

ADVISORY CENTER FOR NEW BUSINESSES

(TC-97-07-05-3)

EXECUTIVE SUMMARY

EXECUTING AGENCY: Banco Mayo Foundation

BENEFICIARIES: New small businesses

OBJECTIVES: The objective of the project is to support the creation of small competitive businesses to contribute to the country's economic development and the expansion of employment.

The project would specifically seek to: (a) support the creation of new undertakings in high-value-added sectors and the consequent expansion of employment opportunities; (b) provide assistance to entrepreneurs who wish to convert their businesses, undertaking a basic restructuring of activities and expanding into new lines; and (c) strengthen the presence of an organization and a methodology which can facilitate the access of potential new entrepreneurs to technical and management services.

DESCRIPTION: The project will provide small businesses with the guidance, support and technical services they need in order to strengthen and consolidate the management of their projects under competitive conditions. In the context of this project, generating competitiveness means enabling the entrepreneur to bring to fruition the project envisioned, to incorporate new technologies, to use resources with greater efficiency, and to compete in the market.

The project would support the creation and maintenance of small urban enterprises ("start-up" companies or firms in process of conversion) in the city of Buenos Aires.

The basis of the project is the existence, operation and consolidation, within the Banco Mayo Foundation, of the Centro Asesor de Nuevas Empresas [Advisory Center for New Businesses], the purpose of which is to serve as a one-stop source of needed services and information for small entrepreneurs in the areas of: (a) technical support; (b) help with financing; (c) training; and (d) business infrastructure and networking. In line with this concept, the center

extends support and assistance at each successive stage in the establishment and expansion of a business.

FINANCING:	Modality:	Grant
	Beneficiary:	US\$2,500,000
	MIF:	US\$2,500,000
	Total:	US\$5,000,000

IMPLEMENTATION: The project will be implemented over a period of 36 months, and the funds from the contribution would be disbursed over 42 months.

ENVIRONMENTAL AND SOCIAL IMPACT CLASSIFICATION: The Committee on Environment and Social Impact considered this operation at meeting TRG28/97 of August 15, 1997, and recommended: (a) that it be specified in the final proposal that the operation is targeted exclusively to small businesses; (b) that issues of social impact, gender, health and occupational safety be taken into account and measures considered; and (c) that, whenever it is possible and relevant, the transfer of "clean" technologies and considerations associated with ISO 9000 and ISO 14000 certification be taken into account. Whenever possible, sustainability criteria based on efficiency and loss reduction should also be considered and applied. The final proposal should include also: (d) an explanation of the current experience of CANE vis-à-vis women entrepreneurs and its future plans in this field; and (e) an explanation of the criteria to be followed with respect to the geographic expansion of CANE.

EXCEPTIONS TO BANK POLICIES: Not applicable.

PROCUREMENT OF GOODS AND SERVICES: The procurement of services will be governed by the Bank's policies, rules and procedures.

THE BANK'S COUNTRY STRATEGY: The Bank's action in Argentina is focused on three basic areas: (a) deepening and consolidating the **modernization of the state** at the central level and extending it to the provincial and municipal governments; (b) **reducing poverty and enhancing the quality of life of the population** through actions designed to provide sources of productive employment and improve the quality and coverage of social programs; and (c) **increasing the productivity and competitiveness** of the tradable-goods sectors, using an environmental-protection approach, through the

provision of support infrastructure and activities that are conducive to modernization of the productive apparatus and to regional integration.

The proposed program is compatible with the strategy outlined above, since it contributes to the development of the entrepreneurial sector and strengthens the participation of the private sector in the delivery of services to small businesses.

The objective of the Bank's strategy in support of small and medium-sized businesses (S&MEs) is to help them become more competitive so they can contribute in the long term to economic growth and employment. This objective is to be attained through support activities designed to improve the supply of goods and provision of services by the private sector. It is accordingly proposed that efforts by the Bank in the area of small and medium-scale enterprise development strategy be aimed at helping S&MEs resolve their own problems so they can progress from protection to competition. It is believed that programs taking this approach will prove to be viable over time and provide a stronger incentive than direct aid to economic development. It must be recognized, however, that the production factor markets are not as yet sufficiently developed and an approach of this kind does not preclude the provision of subsidized access to services required by S&MEs in cases in which the absence of effective demand and/or the presence of high transaction costs makes it impossible to have such services provided by the market. In such cases, however, the direct support will be limited in scope, its application will be transparent, and it will be targeted to meeting specific requirements.

The operation proposed herein is designed to achieve precisely those objectives.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

Conditions precedent to the first disbursement:

A chart of accounts must be available for the project, a special account must have been opened, and the officials authorized to represent the Fundación Banco Mayo (FBM) in the execution of the project must have been designated (see paragraph 3.36).

