

SMALL ENTERPRISE COMPETITIVENESS PROGRAM

(TC-95-04-14-4)

EXECUTIVE SUMMARY

EXECUTING AGENCY: Centro de Productividad Industrial [Industrial Productivity Center] (CEPRI)

FINANCING:

CEPRI:	US\$2,000,000
MIF:	<u>US\$2,000,000</u>
Total:	US\$4,000,000

EXECUTION TIMETABLE:

Execution period:	42 months
Disbursement period:	48 months

ENVIRONMENTAL CLASSIFICATION: At its meeting held on October 25, 1995, the Environment Committee classified this as a Category II operation.

DATE OF MIF PROFILE: August 30, 1995

BENEFICIARIES: Industrial small enterprises in Chile

OBJECTIVES: The main objective of the program is to help develop the competitiveness of industrial small enterprises in Chile.

DESCRIPTION: To facilitate the attainment of the proposed objective, the program has two components: (a) **direct support for small enterprises**, to cofinance the preparation of specific projects aimed at enhancing the technical, managerial, and technological performance of small enterprises, whether operating in partnership (competitive alliances) or individually, by hiring specialized consultants; (b) **strengthening of CEPRI**, which includes restructuring of CEPRI, the business information window, program dissemination, and support for the supply of services, together with an external evaluation of the advisory services provided.

BENEFITS: It is expected that the beneficiary enterprises will be able to improve their business performance and enhance their competitiveness. CEPRI will be consolidated as an innovative and efficient private institution, which will complement the government's own incentive measures by boosting demand for

technical assistance on the part of small enterprises. In addition, CEPRI is expected to operate on a self-sustaining basis once MIF funding has ended.

RISKS:

There is a risk that business people will prove hesitant to avail themselves of consulting services at prices gradually approaching market levels. This risk should be addressed by means of education/outreach efforts, as well as through periodic review of the program with the aim of analyzing its performance and making such changes as are needed to achieve the envisaged objectives.

**THE BANK'S
COUNTRY STRATEGY:**

The IDB's strategy for Chile over the 1996-1998 period recognizes the country's comparative advantages and thus focuses on projects in the following areas: expansion of the private sector; modernization of the State and civil society; economic and physical integration; and the environment and natural resources. This program will help to increase the productivity and competitiveness of small enterprises through the use of a coordinated system of business support services to be administered by a private entity representative of the sector.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

Agreement will have to be reached with respect to the selection and hiring of the program manager as a condition precedent to the first disbursement of funds. The prospective agreement should also include clauses to ensure appropriate programming and monitoring; adherence to IDB policy when procuring goods and hiring consultants; the submission of audited financial statements; and evaluation of the program.

**EXCEPTIONS TO
BANK POLICY:**

Given the volume of consulting services required and in view of the decentralized execution mechanism to be used in the program, it is recommended that the requirement of prior consultation with the IDB be maintained for the selection and hiring of individual consultants only in those cases where the amounts involved exceed US\$50,000 (see paragraph 4.8).

I. COUNTRY ELIGIBILITY

- 1.1 On October 6, 1993 the Donors Committee declared the Republic of Chile eligible for all forms of Multilateral Investment Fund (MIF) financing.

II. FRAME OF REFERENCE

A. Background

- 2.1 Chile's economic transformation over the last two decades has resulted from comprehensive efforts to reform the country's production system through the use of a structural adjustment program focusing on export promotion, investment, and saving. Chile has made the transition from a closed, largely statist, high-inflation economy into one of the most open and competitive economies in Latin America, with one of the lowest inflation rates in the region.
- 2.2 The new environment of economic openness and structural reform provides further opportunities for development, which stimulate growth but which also polarize enterprises by size, with the attendant repercussions on income distribution and the employment rate. The Government of Chile is committed to minimizing these repercussions. Through the Production Development Corporation [Corporación de Fomento de la Producción] (CORFO), the government is implementing macroeconomic strategies based on development programs to support the modernization of the private sector. In particular, the government is assisting efforts to enhance the productivity and competitiveness of small and medium-sized enterprises.
- 2.3 The public sector's efforts to promote the development of small enterprises have brought to light a number of institutional and operational problems. At present, with the policy of promoting the modernization of production and subsidizing the demand for technical services, the public sector has developed mechanisms designed to increase private-sector involvement. Problems remain, however, as the private sector requires institutional support if it is to expand and become self-sustaining over time.

B. Small enterprise: importance and competitiveness

- 2.4 Small industrial enterprises are an important element of the business sector. They provide goods and services for consumers and/or intermediate suppliers, and they define quality and competitiveness parameters for the larger enterprises. In some

emerging exporter sectors, small enterprises, 1/ as intermediate suppliers, constitute indirect exporters. According to CORFO, Chile has over 40,000 small enterprises within a universe of 485,000 firms. In the industrial sector, large enterprises account for 10 percent, small enterprises account for around 30 percent, while microenterprises account for approximately 60 percent. At the aggregate level, small enterprises employ 37 percent of the labor force, generate 19 percent of sales, and have exported US\$434 million. 2/

2.5 Chile's small enterprises have advantages linked to their flexibility, market mobility, and relatively fewer capital investment requirements. However, the productivity differential in comparison with large enterprises is huge; value-added per employee is less than 30 percent of the value generated by large enterprises; the use of capital and technology is less intensive, and the relative level of competitiveness is lower. These differences undermine production linkages among firms.

