

MICROENTERPRISE SUPPORT SERVICES PROGRAM

(TC-95-01-41-3)

EXECUTIVE SUMMARY

EXECUTING AGENCY: Confederación General Económica (CGE).

FINANCING:	Beneficiaries:	US\$ 600,000
	MIF:	US\$1,900,000
	Total:	<u>US\$2,500,000</u>

IMPLEMENTATION	Execution period:	36 months
SCHEDULE:	Disbursement period:	36 months

ENVIRONMENTAL CLASSIFICATION: The Environment Committee, at its meeting of June 25, 1996, classified this as a Category II operation.

DATE OF MIF PROFILE: November 2, 1994.

BENEFICIARIES: Microenterprises in the cities of La Plata and Mendoza.

OBJECTIVES: The overall objective is to improve the competitiveness of microenterprises producing goods and services in the cities of Mendoza and La Plata, and in the surrounding areas.

DESCRIPTION: The meet this objective the program will provide a range of services organized into three components:

(a) Training in business management and administrative support: This component will include instruction in both business planning and support services for new microentrepreneurs. Training in administrative support services will focus on strengthening the management structure of microenterprises, seeking to reduce costs and boost output. Both areas are to be covered in courses and seminars. In addition, technical assistance will be provided in financial matters and taxes, and the interpretation of laws and regulations.

(b) Support for production and marketing: Technical assistance will be provided to eliminate or minimize obstacles to competitiveness by supplying information on new technology, technical advice on aspects affecting productivity and ways of mitigating adverse environmental effects, and assistance with efforts to improve marketing mechanisms and develop sector marketing plans.

(c) Promotional activities and public awareness: Promotional activities will be carried out in order to advertise the services that the program offers microentrepreneurs, through brochures, public announcements and press releases, and visits to enterprises.

BENEFITS:

The main benefits of the program will be to:

(a) Improve the competitive position of urban microenterprises by improving their productive potential and technical capacity.

(b) Augment business management services to meet demand and ensure that these services are more effective and accessible to urban microenterprises.

RISKS:

The main risk, that of insufficient response on the part of microentrepreneurs, will be overcome through promotional activities and by reviewing the program at regular intervals in order to analyze the results obtained and make the changes necessary to achieve its objectives.

**THE BANK'S
COUNTRY STRATEGY:**

This program is consistent with the Bank's strategy for Argentina which seeks - among other basic priorities - to increase the productivity and competitiveness of the country's tradable goods by providing support infrastructure and activities which promote modernization of its manufacturing base and regional integration, using an approach that stresses protection of the environment.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

As a condition precedent to the first disbursement of funds, the director of the program must have been appointed (paragraph 4.5). In addition, the respective technical cooperation agreement must contain provisions to ensure adequate planning and supervision (paragraph 4.25); compliance with the Bank's policy on the procurement of goods (paragraph 4.12) and the contracting of consulting services (paragraph 4.14); submission of audited financial statements (paragraph 4.11); and evaluation of the program (paragraph 4.26 and following).

I. ELIGIBILITY OF THE COUNTRY FOR FUNDING

- 1.1 On November 30, 1993, the Donors Committee declared the Argentine Republic eligible for all forms of financing available under the Multilateral Investment Fund (MIF).

II. FRAME OF REFERENCE

A. Background

- 2.1 With the advent of globalization and economic openness, the competitiveness of enterprises has become increasingly important, whatever the size of a country's productive sector. And these circumstances are being felt across the entire economy, the difference being that while the larger companies have the capacity to develop methods and strategies internally, smaller firms lack sufficient human and financial resources and must find suitable sources of outside expertise to assist them. Obtaining access to such services will enable them to begin the process of restructuring and transforming their production systems with a view to enhancing competitive advantages and overcoming limitations.
- 2.2 The programs under which these services are provided, whether publicly funded or offered by private firms, are designed not only to increase the supply of such services, but also to stimulate demand through activities that raise awareness of their strategic importance in helping businesses to achieve efficient utilization of resources and improve their competitive position.
- 2.3 Argentina is generally lacking in programs of the sort needed to meet the specific needs of microenterprises. Developing a cooperation program to satisfy these needs will help strengthen these enterprises through joint activities aimed at improving their productivity and competitiveness, and helping to reduce the present high rate of unemployment.

B. Definition and characteristics of microenterprises in Argentina

- 2.4 Argentine law establishes certain benefits for small and medium-sized businesses, but makes no specific mention of microenterprises.
- 2.5 For the purposes of this program, microenterprises are defined as industrial or commercial establishments with up to five employees. However, this definition will be applied with some flexibility, taking into account the qualitative features that microenterprises have in common as indicated below.

- 2.6 Microenterprises constitute a significant part of Argentina's manufacturing sector, both as a share of the total number of establishments and in terms of the amount of employment generated. The National Economic Census of 1994 found that Argentina had 69,057 industrial firms employing less than five persons, accounting for 71.6% of the total and 15.5% of manufacturing jobs. In addition, the number of establishments of this size in the commercial or service sector of the Argentine economy totalled 867,600, accounting for some 92.8% of firms and 49.9% of jobs in the sector.
- 2.7 Surveys taken by the Argentine Bureau of Statistics and Censuses (INDEC) define microenterprises as technically-backward "de facto companies" run largely by unqualified personnel with little in the way of business organization. As well, these firms frequently turn to the informal employment market, hiring unlicensed workers who are paid under the table without deducting for taxes or paying employee benefits. Most are short-lived economic units which disappear after a brief life span, although some manage to undergo a strengthening process which enables them to evolve into the formal sector where they join the ranks of Argentina's small and medium-sized companies.
- 2.8 INDEC reports that microenterprises typically produce for the local or regional market only, with little or no experience working together with other firms in joint operations such as subcontracting arrangements or the formation of consortiums.