Other contractual clauses:

- a. The revolving fund envisaged will be for up to 10% of the contribution (see paragraph 3.37);

- b. Financial statements of the program, certified by an independent outside auditor, are to be submitted annually (see paragraphs 3.38 and 3.39);
- c. The FBM is to submit semiannual reports to the Bank on the results of the implementation of the program (see paragraph 3.45); and
- d. The project calls for three evaluations, all to be performed by outside consultants, the first to be conducted 12 months after the date of signature of the agreement, the second 24 months after that date, and the third after the 30th month of implementation. The FBM will contract for the services of outside consultants to perform these evaluations in accordance with terms of reference previously agreed upon with the Bank (see paragraph 4.3).

RISKS:

The project team has made a careful analysis of the proposed operation and the factors that could affect its execution and affirms that it has not identified any risks or obstacles to either the implementation or the sustainability of the operation. Reasonable assumptions have been made with respect to the demand for services and to bringing the charges therefor progressively closer to the pertinent operating costs and market prices so that the mechanism becomes financially self-sustainable over time. In addition, the project can be rescaled to improve it if necessary.

I. COUNTRY ELIGIBILITY

- 1.1 Argentina was declared eligible for MIF financing on November 30, 1993.

II. FRAME OF REFERENCE

A. Background

- 2.1 Argentina has been undergoing a profound transformation of its economic-development model since 1990. Starting from a protectionist, regulated model characterized by heavy State intervention in the economy, Argentina has progressed to a stage of global participation, principally through economic openness, privatization, deregulation and the promotion of competitiveness.
- 2.2 The sharp devaluation of the Mexican peso in 1994 had adverse repercussions on the Argentine economy. One of the consequences was the sudden withdrawal of foreign capital, which created financial difficulties and also discouraged local investors and savers. This affected the chain of credit and payment cycles. In addition, the recession reflected the underlying economic and social cost of the economic transformation.
- 2.3 In this context, large- and medium-scale businesses were able to adapt more readily than small ones, which found it extremely difficult to survive and which felt the brunt of cost increases at every stage because of their close linkage on the chain of production.

B. Small enterprises and their promotion in Argentina

- 2.4 According to the 1985 census there were 730,000 small businesses (SBs) that year; according to the National Economic Census of 1994 the number had risen by then to approximately a million. If the tentative data issued by the Instituto Nacional de Estadísticas y Censos [National Institute of Statistics and Censuses] (INDEC) are taken as a reference, the number of establishments with fewer than 20 employees was approximately 1,059,000 out of the total of 1,150,000 included in the census. This means that 92% of the units included in the census may be classified as small businesses.
- 2.5 Argentina has a long record of activity in the promotion of small enterprises. In recent decades, however, not only has the economic and social crisis deepened but social-welfare programs have taken precedence over economic and business-oriented programs, making the situation even worse.

- 2.6 Beginning in 1980, programs for the creation and promotion of microenterprises began to gain favor in the provinces, municipalities and NGOs and in various international support agencies. One of the agencies most active in this field in Argentina has been the Consejo Federal de Inversiones [Federal Investment Council] (CFI), which has provided technical assistance to ~~provinces~~ and ~~municipalities~~ with funding from local and international sources.
- 2.7 Provinces and municipalities, as well as government agencies and NGOs, have conducted a large variety of microenterprise development, promotion and support programs, including financial, technical, administrative and organizational support programs and training programs for microentrepreneurs.
- 2.8 A number of studies made at the completion of those programs examined the impact of the various promotional modalities used and raised some questions as to the efficacy of the support instruments in place. Included among the critical areas identified in the studies carried out during that period were: (a) the formulation of proposals, (b) project-selection criteria, (c) the identification of market niches, (d) the technical and strategic quality of business plans, and (e) the support provided during the initial phase of each venture.

C. Characterization of the proposed project

- 2.9 SBs have played and continue to play a significant role in the chain of production. INDEC and other private entities have noted that they account for close to 98% of all industrial enterprises, generate 45% of GDP, and provide employment to 65% of the labor force.
- 2.10 SBs are facing challenges in the areas of productivity, competitiveness and employment. The absence of specialization in the work of their labor force, together with a "mom and pop" management style and orientation toward the local market are factors that have limited their mass-production prospects and have retarded the adoption of new technologies and new production, marketing, distribution and sales concepts.
- 2.11 In addition to the increasing need to adhere to international quality standards that must be met in order to export in a globalizing market, SBs are falling farther and farther behind the increasingly stringent requirements of the domestic marketplace.
- 2.12 "Captives" in an adverse market, SBs would seem to be condemned to a process of continuing decline and virtual disappearance. On the other hand, new ventures are emerging, a multiplicity of ideas are being turned into projects, and potential businesspeople, both male and female, continue to search for opportunities of becoming entrepreneurs.

- 2.13 In order for such ideas and projects to materialize in today's marketplace, it would be essential to offer the microentrepreneurial sector a source of services to facilitate: (a) the preparation, development and start-up of their projects; (b) the timely identification of appropriate solutions to challenges, through technical assistance and training; and (c) the attainment of a satisfactory level of reliability utilizing appropriate methodologies with reasonable costs.
- 2.14 The economic situation constitutes a challenge to entrepreneurs. It obliges them to adapt to continuous internal macroeconomic changes and also to the growing requirements of the market, not to mention fiscal costs or sectoral restructurings prompted by the operations of leading companies and the exigencies of external competitiveness.
- 2.15 The proposed project is targeted basically toward the generation of new "start-up" companies and the competitive reinsertion of potentially convertible SBs presenting projects with a high local value-added component.

