

BUSINESS SERVICES PILOT PROJECT

(TC-98-02-19-2)

EXECUTIVE SUMMARY

EXECUTING AGENCY: Cámara de Industria de Guatemala

BENEFICIARIES: Micro-, small and medium-sized enterprises

OBJECTIVES: The objective of the program is to improve the productivity and competitiveness of micro, small and medium sized firms in Guatemala by developing the market of technical assistance and training for smaller scale firms and bringing the demand and supply of business services closer together.

To achieve this, vouchers will be made available to firms to finance the cost of technical assistance and training from the service supplier of their choice. As firms will pay an important portion of costs, this creates an incentive for their carrying out quality control of services bought. At the same time, suppliers of business services will be stimulated to develop products that meet the needs of small scale firms.

DESCRIPTION: Component #1: Demand strengthening component consisting of a system of technical assistance and in-firm training vouchers and a system of external training vouchers (US\$759,439 MIF; US\$240,561 local counterpart)

The **technical assistance and in-firm training voucher system** will provide each eligible firm up to three vouchers a year, with a unit value in Quetzales equivalent to US\$300. These vouchers will permit financing of technical assistance services with a minimum duration of 25 technical specialist/hours in the firms, or in-firm training of a minimum 20 training hours in the enterprises, for a minimum of 5 participants. The goal is to facilitate the realization of 2,600 individual technical assistance and in-firm training service deliveries for firms in the target group, adapted to their needs.

The **external training voucher system** will provide each eligible firm up to eight successive vouchers per year, with a unit value in Quetzales equivalent to US\$20, to finance the participation of firm workers in courses with a minimum duration of 20 hours. Each voucher will cover an average of 50% of the cost of the courses. The goal is to facilitate the access of 10,000 participants to external training.

Component #2: Strengthening of supply of business services (US\$50,000, MIF)

The **technical innovation fund** will provide partial funding for technical assistance to institutions to support technical and administrative innovation in

the provision of services to small scale firms. The fund will finance proposals - in an amount of up to 50% of their total cost - that are presented jointly by a minimum of three supplier institutions accredited by the program. The goal is to strengthen administratively and technically 30 private providers of technical assistance and in-firm training.

Component #3: Information dissemination and marketing
(US\$195,961, MIF; US\$38,239, local counterpart)

The **information reference system** - will consist of an extensive and diversified data base on the existing non-financial business services market and act as an interface between buyer firms and supplier institutions. Its implementation and development will involve: (i) the contracting of consulting support for the graphic design and formulation of widespread communication strategy; (ii) the implementation of a systematic dissemination campaign through radio and press; (iii) the contracting of consulting support for the design and implementation of the appropriate program management software; (iv) the contracting and training of information officers; and (v) the installation and opening of information, orientation and user service windows. The goal is that a minimum of 850 firms will have acquired information on the existing supply of non-financial business services, and received orientation on the preparation of contracts for these services.

FINANCING:

Modality:	Grant
MIF (Window III):	US\$1,585,070
Recipient:	US\$ 680,000
Total:	US\$2,265,070

**IMPLEMENTATION
SCHEDULE:**

Execution Period:	36 months
Disbursement Period:	42 months

**ENVIRONMENTAL AND
SOCIAL IMPACT:**

Capacity-building in environmental and worker health issues, and rural and communal outreach measures, have been included as part of the training and technical assistance in the program.

**CONTRACTUAL
CONDITIONS:**

1. Prior to first disbursement the Cámara de Industria will submit to the satisfaction of the Bank: (i) evidence that it has hired the program coordinator in accordance with terms of reference previously agreed upon with the Bank (see paragraph 4.2); and (ii) its plan of operations for the first six months of execution.