C. Confederación General Económica (CGE)

- 2.9 Confederación General Económica (CGE) will be the Bank's counterpart in Argentina, acting as executing agency for the program. The CGE is a nonprofit trade association founded on May 26, 1950; its members are mainly small and medium-sized businesses and it is highly influential in the regional economy. Drawn from all parts of Argentina, its membership includes: (i) national producer, manufacturing, commercial and service associations (205 entities); (ii) provincial associations and organizations in the national capital region (649 entities); and (iii) specific national boards of trade and associations (320 entities).
- 2.10 The purpose of the CGE is to protect the interests of producers, manufacturers, and business, primarily by developing, promoting and assisting small and medium-sized businesses.
- 2.11 In addition to this overall mandate, it also provides member associations and boards of trade with information services and advice on legislation, labor matters, etc. The CGE's Economic Research Institute takes the nation's economic pulse at regular intervals, proposes regional development projects and economic plans, and conducts special studies.

- 2.12 The Federación Económica in the city of Mendoza, and the Confederación Económica de la Provincia de Buenos Aires in La Plata, capital of Buenos Aires province, have a great deal of experience with activities in manufacturing and business services. These two entities, members of the CGE, will carry out the program at the regional level and provide the local counterpart contribution required for its execution.

D. Limitations and advantages of microenterprises

- 2.13 Microenterprises share a number of features relating to market access and various aspects of business management which limit opportunities for their development, regardless of the particular area of production or services in which they operate.
- 2.14 Market access by microenterprises is limited, among other things, by: (a) low productivity and lack of competitiveness; (b) the high cost of their inputs and services owing to the small volume of purchases in both areas; (c) the risks inherent in reliance on a single purchaser or one major customer; (d) lack of training to meet rising quality and design standards resulting from rapidly changing demand; (e) difficulties in obtaining loans from the formal sector; and (f) a failure to form producer and marketing associations or other types of cooperative groups with businesses in the same sector.
- 2.15 In the area of business administration, microenterprises have difficulty obtaining the information, training and technical assistance required to achieve efficient management. Specifically, they need help in organizing their business and production processes, as well as in areas such as costs, quality, productivity, worker training, product design, after-sales service, packaging, marketing, financial management and taxes.
- 2.16 Nevertheless, microenterprises offer advantages as well, including the fact that they: (a) require little investment per unit of output; (b) can be set up easily and almost anywhere owing to the small size of their production facilities, the wide range of products and services they generate, and their use of local inputs; (c) are very flexible in adapting to changes in market demand and in meeting specific requirements or providing made-to-order services; (d) have employees who are familiar with virtually all aspects of the business and its functions, making it easy to replace or fill-in for absent staff; and (e) are free of bureaucratic hangups, allowing rapid decision-making that contributes to the overall flexibility of the company.

E. Nonfinancial services for microenterprises: supply and demand

- 2.17 The need for nonfinancial services in the areas dealt with here have been identified and evaluated in several documents prepared especially for this program. A series of meetings held in 1994 as part of the "Provincial Microenterprise Program" and attended by

operators of microenterprises in the province of Buenos Aires provided important conclusions along with an opportunity to meet with and survey microentrepreneurs from the area where the program will be carried out.

2.18 The results of this survey confirmed the conclusions reached in the above-mentioned documents, particularly the interest of microentrepreneurs in obtaining nonfinancial services of the types proposed under this program, including training, information and advice on various topics, along with technical support for production, administration and marketing. Finally, the individuals surveyed asked that needs be identified in areas other than finance as well.

2.19 The results of this survey are given below in terms of the approval rating received by each of the proposed services:

(a) Management training: 71%

(b) Information and advisory services:

(i) Business	89%
(ii) Legal matters	50%
(iii) Taxation	75%
(iv) Legislation governing microenterprises	100%

(c) Credit and loan facilities:

(i) Financial services available	96%
(ii) Preparing loan documentation	69%

(d) Support for production:

(i) Diagnostic study	64%
(ii) Technical support and technology	64%

(e) Administrative support:

(i) Payroll management	39%
(ii) Tax management	32%
(iii) Fax services	14%

2.20 The survey respondents identified other services in addition to those listed above, including the formation of consortiums, the possibility of sending trade missions to other parts of the country, and the creation of a data base containing information of interest to microentrepreneurs.

2.21 Using this information, a proposal for activities to be carried out under this program was drawn up and eventually revised on the basis of meetings with a representative sampling of potential beneficiaries.

- 2.22 Services available to this type of firm in the areas to be covered by the present program are inadequate, among other reasons because they tend to be offered by experts or emerge from private consulting studies that focus on large or medium-sized firms, affecting the methods used and the fees charged for their services. Meanwhile, public agencies, boards of trade and technical foundations offer only some basic and general services such as management-related training.
- 2.23 There are various reasons why the needs of specialized business services in Argentina are not based on effective demand by microentrepreneurs, owing to difficulties in:
- (a) Identifying the needs of microenterprises (primarily because no one knows how to assess the value of the benefits that will derive from use of support services).
 - (b) Identifying suitable providers of nonfinancial services that are affordable and that use methods geared to microenterprises.
 - (c) Implementing the recommendations produced as a result of diagnostic studies and technical assistance.