Constraints on the development of small enterprises

- Difficulty in accessing and obtaining loans within the banking financial system for the purpose of investing in activities such as technological modernization;
- The need for adequate accounting information systems for use in decision-making;
- A lack of technical capacity for demonstrating the viability of their projects;
- A shortage of funds for consulting services that would enable them to prepare and present their projects;
- Low level of business training, a lack of interest, and unaccustomed to acquiring technical consulting services;
- Problems in identifying appropriate service providers;
- High fixed cost of consulting services;
- Limited business capacity in areas of negotiation, contracting for services, performance evaluation, and implementation of new proposals.

2.6 Diagnostic assessments of business competitiveness in Chile indicate that the following actions are required: ensure that management teams are better equipped to design and implement new business strategies, update technologies, enhance knowledge of the competition and the global market and the use of subcontracting, and foster association-building to achieve shared goals. These findings highlight the need to develop competitive strategies in the medium and long terms. The current economic changes call for business modernization while developing a dynamic market for management services predicated on the needs of small enterprises. A dynamic market would reduce transaction costs, promote the diversification of services, foster the specialization of supply, and facilitate the introduction of management analysis methodologies tailored to the needs of the small enterprise sector.

1/ CORFO defines a small industrial enterprise as an economic unit whose annual net sales on the domestic market are greater than US\$75,000 but not larger than US\$3,200,000. In addition, the CORFO defines a small industrial exporter as an enterprise whose annual sales do not exceed US\$10,000,000.

2/ Pro Chile, 1995.

C. Development instruments for small enterprises

2.7 Over the last four years, CORFO has been using various tools to improve the efficiency and competitiveness of small enterprises, such as Technical Assistance Funds [Fondos de Asistencia Técnica] (FAT) and Development Programs [Programas de Fomento] (PROFO). The FAT provides funding for the services of specialized consultants and experts with the aim of enhancing technical and business management performance by upgrading technologies, methods, and processes. The PROFO facilitates the execution of projects aimed at addressing common problems encountered by firms operating in the form of permanent groups organized around a particular technological or commercial area. It is used for hiring a manager to carry out the activities involved in the technical projects identified for the association in question. Recently, the CORFO set up the management support program for exporting enterprises (known by its Spanish acronym PREMEX) to aid manufacturing and software exporting firms and DESARROLLO DE PROVEEDORES [provider development] to foster relationships among firms working in complementary fields of production.

2.8 There are also other technological support mechanisms that provide partial subsidies for research and development efforts. This is the case with the FONTEC [National Fund for Technological and Production Development] (at CORFO), which provides assistance for production firms in general, and the FONDEF [Fund for the Promotion of Scientific and Technological Development] (at the National Science and Technology Commission), which funds services provided by universities and technological centers, to which firms contribute. These funds form part of the Science and Technology Program (672/OC-CH), the implementation of which is continuing with local resources.

D. Interinstitutional linkages between CORFO and the Industrial Productivity Center (CEPRI)

2.9 To enhance the efficiency and coverage of its activities, CORFO has been systematically transferring administrative responsibilities and resource allocation tasks to private intermediaries. CEPRI is one of the intermediaries in CORFO's network, utilizing instruments and administering development resources on a decentralized basis in the various regions of Chile, by delivering such resources to beneficiaries. In operation since 1996, CEPRI contributed with over US\$2,000,000 in loans from the FAT.

2.10 CORFO's relationships with business organizations coordinating services are such that it can rely on the private sector's know-how and commitment with respect to the project preparation and evaluation process. This provides a permanent source of feedback for production development efforts while ensuring the relevance and impact of CORFO's activities. The advent of CEPRI as a private intermediary has enhanced the flexibility of operations, as it is

not subject to the administrative restrictions of the public sector.

E. CEPRI's role

- 2.11 The Industrial Productivity Center [Centro de Productividad Industrial] (CEPRI), as the suitable intermediation institution, will address supply and demand inadequacies, thereby optimizing market performance. CEPRI will have lean management and a minimal investment infrastructure. It will benefit greatly from the institutional externalities afforded to it by its current operations, in which (with equivalent human resources) it has mobilized funds for FAT projects that exceed the resources available for the program under consideration here. The problems caused by diseconomies of scale that occasionally arise in technical activities conducted simultaneously within various PROFOs unnecessarily drive up the cost of the activities involved. In addition, the isolated contracting of services deprives PROFO groups with common interests of technical and financial opportunities for mobilizing resources of better quality, and on a larger scale.

