprises 	<ul style="list-style-type: none"> – Reports on quality plans – Reports on quality training – Reports on marketing and finance training 	<ul style="list-style-type: none"> – The various stakeholders carry out their respective activities properly.
Business management strengthening component Technical assistance in marketing Technical assistance in finance Marketing seminar Financial management seminar Market studies Trade missions	<ul style="list-style-type: none"> – 60 technical assistance projects for marketing at US\$3,000 each – 30 technical assistance projects for finance at US\$3,000 each – 3 marketing seminars at US\$10,000 each – 3 financial management seminars at US\$10,000 each – 8 market studies at US\$20,000 each – 6 trade missions at US\$15,000 each – 1 trade round at US\$60,000 	<ul style="list-style-type: none"> – Reports on studies – Reports on trade missions 	
Standards and access to capital component Proposals for financing	<ul style="list-style-type: none"> – 3 studies on standards and financing totaling US\$105,000 		

PROPOSED RESOLUTION

URUGUAY. NONREIMBURSABLE TECHNICAL COOPERATION FOR A SOFTWARE INDUSTRY BUSINESS DEVELOPMENT PROGRAM

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, on behalf of the Multilateral Investment Fund, to enter into such agreement(s) as may be necessary with the Cámara Uruguaya del Software (CUS) and to adopt such other measures as may be pertinent for the execution of the plan of operations incorporated in the donors memorandum referred to in Document MIF/AT-_____ with respect to a technical cooperation for a Software Industry Business Development Program.
2. That up to the amount of US\$891.000 or its equivalent in other convertible currencies, is authorized for the purpose of this resolution, chargeable to the Small Enterprise Development Facility of the Multilateral Investment Fund.
3. That the above-mentioned sum is to be provided on a nonreimbursable basis.