F. Rationale for the program

- 2.24 It is clear, then, that in the areas where the program will be carried out there is both potential demand for nonfinancial services for microenterprise, and insufficient services specifically geared to meeting this requirement. It is also clear that given the demand for ever-greater productivity and competitiveness, the development needs of microenterprise will grow substantially, further expanding the need for business services in a market where they are already in short supply, and considerably impeding present and future development of microenterprises.
- 2.25 Therefore, as well as ensuring the availability of nonfinancial services tailored to their needs, it will be necessary at the same time to promote the use of specialized institutional support for microenterprise. This program is designed to reduce these constraints through the introduction of a number of **microenterprise support services**.
- 2.26 This program will also afford an opportunity for microentrepreneurs to take part in group activities aimed at overcoming their common problems, thereby improving productivity and competitiveness. The ability to obtain consulting services at lower cost due to economies of scale will provide access to an entire segment of firms that could not afford such services individually.
- 2.27 This program is consistent with the Bank's strategy for Argentina which seeks - among other basic priorities - to increase the productivity and competitiveness of the country's tradable goods by

providing support infrastructure and activities which promote modernization of its manufacturing base and regional integration, while using an approach that stresses protection of the environment.

- 2.28 In addition, this program will provide supplementary support for other projects being carried out by the IDB in Argentina, such as the global credit program for small business and microenterprise, the program for modernization of the productive sector and the small projects financing facilities, all of which help to cover the financial needs of microenterprises. The present program will also increase the effectiveness of the MIF's program of business development centers for small and medium-sized enterprises and its program of support for small-scale agricultural producers, which have as their local counterparts the Unión Industrial Argentina and the Federación Agraria Argentina, respectively.

III. THE PROGRAM

A. Objective

- 3.1 The overall objective of the program is to improve the competitiveness of microenterprises producing goods and services in the cities of Mendoza and La Plata, and in their areas of influence.
- 3.2 The specific objectives of the program are to:
- (a) support the development of microenterprises by promoting business activities of a collaborative nature,
 - (b) provide technical cooperation for the preparation of projects for production and service, and recommend potential sources of funding,
 - (c) conduct training programs,
 - (d) set up ongoing and accessible information services, and
 - (e) strengthen business organizations linking microenterprises in the program area by having them participate directly in this program.
- 3.3 To achieve the desired objectives, the program will encourage coordination of activities among microenterprises in areas of common interest, sponsor training in management skills and provide up-to-date information on topics of mutual concern to microentrepreneurs, together with consultations on specific problems and appropriate technical assistance.

B. Program area

- 3.4 As mentioned earlier, the program will be carried out in specific areas selected because they contain sufficient numbers of microenterprises to support their operational aspects and ensure that they are self-supporting within well-defined geographical limits, as well as counterpart local business associations interested in strengthening microenterprises to boost competitiveness and productivity. The selection of these areas was based on the following criteria. There needed to be: (a) sufficient potential demand for the services and a very real possibility that these would help overcome low profitability and market access difficulties; (b) dynamic business groups; (c) adequate institutional structures in place; (d) productive infrastructure lending itself to reorganization; (e) production areas with difficulties in the processing or marketing of products, natural resource management and/or adjusting to demand; (f) integrated production through agroindustrial cooperatives, but with limited technology; and (g) geographical and environmental conditions that were varied enough to permit replication in other parts of the country. Another factor taken into account was the existence of universities and recognized centers of technology interested in cooperating with the business sector in the pursuit of the program's objectives.
- 3.5 After analyzing various regions based on these criteria, the CGE proposed that regional headquarters for the program be located in: (a) Mendoza, including the capital city of this province and the departments of Las Heras, Lavalle, Guaymallén, Godoy Cruz, Maipú, Luján de Cuyo, Junín, La Paz, Rivadavia, San Martín, Santa Rosa, Tunuyán, Tupungato and San Carlos; and (b) La Plata, including the entire capital of the province of Buenos Aires and the districts of Berisso and Ensenada.

C. Beneficiaries

- 3.6 The beneficiaries of this program will be urban microenterprises that engage in production and commercial operations within the geographical areas indicated above.
- 3.7 As reported in the National Economic Census of 1994, 64% of the provincial population lives in Mendoza and the surrounding area, and 91.8% of their commercial establishments are either microenterprises or small businesses with no more than five employees -- some 3,300 of which are manufacturing firms. Meanwhile, La Plata and the area it serves have over 900 industrial microenterprises.
- 3.8 These figures do not include the many microenterprises in the service or trade sectors, which represent further significant demand.

D. Program activities

3.9 The components required to achieve the objectives proposed under the program are as follows:

1. Training in business management and support services

3.10 The business management training and administrative support services provided under the program are designed to meet sectoral and general training needs by:

- providing a number of management and technical training services of a general nature.
- organizing sectoral seminars to be given by national and local specialists familiar with the microentrepreneurs' activities, with the objective of solving common problems affecting their productivity and competitiveness.
- offering support for new microentrepreneurs in the form of training workshops and technical and financial assistance.

3.11 The administrative support services are intended to improve the efficiency of the administrative organization within microenterprises, reduce costs and improve their operations. Support will be provided as well so that microenterprises can move up to the formal economy, through advice on the handling of financial tax matters, and the interpretation of laws and regulations.