Table 2.1 INSTRUMENTS FOR THE ENTREPRENEURIAL MODERNIZATION OF THE CORFO (in US\$000 and number of enterprises)						
Year	FAT		PROFO		TOTAL	
	US\$	No.	US\$	No.	US\$	No.
1993	1,544	1,662	1,118	252	2,662	1,914
1994	1,658	998	2,385	534	4,043	1,532
1995	2,669	1,651	4,355	2,091	7,024	3,742
1996	4,021	2,015	11,179	4,549	15,200	6,564
Total	9,892	6,326	19,037	7,426	28,929	13,752

2.12 A number of business associations are engaging in negotiations with a view to having the management of PROFOs transferred to CEPRI. CEPRI is ideally suited to provide the necessary framework within which this instrument can be redesigned or reengineered; this is because CEPRI has close links to the business groups that require such services and knowledge of the system with respect to their technical capacity to pursue their efforts in these areas.

F. The participation of women

- 2.13 The program seeks to narrow the gender gap in the field of technical assistance for firms. More generally, the program will encourage the economic units receiving such assistance to focus on the potential role for women in such activities. Accordingly, the program will make provision for the following elements: (i) support for technical assistance facilities, that take into account gender equity in business management and in connection with changes in production patterns; (ii) interaction with national authorities responsible for women's issues in social/production-related areas and programs intended to promote the involvement of women in the entrepreneurial sector; (iii) support for the authorities responsible for disseminating business management and technical assistance guidelines regarding the role of women in

business; and (iv) efforts to identify business projects which, in the context of the program, will promote the involvement of women and require the technical assistance services offered by the program.

G. Conceptual design of the program

- 2.14 If Chile's integration efforts are to succeed, small enterprise competitiveness is a key element of the domestic industrial framework. Support mechanisms are therefore essential to small enterprises. These mechanisms have problems of accessibility, especially the FAT, which focuses on strengthening enterprises from the technical standpoint. The PROFO subsidizes the hiring of managers and other operating costs; however, there are no mechanisms available to facilitate the procurement of technical assistance services for associations without legal status.
- 2.15 The design of the program, 3/ as discussed with CORFO and the business community, would focus on measures to enhance and complement the government's own activities: for example, measures to encourage small enterprises to utilize the government's incentives and to facilitate the pursuit of follow-up activities (association-building activities for the FAT, the PROFO, and the provider program). The program under consideration will assist small enterprises *inter alia* in preparing technological diagnostic evaluations when applying for funds from FONTEC, gaining access to the Chile Foundation's MIF program, or finding foreign partners through the Bolívar Program.
- 2.16 CEPRI will function as a middleman and will not be providing services to businesses directly. As the intermediaries of the government's incentives gain in experience, the government will step up the outsourcing of activities. In placing 45 percent of the resources as an agent of the FAT, CEPRI operating costs have been lower than those of CORFO. Consideration is being given to concurrent efforts to support the supply and demand for services and activities in the areas of promotion, information,

Program guidelines

- **Private ownership** through: management, the services provided, the roster of consultants, consulting services rendered, etc.;
- **Promotion of Association-building**, in order to promote participation in training programs and the hiring of technical assistance services, minimizing the constraints imposed by scale-related factors;
- **Developing the market for services for small enterprises**, by stimulating the supply and demand to develop a market for training and technical assistance services tailored to the needs of small enterprises; and,
- **Risk sharing**, through decreasing cofunding for the program services obtained by small enterprises.

3/ At the outset, consideration was given to the possibility of some form of capital contribution from the MIF; however, this option was rejected on legal, technical, and operational grounds.

comprehensive diagnostic evaluations, and assistance in connection with preparing management training projects and projects for upgrading managerial performance.

- 2.17 The program will focus its resources on those areas where the government lacks suitable instruments, thereby ensuring that such resources are not used for any type of project which might obtain official funding through some other channel.

H. The Bank's country strategy

- 2.18 The IDB's 1996-1998 strategy for Chile recognizes the country's comparative advantages and on the need to support projects designed to facilitate the following in particular: private sector expansion; modernization of the State and civil society; economic and physical integration; and the environment and natural resources. The program will help to increase the productivity and competitiveness of small enterprises by means of a system of business support services administered by a private agency representing the small enterprise sector; furthermore, it is linked to other programs such as the program for the development of small technological enterprises (672/OC-CH), Chile Foundation (ATN/MT-5444-CH), the science and technology program (FONTEC and FONDEF), and the Bolívar Program.

I. Lessons learned (MIF)

- 2.19 In preparing this program, account was taken of the lessons learned from the execution of other similar MIF projects. ^{4/} Specifically, the operation is designed to: (i) strengthen market development and consolidate mechanisms for the intermediation of services; (ii) ensure that the activities can continue once MIF cofinancing has come to an end; (iii) outsource the provision of services in order to reduce fixed costs; and (iv) require executing agencies to charge steadily increasing fees for their services.

