

PROMOTION OF SUSTAINABLE BUSINESS SERVICES FOR MICROENTERPRISE AND  
SMALL AND MEDIUM-SIZED ENTERPRISE

(TC-98-05-45-1)

EXECUTIVE SUMMARY

**EXECUTING AGENCY:** Instituto Nicaragüense de Desarrollo [Nicaraguan Development Institute] (INDE)

**OBJECTIVES:** The objective of the pilot program is to enable microenterprise and small and medium-sized businesses in Nicaragua to compete more effectively in an increasingly global market place. This will be achieved by promoting a sustainable market for nonfinancial services for the microenterprise and small and medium-sized enterprise (MSME) sector. Specifically, the program will test a model designed to: (i) encourage an increase in effective demand for training and technical assistance, (ii) improve and promote the development of private providers of training and technical assistance for MSMEs, and (iii) generate more interface between business (demand) and providers of training and technical assistance services (supply).

**DESCRIPTION:** The program is divided into the following components: (i) setting up a training and technical assistance coupon and voucher system to spur demand for greater investment on an ongoing basis in nonfinancial services through partial incentives; (ii) establishing a mechanism to support nonfinancial service providers; and (iii) implementing a strategy to promote and disseminate information on the program.

<b>FINANCING:</b>	Modality:	Nonreimbursable
	MIF: (Window II)	US\$ 425,000
	(Window III)	US\$ 975,000
	Other contributions:	<u>US\$ 930,000</u>
	Total:	US\$2,330,000

<b>TERMS:</b>	Execution period:	36 months
	Disbursement period:	48 months

CONDITIONS PRECEDENT TO THE FIRST DISBURSEMENT OF THE CONTRIBUTION: Up to the equivalent of US\$20,000 will be used to provide technical support in hiring a technical coordinator to help INDE carry out activities for fulfillment of conditions precedent to disbursement. INDE will need to satisfy all of the general conditions precedent to the first disbursement of the financing (see paragraph 8.1).

CONDITIONS PRECEDENT TO THE FIRST DISBURSEMENT OF THE REMAINDER OF THE CONTRIBUTION: Prior to disbursement of the remainder of the contribution, INDE will be required to demonstrate that: (i) the technical coordinator has been hired to help develop its capacity and operational planning; (ii) the strategic plan has been developed, setting forth the objectives, planned activities, targets, and amount of funding required for these activities; (iii) the Coordinating Committee's functions and operating guidelines have been established and defined; and (iv) INDE's Executive Council has approved a document delegating to the Coordinating Committee all responsibility relating to execution of the proposed operation (see paragraph 8.2).

Prior to the disbursement for initiating distribution of coupons and vouchers, INDE will need to demonstrate, to the Bank's satisfaction, that: (i) operating procedures and manuals have been developed for management of demand and supply incentives in accordance with the terms and conditions previously agreed on with the Bank; (ii) a monitoring and evaluation system has been established; (iii) the financial/operating benchmarks and impact indicators have been developed; (iv) all of the computer equipment has been installed and the necessary software developed; (v) the operating plan for year one of coupon and voucher distribution has been submitted; and (vi) the terms of reference have been drafted for the final evaluation of the program, including the activities to be carried out to disseminate the results of the final evaluation. The terms of reference and the consultant selected to perform the evaluation must be approved in advance by the MIF (see paragraph 8.3).

#### Conditions for execution

The Bank will monitor the program by means of the following activities: (1) a **monitoring and evaluation system**, that will serve as a basis for preparing the program progress reports; (2) a **strategic plan** developed as one of the conditions precedent to the first disbursement; (3) **annual**

operating plans; (4) annual audits commencing in year two to ensure proper use of Bank's resources; and (5) a business plan containing a financial strategy for collecting funds from the government and other donors as well as to assure the sustainability of the program. The annual operating plans will be submitted one month prior to the close of each year of the program. The audit reports will be submitted during the first 60 days of each calendar year during program execution (see paragraph 7.1).

Two evaluations are planned for the project, commencing with a mid-term evaluation to be performed once one half of the program resources has been committed, followed by a final evaluation once 90% of the program funding has been committed (see paragraphs 7.3, 7.4, and 7.5).