2. Support for production and marketing

3.12 This component consists of technical assistance to eliminate or reduce obstacles to competitiveness, including:

- Technical assistance on various aspects of production such as the procurement of machinery and equipment, management of technology, keeping up to date on processes and products, design and quality, etc. Information on new technology now available.
- Advice on mitigating the environmental impact of production methods and ensuring compliance with environmental standards.
- Technical assistance on distribution channels and sector marketing plans aimed at expanding beyond local or regional markets.
- Advice on creating cooperative arrangements whereby microenterprises such as in forming associations for bulk purchase of inputs and/or joint marketing of their products.

- Information on business opportunities and the holding of trade meetings with microenterprises from other cities.
- Access to subcontracting markets.

3. Promotional activities and public awareness

3.13 The promotional component of the program will include the distribution of brochures, public announcements and press releases, along with visits to enterprises to publicize the following services that will be offered for microenterprises:

- Access to a database containing information on economic sectors and subsectors, and topics specifically of interest to microenterprises, such as information on the supply and demand for goods and services, and cooperation among firms. This data base will make it possible to mount trade missions, provide access to subcontracting markets and so forth.
- Conducting of individual diagnostic studies of firms to identify possible problems in providing services and to assist in finding solutions.

E. Desired results

3.14 The program is expected to achieve the following aims in the areas affected:

- (a) Create greater demand for and improve the quality of nonfinancial services specifically aimed at microentrepreneurs.
- (b) Help microentrepreneurs become more competitive by providing technical assistance on production processes and marketing for some 640 firms, training for 2,000 individuals, and administrative and technical support for 350 firms; and by organizing trade meetings for a total of 280 enterprises (see Annex I - Planning).
- (c) Encourage participation by microentrepreneurs in cooperative ventures.
- (d) Ensure that business services provided through the program have raised quality and contributed to greater satisfaction on the part of beneficiaries.
- (e) Strengthen local trade associations and encourage a significant number of microentrepreneurs to join them.

F. Costs and financing

3.15 The cost of the program will total US\$2.5 million, of which US\$1.9 million will be in the form of nonreimbursable MIF funding,

plus the CGE's local counterpart contribution of US\$600,000. Following is a summary of costs and financing for the program. Annex I contains budget details according to the Bank's technical cooperation categories.

TABLE 1: PROGRAM BUDGET

CATEGORIES	MIF	CGE	TOTAL	%
1. Nonfinancial services	1,478,500	273,600	1,752,100	70.1
2. Organization of services	307,500	303,000	610,500	24.4
3. Auditing, evaluation and contingencies	114,000	23,400	137,400	5.5
TOTAL	1,900,000	600,000	2,500,000	100.00

3.16 The nonreimbursable nature of the technical-cooperation funding to be provided for this program is justified for the following reasons:

- (a) The funds will be used to assist a segment of private enterprise which faces enormous difficulty in improving competitiveness, and which currently lacks access to outside services for upgrading operations.
- (b) The MIF will provide part of the funding for the program, and the local trade associations will act as counterpart agencies, thereby sharing the risks.
- (c) Support will be used to develop nonfinancial services for microenterprises, while at the same time promoting demand on the part of firms for such services, thus helping to ensure the continuity of the program once the MIF's support ends.

3.17 The program will finance the following:

- (a) **Operations of the program management unit.** The MIF resources will be used to pay the professional fees of the director, one senior consultant and a technical expert responsible for budgeting tasks and arranging for short-term consultants; counterpart funding will be used to pay administrative staff. Other overhead costs will be shared by both sides, with those closely involved with operations (communications, publications) being covered by MIF resources, and support costs by the counterpart contribution.
- (b) **Operation of regional branches.** MIF resources will finance the fees of the coordinator and consultants who will carry out tasks involved in organizing and coordinating technical support on business administration and technology for the various

groups of microenterprises that share common problems. These costs will account for 100% of funding under this category in the first two years, and 50% during the third year, of the program. This will pay for the full cost of the short-term consultants needed to carry out each of the tasks required for operation of the program, including the design and implementation of the database. The counterpart funds will be used to pay administrative personnel, office space, the cost of media advertising and promotion of the program, and the overhead costs relating to legal expenses, insurance, maintenance and cleaning, bank charges, taxes and utilities.

- (c) **Advertising and promotion.** MIF resources will be used for design and printing of the initial brochure, implementation of the information system, and purchase of computer and training equipment. The counterpart resources under this category will pay for office equipment and the cost of promoting and publicizing the program through the different media.
- (d) **Auditing and evaluation of the program.** The MIF will fund regularly scheduled assessments of progress, and counterpart funding will pay for annual audits.

3.18 The rest of the components described below will be partially funded with a gradually declining proportion of program resources during the first years as they become increasingly reliant on income generated from the sale of services:

- (a) Fees for short-term consultants to provide support services for microenterprises in the areas of production and marketing.
- (b) General business administration courses and management training in specific sectors.
- (c) General operating expenses of regional branches as they relate to the administration of the program.

3.19 From the outset, the program will charge for the services it offers, except for those relating to promotional efforts aimed at attracting enterprises and diagnostic studies of microenterprises which will be fully subsidized throughout the life of the program as a means of stimulating demand for the other services. The cost of these services will be set on a promotional basis, rising gradually until the program becomes self-supporting in the fourth year. The rates were determined taking into account the cost of providing each service, market prices for similar services, and the willingness and ability of operators to pay, based on the aforementioned surveys and consultations with microentrepreneurs and trade organizations at meetings held in the regions where the program will be carried out.