III. THE PROGRAM

A. Objective of the program

- 3.1 The main objective of the program is to help enhance the competitiveness of small industrial enterprises in Chile. The program will help to: (i) foster the efforts of small business associations to have a private agency and a technical services center to function as a conduit between the support mechanisms and

^{4/} These lessons came out of the workshop on access and deepening of the market for nonfinancial services for SMEs. MIF seminar, April 1997.

the target small enterprises, by promoting business support mechanisms and enhancing their accessibility; (iii) encourage enterprises to develop competitive strategies, through the demonstration effect and by means of outreach, education, and publicity campaigns; (iii) encourage the development of joint projects (competitive alliances) aimed at achieving enhanced performance (technical, managerial, technological, or individual), through the cofinancing of services; (iv) promote the supply of consulting services through the selection, training, and evaluation of consulting services; (v) reduce the transaction costs associated with the mechanisms for funding technical assistance services, by rationalizing resource management.

B. Components of the program

3.2 In order to achieve the above-described objectives, the program will include the following components:

1. Direct assistance for small enterprises (US\$3.0 million)

3.3 This component will cofinance the preparation of projects designed to enhance the managerial and technological performance of small enterprises, whether operating in associations (competitive alliances) or individually, by means of the provision of specialized consulting services.

3.4 Whether directly with CEPRI or through consultants, the enterprises in question may receive diagnostic services spanning the entire spectrum of their operations, ranging from their business strategies to marketing, including product design, procurement of inputs, production, technological inputs, product outlets, human resources, and financial management. The findings of the diagnostic evaluation will be used to design a development plan to facilitate decision-making in connection with specific projects.

3.5 Using its own staff, CEPRI will confine itself to performing diagnostic evaluations aimed at identifying (in the manner indicated in the project) the actual consulting requirements to be met by the service-providing firms. CEPRI will not charge the MIF project for intermediation costs; instead, it will cover these costs with its own resources, in addition to those already committed.

3.6 CEPRI will help design training courses tailored to making small enterprises more competitive, and will organize these activities in conjunction with specialized institutions. The courses will take a practical approach focusing on issues of business management, technological management, foreign trade, and the training of industrial consultants; in addition, CEPRI will be responsible for monitoring the quality of the consulting services provided by third parties.

a. Joint projects: associated firms and PROFOs

- 3.7 To encourage the formation of associations, to agreements and alliances among small enterprises intending to enter into business projects will be encouraged in order to harness opportunities for achieving complementarity, such as organizing the joint buying and/or selling of goods and services, and sharing distribution channels, capital goods, or other technical, economic, or human resources with a view to optimizing utilization. To obtain cofunding, the small enterprises must prepare an association project, which must include the salient features of the diagnostic evaluation of each small enterprise belonging to the alliance, together with a description of the project to be carried out, and the anticipated results.
- 3.8 In their capacity as permanent associations of enterprises, the PROFOs, which were established to solve technological, commercial, or management problems commonly encountered in the course of production operations, will have a multiplier effect within the small enterprise sector. This is the case with ASEXMA-CHILE's program for the promotion of small-scale exporting enterprises, as well as others of more recent vintage. The projects falling into this category may focus on organizing technological or trade missions overseas; identifying and negotiating technology packages; formulating, evaluating and presenting research and development projects; as well as the joint administration of resources with a view to implementing sectoral or regional programs for strengthening the productivity and competitiveness of PROFO enterprises.
- The CEPRI will promote specialized support services intended for specific projects of small enterprises, operating in association or individually, in the following areas:
- Product and process design;
 - Business promotion and development;
 - Business information;
 - Information on specialized consultants, provided through an up-to-date data bank;
 - Projects designed to upgrade activities in the areas of production and innovation, quality control, marketing and market access, resource management and financing;
 - Advisory services in financial management and preparation of investment projects;
 - Training applied to special fields;
 - Electronic trading and information on mechanisms for gaining access to international markets;
 - Projects for developing external markets, with the costs to be shared by groups of small enterprises engaging in export operations;
 - These competitiveness projects will specifically include support services intended to identify suppliers of technology (domestic or foreign) as well as assistance with procedures for negotiating technology transfer contracts. Assistance will be provided in creating links between service seekers and providers for implementing research and development projects; and
 - Administration and coordination of public-sector and other development instruments.
- 3.9 The PROFOs confine themselves to funding the hiring of managers and organization of trade missions. This approach does not allow for applying a matching-grant system to associated enterprises, inasmuch as such associations are not regarded as candidates for

support, even though they make a substantial impact on the competitiveness of the enterprises. The proposed program will complement local efforts by helping to accommodate unmet requirements of applications not covered by public instruments, as well as nonfinancial services for associated enterprises. The program will not carry out pilot activities for CORFO. In fact, the government's present tendency is to scale back direct public involvement in development projects.

b. Specific projects of individual firms

- 3.10 These types of projects refer to conducting studies on specific topics whether in connection with the upgrading of managerial or technical processes, market research, identification of export markets or with efforts to prepare projects related to investment, technological change, or research and development. The consulting services will facilitate the preparation of projects with the aim of submitting them to the banking system or to the State's financing or subsidy funds.