Within 60 days following the close of each calendar six-month period during program execution, INDE will submit, to the Bank's satisfaction, a report outlining the progress achieved under the program. Should the reports show that the program is experiencing significant problems, the Bank reserves the right to demand that corrective steps be taken to remedy the shortcomings (see paragraph 7.2).

## I. ELIGIBILITY

- 1.1 On June 7, 1994, the Donors Committee declared the Republic of Nicaragua eligible for all forms of financing from the MIF.

## II. FRAME OF REFERENCE

### A. Background

- 2.1 The microenterprise and small and medium-sized enterprise (MSME) sector, defined as encompassing all businesses with between one and 100 employees <sup>1/</sup>, accounts for approximately 99.8% of all business activity in the country. Microenterprise represents 93.1% of the universe of businesses in Nicaragua. Accordingly, the importance of MSMEs in generating employment is considerable. In 1997, for instance, of the 340,000 individuals employed in enterprises located in urban areas, 281,000 (84%) were working in MSMEs.
- 2.2 In spite of the predominance of such firms, they are handicapped by limitations in terms of technology and internal capacity which increasingly restricts their competitiveness in the global market. These shortcomings include for the most part: (i) machinery using obsolete technology, (ii) scant information on competition and international markets, (iii) insufficient capacity for product design and for use of international standards for products and processes, (iv) absence of distribution channels, and (v) lack of capacity in management and administration.

### B. Demand

- 2.3 In recent years, demand for advisory and training services has increased to meet the need to compete in more demanding markets and to modernize their businesses. The expansion of existing demand is circumscribed, however, by a number of factors that include: (i) lack of awareness on the part of entrepreneurs of the need for higher and continual investment in these services, (ii) problems in identifying reliable service providers that can adapt to the specific needs of entrepreneurs, (iii) lack of information on the content and suitability of the services now available in the market, and (iv) poor capacity to negotiate, appraise results and implement proposals from nonfinancial service providers.

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<sup>1/</sup> The classifications used in Nicaragua include: microenterprise (up to five employees), small enterprise (from 5 to 20 employees), and medium-sized enterprise (from 20 to 100 employees).

C. Supply

- 2.4 Supply, too, is distorted by a number of factors that include: (i) training and technical assistance practices that are indelibly linked to credit, (ii) an abundant supply of free services of dubious quality offered by NGOs and institutions in the public sector, and (iii) supply subsidies provided by international donors whose content cannot be controlled and evaluated by users. Consequently, supply is not tailored to the needs of the sector or specialized enough to furnish such services. The market does not have any mechanisms for coordinating supply and demand, which entails high transaction costs and impedes the transparency of supply for those demanding such services.

D. Policies and strategies

- 2.5 The government has come up with a strategy for the MSME sector that stresses business competitiveness through (in coordination with the private sector) training and technical assistance to improve competitiveness. The country has had no experience in encouraging coordination between the private and public sectors in these areas. This program will help draw up coherent policies for the MSME sector in the following ways: (i) it will have a demonstration effect by generating specific experiences for improving the market for training and technical assistance services, (ii) it will establish an authority for coordinating efforts between the government and entities in the private sector so that the public sector can benefit from the experiences generated and adapt its policies accordingly, and (iii) it will finance a series of activities to promote and guarantee broad dissemination of the results to the public sector and other donors.
- 2.6 The proposed program casts aside the traditional strategy of intervention and supply-side subsidies and provides resources directly to entrepreneurs so that the latter, aware of their needs and increased purchasing power, may procure the services which in their view would bring the greatest benefit to their companies. Also, the funding put on the market will serve as a catalyst that would spur providers to improve the quality of their services in a move to broaden their client base. The market will tend to grow and become more competitive since entrepreneurs will have a greater perception of the benefits derived from better quality services and will begin to invest more of their own funds more regularly to improve the professional caliber of their companies. The program is intended, therefore, as a pilot project demonstrating the feasibility of a small-scale private market for nonfinancial services.