D. The Banco Mayo Foundation and background of the proposed project

- 2.16 In December 1972, the Banco Mayo 1/ created the Banco Mayo Foundation (FBM) to: (a) promote the sciences and the arts; (b) foster cultural exchange at the national and international levels; (c) disseminate information on the geography and history of Argentina; (d) stimulate scientific and cultural research; (e) participate in activities to improve the lives of the needy; (f) support the moral, cultural and physical development of the young; and (g) promote a spirit of cooperation in society.
- 2.17 The FBM is engaged in cultural programs such as the creation and sponsorship of the Mayo Chamber Orchestra; preventive-medicine programs for schools in poor neighborhoods; school-breakfast programs; programs for women; science and technology programs, and so on. In addition, since 1993 it has been serving as a vehicle for the promotion of training at various levels for business, social and community leaders.
- 2.18 Acting in consonance with the government's goal of generating employment through small-business development, and taking into consideration the receptiveness and demand for such activity, the FBM established a project which is encouraging potential

1/ Banco Mayo Cooperativo Limitado. Founded in 1961, with current capital of approximately US\$120,483,000, 76 branches throughout Argentina, and a ranking of 17 among the country's banks in terms of the volume of its deposits (currently approximately US\$690,000,000). Donations average US\$6,200,000 per year.

entrepreneurs to set out for themselves and has also promoted substantial improvements in the performance of existing SBs.

- 2.19 In 1995, the FBM applied to the directors of the International Development Program and the World Community Development Program of the American Jewish Joint Distribution Committee (JDC) for **assistance in the performance of viability and feasibility studies** on an institutional mechanism to encourage new entrepreneurs and support and strengthen SBs.
- 2.20 The study concluded that conditions in Argentina warrant the implementation of an extensive project aimed at bringing new entrepreneurs and reinserting existing SBs into the dynamics of the present-day economic model, to enable them to compete in globalized international markets.
- 2.21 The Advisory Center for New Businesses (CANE), which is a nongovernmental, not-for-profit organization established to offer comprehensive advisory services to SBs, opened its doors to the public on May 27, 1996, under the auspices of the FBM. The response was strong and immediate. The center has received a monthly average of 800 inquiries, 1,000 individuals have sought advisory assistance, and more than 160 business plans have since been prepared for small businesses. The profile of the clients is as follows: 83% men and 17% women; 43% professionals and 57% nonprofessionals. Activities have been focused on the following areas: services (53%), production (35%) and commerce (12%).

E. Consistency with the Bank's strategy and operations in Argentina

- 2.22 The Bank's action in Argentina is focused on three basic areas: (a) deepening and consolidating the **modernization of the State** at the central level and extending it to the provincial and municipal governments; (b) **reducing poverty and enhancing the quality of life of the population** through actions designed to provide sources of productive employment and improve the quality and coverage of social programs; and (c) **increasing the productivity and competitiveness** of the tradable-goods sectors, using an environmental-protection approach, through the provision of support infrastructure and activities that are conducive to modernization of the productive apparatus and to regional integration.
- 2.23 The research and surveys conducted and samples developed for the Bank's study on entrepreneurial strategy, 2/ as well as the

2/ The strategy was developed pursuant to document GN-1885, Small and Medium-size Enterprise Development Strategy and, in accordance with the methodology envisaged for the preparation of such strategies, the results of this work were incorporated into the country paper (document GN-1951).

study Las pequeñas y medianas empresas en la Argentina [Small and Medium Enterprises in Argentina] (December 1995), by the Fundación de Investigaciones Económicas Latinoamericanas [Latin American Economic Research Foundation] (FIEL), make reference to a low turnover rate and an average age of 28 years for small businesses. In Chile, by way of comparison, the average age is 20 years, and in the OECD countries 25% of small enterprises are less than 10 years old. Countries at a more advanced stage of development are characterized by the promotion of enterprises and by facilities for the creation of new businesses.

- 2.24 The nature and the prospective end-beneficiaries of this operation support the assumption that it would contribute to the establishment of small businesses under a development approach based on the institutionalization of a support-services mechanism to promote their creation and reconfiguration.
- 2.25 This project is complementary to a number of Bank/MIF financed projects currently under way. Annex I shows the objectives and scope of each project, including the one proposed herein.