- 3.20 Table 2 presents estimated income and expenditures during the life of the program and in the first year after completion, showing the phasing out of funding, which, by the fourth year, will no longer be required since the activities will be self-supporting.

TABLE 2: ESTIMATED INCOME AND EXPENDITURES

	YEAR 1	YEAR 2	YEAR 3	TOTAL	YEAR 4
<u>INCOME</u>	<u>289,600</u>	<u>520,000</u>	<u>805,400</u>	<u>1,615,000</u>	<u>970,000</u>
From sale of services	97,600	316,000	601,400	1,015,000	826,000
From CGE	192,000	204,000	204,000	600,000	144,000
<u>EXPENDITURES</u>	<u>1,051,200</u>	<u>1,225,400</u>	<u>1,238,400</u>	<u>3,515,000</u>	<u>948,600</u>
Nonfinancial services	754,900	999,600	1,012,600	2,767,100	789,600
Organization of services	250,500	180,000	180,000	610,500	144,000
Auditing, evaluation and contingencies	45,800	45,800	45,800	137,400	15,000
OPERATING INCOME (MIF CONTRIBUTION)	<u>-761,600</u>	<u>-705,400</u>	<u>-433,000</u>	<u>-1,900,000</u>	<u>21,400</u>

G. Continuity of program activities

- 3.21 The project will be carried out over a three-year period, at the end of which income is expected to cover the cost of services while the CGE will continue to underwrite other program expenses. As mentioned above, the program will utilize a funding system which calls for gradual reduction of MIF contributions in step with rising income from the sale of services. This will provide temporary incentives, whereas by the end of the program period fees will have risen to market levels to ensure continuity of the activities, including possibly expanding them to other parts of the country.
- 3.22 Beginning in the fourth year, activities will proceed at both regional branches without further MIF funding, with fees from services covering variable costs. Fixed costs, however, will continue to be paid by the trade organizations participating in the program.
- 3.23 The progress achieved under this program is expected to demonstrate the usefulness of continuing to carry out specific technical cooperation projects to assist microenterprises at the regional level, and that these efforts will serve as the basis for shaping policies aimed at strengthening the competitiveness of microenterprises in general.

IV. EXECUTION OF THE PROGRAM

A. Organization

- 4.1 Execution of this program will be the responsibility of Argentina's Confederación General Económica (CGE). In carrying out the program, the CGE will be assisted by local trade associations which will act as counterpart agencies. Under its various components, the program will offer services to all interested microenterprises whether or not they are members of participating trade associations.
- 4.2 The program will begin with a number of activities to identify the specific demands of microenterprises. Available means for supplying these demands will then be organized, through services to be offered either directly by program staff or through hired consultants.
- 4.3 The nonfinancial services desired will be introduced gradually, with fees being charged from the outset. However, to stimulate demand, speed up introduction and demonstrate their usefulness to microenterprises, the program will pay a portion of the cost of these services in the form of a gradually diminishing subsidy. The program will be reviewed periodically in the course of its execution in order to make the changes needed to ensure its continuity after MIF financial support ends.
- 4.4 The member associations of the Confederación General Económica (CGE) that will serve as counterpart agencies in the two regions in which the program will be carried out are:
 - (a) In **Mendoza**: the Federación Económica de Mendoza.
 - (b) In **La Plata**: the Confederación Económica de la Provincia de Buenos Aires.
- 4.5 The executing agency will establish a board of directors made up of the president of the CGE and three other members of the Confederation. The appointment of a director for this program will be a condition precedent to the first disbursement. The overall management of the program will be directed from the main offices of the CGE through computer links with the two regional branches, and this overall management will include organizing the regional offices, preparing common methodologies to be used in both regions, organizing their shared services, representing the program vis-à-vis the national economic and political authorities, and developing contacts with trade associations at the national and international levels.

- 4.6 The regional branches will be managed by the respective trade federations acting as local counterparts for the program, each of which will form its own **board of directors** made up of local officials. The branches may also create a **consultative body** to coordinate activities with other private and public sector agencies that can help further the aims of the program. The actions of this body will be directed by a coordinator hired in accordance with the Bank's procedures.
- 4.7 As part of the counterpart resources they provide, participating entities will be expected to provide the facilities required by the program for its operations within their existing premises. In addition, these entities will sign an agreement with the executing agency establishing the rights and responsibilities of the parties with respect to the administration and execution of the program.

B. Execution and disbursement period

- 4.8 The proposed program will be carried out over a period of 36 months, and the resources required for its execution will be disbursed over period of 36 months as well.
- 4.9 Based on estimated needs for program execution, an amount equivalent to 10% of the MIF contribution will be used to set up a revolving fund for ensuring timely access to the resources required to carry out the proposed activities. As a condition precedent to the first disbursement, the CGE must submit to the Bank for approval proof that it has opened a separate account for the deposit of the resources to be disbursed from the MIF contribution.
- 4.10 The CGE must maintain specific accounting records on the program, which are to be kept separate from the other accounts of the CGE. For accounting purposes, and as a condition precedent to the first disbursement, the CGE must submit to the Bank for approval an accounting plan or chart of accounts in which all transactions financed by the MIF contribution, local counterpart and income earned under the program will be recorded separately.
- 4.11 The CGE must prepare annual financial statements over a four-year period beginning in the year of the first disbursement. These statements must be submitted within 120 days following the end of each fiscal year, and must be audited by an external auditor or firm of external auditors acceptable to the Bank.