### III. THE PROGRAM

#### A. Objectives

- 3.1 The objective of the pilot program is to make microenterprise and small and medium-sized enterprise in Nicaragua better able to compete in an increasingly global market. Specifically, the program will test a model designed to: (i) encourage an increase in effective demand for training and technical assistance, (ii) improve and promote the development of private providers of training and technical assistance for MSMEs, and (iii) generate more interface between business (demand) and providers of training and technical assistance services (supply).

#### B. Components

- 3.2 To achieve these objectives, the program is divided into three components, as described in the following sections.

1. Incentives for demand (US\$736,600 (68%) from the MIF; US\$344,800 (32%) from other sources)

- 3.3 The idea is to put in place a **coupon/voucher system for training and technical assistance** that would be based on providing entrepreneurs in the MSME sector with incentives to stimulate investment in nonfinancial services. The incentive would cover part of the cost of any training or technical training that the entrepreneurs should decide to purchase. Companies eligible for coupons and vouchers will be MSMEs willing to bear a portion of the costs of training and technical assistance and having the capacity to do so. To take part in the program, the companies will need to present a copy of the public registration and/or, in the case of companies in the informal sector, evidence of their business activity.

##### a. Training coupons

- 3.4 The program will finance the introduction of a coupon system to expand the number of entrepreneurs and workers investing in the training services available from providers affiliated with the program. Many of the training courses requested are expected to focus on business management and control, business administration, leadership and business culture, Internet use, technology transfer, improving procedures and production methods, marketing, and general training for workers in the firms. The coupons will have a value of US\$20 initially, which should cover one half of the cost of short-term basic and special training (approximately 20 hours). The program is expected to reach at least 1,000 beneficiary firms in three years.

b. Technical assistance vouchers

- 3.5 A technical assistance voucher system will be financed with a view to encouraging demand for specialized services in specific areas and a supply of such services. Since the supply of technical assistance for MSMEs in Nicaragua is scant and disorganized, the technical assistance vouchers and the way in which they work is different from the coupon system. The vouchers will have a maximum value of US\$5,000, which will cover a differentiated percentage of the cost of service. The vouchers are expected to cover approximately 70% of the total cost of the technical assistance for microenterprise and small business and up to 60% of that for medium-sized businesses in year one of the program. It is estimated that approximately 400 firms stand to benefit from this activity in three years. The areas to be financed with the use of vouchers include business appraisals, production and technology innovation, market studies, standards of quality and compliance, financial management, preparation of financial proposals, and customized on-site training for requesting firms.

c. Control mechanisms

- 3.6 To ensure that coupons and vouchers are distributed fairly and transparently, thus avoiding charges of impropriety, control measures established under the program include: (i) distribution of coupons and vouchers with identifying numbers corresponding to the user firm or individual, (ii) listing of institutions and firms eligible for providing nonfinancial services and exchanging coupons/vouchers, (iii) requirement that sworn and signed certification be furnished by participants and institutions, ensuring that the participants attended at least 75% of course hours (applicable only to coupons), and (iv) annual audits to ensure proper use and distribution of demand incentives. Such measures will be reviewed every six months to ensure that they are effective and if necessary the mechanisms will be adjusted to accommodate any unforeseen circumstances.

2. Improving supply (US\$79,600 (23%) from MIF; US\$270,800 (77%) from other sources)

- 3.7 The analysis of market services has shown that there are distortions and serious shortcomings in the quality and capacity of supply if it is to satisfy the requirements of demand. Funding from the program and other sources will be used to set up a mechanism to raise the professional caliber of service providers and to encourage the development of attractive differentiated training and advisory assistance products for MSMEs.
- 3.8 Efforts to boost supply will consist of technical assistance in such areas as development of training and technical assistance methodologies, preparation of diagnostic studies, training of trainers, transfer of skills standards, and training to increase

institutional efficiency. Eligible for the program will be training institutions, business development institutions, consulting firms, and individual consultants. Applications from groups of institutions will also be accepted. It is estimated that 40 firms will have received support by the end of the program.