2. Prior to disbursement of funds for Component #1 (training vouchers) the Cámara de Industria will submit to the satisfaction of the Bank evidence that it has: (i) contracted the consulting firm to assist in project execution, in accordance with terms of reference previously agreed upon with the Bank (see paragraph 7.1); (ii) established its consultative committee (see paragraph 4.2); (iii) established systems, procedures and manuals for managing the voucher component (see paragraph 4.4); (iv) established indicators and benchmarks for project monitoring and evaluation; and (v) withdrawn from

providing technical assistance services directly to firms through its Unidad Tecnológica para la Pequeña y Mediana Empresa (UTEPYMI), so that it can fulfill its second-tier function of strengthening the non-financial business service market with financial incentives and information measures (see paragraph 4.5).

3. Conditions for execution: (i) Monitoring: the principal monitoring tools will be semi-annual reports of the consulting firm contracted for implementation and monitoring of the program, as well as statistics and regular reports generated by the program's information reference system (paragraphs 7.1 and 7.2). (ii) Evaluations: an intermediary evaluation once one third of program resources has been disbursed, and a final evaluation after 30 months of execution.

**EXCEPTIONS TO IDB
POLICY:**

None

PROCUREMENT:

Procurement of goods and services will be done in accordance with Bank regulations.

I. ELIGIBILITY

- 1.1 Guatemala was declared eligible by the Donors Committee for Multilateral Investment Fund (MIF) financing on March 30, 1995.

II. BACKGROUND

A. Characteristics of firms

- 2.1 The sector of smaller scale firms in Guatemala is large and diverse. Micro-, small- or medium size enterprises account for 98% of firms, and 65% of the population employed in businesses. There are approximately 1,200,000 microenterprises, 24,000 small firms and 8,000 medium-size firms. ^{1/} Overall, firms are clustered in agriculture, industry, commerce and services, and are split fairly evenly between these four areas. In 1991 - 1995 Guatemala implemented a series of structural reforms, including trade liberalization, which have resulted in an increase in pressure on sectors previously protected. More competitive imports are presenting challenges to Guatemalan enterprises in their markets. Some Guatemalan sectors, such as agro-industry, have strong growth opportunities, including in export markets; however firms face constraints in meeting nationally and internationally competitive levels of quality.

B. Demand for training and technical assistance

- 2.2 The need of smaller scale firms to adapt their productive processes to this new, more competitive, global market environment creates demand for two types of business services. First, to implement new productive processes an adjustment of human capital is necessary, which creates demand for training in standardization, skills updating, and, when necessary, reconversion of human resources. Second, the development of new business processes often requires contracting specialists that provide technical assistance to firms to execute diagnostics and strategic planning for their businesses, as well as to implement measures to optimize productive systems and processes.
- 2.3 While smaller scale firms demand a wide range of non-financial services given the diversity of their businesses, on a whole small and medium firms, particularly in the industrial and dynamic service sectors, demand more technical assistance services - with a strong preference for diagnostics and in-firm training. Micro-enterprise demand, in turn, is strongly oriented to external training services through short, practical courses oriented to address problems of competitiveness.

^{1/} Definitions of firm size used: small firms - 5 to 20 employees; medium-size firms - 21 to 50 employees; and large firms - more than 50 employees). Estimates of number of firms are rounded to closest 1,000. See Annex 9 - Estimación del Número de Empresas y PEA Ocupada por Tamaño de Empresa y Actividad Económica.

Overall, the firms have relatively simple organizational structures, and lack resources to provide technical assistance and training internally to their own staff. Improving skills depends on the limited external technical assistance and training opportunities available to them.