C. Procurement of goods and recruitment of consultants

- 4.12 The CGE must conform to the Bank's rules and procedures governing procurement, appropriate use of the MIF contribution, eligibility of goods, and the principles of economy and efficiency. The CGE must use competitive bidding with quotations on the equipment

required, in order to ensure market prices and costs suited to the needs of the program.

- 4.13 The Bank's procedures will be followed as well in the selection and hiring of consultants, taking care to ensure that contracts are awarded only to consultants who are nationals of eligible countries under the MIF. In its recruitment procedures approved by the Bank, the CGE will not be permitted to include terms or conditions that restrict or impede participation by consultants from countries eligible under the MIF. Procurement of consulting services under contracts valued at US\$200,000 or more will be done by international bidding.
- 4.14 In hiring the program director (at the international level), technical coordinators and the consultants who perform special evaluation of the program, the CGE must submit the following documentation to the Bank for approval: (a) the selection procedures; (b) the final terms of reference; (c) the names of the experts tentatively selected, indicating nationality, residence, qualifications, professional experience and other necessary requirements; and (d) the contract that will be used for the hiring of experts under Annex C of the loan contract with the Bank. After obtaining a declaration of nonobjection from the Bank, the CGE will proceed to contract with these experts.
- 4.15 In the hiring of the short-term consultants who will provide information services, training and technical assistance for small producers, the Bank will be kept informed of the process. However, given the quantity, volume, short duration and speed with which they must be recruited and hired, for contracts in amounts of less than US\$50,000, the Bank will have the option of participating in the selection process as described in the preceding paragraph, or by reviewing the process after its completion. Accordingly, the CGE must maintain and make available background material documenting the process.

D. Eligibility of potential beneficiary enterprises

- 4.16 The local associations will provide services to enterprises that meet the following requirements, among others: (a) they must be microenterprises; (b) the service requested must be one that is offered under the program; (c) the enterprise's need must be verified in a diagnostic study conducted under the program; (d) the proposed project must not have adverse environmental effects; and (e) the microenterprise in question must undertake to pay for the services received.

E. Allocation of resources

- 4.17 During the first year of its execution, the resources provided by the MIF will be distributed to the central office and the regional offices in accordance with the budget for that year.

- 4.18 In the second and third years, the resources contributed by the Bank will be distributed in order to facilitate program operations. To this end, the participating associations, in cooperation with the executing agency, must agree on a mechanism for allocating resources, and must submit the details of this mechanism to the Bank for approval by the deadline established in the agreement that the executing agency signs with the Bank.

F. Duties and responsibilities

1. Duties of the program management unit

- 4.19 The program management unit will have the following responsibilities:

- (a) To organize the regional branches, formulate the terms of reference and select coordinators.
- (b) To prepare those methodologies used by all of the regional branches, particularly in the area of evaluation. To formulate criteria for approval by outside consultants hired to provide services for the enterprises. To design a uniform model for progress reports in accordance with the Bank's standards.
- (c) To organize services that the program will offer microenterprises.
- (d) To represent the program before national financial and political institutions, gather and disseminate relevant information for use by microenterprises, and develop business contacts at the national and international levels.
- (e) To maintain relations with the Bank concerning the management of the program. To prepare the necessary semi-annual progress reports for submission to the Bank, as well as any other reports that the Bank may request concerning execution and utilization of its resources. To organize and assist with the evaluation of the program.
- (f) To fulfill all other commitments and procedures required under the agreement signed between the executing agency and the Bank.

2. Duties of the regional branches

- 4.20 The regional branches will be in charge of implementing program activities at the local level and, specifically:
- (a) Coordinate the methodological and technical aspects of all activities. Select local consultants based on criteria prepared by the program director.

- (b) Prepare the action plan and annual budgets, and submit them for consideration by the officers of the local counterpart associations and program director. Allocate the funds they receive to the various activities to be carried out under the program. Using the amounts specified in the budget tables, specific targets must be established in terms of the number of enterprises served, service requested and income generated.
 - (c) Carry out promotional activities within the business community. Make every effort to ensure an active and functional relationship between the program and the other relevant entities in the region (universities, technology foundations, municipalities, etc.).
 - (d) Promote cooperation and information exchanges with the banking sector.
- 4.21 In addition, it will be the duty of the regional branches to prepare the semi-annual progress reports which must be submitted to the program director and the Bank for consideration, by the deadlines established in the agreement signed between the executing agency and the Bank, including suggestions for expanding or altering services in line with shifts in demand or any new needs that arise. As well, they must provide support and assistance for the outside evaluations scheduled under the program.

G. Sustainable development requirements

- 4.22 The Environment Committee (CMA), at its meeting of June 25, 1996, classified this project as a Category II operation.
- 4.23 The services offered in support of microenterprises to make them more competitive call for training programs, technical assistance and help with new technology designed to make their production processes more flexible and efficient as well as an environmental component for those processes. Thus, advisory services relating to production processes will promote measures to mitigate adverse environmental effects wherever such processes might generate such effects. The progress reports concerning program execution mentioned below must include an assessment of the measures taken in this respect.