3. Promotion, dissemination, and information (US\$130,800 (56%) from MIF; US\$104,600 (44%) from counterparts).

- 3.9 Promotion is vital to ensuring, insofar as is possible, equal access to coupons and vouchers. Also, promotion of the program will help to attract additional resources that will be needed after the MIF funding has been used up. The strategies for dissemination of information are varied and include: (i) information campaigns in different media on the distribution of coupons and vouchers, (ii) seminars with service providers, (iii) dissemination of results in bulletins published by trade associations and other institutions, (iv) annual presentations on accomplishments to the public and private sectors, MSME associations, academic institutions, and other international donors, and (v) a seminar upon program completion to announce the results of the final evaluation and further promote these results with the donors and the public sector.
- 3.10 Given the nature of its activities, the project calls for efficient management of referral information on service providers and requesters. To this end, the following steps will be taken: (i) a roster of providers, furnishing timely background information on providers, available courses, prices, content, schedules, etc. so that support can be given to MSME entrepreneurs in decision-making; and (ii) a data base with information on the orientation and preference of effective demand, the nature of the services demanded, and their cost and duration. An information system of this kind is expected to make for more transparent market mechanisms and develop momentum for adjusting and improving the supply of services.

#### IV. EXECUTION

##### A. Operating entities

##### 1. INDE

- 4.1 The Nicaraguan Development Institute will be the executing agency for the program, reporting to the Bank on the results of the operation. INDE is a second-tier, nonprofit organization founded in 1963 for the purpose of promoting comprehensive development in Nicaragua.



- 4.2 INDE offers several advantages, most notably that it is the ideal institution for managing an operation of this kind. Moreover, it has: (i) an excellent reputation in the public and private sectors, (ii) a broad spectrum of firms from the private sector represented in its membership and council, (iii) a second-tier "modus operandi" whereby INDE transfers responsibility for its programs to independent boards of directors, (iv) experience in transforming programs under its responsibility into independent entities, (v) a network of offices nationwide that could facilitate expansion of the program to other geographic areas in the country, (vi) successful experience channeling funds from international institutions, and (vii) financially sound operation at the national level.
- 4.3 An executing unit will be established within INDE in charge of implementing activities and managing the different program mechanisms. The unit will provide reference materials to requesters on registered providers, administer program resources and subsidies and evaluate the quality of the training courses and technical assistance provided under the program. The unit itself will not provide training services and technical assistance to entrepreneurs.
- 4.4 The unit will have a technical coordinator, an accreditation and supervision officer, an assistant accreditation and supervision officer, an information systems administrator, a promotion officer, and an accountant.

## 2. Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH

- 4.5 The GTZ office in Nicaragua will cofinance the supply strengthening component under its business development program (PPE). The activities of this component will be carried out separately from other GTZ programs in the country. The GTZ is a bilateral agency that carries out the technical cooperation projects financed by the Government of Germany and to a lesser degree projects of other international organizations.
- 4.6 Among the advantages of the GTZ acting as cofinancer for an aid project in Nicaragua are that it has: (i) an excellent reputation in the eyes of different players in the MSME sector as well as international organizations, (ii) recognition for its expertise in planning, monitoring and evaluation, and innovative and successful training and technical assistance methodologies, (iii) a proven working relationship with INDE, and (iv) a close relationship with other aid agencies.

## 3. Coordinating Committee

- 4.7 A Coordinating Committee with management authority will be established for the program. The functions of this body will be

promotion, regulation, and evaluation of the program, with its main function being to oversee the program results and promote participation by the public and private sectors and the international community in financing the program and expanding it. The Committee functions will not include day-to-day approval of program activities.