C. Supply of training and technical assistance

- 2.4 The lack of training and technical assistance services for medium, small and microenterprises has been identified as an important deficiency in Guatemala.
- 2.5 Only approximately 30 private firms, some international, supply business **technical assistance services** in Guatemala. Analysis of prices charged by these consulting firms indicates a wide spread in what is charged for similar services, which reflects lack of competitive pressures and transparency in the market. Moreover, there exist critical deficiencies in the contracts that are used in the technical assistance market. These contracts lack the complexity necessary to constitute instruments that can address the asymmetry of information that characterizes the market to the detriment of the firms contracting technical assistance. In a significant number of transactions terms of reference are not used in the contracting of services, payment mechanisms based on results are not used, guarantees are not required, and formal contracts are not even elaborated.
- 2.6 The isolation of the micro- and small enterprise from the **external training** market leaves a considerable portion of the demand without a corresponding supply of services. External training is fundamentally oriented to large firms. A number of private institutions - many of religious origin - offer curriculum offerings with acceptable levels of quality. However, the available courses do not - because of their duration as well as orientation - constitute the short, practical training, oriented to resolve immediate competitiveness problems, that smaller firms need. The Instituto Técnico de Capacitación (INTECAP), a public sector institution run with private sector participation, is the leading vocational training institution in Guatemala and trains approximately 40,000 people a year. The INTECAP curriculum is largely oriented to training workers for large companies, however, and its courses are not tailored to the needs and situation of smaller businesses.
- 2.7 The obstacle that remains in the market of non-financial business services for micro-, small and medium size firms is the lack of experience on both the supply and demand sides, and resulting deficiencies of market information. Thus, service suppliers do not have adequate knowledge of the needs and preferences of such firms, and these in turn lack information

on the quality of suppliers and the potential benefits they can derive from buying their services. 2/

III. PROGRAM DESCRIPTION

A. Objectives

- 3.1 The objective of the program is to improve the productivity and competitiveness of micro-, small and medium sized firms in Guatemala by developing the market of technical assistance and training for smaller scale firms and bringing the demand and supply of business services closer together.
- 3.2 To achieve this, vouchers will be made available to firms to finance the cost of technical assistance and training from the service supplier of their choice. As firms will pay an important portion of costs, this creates an incentive for their carrying out quality control of services bought. At the same time, suppliers of business services will be stimulated to develop products that meet the needs of small scale firms.
- 3.3 The program will have three components: (i) a demand strengthening component consisting of a system of technical assistance and in-firm training vouchers and a system of external training vouchers; (ii) a supply strengthening component consisting of a technical innovation fund to facilitate the provision of specialized assistance in this area for supplier institutions, and (iii) a reference system of information on the demand for business services, to reduce the lack of information that can be detected as an imperfection in the market.
- 3.4 Through these mechanisms, the program will generate increased and better-informed demand for non-financial business services, experience in the negotiation of technical assistance service contracts, the adaptation of services supplied to the needs of the firms in the target group, and as a result promote the development and increasing self-sustainability of the market of non-financial services for small scale firms.

B. Components

(1) Component #1: Strengthening of demand for business services

(a) Technical assistance and in-firm training vouchers (US\$559,439 MIF; US\$240,561 local counterpart)

- 3.5 The **technical assistance and in-firm training voucher system** will provide each eligible firm up to three vouchers a year, with a unit value in Quetzales equivalent to US\$300. These vouchers will permit financing of technical assistance services with a minimum duration of 25 technical specialist/hours in the

2/ See Annex 2 - El Mercado de Servicios Empresariales No-Financieros en Guatemala.

firms, or in-firm training of a minimum 20 training hours, for a minimum of 5 participants. ^{3/} The market prices for these two services are on average US\$600 each, such that the level of subsidy will be on average 50%. All sides will be free to negotiate technical assistance services of greater duration, which can involve the segmentation of the service into independent modules with the same characteristics specified above.

- 3.6 The goal is to facilitate the realization of 2,600 individual technical assistance and in-firm training service deliveries for firms in the target group, adapted to their needs.

(b) External training vouchers (US\$200,000 MIF)

- 3.7 The **external training voucher system** will provide each eligible firm up to eight successive vouchers per year, with a unit value in Quetzales equivalent to US\$20, to finance the participation of firm workers in courses with a minimum duration of 20 hours. Each voucher will cover an average of 50% of the cost of the courses. ^{4/}

- 3.8 The goal is to facilitate the access of 10,000 participants to external training adapted to the needs of their firms.