2. Strengthening of CEPRI (US\$880,000)

- 3.11 This component includes the restructuring of CEPRI, the business information window, dissemination of the program, and support for the supply of services. This program's initial activities encompass the restructuring of CEPRI as an institution as well as the organization of the program, the initial design, procurement of equipment, design of procedures, implementation of the system for the use of resources, and development of data banks.
- 3.12 CEPRI will provide firms with information on the available supply of specific types of consulting services and in reference to the existing support programs and instruments. Action will be taken to promote the program among economic agents and firms in each region with the aim of boosting demand for services and facilitating the pursuit of modernization efforts in the areas of management, quality control, and technological change and to secure a leadership role for the business associations and institutions connected with the program and secure their sponsorship; these efforts will encompass visits to firms and associations. CEPRI will evaluate user satisfaction regarding the services contracted.

c. Demand for and beneficiaries of the program

- 3.13 There are 80,000 small industrial enterprises in Chile 5/ that would qualify as beneficiaries under the program. However, the demand for nonfinancial services on the part of small enterprises has been estimated on the basis of applications received and

5/ PyME: un desafío a la modernización productiva [SMEs: A challenge for productive modernization], CORFO, 1995.

operations supported with assistance from CORFO, which has operated and administered the FAT, benefiting more than 2,000 small enterprises and PROFO, benefiting more than 4,500 small enterprises, in 1996. The direct beneficiaries of the program will be small enterprises (i.e., industrial enterprises, or firms providing services for industry). Secondary beneficiaries of the program will be the consulting firms providing services for the enterprises described above.

- 3.14 According to estimates from CEPRI and CORFO, approximately 4,000 small enterprises are expected to apply for these services each year. This figure is based on the 2,000 firms served by CEPRI during 1996, in addition to about 2,000 firms linked to association projects whose applications were rejected by the various agents, on the grounds that CORFO's facilities did not provide the services requested. If each of these firms had requested technical assistance, then the demand for the FAT would have doubled. This has not happened, because the FAT is not suited to the requirements of associated firms that need a different type of assistance. Likewise, the dissemination and promotion of this program is viewed as essential for connecting a number of beneficiaries to the services; however, during the execution period it is expected that the needs of only about 2,000 small enterprises will be served, which means that part of the potential demand is going unfulfilled.
- 3.15 Under the program, it will not be possible to exclude potential beneficiaries based on such criteria as whether they belong to a particular region, trade association, or industrial subsector. Firms or individuals subcontracted by CEPRI to work as service providers under the program will under no circumstances be permitted to hold any form of equity stake in the firms receiving advice, or be directly related to the firms' owners.

D. Results expected from the program

- 3.16 The program is expected to help the beneficiaries improve their business performance and enhance their competitiveness.
- 3.17 The program is expected to establish CEPRI as a private institution capable of boosting the demand for technical assistance on the part of small enterprises, and self-sustaining once the MIF's assistance has ended. This process will foster the institutional strengthening of firms, and enable them to tailor their strategies to reflect the changing competitive environment. As a result of this pilot experiment, it should be possible to initiate similar experiments elsewhere in Chile. In this way, the private sector will be shouldering responsibilities in the area of development policies (formerly the preserve of the public sector), thereby enhancing the efficiency of resource management and maximizing ownership of production development programs and instruments. These experiences can serve as a basis for devising policies aimed

at strengthening the competitiveness of small enterprises. (See Annex I).

E. Cost and financing of the program

- 3.18 The program will cost US\$4,000,000, of which US\$2,000,000 will be nonreimbursable MIF resources and US\$2,000,000 will be provided by CEPRI. A summary budget for the program is shown below. A detailed description of the budget categories is provided in the technical file on the program.

Table 3.1
PROGRAM BUDGET
(in thousands of US\$)

BUDGET CATEGORIES	MIF	CEPRI	TOTAL
1. Direct support for small enterprises	1,770	1,230	3,000
2. Strengthening of CEPRI	110	770	880
3. Auditing, evaluation, and contingencies	120	-	120
TOTAL	2,000	2,000	4,000

F. Investment categories

- 3.19 The component involving direct support for small enterprises refers specifically to consulting services that a firm or association of firms may require depending upon the types of projects and/or development plans in question. In the case of PROFOs, the estimated average cost is US\$8,000 per firm for a target of 48 PROFOs with an average of 10 firms per project. In the case of projects involving firms belonging to associations, a target of 50 projects is estimated for six firms per group with an average cost per firm similar to the PROFO. In the case of specific projects of individual firms, it is estimated that 300 projects will be developed at an average cost of US\$6,000. The program provides for approximately 800 diagnostic evaluations at an average cost of US\$1,500 per firm. The maximum amounts per firm for diagnostic evaluations and direct support will be twice the estimated average.
- 3.20 The component for strengthening CEPRI includes equipment, an accounting system, design of standard contracts, and funding for an information window. The basic contributions needed to fund these items are estimated at US\$340,000. In addition, this component includes the fees for the manager and technical and support personnel, in the amount of US\$540,000. These fees comprise management and administrative costs for staff working for the program on a full-time basis.