- 4.8 The Committee's functions will include: (i) confirming and submitting to the Bank the terms of reference and the consultants selected for the Executing Unit; (ii) receiving, commenting on, and submitting to the Bank the strategic plan, annual operating plans, semiannual reports, audits, and business plan; (iii) confirming and submitting to the MIF the terms of reference and the consultant selected to be in charge of conducting the final evaluation; and (iv) keeping the INDE Executive Committee periodically informed of the activities carried out and the extent to which the program objectives have been fulfilled. As a condition precedent to the first disbursement, INDE will need to demonstrate that all of the committee's functions and operating guidelines have been defined and agreed on.
- 4.9 The Coordinating Committee will consist of three representatives from INDE, a representative from the National Institute of Small and Medium-Sized Business (INPyME), a representative from the Ministry of Development, Industry, and Trade, a representative from the GTZ, a representative of the National Association of Small Industry (CONAPI), a representative of the Nicaraguan Union of Small and Medium-sized Manufacturers (UNIPYME), and a representative from the nonfinancial service provider sector. Any donors subsequently joining the project may also request membership on the Committee. Other members will be the technical coordinator of the unit, who will act as the Committee's General Secretary and serve as a nonvoting member. The Bank reserves the right to participate in all meetings of the Committee.

#### 4. Technical support

- 4.10 Out of the proceeds of the financing, outside consultants will be hired to reinforce the unit's capacity to manage the program. The team will be in charge of helping the unit to fulfill all of the conditions precedent to disbursement of the resources for training and technical assistance coupons and vouchers. It will also be responsible for assisting the unit with the development of its business plan which will have to be submitted to the Bank in year three of the program (see paragraphs 5.2 and 7.1).
- 4.11 In addition, individual consultants will be hired locally to assist with the institutional development of INDE in specific areas. The support areas will be determined jointly by INDE and the Bank. All consultants will be hired in accordance with the applicable Bank procedures. Goods will be procured following private-sector procedures.

B. Status of program preparation

- 4.12 The program is considered to be at an advanced stage of preparation for the following reasons: (i) various presentations of the program have been made to donors with the greatest presence in the country and to representatives from the public sector who have expressed interest in taking part in the program at a subsequent stage; and (ii) surveys conducted when the program was being prepared show that considerable interest exists on the part of all sectors in taking part in a program that promotes demand and fosters development of nonfinancial service providers in the private sector. INDE has initiated the process of identifying potential candidates for membership in the Coordinating Committee. In addition, INDE has a network of information on national experts who could take on the position of technical coordinator. It is estimated that INDE could fulfill the conditions precedent to this operation within six months of signature after the letter of agreement for the program.

C. Environment and social impact

- 4.13 The Bank's Committee on Environment and Social Impact (CESI) considered this operation on October 10, 1998 (meeting TRG38/98), and recommended that the training activities include topics such as worker rights, production, efficiency and conservation of natural resources, and clean technology and its importance for community well-being as well as market penetration. Although the content of the training courses will be determined by the market forces of supply and demand, the unit will make a special effort to ensure that on the supply side the courses offered to suppliers are designed in such a way as to include environmental and worker issues. On the demand side, every effort will be made to ensure that entrepreneurs recognize the importance of taking into consideration the environmental aspects on the operation of their businesses. In addition, the environmental dimension will be brought into the strategy for promoting the program. Implementation of the recommendations will be part of the monitoring and evaluation process.

V. COST AND FINANCING

A. Cost

- 5.1 The cost of the project is estimated at US\$2,330,000, with the MIF contributing US\$1.4 million in nonreimbursable funding. A further contribution will come from INDE, of which one half will be in cash, and from the GTZ. Summed up below is the project budget.

ACTIVITIES	MIF	GTZ	INDE	TOTAL	%
I. Demand Incentives					47
1. Coupons	425,000		175,000	600,000	
2. Vouchers	250,000		100,000	350,000	
3. Other	61,600		69,800	131,400	
Subtotal	736,600		344,800	1,081,400	
II. Supply incentives	79,600	240,000	30,800	350,400	15
III. Promotion	130,800		104,600	235,400	10
IV. Technical support	337,000			337,000	14
V. Monitoring and evaluation	54,000	50,000		104,000	5
VI. Equipment	30,000		20,000	50,000	2
VII. Administrative expenses			139,800	139,800	6
VIII. Contingencies	32,000			32,000	1
TOTAL	1,400,000	290,000	640,000	2,330,000	100

## B. Sustainability

- 5.2 The pilot program is geared to creating **institutional** sustainability. It will be verified that the demand incentives encourage the development of a sustainable business services market by means of indicators of growing demand, product diversification, level of customer satisfaction, gains in productivity and competitiveness, and more investment by entrepreneurs in business services. On the basis of positive indicators, a business plan will be developed to propose a new institutional framework, separate from INDE, exclusively for the private sector or sponsored by a "public-private partnership".
- 5.3 Once the program has achieved its own institutional framework, collection mechanisms will need to be introduced that include intermediation fees for prospective **financial sustainability**. The future institution will work with funds channeled by donors and/or the government but solely as direct demand subsidies and not to cover the institution's operating costs.