(c) Implementation

- 3.9 The implementation of the system of external training vouchers and the system of technical assistance and in-firm training vouchers will include: (i) public announcements in various media to attract institutions that may wish to participate in the two systems; (ii) the prequalification, selection and accreditation of these institutions in registries maintained for each system; (iii) signature of cooperative agreements with the selected institutions; (iv) training of the program coordinating unit (PCU) in the distribution of vouchers; (v) approval of external training courses, in-firm training, and technical assistance services; (vi) distribution and redemption of the vouchers; and (vii) supervision of institutions, courses and interventions in firms.

(d) Controls

- 3.10 A number of mechanisms will serve to help assure the proper use of the vouchers. They will include: (i) qualifying, and maintaining an updated registry, of suppliers, (ii) approving training and technical assistance services eligible for vouchers, (iii) qualifying firms eligible to receive vouchers, (iv) distributing vouchers that are stamped with

^{3/} See Annex 3 - Reglamento Operativo del Componente de Asistencia Técnica y Capacitación en Planta.

^{4/} See Annex 4 - Reglamento Operativo del Componente de Capacitación Externa.

the name of the recipient and are non-transferable, (v) making readily available through the computerized information reference system (see paragraph 3.13) data on firm use of vouchers; and (vi) conducting "spot check" supervisory visits of services delivered.

(2) Component #2: Strengthening of supply of business services
(US\$50,000, MIF)

3.11 The **technical innovation fund** will provide partial funding for technical assistance to institutions to support technical and administrative innovation in the provision of services to small scale firms. The fund will finance proposals - in an amount of up to 50% of their total cost - that are presented jointly by a minimum of three supplier institutions accredited by the program, for assistance in (i) efficient methodologies for the diagnostic of training and technical assistance needs of firms in the target group; (ii) efficient and relevant methodologies for delivery of high-quality technical assistance to these firms; (iii) efficient techniques of management of training and/or technical assistance institutions. ^{5/} With three or more institutions working together, the impact of the activities cofinanced by the fund is greater and there is less risk that funds will be utilized arbitrarily. The implementation of the technical innovation fund will include: (i) public announcements in various media to attract institutions that may wish to apply for support; (ii) guidance to interested institutions on the fund's financing modalities; (ii) proposal reception by the PCU, and approval or rejection by the Consultative Committee (see paragraph 4.2).

3.12 The goal is to strengthen administratively and technically 30 private providers of technical assistance and in-firm training.

(3) Component #3: Information dissemination and marketing
(US\$195,961, MIF; US\$38,239, local counterpart)

3.13 The **information reference system** - will consist of an extensive and diversified data base on existing non-financial business services and act as an interface between buyer firms and supplier institutions. Its implementation and development will involve: (i) the contracting of consulting support for the graphic design and formulation of widespread communication strategy; (ii) the implementation of a systematic dissemination campaign through radio and press; (iii) the contracting of consulting support for the design and implementation of the appropriate program management software; (iv) the contracting and training of information

^{5/} See Annex 5 - Reglamento Operativo del Fondo de Innovaciones Técnicas.

officers; and (v) the installation and opening of information, orientation and user service windows.

- 3.14 The goal is that a minimum of 850 firms will have acquired information on the existing supply of non-financial business services, and received orientation on the elaboration of contracts for these services.

IV. PROGRAM EXECUTION

A. Executing organization

- 4.1 The executing organization of the program will be the Cámara de Industria de Guatemala (CIG), a not-for profit institution founded in 1959 ^{6/}. The CIG is a leading representative of the private sector in Guatemala, with 1,500 members. Institutionally it is a solid organization. Its executing committee - made up of five members of its board of directors and invested with the authority for making day-to-day decisions - assures an agile management structure that is able to reach decisions rapidly.
- 4.2 For the execution of the program, the CIG will set up a program coordinating unit (PCU) and will establish a Consultative Committee, made up of the executing director of the CIG, the coordinator of Programa Bolívar in Guatemala, and representatives of other cooperation agencies that eventually support the program. The program coordinator and permanent technical advisor of the international consulting firm (see paragraph 4.6) will participate with a voice in the Consultative Committee, but no vote. The Consultative Committee will, in collaboration with project staff, approve the types of services and service suppliers eligible for vouchers, as well as approve or reject proposals submitted for funding from the technical innovation fund.
- 4.3 Staff funded by the Bank will include a project coordinator, two sub-coordinators, and two supervisors. Selection of a highly motivated and competent project coordinator with ample familiarity with the sector of smaller scale firms will be important for the success of the project.
- 4.4 The program will have a duration of 36 months, of which the first 6 months will be dedicated to establishing the executing unit and the consultative committee, to putting in place the management systems for the three components of the program, and to contracting an international consulting firm to support the implementation, monitoring and institutional strengthening of the program. ^{7/}