- 3.21 A summary projection of income and expenditures estimated for the execution period of the proposed program is shown below, including the fifth year of activities, at which point CEPRI would no longer be receiving cofunding from the MIF.

Table 3.2
ESTIMATED INCOME AND EXPENDITURES
(in thousands of US\$)

	Year 1	Year 2	Year 3	Year 4	Total	Year 5
INCOME	<u>1,394</u>	<u>1,751</u>	<u>2,213</u>	<u>2,956</u>	<u>8,314</u>	<u>2,948</u>
1. Sales of services	894	1,151	1,513	2,756	6,314	2,948
2. CEPRI contribution	500	600	700	200	2,000	
EXPENDITURES	<u>2,238</u>	<u>2,364</u>	<u>2,626</u>	<u>3,072</u>	<u>10,300</u>	<u>2,758</u>
1. Cost of services	1,788	2,114	2,476	2,922	9,300	2,623
2. Strengthening of CEPRI	420	220	120	120	880	135
3. Audit, evaluation, and contingencies	30	30	30	30	120	
MIF CONTRIBUTION	(844)	(613)	(413)	(130)	(2,000)	
BOTTOM LINE				14	14	190

- 3.22 The program will be executed over a four-year period, whereupon it is envisaged that the proceeds generated by the sales of direct support services to small enterprises will cover the costs involved, and that CEPRI will continue to pay for the other costs. The program will use a system in which the MIF's contributions decrease as the CEPRI's contributions increase over the course of the program period. The revenue generated by the sale of direct and indirect consulting services is expected to rise over time. As part of a temporary system of incentives, it is envisaged that upon completion of the program period, services will be offered at market prices in the interest of ensuring continuity and broadening the scope of the services in question. During the execution period, the program will be reviewed periodically to allow for the fine-tuning needed to ensure its continuity once the MIF financial assistance comes to an end.

- 3.23 The system of subsidies will operate on a decreasing basis; this is justified as a way to promote demand during the initial demonstration phase of the program. The average annual subsidy is estimated at 50 percent in the first year, falling to 20 percent by the fourth year. Beginning in the fifth year (i.e., the first year following completion of the program's execution), the services could then be offered at market prices.

IV. EXECUTION OF THE PROGRAM

A. Organization

- 4.1 Program execution will be the responsibility of CEPRI, which was formally established as a closely held corporation on October 5, 1995. CEPRI's stockholders consist of 12 industrial associations and 13 manufacturing enterprises. CEPRI operates in four regions of Chile, and has a staff of 17. CEPRI's structure is somewhat horizontal; it has one national director and four engineers, each responsible for one region, with two other engineers and a clerical employee under their supervision.
- 4.2 The executing agency will have an Executive Committee comprising the chairman and three CEPRI directors. The hiring of a manager for the program will be a condition precedent to the first disbursement. Program directors will have the following responsibilities *inter alia*: organize the activities and services; prepare methodologies; represent the program vis-à-vis the national economic and political authorities; and develop business relationships at the national and international level.

B. Execution period and disbursement

- 4.3 The program disbursements will be effected over a maximum period of 42 months. The program itself is expected to be executed within a period of 48 months beginning from the effective date of the agreement to be entered into by the IDB and CEPRI. The resources associated with the program will be administered by CEPRI and disbursed in accordance with IDB procedures and the eligibility rules of the MIF. For these purposes, and subject to a written request, a revolving fund will be established for the equivalent of 10 percent of the grant resources in order to enable CEPRI to have the funds it needs in order to carry out the planned activities in a timely fashion. As a condition precedent to the first disbursement, it will be necessary to submit evidence that a bank account has been opened specifically for the program, in which the disbursed contribution resources are to be deposited.
- 4.4 CEPRI will keep the books for the program's resources on a separate and independent basis. Moreover, as a condition precedent to the first disbursement, it will be necessary to have submitted to the IDB a plan, catalogue, or code of accounts for recording transactions financed with own resources, the MIF contribution and the program's income from the sale of services. Over the course of the program period, beginning with the first disbursement and within the 120 days following the end of each fiscal year, CEPRI must submit financial statements on the program certified by an auditor or firm of independent auditors acceptable to the IDB.