III. THE PROJECT AND ITS EXECUTION

A. Objectives

- 3.1 The objective of the project is to support the creation, sustenance and development of competitive small businesses 3/ as a means of furthering the country's economic development and the expansion of employment.
- 3.2 The project would specifically seek to: (a) support the creation of new ventures in high-value-added sectors and the consequent expansion of employment opportunities; (b) provide assistance to entrepreneurs who wish to convert their enterprises, undertaking a basic restructuring of activities and an expansion into new

3/ Pursuant to Title III, Article 83, of Law 24,467, a small enterprise is one that meets the following conditions: (a) it has no more than 40 workers; and (b) its annual billing, net of VAT, is less than \$5,000,000 (industry), \$4,000,000 (services), \$3,000,000 (commerce), or \$2,500,000 (agriculture).

lines; 4/ and (c) strengthen the presence of an organization and a methodology which can facilitate the access of potential new entrepreneurs to technical and management services.

- 3.3 The project will provide small businesses with the guidance, support and technical services they need in order to strengthen and consolidate ~~the management of their projects~~ under competitive conditions. In the context of this project, generating competitiveness means enabling the entrepreneur to bring to fruition the project envisioned, to incorporate new technologies, to use resources with greater efficiency, and to compete in the market.
- 3.4 The project has secondary objectives such as contributing to the expansion and maintenance of employment in the country and the diffusion of applied methodology and experience.

B. Beneficiaries

- 3.5 The project would support the creation and maintenance of small new urban businesses ("start-up companies") or businesses in the process of reconversion in the city of Buenos Aires.
- 3.6 In the context of this project, a clear distinction should be made between (a) the encouragement of potential entrepreneurs, which constitutes the essence of the project; and (b) the promotion of self-employment and of microenterprises as socio-occupational

4/ Conversion is understood to denote a process of transformation of existing enterprises that, by dint of circumstances, are operating below their break-even point but which obviously have the potential to improve and expand. For the purposes of this project, when an existing enterprise is transformed and grows, the process is one involving the re-launching and organizational restructuring of the enterprise and is analogous to the creation of a new enterprise.

options for individuals and families, 5/ which, given the local coverage already in place, is not specifically contemplated in this project. Neither is the project designed to help restructure small enterprises which have failed or have been pushed out of the market by providing them with advisory services, training or subsidized financing. Experience clearly shows the promotion of new entrepreneurs has a stronger impact than any attempt to rehabilitate structurally flawed enterprises.

C. Description of the project

1. Institutional arrangement

- 3.7 The core of the project is the existence, operation and consolidation of the Centro Asesor de Nuevas Empresas [Advisory Center for New Businesses] (CANE), which was designed and organized specifically for the purpose of encouraging and offering an enabling environment and creative climate. CANE assists prospective entrepreneurs who meet the requirements for and are interested in creating, resituating or expanding a small goods- or services-producing business, by providing them with all the guidance and support they need in designing and developing their business proposals and bringing them to fruition.
- 3.8 CANE is an independent entity headed by an Executive Director, who is responsible for its pursuit of its stated objectives and achievement of planned operating results. The Executive Director receives policy guidance from a Board of Directors made up of representatives of the leading sectors of the local economy.
- 3.9 CANE's members are professionals with extensive business experience whose familiarity with the economics of business enables them to offer prospective entrepreneurs advice on a wide variety of subjects (organizational, technical, financial, commercial, and so

5/ For purposes of this project, self-employment is understood to be a productive activity engaged in by an individual on the basis of his or her knowledge, abilities and skills in regard to a particular occupation or trade, without the assistance of third parties. A microenterprise is understood to be a productive unit which is very small in terms of capital, number of workers and sales volume, with fairly rudimentary technology and organization, and which is managed by the owners, who run the business and for whom the latter is the principal means of support. There is very little division of labor in microenterprises, and they have few hired personnel, resorting frequently to the work of family members. Their profitability is low, but they are capable of coming close to the operational break-even point, which means that there is a certain possibility of their eventually accumulating some capital and building up to a level of income commensurate with the investment and resources employed.

on) and to guide and support them in the design, development, and implementation of their business proposals.

- 3.10 CANE's ties to national and international business networks enhance its ability to achieve results in the economic, operational, social, commercial and institutional areas. In addition, in order to make the best possible use of its resources in the pursuit of its mandate, CANE will maintain liaison with public and private small-enterprise-support programs with a view to exchanging information with them, utilizing existing services, and securing their cooperation in the services it provides.
- 3.11 The major characteristics envisioned for CANE are as follows: (a) it will develop a core of funding sources as a means of ensuring its financial sustainability; (b) it will confine its operations to the private sector, even though its Advisory Council may include members who are representatives of the local public sector and it may maintain active contact and steady ties with public organizations and even work with them on joint initiatives; (c) it will accommodate its supply of services to the requirements, demands and expectations of small businesses; and (d) it will orient its activities - and will be evaluated - on the basis of considerations of effectiveness in the pursuit of its objectives.