^{6/} See Annex 6 - La Cámara de Industria de Guatemala, análisis detallado.

^{7/} See Annex 7 - Cronograma de actividades.

- 4.5 The CIG has a technology unit responsible for providing specialized technical assistance to small and medium industrial firms, the Unidad Tecnológica para la Pequeña y Mediana Industria (UTEPYMI). In the last year, to increase the impact of its activities, and facilitate access to the maximum number of services by firms, UTEPYMI has increasingly withdrawn from direct service provision and increasingly assumed a second-tier role by assigning technical assistance service delivery contracts to external consultants in the market, charging firms fees for this service. As part of this program, the CIG will fully assume a second tier function, and entirely withdraw from direct service provision to firms in order to execute the program of strengthening the market of non-financial business services that is being proposed.

B. Degree of Preparation of the Program

- 4.6 The program is considered to be in an advanced state of preparation for the following reasons: (i) the executing organization has indicated a strong level of interest and commitment in carrying out the program; (ii) a careful survey of the business services market was undertaken which indicated strong interest on the part of both small scale firms and service suppliers in a program to strengthen the development of the service market.

C. Environment and Social Impact

- 4.7 The Committee on Environment and Social Impact (Comité de Medio Ambiente e Impacto Social - CESI) of the Bank considered this operation in meeting TRG30/98 on August 7, 1998 and recommended that environmental and worker health issues, as well as rural and communal outreach measures be included as part of the training and technical assistance in the program. Compliance with these recommendations will be part of the process of monitoring and evaluation.

V. FINANCING AND COST

A. Budget and use of resources

- 5.1 The total cost of the program is US\$2,265,070. The Cámara de Industria of Guatemala will contribute US\$680,000 (30%), and the MIF US\$1,585,070 (70%) in non-reimbursable financing. The budget by sources of financing (in US\$000) is noted below. 8/

8/ See Annex 8 - Presupuesto Detallado por Año.

CATEGORIES	MIF	CIG		TOTAL
		Cash	In-Kind	
I. TECHNICAL ASSISTANCE AND IN-FIRM TRAINING COMPONENT	559,439	240,561		800,000
II. EXTERNAL TRAINING COMPONENT	200,000			200,000
III. TECHNICAL INNOVATION COMPONENT	50,000			50,000
IV. INFORMATION REFERENCE COMPONENT	195,961	9,439	28,800	234,200
V. EXECUTING UNIT	181,200	90,000		271,200
VI. CONSULTANCY FOR IMPLEMENTATION, MONITORING AND INSTITUTIONAL STRENGTHENING	280,000			280,000
VII. ADMINISTRATION			311,200	311,200
VIII. EVALUATION	60,000			60,000
IX. CONTINGENCIES	58,470			58,470
TOTAL	1,585,070	340,000	340,000	2,265,070

- 5.2 Local counterpart resources will finance part of the cost of the information reference system, administration costs and part of the technical assistance fund. MIF resources will finance the remaining operation costs of the three components; the contracting of a consultancy for the implementation, monitoring and institutional strengthening; evaluation; and contingencies. The Bank reserves the right to stop the project if the Câmara de Industria does not make available the specified local counterpart resources.

