

SUPPORT SERVICES FOR COMPETITIVE URBAN MICROENTERPRISES

(TC-97-10-17-1)

EXECUTIVE SUMMARY

EXECUTING AGENCY: Instituto para el Desarrollo de la Pequeña Unidad Productiva [Small-Production-Unit Development Institute] (IDEPRO)

BENEFICIARIES: Microenterprises

OBJECTIVE: The overall objective is to boost the competitiveness of urban microenterprises in Bolivia through improved access to business development services in nine cities in Bolivia.

DESCRIPTION: The specific objectives are: (i) to support IDEPRO in the expansion of its three major areas of business development service (advisory assistance, training and trade information); (ii) to foster the development of new products with a high sustainability level; and (iii) to strengthen IDEPRO through a program of training, research and seminars.

FINANCING:

Modality:	Grant
Beneficiary:	US\$ 662,000
MIF (Window III):	<u>US\$1,395,000</u>
Total:	US\$2,057,000

FINANCIAL TERMS AND CONDITIONS:

Execution period	60 months
Disbursement period	66 months

COMMITTEE ON ENVIRONMENT AND SOCIAL IMPACT: This project includes activities to promote the use of environmentally acceptable technologies and of improvements in microenterprise operations in the areas of occupational health and safety.

SPECIAL CONTRACTUAL CONDITIONS:

Conditions precedent to first disbursement: submission of a business plan for year one; and

Conditions during execution: annual reviews of business plans and two evaluations, the first to be performed 12 months after the first disbursement and the second on the fourth anniversary of the signing of the agreement.

I. COUNTRY ELIGIBILITY

- 1.1 On October 6, 1993, the Donors Committee declared the Republic of Bolivia eligible for financing under all the modalities contemplated within the framework of the Multilateral Investment Fund.

II. BACKGROUND

A. The context

- 2.1 The structural reforms implemented in Bolivia since 1985 have yielded positive results in terms of sustained economic stability, sound public finances, better positioning in world markets, resumption of growth, and confidence in the national economy. Bolivia, however, continues to be a highly indebted country plagued by balance-of-payments problems, high poverty rates and underemployment. It is estimated that 70.4% of the country's population was living below the poverty line in 1995. The high percentage of poverty in rural areas has triggered massive migratory flows to the cities, where migrants have found employment mainly in informal activities, either as independent workers or through microenterprises, accounting for 58% of the country's labor force (LF).
- 2.2 In Bolivia, the microenterprise sector has for several years been the country's principal generator of jobs and income. As of the end of 1995 it was providing employment to 1.85 million people, including 63% of the LF in cities and 56% in the countryside. It is estimated that the total number of microenterprises in Bolivia at that time was on the order of 850,000, almost 500,000 of which were urban enterprises.

B. The business development services market in Bolivia

- 2.3 Instituto para el Desarrollo de la Pequeña Unidad Productiva [Small-Production-Unit Development Institute] (IDEPRO) is a nonprofit institution providing development and credit services to the urban microenterprise sector. IDEPRO has performed a study of the business development services market in the six cities where it is currently offering such services. The data on business development services supply and demand in each of the six cities are presented in Annex I.

III. OBJECTIVES AND ACTIVITIES

A. Objectives

- 3.1 The overall objective of the program is to boost the competitiveness of Bolivia's urban microentrepreneurs through better access to business development services in nine of the country's cities. The specific objectives are: (i) to support IDEPRO in the expansion of its three major areas of business development service (advisory assistance, training and trade information); (ii) to foster the development of new products with a high sustainability level; and (iii) to strengthen IDEPRO through a program of training, research and seminars.

B. Program activities

- 3.2 The components of the program are as described below:
- a. Business advisory assistance: This service is customized and highly responsive to the specific, actual requirements of individual microentrepreneurs. The project calls for financing an expansion of this activity, given the results achieved to date and its role as a catalyst and in the identification of demand. IDEPRO, as one of the few institutions with expertise in this market niche, would be the direct provider of this service.
 - b. Training: The project includes funds for expanding the direct supply of management training by IDEPRO. Depending on the demand for IDEPRO's offerings, a portion of these funds may be used for providing other types of training, e.g. technical training, through third parties.
 - c. Trade information service: IDEPRO has developed a subcontracting booklet which it distributes weekly through a national newspaper. Microentrepreneurs pay a fee for placing ads for their products in the paper in the hope of attracting wholesale buyers. Institutions providing services to microentrepreneurs and suppliers of inputs for the sector also purchase advertising space, publishing prices and other relevant information. IDEPRO has also developed a database with current information on the local markets. Finally, it has developed radio programs for the dissemination of technical and technological information. As with the booklet, the radio programs sell advertising time to microenterprises at low cost and to larger firms at a higher cost. The project calls for an expansion of these activities, given their importance as a means of linking the microentrepreneur to the national markets. The radio service is important to illiterate microentrepreneurs

who are unable to use the subcontracting booklet. ^{1/} IDEPRO is the only institution that has developed a service of this nature and will be a direct provider.