2. Services to small enterprises

- 3.12 CANE provides aspiring businesspeople and small entrepreneurs with a one-stop source of needed services and comprehensive information in the areas of: (a) financing; (b) infrastructure; (c) technological support; and (d) business training. In keeping with this concept, it provides support and assistance at each successive stage in the establishment and expansion of a business.
- 3.13 CANE is analogous to a "services supermarket" in the sense that it offers its clients a number of "stalls," all under a single roof, that can provide them with a wide variety of services tailored to meet their demands, requirements, and expectations. The types of services offered by CANE include, notably, those in the categories outlined below.
- 3.14 **Technical support**, including advisory services and consultancies for the identification of sectoral scenarios, problems, opportunities and general and specific solutions for the various needs, e.g.: design of the business proposal; short-, medium- and long-range strategic planning; market studies; analysis of competitive strengths and weaknesses; assessment of information and technology and telecommunications requirements; and organization of the business from the standpoint of administrative, technical, operational, financial and legal management, etc.

3.15 **Support for access to financing**, in the form of economic and financial evaluations of business proposals; support from credit counselors; reorientation of investments to render the proposals viable; identification of potential investors; and participation in business missions in search of investment.

3.16 **Entrepreneurial development** of aspiring businesspeople and entrepreneurs by providing them with general and specific training to give them broader and better knowledge of the technical requirements and demands of competitive and complex markets and how to meet them.

3.17 **Business infrastructure and networking**, through support in the following areas: business logistics, building a business network, development of "tailor-made" programs for entrepreneurial groups; and development of programs for insertion in the framework of regional and global markets: MERCOSUR, Andean Pact, European Union, etc.

3. The advisory process

3.18 The starting point for the advisory process is the definition of a business in terms of three basic concepts: the idea, which should lead to the production of a product or service for which demand exists; the profile of the entrepreneur, who should be a person combining the qualities of boldness, ambition, responsibility and tenacity with a willingness to work hard and a steadfast conviction that he or she wishes to become an

ADVISORY PROCESS

Receipt: Completion of Personal Questionnaire

Orientation: Completion of Intake Form and initial orientation interview

Specific Advisory Services: Marketing, Legal, Sales, Foreign Trade, etc.

Calculation and Analysis of the Company's Breakeven Point:

Up to this point, there are many applicants coming in who had mistakenly believed that their project or business was a profit-making venture or could operate at a profit some time in the future. Here is where a valuable service is provided to them by saving them the money they would inevitably lose by investing in a non-viable business.

If the operation is viable, a business plan is prepared: Such a plan shows the economic, financial and net-worth situation that the company must have in order to turn a reasonable profit. It is prepared solely on the basis of data supplied by the client. Monthly comparison of the plan with actual events in the company make it possible to determine where they deviate.

If the operation is not feasible, the project is discarded and the advisory services are discontinued.

Monitoring: Monthly verification of compliance with the estimates, variance analysis, and adjustments and recommendations. This methodology allows the small entrepreneur to correct any decision he or she has made on a timely basis, since it helps to detect problems immediately and not when it is too late.

entrepreneur; and the market, which is where the project is developed and examined from every angle, in the light of conditions prevailing in the particular market segment in which the business would operate. The project is open to all and public; there is no connection with or interest in extending privileged treatment to firms associated with Banco Mayo.

- 3.19 The comprehensive advisory services cover every aspect of the small entrepreneur's activity, and continuity is ensured by the follow-up and monitoring of the business plan for three years.

4. Transferability of the experience

- 3.20 There are expectations as to the importance of the CANE methodology and the need to strengthen it so that it can be used effectively and the experience gained will be replicable in the country and elsewhere in the region.
- 3.21 CANE plans to transfer methodology to other localities in the country, either by creating new CANEs or by selecting institutions (NGOs) meeting requirements such as: (a) urban service areas suited to the development of enterprises to operate on a regional or international scale; (b) an adequate supply of labor and of young people with an entrepreneurial bent to enable a company to reach a level of operation high enough to make it viable and self-sustaining; (c) evidence of the existence of provisions and policies aimed at stimulating the creation of small enterprises; and (d) the presence of universities or technology centers endowed with appropriate academic and technical infrastructure which are prepared to cooperate in the promotion of business ventures.

D. Cost and financing

- 3.22 The cost of the project has been estimated at US\$5,000,000. FBM will contribute US\$2,500,000 and the MIF US\$2,500,000 on a nonreimbursable basis. A summary of the project's cost and financing follows:

ACTIVITIES	US\$000		
	FBM	MIF	TOTAL
Management of the project	1,700	530	2,230
Specialized services	300	1,120	1,420
Equipment	100	440	540
Promotion	200	100	300
Auditing, monitoring and evaluation	30	100	130
Contingencies	170	210	380
Total	2,500	2,500	5,000
%	50	50	100

- 3.23 The distribution of the cost structure will be as follows: management costs, including management, supervision and administration fees (76% FBM and 24% MIF); specialized services, including technical consultancy fees (79% MIF and 27% FBM); equipment, including computer hardware and software (81% MIF, 19% FBM).