B. Sustainability

- 5.3 The financial viability of the program is guaranteed by the demonstrated capacity of the CIG in obtaining national and international funding to finance projects. The CIG assumes responsibility of financing - in a progressive way - 41% of the resources for the technical assistance and in-firm training voucher fund, as well as administration costs. In the course of the program, the CIG will be able to refinance the component funds through contributions of other cooperation agencies, representatives of which can then join the consultative committee. Each new capital contribution will, however, need to be approved by the consultative committee and meet with the non-objection of the Bank.
- 5.4 From the beginning of program implementation, participating firms will assume on average a minimum of 50% of the cost of the services. Based on the results of the intermediary evaluation, this percentage of the subsidy will be reduced through a gradual phase-out strategy. The elements of the program that will contribute to increasing self-sustainability are: on the demand side (i) increased information on, and awareness of, the existing supply of non-financial business services, (ii) increased knowledge of adequate contractual practices to buy technical assistance services; on the supply side (iii) an improved adaptation of services offered to the needs and preferences of firms in the

target group; and finally increased experience on both sides in the negotiation of services in this market segment.

VI. PROGRAM JUSTIFICATION AND RISKS

A. Justification

- 6.1 Smaller scale firms are at a critical point in their development in Guatemala. Government policies are supporting a more open and globalized market, and this is creating greater challenges and more competition for smaller firms. The program will strengthen the competitiveness of the firms by providing resources directly to the firms so that they can purchase technical assistance and training services that best suit their needs. The funds introduced in the market should act as an incentive for suppliers to improve the quality of their services. As a result, the benefits of the program consist of strengthening (i) the competitiveness of smaller scale firms, and (ii) the non-financial business service market in Guatemala.
- 6.2 The program is consistent with, and will contribute to, the current Bank and Government strategy of improving the competitiveness of small scale firms to support sustained growth in Guatemala. As such, the program will complement several Bank programs in preparation as well in execution.
- 6.3 Further, the CIG will derive benefits from its fulfilling the second-tier and public policy implementation functions of this program. These benefits include: (i) the creation of decentralized experiences for the execution of public policies by private agencies, as an innovative mechanism in the process of the modernization of the state of Guatemala, and (ii) the improved position of the CIG to obtain public resources for the purpose of executing future private sector and social development projects.

B. Risks

- 6.4 The proposed program presents risks that derive from its complexity and its innovative nature. The management and supervision of the three components of the program - with its impact on both the supply and demand in the markets for technical assistance, external training and in-firm training services - can come up against various institutional risks, such as: (i) pressure by groups of institutions to obtain preferential treatment; (ii) pressure by CIG members to receive preferential treatment; and (iii) interventions by the Guatemalan government in the above-mentioned markets with policies opposed to the program's objectives, with disorting effects on prices in these markets.
- 6.5 In this context, the strength and leading role of the CIG in the private sector, and its capacity of interacting with various Government and international cooperation agencies allow a significant reduction of these risks. Furthermore,

CIG and the PCU will be strengthened by the support of the international consulting firm in implementing and monitoring the program. This consulting firm will need to be specialized in information reference systems, voucher management systems, and the development of necessary institutional innovations so as to transfer to the national counterpart the necessary expertise. Finally, the systems of supervision and control of the program (described in paragraph 3.10) ^{9/}, the consultative committee, as well as the relatively wide diffusion of the subsidy and the transparency of its allocation through the proposed voucher system reinforce the capacity of the national counterpart to surpass the risks mentioned.

VII. MONITORING AND EVALUATION

A. Monitoring

- 7.1 For the implementation and monitoring of the program it is proposed that a consulting firm be contracted - through an international contracting procedure - with experience in the design, implementation and monitoring of information reference systems and voucher management systems, as well as in the institutional strengthening of second-tier functions. The terms of reference of this consultancy will be prepared by the CIG, ^{10/} and need to receive the non-objection of the Bank.
- 7.2 The principal monitoring tools will be semi-annual reports of the consulting firm, as well as statistics and regular reports generated by the program's information reference system. This system will provide detailed information on the achievement of program goals such as services delivered; number of participants in training courses and corresponding detail on participating firms and institutions; number of firms receiving technical assistance and in-firm training services and corresponding detail on participating firms and institutions; number of participating institutions detailing the type of product offered; number of vouchers distributed and redeemed, level of financing committed and provided, among other information.