C. Procurement of goods and hiring of consultants

- 4.5 In accordance with Bank policy, CEPRI will be required to adhere to the rules governing the appropriate use of the contribution, the eligibility of goods, as well the principles of thrift and efficiency. For this purpose, CEPRI will require competitive bidding for the desired equipment, thereby ensuring that the procurement process is conducted at market prices and that the costs involved are in line with the needs of the program.
- 4.6 IDB procedures will be followed when selecting and subcontracting consulting services, bearing in mind that only nationals of MIF-eligible countries may be hired for this purpose. In the selection procedures arranged with the IDB, CEPRI will not be permitted to introduce clauses that restrict or impede the participation of consultants originating from MIF-eligible countries. In the case of amounts equal to or greater than US\$200,000, the selection and hiring of consultants will be conducted through an international call for offers.
- 4.7 For purposes of selecting and hiring the manager for the program and consulting services, CEPRI must present the following to the Bank for its nonobjection: (i) the final terms of reference; (ii) the selection procedure; (iii) the list of consultants or consulting firms from which the services are to be subcontracted, indicating the name, nationality, domicile, background, professional experience, and other requirements deemed necessary; and (iv) the contract form for subcontracting experts in accordance with Annex C to the loan contract. CEPRI may hire these consultants once it has determined that the IDB has no objection.
- 4.8 Should it prove necessary to subcontract consultants on an ad hoc basis in order to provide small enterprises with information, training, and technical assistance services, the IDB must be kept abreast of the selection and subcontracting process. However, in light of their quantity, volume, short duration, and the speed with which selection and hiring decisions must be made, the IDB may (in the case of contracts involving sums less than US\$50,000) participate in the consultant selection process in the manner described in the preceding paragraph or by means of the ex post review of the process; for this purpose, CEPRI must keep the necessary background documentation on file and available for review. Given the volume of consulting services required and the program's decentralized execution mechanism, it would be advisable to retain the requirement of prior consultation with the Bank only in cases involving the selection and hiring of individual consultants for amounts exceeding US\$50,000.

D. Eligibility of beneficiaries for the program

- 4.9 Small industrial enterprises will be considered eligible for cofinancing. The small enterprises must have legal status and a

technical, administrative, and financial management organization that will enable them to use the resources provided under the program adequately. The small enterprises must have the operational and financial capacity required to execute the proposed projects within the periods of time specified, or else they must acquire such capacity with the assistance of other persons or institutions. The consulting firms interested in participating in the program must have human resources that are suitably well-qualified in terms of technical skill, experience, and caliber; they must have the financial soundness required to operate; they must have carried out similar projects in satisfactory fashion; and they must not have any conflict of interest.

E. Responsibilities

- 4.10 CEPRI will have the following responsibilities: (i) prepare working methodologies, in particular those involving evaluation. Prepare criteria for clearing the external consultants who are to work with CEPRI in delivering services to enterprises. Prepare a standard monitoring report in accordance with standards provided by the Bank; (ii) organize the services which the program is to provide for small enterprises; (iii) represent the program before national economic and political authorities; research and disseminate information pertinent to the operations of small enterprises; and pursue business relationships at the national and international level; (iv) keep the IDB abreast of program arrangements; (v) prepare semiannual progress reports, to be submitted to the IDB, as well as any other report which the IDB may require in connection with the execution and utilization of the funds associated with the contribution. Organize and facilitate the process of evaluating the program; and (vi) abide by all the other commitments and procedures envisaged in the agreement to be signed with the IDB.

F. Environmental impact

- 4.11 At its meeting held on October 30, 1995, the Environment Committee classified this as a Category II operation. The technical support services for small enterprises relating to production processes will promote (where relevant) the adoption of measures to neutralize adverse environmental impact. The monitoring reports on the execution of the program, referred to below, must evaluate the results of measures implemented in relation to production and the environment.

G. Justification of the use of MIF resources

- 4.12 The project meets the criteria established for the eligibility of operations to be financed with nonreimbursable MIF resources, in consideration of: (i) the innovative nature of the project, in the sense that it supports the efforts of small enterprises to work in association with each other; (ii) its contribution to increasing

the competitiveness of the private sector, thereby enhancing the integration of small enterprises in the production chain; (iii) the fact that the operation will further modernize its beneficiary firms; (iv) the fact that it will help create demonstration projects; (v) the increase in value added in production; and (vi) the supply of new nonfinancial services available to potential beneficiaries of the program.

H. Monitoring and evaluation of the program

- 4.13 CEPRI must prepare and submit within the six months following the effective date of the agreement, as well as prior to September 30 of each year during the program execution period: (a) an annual work plan specifying the projects and activities to be carried out during the year, the cost (program contribution, beneficiary contribution), and the manner in which the plan is to be executed; and (b) a report outlining the outcome of the preceding work plan, indicating cost recovery, and describing any problems that may have arisen in the design and implementation of that plan, as well as any corrective action taken or planned.
- 4.14 Two evaluations of the program's goals will be carried out by external consultants in order to analyze the degree of goal attainment and propose adjustments as needed. This evaluation process will take account of the information received from the executing agency and local counterparts. In addition, appropriate action will be taken to assess the following matters *inter alia*: (i) the degree to which the program's goals have been attained; (ii) services offered by the program and new services requested by the small enterprises; (iii) the number, size, and activity of small enterprises requesting and utilizing the services; (iv) system of charges paid by the users of the services and analysis of the contribution which these charges are expected to make to the funding for the program; and (v) customer satisfaction in relation to overall and sector-specific services.
- 4.15 The first evaluation will be performed when 30 percent of the MIF's resources have been disbursed. It should focus on reviewing the effectiveness of the program's implementation as well as the performance of the program directors. The results of this evaluation will serve as a basis for making the adjustments required in order to ensure proper implementation of the operation. This evaluation should determine whether the sales of services are exceeding the funds disbursed by the MIF for administration of the project. It will be performed once 60 percent of the MIF's resources have been committed. The second evaluation will focus on reviewing the effectiveness of the program's implementation, the viability of the strengthened institutional framework, as well as the effectiveness of service supply and demand; the effectiveness of the cost recovery system and (using a sampling method) the results achieved as a result of the services provided.