E. Sustainability

- 3.24 According to the technical analysis of the pilot initiative (June 1996 to date), the resources allocated to the project are considered adequate for accomplishing its objective. During the project's implementation period (10 years, beginning in 1996), CANE will serve an average of 200 new clients per year, with a maximum of 600 in any one year, and each company will receive service for a period not to exceed three years.
- 3.25 CANE's skills mix and arrangements to shift work assignments will make it possible to optimize the use of human resources by recycling and reassigning people whose workload declines. For instance, the information-systems analysts to be assigned at first to strengthening CANE's own information systems would later provide support to clients with these services.
- 3.26 It is anticipated that before the end of year 3, when the project is expected to be operating at full capacity, the monitoring unit will be staffed by an average of 12 officers, each handling an average of 50 clients in addition to reviewing new applications.
- 3.27 The annual cost of the project will be constant over the 10-year life of the project. During the first two years, funding will be allocated for developing and training human resources of CANE, for promoting its services and for strengthening CANE. The number of clients served per year is to be increased in year 1 to 200, in

year 2 to 400 and in year 3 to 600, which is the maximum number of clients to be served in subsequent years.

- 3.28 The variable cost, which comes to US\$1,000,000, will be funded from other sources. According to the plans for this project, it would be possible to collect as much as 54% of that amount from the clients. ^{6/} The balance (46%) would be funded out of government contributions already being arranged by FBM/CANE. The national government contributed financial resources in 1996, and FBM/CANE anticipates receiving even stronger support in 1997 and later years.
- 3.29 In the event that the government does not support the program, FBM has undertaken to provide an amount equivalent to the grant. The MIF would support the initial consolidation of CANE and provide the necessary elements for its take-off over the first three years, during which the number of clients and fee revenues will be increasing progressively.

F. Execution

- 3.30 Mayo Bank Foundation/CANE, as executing agency for the project, will conduct it in accordance with the plans, rules, specifications, investment schedule, budgets and other documents that the Bank approves and will also be responsible for performance of all the contractual obligations agreed upon with the Bank.

1. Execution and disbursement periods

- 3.31 The project will be executed over a period of 36 months, and the MIF grant funds will be disbursed over 42 months.

2. Procurement of goods and services

- 3.32 Pursuant to Bank policy, FBM/CANE will adhere to the Bank's rules governing the appropriate use of grant resources, eligibility (MIF member countries), and principles of economy and efficiency in all matters pertaining to the procurement of equipment. FBM/CANE must use a competitive procedure which ensures procurement at market prices so that the costs will conform to the project's requirements.
- 3.33 In selecting and hiring consultants, the Bank's procedures are to be followed, and due care shall be taken to hire only consultants who are nationals of countries eligible for MIF financing. FBM/CANE may not introduce, in the selection procedures it agrees upon with the Bank, any provision or condition such as would

^{6/} Client fee revenues planned (and in effect) are US\$500 the first year, US\$1,000 the second year, and US\$1,200 the third year.

restrict or preclude the participation of consultants from MIF-eligible countries.

- 3.34 The Bank must be apprised of the procedures to be followed in selecting and hiring the consultants who are to provide advisory services to the small businesses; nevertheless, given the ~~individual amounts involved, the number and short duration~~ of the consultancies and the speed with which the consultants must be selected and hired, FBM/CANE will reach an arrangement with the Bank whereby the Bank will participate in the consultant-selection process via an ex post review, to which end FBM/CANE will keep the records documenting the procedure at the Bank's disposal for its review.
- 3.35 Inasmuch as CANE commenced operations in May of 1996, the senior positions such as those of Director, Deputy Director and supervisors of information processing, business operations and monitoring have already been filled, on the basis of unrestricted and public hiring operations in which procedures substantially similar to those to be required in the agreement were followed. These operations are duly documented and were reviewed by the Bank's analysis mission.

3. Disbursement arrangements

- 3.36 As conditions precedent to the first disbursement, the FBM is to present to the Bank: (a) the name(s) of the person(s) authorized to represent the FBM in acts pertaining to the execution of the project; (b) evidence that a separate account has been opened as a repository for the grant funds; and (c) the chart of accounts in which it will keep proper records of expenditures of project funds and the other funds to be contributed for its execution. The records should be kept in sufficient detail to identify the use of the funds, the progress in execution, and the cost of the project.
- 3.37 Once the conditions precedent to the first disbursement have been met, the Bank may make an advance of funds from the contribution for the establishment, increase or replenishment of a revolving fund of up to 10% of the contribution, provided that the need to advance funds to cover eligible project-related costs has been duly shown.

4. Accounting and auditing

- 3.38 Within 120 days following the end of each fiscal year of the FBM, beginning with the fiscal year in which disbursements from the contribution began to be made and continuing for a period of five years, the FBM shall present to the Bank: (a) three copies of its basic financial statement and; (b) three copies of the annual statement of source and use of funds from the contribution showing the funds received, how expended, and the balance remaining in the revolving fund for project costs.

- 3.39 The financial statements and information referred to in the previous paragraph are to be accompanied by the opinion of a firm of independent public accountants or an independent public accountant acceptable to the Bank, in accordance with requirements satisfactory to the Bank and submitted by the deadlines mentioned above. The FBM will authorize the firm of independent public accountants or the independent public accountant to provide the Bank with any additional information the Bank may reasonably request with respect to the project and the financial condition of the FBM.