H. Activities to enhance the status of women

- 4.24 This program incorporates a number of features that should help to advance the status of women in the areas of production and business, as well as in regard to their participation in the formal labor market. One of the main characteristics of microenterprises is that they are usually family-run businesses with high participation by women. The program will include mechanisms for promoting and encouraging participation by women, and ensuring that the various activities take their needs into account.

I. Monitoring and evaluation

- 4.25 Within six months after the date on which the technical cooperation agreement takes effect, and also by September 30th of each year during the execution of the program, the CGE must prepare and submit the following documents: (a) an annual work plan indicating the projects and activities to be carried out during the year, total cost (contribution of the program and contribution from beneficiaries), and the way in which it is to be carried out; and (b) a report indicating the results of the previous year's work plan, including cost recovery and drawing attention to any problems that have arisen in the preparation and execution of that plan, and the measures taken or attempted in dealing with them.
- 4.26 The objectives of the program will be evaluated by outside consultants at regular intervals in order to measure the degree to which they have been accomplished and, where warranted, to recommend changes. Three such evaluations are envisaged: the first prior to the end of the first year, the second in the form of an interim evaluation, and the third upon completion of the program.
- 4.27 In the preparation of these evaluations, the information received from the executing agency and local counterpart associations will be taken into account, in addition to taking such other steps as may be deemed necessary in order to analyze *inter alia* the following aspects:
- (a) Degree to which program objectives have been accomplished.
 - (b) Services offered by the program and new services requested by the microenterprises.
 - (c) Number, size and activity of the microenterprises that request and use the services.
 - (d) Matrix of fees paid by users of the services and analysis of the degree to which this matches their expected contribution to program financing.
 - (e) Level of satisfaction among users, compared to general and sectoral services.
- 4.28 An analysis will be made of the impact of the program's services both at the level of the individual enterprise and in the areas of production and services in general, and must include *inter alia* consideration of quantitative and qualitative factors such as:
- (a) Estimation of the increase in production (volume and/or value) and the number of innovations introduced in production management.

- (b) The opening of new markets (domestic and foreign) and the improvement of distribution channels.
- (c) Improvements in finance and administration, including and any increase in the share of formal sector activities.
- (d) Estimation of the number of microenterprises joining trade associations.

4.29 Specifically, the following criteria are to be used for each evaluation:

- (a) The first evaluation will concentrate on a review of the initial activities carried out by the CGE as part of program execution, considering changes in internal organization, the allocation of duties, activities deriving from conditions precedent to the first disbursement, and selection and hiring of the personnel that will administer the program, as well as basic support staff.
- (b) The interim evaluation will focus on a review of the effectiveness with which the program has been launched; the performance of the program director and the coordinators; the means used to determine demand for services; the procedures employed to select suppliers of services, and their effectiveness; and the efficiency of the cost recovery mechanism. The findings from this evaluation may be used in recommendations on the continuity of the program, the review and/or reformulation of certain aspects of its activities, or its cancellation. This evaluation will also verify whether the sale of services is generating at least US\$250,000, and whether it is at least equal to the fees received by the program director and regional managers combined.
- (c) The third evaluation will assess overall effectiveness of program execution, viability of the strengthened institutional framework, and the degree to which the supply of services matches demand. It will also measure the effectiveness of the cost recovery mechanism employed and, through a sampling of users, determine the results obtained by small producers who have taken advantage of services.

4.30 In the course of these evaluations, and wherever appropriate, changes in the services to be offered and in the respective budget allocations will be recommended for the purpose of improving the efficiency of the program and adjusting services to the real needs of microenterprises.

4.31 Independently of these external evaluations, the regional branches will be required to submit semi-annual progress reports to the program management unit covering the same topics dealt with in those evaluations. This unit will submit a synoptic report to the

Bank on the results achieved and any proposed changes in the plan of activities.

- 4.32 In practice, all of the information required in the progress reports will be presented using a model prepared in advance by the program management unit. The use of this model form will make it possible to simplify program administration. In addition, information for monitoring purposes will be transferred electronically over the program's computer network.

J. Status of project preparations

- 4.33 The activities to be carried out under the program have already been defined in detail. The central office and the regional branches are ready to begin the selection and hiring of the director and the regional managers as soon as the financial resources are made available. Both the directors of participating organizations and the groups of microentrepreneurs which met with the Project Team during the analysis mission have expressed keen interest in this program.

V. FEASIBILITY AND RISKS

- 5.1 The feasibility of the program is assured by:
- (a) The potential demand for the support services to be provided, based on the needs of microenterprises for a means of improving their competitive position.
 - (b) The possibility of offering special services that meet the criteria of being both suitable for and accessible to microenterprises.
 - (c) The participation of a national trade confederation and two of its local associations as counterpart agencies - all three of which are both broadly representative of Argentina's business sector and very experienced in providing services of the type envisaged.
- 5.2 Among potential risks under the program is the possibility of insufficient response on the part of microentrepreneurs. This will be overcome through promotional activities and by reviewing the program at regular intervals in order to analyze the results obtained and make the changes necessary to achieve its objectives.
- 5.3 The selection of the program director and the coordinators of regional branches is particularly important since the achievement of the proposed objectives is to a large extent dependent on their performance.