- d. Innovation Fund: The Innovation Fund will be a source of flexible resources to which advisers and facilitators from local agencies may resort for the purpose of financing activities required by microentrepreneurs. The purpose of products financed by the Fund will be to find immediate solutions to problems encountered by microentrepreneurs. The Fund will be administered by the head office in La Paz, and a growing percentage of its resources will be made available on a recoverable basis as part of an effort to foster the development of sustainable services. Activities that might be financed by the Fund would include, for instance, accounting services, the leasing of machinery or the subcontracting of experts in a given field to offer technical training directly to microentrepreneurs (in conjunction with a specialized local institution), and/or the training of local trainers in specific fields.
- e. Institutional strengthening and dissemination: These activities will include: (i) promotion of the services through bulletins, advertisements, songs, etc.; (ii) training of personnel; (iii) external consultancies for the performance of market and sector studies; (iv) seminars and research for the purpose of fostering technology exchanges and the sharing of sustainability strategies with other institutions; and (v) equipment, including computers and video equipment for use in the training classrooms.

IV. EXECUTING AGENCY AND BENEFICIARIES

A. Executing agency

- 4.1 The Instituto para el Desarrollo de la Pequeña Unidad Productiva [Small-Production-Unit Development Institute] (IDEPRO) is a not-for-profit institution founded in 1990 to conduct activities in support of the urban microenterprise sector. IDEPRO has been growing steadily from its inception to its current status as a network with nine agencies throughout the country (in La Paz, El Alto, Sucre, Oruro, Potosí, Cochabamba, Santa Cruz, Trinidad,

^{1/} It should be noted that the procurement of these services will be carried out in conformity with the Bank's requirements. Moreover, during the first year of the project the Bank will request an independent opinion on the management of the funds allotted to this component.

and Tarija). At the present time, six of the nine agencies are offering business-development services and all provide lending services.

- 4.2 IDEPRO enjoys an international reputation as a leader in the microenterprise-support field. It currently occupies the chair of the Board of Directors in the Corporación de Instituciones Privadas de Apoyo a la Microempresa [Association of Private Microenterprise-Support Institutions] (CIPAME), a network of nine Bolivian organizations, and also forms part of a recognized network of Andean institutions active in the microenterprise field. IDEPRO has a lending program with very solid financial indicators and is planning to transfer its lending portfolio over the next three years to a private financial fund, following which the NGO will take over as an agency specializing in the area of business development services. It is worth noting that IDEPRO has been providing training services since 1992, and advisory assistance and trade information since 1996, and has been striving over that period to adjust its products to existing demand and to develop appropriate methodologies for promoting and providing them. Its experience to date in the provision of business-development services is presented in Annex II, where an upward trend is clearly evident in the levels of cost coverage and service-sales volume.

B. Beneficiaries

- 4.3 IDEPRO works with very low-income microentrepreneurs. Most are businesspeople between 31 and 50 years of age, generally with low education levels (20% are illiterate). They tend to be migrants from rural areas. Their businesses generally have between 1.1 and 1.4 workers. Sales volumes range from US\$1,000 to US\$2,000 a year, assets from US\$900 to US\$1,900, and they operate with working capital of US\$500 to US\$1,400.

V. COST AND FINANCING

- 5.1 The cost of the project has been estimated at US\$2,057,000, of which IDEPRO would contribute US\$662,000 and the MIF US\$1,395,000 on a nonreimbursable basis. Following is a summary of the project's budget. A breakdown by IDB technical cooperation categories will be found in Annex III.