5. Environmental and social impact

- 3.40 The Committee on Environment and Social Impact considered this operation at meeting TRG28/97 of August 15, 1997, and recommended: (a) that it be specified in the final proposal that the operation is targeted exclusively to small enterprises; (b) that issues of social impact, gender, health and occupational safety be taken into account and measures considered; and (c) that, whenever it is possible and relevant, the transfer of "clean" technologies and considerations associated with ISO 9000 and ISO 14000 certification be taken into account. Whenever possible, sustainability criteria based on efficiency and loss reduction should also be considered and applied. The final proposal should include also: (d) a description of the current experience of CANE vis-à-vis women entrepreneurs and its future plans in this field; and (e) an explanation of the criteria to be followed for the geographic expansion of CANE.
- 3.41 The FBM will place particular emphasis on the sustainability of development and on environmental aspects. In the first place, in performing the diagnoses special importance will be attached to environmental considerations, efficiency in the use of resources, and occupational safety. These aspects will form part of the monitoring and evaluation process.

6. Participation of women

- 3.42 The FBM has experience in efforts to improve the level of women's participation in various socioeconomic activities. FBM/CANE has conducted training activities and orientation programs for women who own and run small businesses.
- 3.43 It has been noted that while the participation of women in small businesses is significant in terms of the number of women who work in them, close to 60% who do so are helping their husbands, and only 17% appear as owners.
- 3.44 This project will contribute, through the FBM's women's program, to the strengthening of mechanisms for improving the level of women's participation in various entrepreneurial activities, taking into account the unmet demand as regards specific needs of women

entrepreneurs within a context of cooperation in an entrepreneurial environment of emerging and reconfigured small businesses.

7. Progress reports

- 3.45 Within 60 days of the end of each calendar half-year, or within such other period as the parties may expressly agree upon, the FBM shall present to the Bank a progress report that makes it possible to assess the progress of the grant-funded activities and the relationship to the monies expended. The last such report, subsequent to the date of the last disbursement from the contribution, will constitute the final report and indicate the results of the project.
- 3.46 The reports must contain, as a minimum, information on: (a) quality and attainment of the project's objectives (*indicate targets attained and related qualitative aspects, using the prescribed benchmarks*); (b) cost of the project (*by sources of financing; describe the status of implementation and any changes anticipated*); (c) progressive recovery of variable costs (*extent of progress*); (d) status of overall implementation (*identify problems and actual causes, including cases in which a need is found to reformulate the project; prospective progress and future risks*); (e) progress (*for each activity: indicate the number of events, the number of participants, the percentage of satisfied participants, the geographic distribution, and the number of women participants*); promotion, information service, training service, and technical assistance service; (f) procurement of goods (*purchases made, modality, goods acquired, origin of the goods, individual cost*); and (g) hiring of consultants (*individual consultants, consulting firms, selection procedure, nationality, specialty, purpose for which hired, cost of each of the services*).

IV. PROJECT MONITORING AND EVALUATION

A. Monitoring

- 4.1 The elements for the execution, monitoring and evaluation of the project are shown in the Logical Framework in Annex II to this project memorandum.
- 4.2 The characteristics of the project, together with the need to adapt its execution to evolving small-enterprise demands and to requirements for applying the methodology, suggest the need for intensive monitoring. The monitoring will be headed up by the Bank through its office in Argentina and through the inspection and supervision activities normally carried out in connection with ongoing projects. The principal instruments for monitoring the project will be the progress reports (see paragraphs 3.45 and 3.46)

to be prepared and submitted to the Bank by the FBM, and the findings of evaluations provided for under the project, which are outlined in the following paragraphs.

B. Evaluation

- 4.3 The project calls for three evaluations, all to be performed by outside consultants, the first to be conducted 12 months after the date of signature of the agreement, the second 24 months after that date, and the third after the 30th month of implementation. The FBM will contract for the services of outside consultants to perform these evaluations in accordance with terms of reference previously agreed upon with the Bank.
- 4.4 The evaluations will take into account the information received from the FBM under the reporting system provided for. These external evaluations will assess: (a) the operation of CANE; (b) type of beneficiary enterprises, by status (new or converted), and line of business; (c) the quality of the services offered, based on an analysis of the levels of productivity and competitiveness reached by the enterprises and an effort to determine the users' level of satisfaction with those services; and (d) the extent of achievement of the objectives with respect to the fees to be paid by clients and their contribution to the financial sustainability of the activities.
- 4.5 If the findings of these evaluation are satisfactory to the Bank, the Bank will authorize the FBM to continue the commitment of project funds. If not, the FBM will be required to make the necessary adjustments before the Bank authorizes a resumption of disbursements.

V. FEASIBILITY, BENEFITS AND RISKS

A. Feasibility

- 5.1 Factors that could have various impacts on this project were analyzed, and it was concluded that the project is feasible. As previously mentioned, the methodology has been studied from the feasibility standpoint and, in fact, has already been implemented with satisfactory results. The institution is operating as had been envisaged; the demand for services was demonstrated before the creation of CANE and is already being met; and CANE is coordinating its activities with those of other suppliers of services to small businesses. The feasibility of the proposed project is further strengthened by the consistency of its objectives with the basic thrust of the micro-, small- and medium-enterprise development policies envisaged in the development strategy of the present Argentine government.