- 4.16 In performing the evaluations, if appropriate, changes may be proposed to the services to be provided as well as to the pertinent budgetary allocations for the sake of enhancing the efficiency of the program and fine-tuning the services to ensure that they meet demand.
- 4.17 Quite apart from these evaluations, CEPRI will prepare semiannual progress reports for submission to the IDB, focussing on the same issues as in the external evaluations. These reports will describe the results achieved as well as any proposed changes to the work plans.

I. Status of the program's preparation

- 4.18 CEPRI has a small structure and is already performing tasks associated with the program. The process of selecting and hiring personnel is directly connected to the availability of program financial resources.

V. VIABILITY AND RISKS OF THE PROGRAM

- 5.1 The viability of the program is fundamentally based on: (i) the potential demand for the support services, reflecting the fact that small enterprises need such services to enhance their competitiveness. In response to the rising demand, there are also plans to generate from within CEPRI a supply of specialized technical assistance personnel capable of tailoring their services, methods, and prices to the needs of small enterprises, thereby filling the niches emerging in this market. The increasingly widespread use of diagnostic evaluations for businesses combined with an enhanced structural framework for those offering services should also make it easier for firms to approach other suppliers of these services directly, thereby creating market dynamics in their own right; and (ii) the operation (as counterpart) of a private local business entity, with local organizations as members. This entity should be strongly representative and have a track record in the delivery of services.
- 5.2 The program does entail some risk in the sense that the business community could prove hesitant to hire consultants at prices progressively approaching market levels. This risk should be overcome by means of education/outreach activities, as well as through periodic reviews of the program with the aim of analyzing the results obtained and incorporating the changes necessary to ensure that the envisaged goals are duly achieved.

SMALL ENTERPRISE COMPETITIVENESS PROGRAM
MONITORING AND EVALUATION INDICATORS FOR THE EXECUTION OF THE PROGRAM

INDICATOR/YEAR	Year 1	Year 2	Year 3	Year 4
services				
stic evaluation (i)	150	180	224	
dual (i)	54	66	78	
ation (i)	60	66	84	
(i)	95	115	125	
onal activities				
execution (MIF/CEPRI)	\$1,344,000	\$1,213,000	\$1,113,000	\$ 316
e generated by sales of services	\$ 894,000	\$1,151,000	\$1,513,000	\$2,756
work plan	1	1	1	
annual progress reports	2	2	2	
d financial statements	1	1	1	
m evaluations	1	1	1	

r of firms per year

PLANNING FOR THE SMALL ENTERPRISE COMPETITIVENESS PROGRAM

PRIMARY OF OBJECTIVES	INDICATORS (see following table)	MEANS OF VERIFICATION	ASSUMPTIONS
Enhance the competitive capacity of small enterprises (goods and services)	Approximately 1,000 beneficiary enterprises over a 4-year period, shall become more competitive and are satisfied with the quality of services. ^{1/}	(a) Final execution report; and (b) surveys using sampling methods.	(a) CEPRI is committed to maintain the program indefinitely; and (b) CEPRI attaches priority to serving the changing needs of small enterprises through the provision of support services.
Supply and demand for support services tailored to the needs of small enterprises.	Upon completion of the program, it is expected that the following numbers of small enterprises will have availed themselves of the services arranged through the program: (a) diagnostic evaluations: 800; (b) services for individual enterprises: 300; (c) for associated enterprises: 300; and (d) PROFO: 480.	(a) Progress reports; (b) Project inspection; (c) Scheduled evaluation; and (d) Surveys using sampling methods.	(a) There is demand for services; (b) The small enterprises are prepared for the services; (c) Through cost recovery, CEPRI can continue providing services; and (d) CEPRI has an institutional infrastructure capable of administering a program of this nature.
Support for small enterprises; and management of CEPRI.	(a) Annual plans and itemized budgets broken down by activity; and (b) Program directors.	(a) Progress reports on the operation; (b) Programmed evaluation; and (c) reviews of annual plans.	
ES: evaluation of small enterprises and associated enterprises		(a) Progress reports on the operation; (b) Requests for disbursement; (c) Accounting records of the beneficiaries; and (d) Financial statements on the operation, evaluated by external auditors.	

Competitiveness indicators will be developed during the program as the diagnostic evaluations of the small enterprises are performed. They will be reviewed by the Bank by means of reports.

PROPOSED RESOLUTION

**CHILE. TECHNICAL COOPERATION FOR THE PROGRAM OF COMPETITIVENESS
OF SMALL ENTERPRISES**

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, on behalf of Multilateral Investment Fund, to enter into such agreements as may be necessary with the Centro de Productividad Industrial 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 technical cooperation, the purpose of which is the competitiveness of small enterprises.

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