Table 1. Project budget

Activity	IDEPRO	MIF	Total	%
<u>Services</u>				
1. Training	115,000	213,000	328,000	76.8
2. Advisory assistance	135,000	254,000	389,000	
3. Information	186,000	477,000	663,000	
4. Innovation Fund	75,000	125,000	200,000	
<u>Institutional strengthening</u>				
1. Promotion of services	50,000	10,000	60,000	16.5
2. Training of personnel	27,000	17,000	44,000	
3. Consultancies	3,000	75,000	78,000	
4. Seminars and research	10,000	50,000	60,000	
5. Equipment	29,000	69,000	98,000	
SUBTOTAL	630,000	1,290,000	1,920,000	93.3
1. External evaluation and auditing	-	30,000	30,000	6.7
2. Contingencies	32,000	75,000	107,000	5.2
TOTAL	662,000	1,395,000	2,057,000	100

- 5.2 The scale of the project is based on the coverage targets established in the performance patterns (see Annex IV). However, a provision has been included to ensure flexibility in the project and allow adjustment of the targets. IDEPRO will be required to submit a business plan to the Bank at the start of each year outlining its market strategy for the year ahead and including a list of potential activities for possible financing by the Innovation Fund. This plan, together with the progress report for the year, will be reviewed in detail at the beginning of each project year, and any necessary adjustments to the targets will be made at that time. In the first year, the MIF is expected to finance business-development services at the regional agencies in La Paz, El Alto, Sucre, Oruro, Potosí, and Cochabamba. In addition, market studies will be financed in Tarija, Trinidad, and Santa Cruz.

A. Sustainability strategy

- 5.3 It is important to note that IDEPRO is currently working with a clientele that has very limited ability to pay and whose demand for this type of services is not readily identifiable. It is hoped that, as an outcome of advisory services and of new products developed with the resources of the Innovation Fund, the market can be developed to a point that allows prices to be increased gradually until they cover all direct costs. Plans do not call for covering the institution's direct costs in their entirety with the proceeds of fees collected for services. The project's sustainability strategy is intended only to ensure coverage of the

direct costs of providing the business-development services. It would be rather unrealistic to posit that by the end of five years the training courses for microentrepreneurs would have become so profitable as to allow the institution to support itself on the basis of fees collected. Nevertheless, a growing contribution by the project to fixed costs is expected and the project includes incentives to maximize cost-coverage and efficiency levels.

- 5.4 IDEPRO's information service is the activity with the greatest potential for financial self-sustainability. This service is expected to reach its break-even point and even, in the longer run, to cover a portion of the costs of other services. As for the other services, IDEPRO is of the belief that in the long run it may find it necessary to penetrate the small- and medium-scale companies market for training and advisory services in order to be able to apply a fee schedule that would cover a higher portion of the costs while also subsidizing the provision of services to low-income microentrepreneurs. The institutional sustainability strategy of IDEPRO calls for diversifying its sources of financing by generating revenues from a variety of sources such as: returns on its investments, fees collected for technical assistance rendered to other institutions, charges for services, and even future support by other donors or by the State for the provision of training services to the microenterprise sector.

VI. JUSTIFICATION AND RISKS

- 6.1 Most microentrepreneurs lack sufficient access to credit to overcome the technical and administrative constraints that hamper their growth. The project proposed herein seeks to extend support to an institution to enable it to offer business-development services to low-income urban microentrepreneurs on a continuing basis. The Bank's participation would allow IDEPRO to achieve economies of scale and thereby raise its cost-coverage level to a significant extent. The cost-recovery and efficiency indicators reflected in Annex IV would serve as yardsticks for measuring the success of the project. In addition, the project contains incentives for innovations that may make the services more sustainable and more responsive to the microentrepreneurs' requirements. Lastly, it should be pointed out that the project would make the services more accessible to microentrepreneurs in cities located in remote areas of the country (e.g. Trinidad and Tarija).

A. Complementarity with other Bank projects

- 6.2 The Bank is preparing two projects which are complementary to this operation. One is a proposed MIF operation with the BOLINVEST Foundation (TC 97-04-06-7-BO) targeted to small businesses in the

cities of La Paz, Cochabamba, and Santa Cruz with up to 29 employees. The services provided would be similar to those under this project, but the market niche would differ in terms of the size of the enterprises. The other complementary project is a technical assistance component of the Integrated Support Program for Small Businesses and Microenterprises (BO-0171). This project calls for providing support to the Servicio de Asistencia Técnica [Technical Assistance Service] (SAT), a national public entity that plays a role as a second-tier lender financing services. It should be noted that IDEPRO is currently working in close coordination with the SAT and has been subcontracted as a provider of management training services under a project funded by the European Union.

B. Risks

- 6.3 The principal risk is the risk of unfair competition in the form of programs subsidized by other donors in the cities where IDEPRO operates. Given the project's incentives for innovation and efficiency, it is anticipated that IDEPRO will be able to compete successfully because its product will be better. In addition, the project will finance a seminar (with the presence of the Bank) at which sustainability strategies will be shared with other institutions.