## VI. JUSTIFICATION AND RISKS

### A. Justification

- 6.1 The program is a pilot initiative designed to create a new model to spur other donors to channel funding towards activities that encourage the creation of a sustainable market for business services. A consensus exists among the different bilateral and international aid agencies that intervention on the supply side has not produced the expected results. However, there is no innovative model for boosting demand. The present proposal posited by a leading institution such as the Bank in conjunction with the GTZ, could serve as an example for other agencies to change their intervention strategies in the medium term.

### B. Risks

- 6.2 The program is faced with a weak service provider base owing to factors that have created market distortions. The program has two elements to correct these distortions. First, the program focuses its interventions on boosting demand, serving as a catalyst to encourage providers to be more responsive to the needs of entrepreneurs. The program with the GTZ will coordinate efforts to improve the quality of service. The coordination of these two institutions with an extensive presence in Nicaragua has the virtue of avoiding duplication of efforts and capitalizing on the comparative advantages of each institution. In addition, the GTZ's conceptual contribution to the planning, monitoring, and evaluation gives value added to technical quality in project execution.

## VII. PROJECT MONITORING AND EVALUATION

### A. Monitoring

- 7.1 The Bank will monitor the program by means of the following activities: (1) a **monitoring and evaluation system** established with the GTZ contribution, which will serve as a basis for presenting the program progress reports; (2) a **strategic plan** developed as one of the conditions precedent to the first disbursement, describing the objectives, planned activities, goals and amount of resources required for activities to be carried out in year one of the program; (3) **annual operating plans**, which will include: (i) the activities and goals to be accomplished under each component on the basis of the indicators set out in the logical framework, (ii) the environmental activities to be carried out, (iii) the operating and financial benchmarks to be used in monitoring fulfillment of the program targets and objectives, (iv) the responsibilities corresponding to each department of the

Executing Unit, and (v) a tentative timetable of Coordination Committee meetings; (4) **annual audits** commencing in year two to ensure proper use of Bank's resources; and (5) a **business plan** containing a financial strategy for collecting funds from the government and other donors as well as to assure that the unit will be sustainable after the MIF resources have used up. The business plan will be submitted to the Bank in year three. The annual operating plans will be submitted one month prior to the close of each year during program execution. The audit reports will be submitted during the first 60 days of each calendar year during program execution.

B. Reports

- 7.2 INDE, through the Executing Unit, will submit semiannual reports to the Bank, with a copy to the Coordinating Committee within 60 days following the close of each six-month period. The information contained in the reports is to include details on the progress of the program and fulfillment of the operating and financial benchmarks. Should the reports show that the program is experiencing significant problems, the Bank reserves the right to demand that corrective steps be taken to remedy the shortcomings.

C. Evaluations

- 7.3 Two evaluations are to be carried out under the program, a mid-term evaluation once one half of the funding has been committed and a final evaluation once 90% of the program resources have been committed. The Bank funding will be used to hire consultants to perform the mid-term evaluation. The cost of consultants for the final evaluation will be defrayed with the GTZ contribution. Both INDE and the GTZ will work together in preparing the terms of reference for the consultants and in selecting the consultants.
- 7.4 The mid-term evaluation will include: (i) an analysis of the unit's operations in terms of productivity and internal capacity to manage a program of incentives for supply and demand; (ii) an evaluation of the Committee and the part it has played in the program; (iii) an analysis of the quality of the services provided by the unit and the GTZ and the level of customer satisfaction; (iv) the extent to which financial and operating benchmarks have been fulfilled, (v) information on environmental issues disseminated to microentrepreneurs during program implementation; (vi) special recommendations as to how the unit could transform itself into an institution independent of INDE; and (vii) specific recommendations for improving program execution and guaranteeing its continuity after the MIF financing has been used up. Should the findings of the mid-term evaluation be considered unsatisfactory by the Bank, the latter will require that the necessary steps be taken to correct the deficiencies.