B. Evaluation

- 7.3 The program will provide for two evaluations: one intermediary evaluation once one third of program resources has been disbursed, and one final evaluation after 30 months of execution. A specialized consulting firm will be contracted to execute these evaluations.

^{9/} See Annex 11 - Métodos de Control del Sistema de Bonos.

^{10/} See Annex 10 - Borrador de Términos de Referencia para Firma Consultora.

- 7.4 The evaluation of the program will be complemented by the use of tracer studies of participating firms and service providers. The tracer studies will consist of surveys carried out on two occasions, three months prior to each evaluation. The survey of participating firms will measure the level of satisfaction with (i) the adaptation, quality and efficiency of the services contracted, (ii) on the part of service supplying institutions - the timing of their response, their organizational capacity and their compliance with the terms of service contracts, (iii) the relevance and applicability of the contracted services to the work of the firms, and (iv) the timing of the response to firms, adaptation to their particular needs, and orientation received from the "windows" and/or the PCU of the program. The survey of supplier institutions will analyze (i) the evolution of their sales and assets, (ii) the participation of the program target group of firms as part of its client portfolio, (iii) the development of its technical and management capacities, and (iv) the degree of satisfaction with the operation of the program.
- 7.5 The intermediary evaluation will need to analyze (i) the degree of compliance with the planned activities, and the supervision indicators established in the program's logical framework 11/; (ii) the performance of the technical innovation fund; (iv) the results of the tracer studies of participating firms and supplier institutions; and (v) the level of subsidy transferred to the market, with an accompanying recommendation of a strategy for its gradual reduction.
- 7.6 Related to this last point, the variables to examine when reducing the level of subsidy during the program are: (i) quantitative impact: the total amount of sales of services facilitated by the program in one year represent a determined percentage (not less than 30%) of the potential market; (ii) qualitative impact #1: the degree of diversification of the supply corresponds reasonably with the degree of diversification of the demand, (iii) qualitative impact #2: the number of supplier institutions qualified by the program is sufficient to completely meet, in the long term, the potential of the small and medium firm market segment, and (iv) stability condition: the monthly variations in the number of vouchers distributed are not significant (less than 10%). These variables will need to be incorporated as operational indicators in the design of the methodology of the evaluation.
- 7.7 The final evaluation will analyze (i) the impact and results of the program and (ii) the suitability of terminating or continuing the intervention in the non-financial business services market, according to the level achieved of

11/ See Annex 1 - Marco Lógico.

strengthening and self-sustainability in the market. Given the pilot nature of this program, results shall be disseminated, including to leading public and private sector institutions, to allow for a discussion of results and serve as an input for policy decisions.

VIII. SPECIAL CONTRACTUAL CONDITIONS

- 8.1 Before the first disbursement the CIG will have to present evidence to the satisfaction of the Bank that: (i) it has hired the program coordinator; (ii) it has presented its plan of operations for the first six months of execution.
- 8.2 Before the disbursement of funds for the voucher components the CIG will have to present evidence to the satisfaction of the Bank that it has: (i) contracted the consulting firm to assist in project execution, (ii) established its consultative committee, (iii) established systems, procedures and manuals for the management of the voucher components, (iv) established indicators and benchmarks for project monitoring and evaluation, and (v) withdrawn from providing technical assistance services directly to firms through its Unidad Tecnológica para la Pequeña y Mediana Empresa (UTEPYMI), so that it can fulfill its second-tier function of strengthening the non-financial business service market with financial incentives and information measures.