VII. PERFORMANCE PATTERNS

- 7.1 The performance patterns for the project, including targets for coverage, revenue, and direct- and indirect-cost coverage by fees, shown in Annex IV. The annex also includes efficiency indicators, i.e. indirect costs as a percentage of total costs, number of subcontracts placed (to encourage IDEPRO to serve as an intermediary rather than duplicate services available on the market), and coverage of costs of activities financed by the Innovation Fund. The goals have been set on the basis of IDEPRO's historical performance and the market analysis, bearing in mind the continuity of the program, and will be adjusted yearly during the review of the business plan.

VIII. SPECIAL CONDITIONS

- 8.1 The program requires a lengthy period for its implementation because of the coverage and service-sustainability goals. Sixty months are allotted for this purpose and 66 for disbursement of the contribution. Long-term sustainability of the services would not be possible in the absence of these periods.

- 8.2 Prior to the first disbursement, IDEPRO will be required to present for the Bank's satisfaction its business plan for year one, including a preliminary list of activities that could be financed by the Innovation Fund. The plan should include activities to foster the use of environmentally-acceptable technologies and microenterprise-management improvements in the areas of occupational health and safety.
- 8.3 In view of the fact that the executing agency and the beneficiaries are private enterprises, the Bank policies and MIF provisions pertaining to purchases of goods and awards of service contracts will be applied in addition to those with respect to the appropriate use of funds from the contribution, eligibility (MIF member countries), and application of the rule of economy and efficiency. For purposes of the purchases and contracts planned, IDEPRO will follow competitive procedures and will reach agreement with the Bank with respect to and/or cases in which a statement of "no objection" will be sought on the basis of the terms of reference and equipment specifications and in regard to the procedure to be followed in the selection and/or procurement of goods and services.
- 8.4 The project calls for two evaluations. One will be performed upon completion of a 12-month period following the date of the first disbursement and will evaluate the progress made on the basis of the performance patterns in Annex IV. The second evaluation will be carried out three years after the date of the agreement and will examine the institutional sustainability strategy and include recommendations with respect thereto.

**SUPPORT SERVICES FOR COMPETITIVE URBAN MICROENTERPRISES
LOGICAL FRAMEWORK OF THE PROGRAM**

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Boost the competitiveness of urban microentrepreneurs in Bolivia through improved access to business development services in nine of the country's cities.	A dynamic urban market of microentrepreneurs, as reflected in growth rates for enterprises and subsectors.	Information from such secondary sources as household surveys and consultancy reports, including analyses of subsectors. Evaluations and progress reports.	A stable macroeconomic environment
Support IDEPRO in the expansion of its three principal business development services; foster the development of new products with a high sustainability level; and strengthen IDEPRO.	6,000 clients served over five years. 250 courses offered over five years. <i>Management changes and/or improvements in microenterprises.</i> Adjustments in services. Growing demand for the services.	Information collected by IDEPRO over the years on its clients' enterprises. Information collected by consultants during the two project evaluations. Progress reports. Data on number of new clients and percentage of repeat services.	Demonstrated demand by microentrepreneurs for services
<p><i>Increase in the quantity and quality of services offered:</i></p> <ul style="list-style-type: none"> - training services - advisory/assistance services - information services <p>Development of new sustainable services</p> <p>seminars and studies</p>	<ul style="list-style-type: none"> - number of clients (monthly average) - annual revenue - % coverage direct costs - % coverage indirect costs - indirect costs as % of total cost - number of ads on radio and in bulletin - number of subcontracts - % of coverage of cost of activities financed by Innovation Fund - number and quality of events and publications 	<p>Evaluations and progress reports, with special reference to performance patterns</p> <p>Attendance at events and readership of studies</p>	<p>There is no unfair competition.</p> <p>There is demand for new services</p> <p>There is interest on the part of institutions in participating in the event.</p>
<p>Hiring of consultants to carry out the pertinent activities (deliver services and studies)</p> <p>Procure and install equipment and materials</p>	Project budget	<p>Disbursements</p> <p>Accounting documents for the project and the institution</p> <p>Evaluations and progress reports</p>	<p>Appropriate consultants are identified by IDEPRO</p> <p>The equipment and materials are available readily and expeditiously</p>

PROPOSED RESOLUTION

BOLIVIA. NONREIMBURSABLE TECHNICAL COOPERATION FOR SUPPORT SERVICES FOR URBAN MICROENTERPRISE COMPETITIVENESS

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 Instituto para el Desarrollo de la Pequeña Unidad Productiva (IDEPRO) of Bolivia and to take such additional measures as may be pertinent for the execution of the project memorandum referred to in Document MIF/AT- with respect to a technical cooperation program for support services for urban microenterprise competitiveness.

2. That up to the amount of US\$1,395,000, 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.