- 7.5 The consultants for the final evaluation will be hired in consultation with the MIF. This evaluation will focus on an impact analysis on the competitiveness of the firms as a result of the interventions financed under the program, as well as the suitability of the voucher and coupon systems as a mechanism for promoting greater investment in technical assistance and training on the part of entrepreneurs. As the operation is a pilot project that is expected to be replicated in other countries, a national seminar will be organized to disseminate the findings of the final evaluation. At the seminar, a presentation will be made of the progress made in encouraging the donors to channel their efforts to the type of activity financed under the program.

#### VIII. SPECIAL CONTRACTUAL CONDITIONS

- 8.1 Up to the equivalent of US\$20,000 will be used to provide technical support in hiring a technical coordinator to help INDE carry out activities for fulfillment of conditions precedent to disbursement. INDE will need to satisfy all of the general conditions precedent to the first disbursement of the financing.
- 8.2 Prior to disbursement of the remainder of INDE's contribution, the latter will be required to demonstrate that: (i) the technical coordinator has been hired to assist with the development of its capacity and the planning of the operation; (ii) the strategic plan has been developed, including the objectives, planned activities, targets set, and the amount of the resources required for these activities; and (iii) the Coordinating Committee's functions and operating guidelines have been established and defined; and (iv) INDE's Executive Council has approved a document delegating to the Coordinating Committee all responsibility relating to execution of the proposed operation.
- 8.3 Prior to the disbursement for initiating distribution of the coupons and vouchers, INDE will need to demonstrate, to the Bank's satisfaction, that: (i) operating procedures and manuals have been developed for management of demand and supply incentives in accordance with the terms and conditions previously agreed on with the Bank; (ii) a monitoring and evaluation system has been established; (iii) the financial/operating benchmarks and impact indicators have been developed; (iv) all of the computer equipment has been installed and the necessary software developed; (v) the operating plan for year one of coupon and voucher distribution has been submitted; and (vi) the terms of reference for the final evaluation of the program have been drafted, including the activities to disseminate the results of the final evaluation. The terms of reference and the consultant selected to perform the evaluation must be approved in advance by the MIF.

**LOGICAL FRAMEWORK**  
**PROMOTION OF SUSTAINABLE BUSINESS SERVICES FOR MICROENTERPRISE AND SMALL AND MEDIUM-SIZED ENTERPRISE**

	Indicators	Means of verification	Major assumptions
Productivity of microenterprise and medium-sized enterprise in its ability to compete in an open market place	<p>Annually for 4 years after signature of the agreement</p> <ul style="list-style-type: none"> <li>Increased production of participating firms (baseline year 1999)</li> <li>Increased productivity of participating firms (baseline year 1999)</li> <li>Increased sales of participating firms (baseline year 1999)</li> </ul>	<ul style="list-style-type: none"> <li>Accounting and production control records</li> <li>Financial statements</li> <li>Evaluation surveys</li> </ul>	<ul style="list-style-type: none"> <li>Political and economic stability maintained</li> <li>Globalization policy continues</li> <li>Inflation and interest rates remain low</li> </ul>
Interaction between the demand (micro and medium-sized enterprises) and providers of technical assistance services	<p>Annually for 4 years after signature of agreement</p> <ul style="list-style-type: none"> <li>Sale of services providers increase 25% (baseline year 1999)</li> <li>Comparative increase in investment in training and technical assistance (baseline year 1999)</li> </ul>	<ul style="list-style-type: none"> <li>Qualitative and quantitative studies</li> <li>Surveys conducted of MSMEs and firms offering training and technical assistance</li> <li>Results of project evaluation</li> </ul>	<ul style="list-style-type: none"> <li>Regulations and marketing mechanisms in the MSME sector in Nicaragua maintained or improved</li> </ul>
<p>Registration of coupons</p> <p>Technical assistance vouchers</p>	<p>By the end of the third quarter of year 3</p> <ul style="list-style-type: none"> <li>1,000 firms complete training courses</li> <li>10,000 workers trained to the satisfaction of MSME entrepreneurs</li> <li>400 firms complete technical assistance process</li> <li>Time for delivery of products/services shortened by 25%</li> <li>Wastage and rejections reduced by 30%</li> </ul>	<ul style="list-style-type: none"> <li>Registration of coupons</li> <li>Registration of vouchers</li> <li>Surveys of MSMEs</li> <li>Promotion workshop report</li> <li>Results of project evaluation</li> </ul>	<ul style="list-style-type: none"> <li>Growth of MSME sector continues</li> <li>MSME entrepreneurs aware that training and technical assistance are an investment</li> </ul>
Supply	<p>By the end of the third quarter of year 1</p> <ul style="list-style-type: none"> <li>40 firms/consultants complete technical assistance process and strengthened</li> <li>60 firms/consultants evaluated, registered and available to provide training and technical assistance services</li> </ul>	<ul style="list-style-type: none"> <li>Intermediation unit reports</li> <li>Promotion workshop report</li> <li>Results of project evaluation</li> </ul>	<ul style="list-style-type: none"> <li>Supply of training and technical assistance from service providers ongoing and improved</li> </ul>