B. Benefits

- 5.2 This project seeks to: (a) consolidate a methodology and an institutional mechanism to offer services to new and converted small businesses; (b) promote new entrepreneurs by supporting the implementation of their business proposals under highly competitive conditions; ~~-(c) promote substantial improvements in the performance of existing small businesses through their conversion;~~ (d) provide increased employment opportunities for the labor force; (e) foster increased productive, economic and social activity; (f) promote a spirit of entrepreneurial solidarity and cooperation to help transform the economy; and (g) institutionally strengthen enterprises associated with the project.

C. Risks

- 5.3 The project team has made a careful analysis of the proposed operation and the factors that could affect its execution, and affirms that it has not identified any risks or obstacles to either the implementation or the sustainability of the operation. Reasonable assumptions have been made with respect to the demand for services and to bringing the charges therefor progressively closer to their operating costs and market prices, so that the mechanism becomes financially self-sustainable over time. In addition, the project can be rescaled to improve it if necessary.

**DIFFERENCES BETWEEN THE CANE PROJECT AND OTHER IDB/MIF
OPERATIONS IN ARGENTINA**

PROJECT	OBJECTIVE	SCOPE OF ACTIVITY	BENEFICIARIES
AR0144 — Business Development Support Program. Ministry of Economic Affairs and Public Works and Services.	Improve the competitiveness of small and medium-scale enterprises through access to specialized support services and stimulate the market for services to small and medium-sized businesses.	National	2,500 duly established small and medium businesses with the requisite capability and financial resources to be able to apply the matching grant envisaged.
Network of Business Service Centers. UIA.	Generate a dynamic development process for small businesses through an expansion of the market for business services commensurate with demand.	Rafaela, Mar del Plata, Paraná and San Rafael.	3,500 existing small businesses.
Program of Assistance to Small Farmers. FAA.	Contribute to improvement of the business administration skills and competitiveness of small farmers.	Córdoba, Cuyo and La Pampa Húmeda.	10,000 current small farmers.
Microenterprise Support Services Program. CGE.	Improve the competitiveness of microenterprises.	Mendoza and La Plata.	1,000 established microenterprises.
This project: Support Center for New Businesses. FBM.	Support the creation or reconfiguration of small businesses in high-added-value sectors.	Buenos Aires.	Creation and reconfiguration of up to 600 small enterprises per year.

LOGICAL FRAMEWORK

OBJECTIVES	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
creation, maintenance and t of competitive small thereby contributing to growth ic development in Argentina ansion of employment.	The project seeks to generate and sustain approximately 90,000 jobs over 10 years (1997-2006) at a cost of approximately US\$500 per job created and sustained.	<ul style="list-style-type: none"> Findings of the second and third evaluations. Final report on execution of the project. Sampling surveys. 	The project will continue in opera 10 years envisaged and its servic continue to target small businessse
creation of new ventures in dded sectors and increase the employment opportunities. preneurs who wish to convert ises reorganizing their activities ing them toward new lines of he presence of an organization acilitating the access of new repreneurs to technical and services.	<ul style="list-style-type: none"> New CANE clients will be limited to 200 per year, with a ceiling of 600 enterprises per year to be served. The enterprises admitted each year will continue their association with CANE for a period of up to three years. Fees from clients (US\$540,000 per year) will be collected in accordance with the following schedule: US\$500 (Year 1), US\$1,000 (Year 2), US\$1,200 (Year 3). The project seeks to generate approximately 38,000 new jobs and maintain 52,000 jobs over its 10 years of life. 	<ul style="list-style-type: none"> Three project evaluations Semiannual progress reports Sampling surveys 	<ul style="list-style-type: none"> There is demand for the service CANE will be consolidated The schedule of fees will be op The support of Banco Mayo will continued
S: assistance	Business plans for each business admitted to CANE: 200 per year, with a ceiling of 600 businesses to be served per year.	<ul style="list-style-type: none"> Three evaluations of the project Semiannual progress reports Sampling surveys 	
it of business plans vices	FBM contribution US\$2,500,000 MIF contribution US\$2,500,000 TOTAL US\$5,000,000	<ul style="list-style-type: none"> Disbursements Semiannual progress reports Accounting records and special account Audited financial statements 	

PROPOSED RESOLUTION

ARGENTINA. ATN/ NONREIMBURSABLE TECHNICAL COOPERATION FOR THE
CENTRO ASESOR DE NUEVAS EMPRESAS

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 Banco Mayo of the Republic of Argentina and to take such additional measures as may be pertinent for the execution of the proposed memorandum referred to in Document MIF/AT- with respect to a technical cooperation project for the support of the creation of new enterprises.
2. That up to the amount of US\$2,500,000, 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.
3. That the above-mentioned sum is to be provided on a nonreimbursable basis.