PROGRAM BUDGET IN ACCORDANCE WITH IDB ACCOUNTING STANDARDS

Item	MIF	Counterpart	Total	%
1. PROFESSIONAL SERVICES FIRMS	40,000		40,000	1.60
1.1 Fees	40,000		40,000	1.60
2. INDIVIDUAL CONSULTANTS	1,527,000		1,527,000	61.08
2.1 Salaries	1,415,600		1,415,600	56.62
- Program director	198,000		198,000	7.92
- Senior consultant	162,000		162,000	6.48
- Central headquarters consultants	108,000		108,000	4.32
- Regional headquarters coordinators	276,000		276,000	11.04
- Regional headquarters consultants	671,600		671,600	26.86
2.5 Official travel	111,400		111,400	4.46
3. TRAINING COURSES	49,300		49,300	1.97
6. GENERAL SUPPORT	169,700	393,600	563,300	22.53
6.1 Premises		168,000	168,000	6.72
6.3 Equipment	70,500		70,500	2.82
6.4 Supplies	46,200		46,200	1.85
6.6 Support personnel		162,000	162,000	6.48
6.7 Auditing		15,000	15,000	0.60
6.8 Communications	43,200		43,200	1.73
6.9 Miscellaneous	9,800	48,600	58,400	2.34
8. PROGRAM EVALUATION CONSULTANTS	36,000		36,000	1.44
96. OTHER EXPENDITURES		198,000	198,000	7.92
- Expenditures and fees for institution administrators		108,000	108,000	4.32
- Program promotion and dissemination		90,000	90,000	3.60
98. CONTINGENCIES	78,000	8,400	86,400	3.46
TOTAL	1,900,000	600,000	2,500,000	100.00

PLANNING FOR THE MICROENTERPRISE SUPPORT SERVICES PROGRAM

SUMMARY OF OBJECTIVES	INDICATORS (see following table)	MEANS OF VERIFICATION	ASSUMPTIONS
Improve the competitive of microenterprises goods and services in of Mendoza and La the surrounding areas.	Approximately 1,000 microenterprises to have benefitted over a 3-year period, and to be satisfied with the services requested.	By means of: (a) final report on program execution; and (b) sampling surveys	(a) Commitment by loc of the CGE to mai program on a cont basis; and (b) CGE giving priori respond to the ch needs of microent with nonfinancial
Stimulate supply and nonfinancial services, ly among micro- s.	By the end of the program, the following numbers of microenterprises should be using the services offered under this program: (a) payroll management: 100; (b) preparation of loan applications: 250; (c) support for production: 150; (d) marketing support: 150; (e) participation in trade meetings: 180. In addition, some 880 persons per year are to participate in training courses.	By means of: (a) progress reports; (b) inspection of project; (c) semi-annual evaluation; and (d) sampling surveys	(a) That there is suf demand for nonfin services; (b) that microenterpr willing to pay fo services; (c) that thanks to co recovery, the reg branches become s supporting and can providing the ser that regional brar the CGE have the institutional inf capable of admini program of this n
: Technical assistance ment training in the administration, pro- and marketing, to be local trade ns.	(a) Annual plans and budgets for each regional branch with a breakdown by activity; and (b) Program management unit and management of two regional branches set up and in operation.	By means of: (a) progress reports; (b) semi-annual evaluation; and (c) review of annual plans.	(d)
ACTIVITIES: ning, administrative port and advisory vices. nical support for uction and marketing. otion and advertising of services.	(a) <u>Professional services and firms, consultants and courses:</u> US\$1,616,300 MIF contribution (b) <u>General support and other expenditures:</u> US\$169,700 MIF contribution and US\$591,600 local counterpart (c) <u>Evaluation and contingencies:</u> US\$114,000 MIF contribution and US\$8,400 local counterpart	By means of: (a) progress report; (b) requests for disbursement; (c) accounting records of beneficiaries; and (d) financial statements of the operation examined by external auditors.	

MONITORING INDICATORS AND EVALUATION DURING PROGRAM EXECUTION

INDICATOR/YEAR	1st YEAR PROGRAM EXECUTION	2nd YEAR PROGRAM EXECUTION	3rd YEAR PROGRAM EXECUTION	4th YEAR AFTER PROGRAM EXECUTION
<u>Services</u>				
Administrative support				
Payroll management (1)	50	80	100	100
Financial procedures (1)	100	200	250	250
Training				
General courses (2)	180	360	480	480
Courses on each sector (2)	200	400	400	400
Support for production				
Hiring of technical experts (1)	50	120	150	150
Marketing support				
Hiring of technical experts (1)	50	120	150	150
Participation in trade meetings (1)	40	80	160	160
<u>Regional activities</u>				
Hiring of consultants for the program management unit and coordination of regional branches (number of consultants)	3	0	0	0
Budget performance (MIF/CGE funds in US\$)	942,800	880,600	608,200	
Revenue from sales of services (in US\$)	97,000	316,000	601,400	
Annual work plan	1	1	1	
Half-annual progress reports	2	2	2	
Quarterly financial statements	1	1	1	
Evaluations of the program	1	1	1	
Ratio of revenues from sales to management fees	0.6	1.7	3.2	

(1) Number of enterprises per year.

(2) Number of participants.

PROPOSED RESOLUTION

**ARGENTINA. NON-REIMBURSABLE TECHNICAL COOPERATION FOR A
MICROENTERPRISE SUPPORT SERVICES 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 agreements as may be necessary with the "Confederación General Económica" (CGE), of Argentina and to adopt such other measures as may be pertinent for the execution of the plan of operations referred to in Document MIF/AT-____, with respect to a non-reimbursable technical cooperation, the purpose of which is a Microenterprise Support Services Program.

2. That up to the amount of US\$1,900,000, or its equivalent, 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 non-reimbursable basis.