	Indicators	Means of verification	Major assumptions
<p>and dissemination of to ensure sustainability</p> <p>on of the program</p> <p>nation of results</p>	<p>By the end of second quarter of year 1</p> <ul style="list-style-type: none"> <li>• 3 promotion workshops held</li> <li>• 50 participants attend</li> <li>• 2 seminars for providers</li> </ul> <p>By the end of third quarter of year 3</p> <ul style="list-style-type: none"> <li>• 2 dissemination seminars</li> <li>• 30% of project resources disbursed by government and international donors</li> </ul>	<ul style="list-style-type: none"> <li>• Intermediation unit reports</li> <li>• Promotion workshop report</li> <li>• Results of project evaluation</li> </ul>	<ul style="list-style-type: none"> <li>• Private and public sectors, MSME associations, and other donors the program</li> </ul>
<p>entives</p> <p>upply</p> <p>nd dissemination for</p> <p>upport</p> <p>nd evaluation</p> <p>t of light equipment</p> <p>e expenses</p> <p>s and escalation</p>	<p>Budget performance in United States dollars by the end of month 42</p> <p>1,081,400</p> <p>350,400</p> <p>235,400</p> <p>337,000</p> <p>104,000</p> <p>50,000</p> <p>139,800</p> <p>32,000</p>	<ul style="list-style-type: none"> <li>• Budget performance report</li> <li>• Financial statements</li> <li>• Project progress report</li> <li>• Results of project evaluation</li> </ul>	<ul style="list-style-type: none"> <li>• MSME entrepreneurs willing to in the program</li> <li>• Sufficient number of training and assistance firms exists</li> <li>• Training and technical assistance interested in taking part</li> <li>• Funds from sources of financing disbursed in a timely manner and sufficient amounts.</li> </ul>

PROPOSED RESOLUTION

NICARAGUA. NON-REIMBURSABLE TECHNICAL COOPERATION FOR A PILOT  
PROJECT- PROMOTION OF SUSTAINABLE BUSINESS DEVELOPMENT SERVICES  
FOR THE MICRO, SMALL AND MEDIUM ENTERPRISE.

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 Nicaragüense de Desarrollo and to adopt such measures as may be pertinent for the execution of the plan of operations referred to in Document MIF/AT- \_\_\_\_, with respect to a nonreimbursable technical cooperation for a pilot project -promotion of sustainable business development services for the micro, small and medium enterprise.

2. That up to the sum of US\$1,400,000, or its equivalent in other convertible currencies is authorized for the purpose of this resolution, chargeable to the resources of the Multilateral Investment Fund. From this sum, the amount of US\$425,000 shall be chargeable to the Human Resources Facility and the amount of US\$975,000 shall be 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.