LOGICAL FRAMEWORK

ANNEX 1

	OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	<p>Through an Information Reference System (IRS), a System of Vouchers for Technical Assistance and In-plant Training (SVTAIT), and a System of Vouchers for External Training (SVET):</p> <ul style="list-style-type: none"> • Deliver reference information to 850 small scale firms • Facilitate 2,600 technical assistance and in-plant training service deliveries • Facilitate access of 10,000 participants external training courses • Facilitate support to 30 service supplying institutions (SSIs) 	<ul style="list-style-type: none"> • Number of consultations realized by the IRS • Number of vouchers used by small scale firms for the partial payment of technical assistance and in-plant training services • Number training vouchers used by small scale firms for the partial payment of external training courses • Number of interventions to strengthen service suppliers 	<ul style="list-style-type: none"> • Registry of consultations at the windows of the program, brochures prepared, press publications, and beneficiary surveys • Registries of PCU direct supervision of approved service deliveries and courses and surveys of SSIs • Statistics of the SVTAIT and SVET • Registries of interventions to strengthen service supply approved by the PCU and the Consultative Committee 	<ul style="list-style-type: none"> • Small scale firms have a demand for technical assistance services and training • The market of business services training has problems of imperfections and adaptation to supply to demand
Objectives	<p>Establish a direct, partial and decreasing demand subsidy system to:</p> <ul style="list-style-type: none"> • generate improvement in the quality, variety and adaptation to preferences of the supply business services and training for small scale firms • generate increasingly autonomous demand for the informed purchase of business services • create greater self-sustainability in the market in the least time possible 	<ul style="list-style-type: none"> • Increase in the frequency in the use of technical assistance, in-plant training and external training by small scale firms • Adaptation of the supply of SSIs to the preferences and needs of small scale firms • Beneficiary satisfaction • Number and variety of services delivered and courses offered 	<ul style="list-style-type: none"> • Statistics of the SVTAIT and the SVET • Surveys of SSIs • Registry of courses and course supervision reports 	<ul style="list-style-type: none"> • Small scale firms are able to partially pay for technical assistance services and the supply is adapted to preferences
Products	<ul style="list-style-type: none"> • An information reference system on the supply of available business services as well as information on the preference of small scale firms in terms of content and modalities • A system of technical assistance and in-plant training vouchers • A system of vouchers for external training for owners and employees of small scale firms • A technical innovation fund to improve the quality and adaptation of the supply of services 	<ul style="list-style-type: none"> • Small scale firm consultations attended to • Number of SSI registered • Services and courses realized and supervised by the PCU <ul style="list-style-type: none"> • Number of vouchers reimbursed • Data base on the supply of business services and training available in the Windows • Reports to SSIs on the demand 	<ul style="list-style-type: none"> • Supervision reports in the first year, and in month 30 of project execution • SSIs registry • Registry of technical assistance services and training, and supervision reports 	<ul style="list-style-type: none"> • The impact of a direct partial demand subsidy system multiplied with information supply and diffusion of appropriate methodologies

ties	<ul style="list-style-type: none"> • Offer of reference information and vouchers to small scale firms • Implement data base on available business service supply • Systematize information on preference of small scale firms and inform SSIs • Maintain open registry of SSIs and their services • Supervise technical assistance services and training courses • Reimburse vouchers to SSIs 	<ul style="list-style-type: none"> • Technical assistance, in-plant training and external training vouchers distributed • SSIs registered • Technical assistance services and training courses approved and supervised by the PCU • Vouchers submitted by SSIs reimbursed • Scale firm consultations attended to • Reports to the SSIs on demand preferences 	<ul style="list-style-type: none"> • Registries of the IRS, SVTAIT and SVET • Statistics of the IRS, SVTAIT and SVET • Registry of SSIs • Registry of technical assistance services and training courses and supervision report of the PCU • Survey of the SSIs • Registries of the PCU • Supervision reports of the PCU 	<ul style="list-style-type: none"> • The CIG has counterpart to operate the program a conditions that allow it to appropriate Consultative • There exists technical st constitute the PCU
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PROPOSED RESOLUTION

GUATEMALA. NONREIMBURSABLE TECHNICAL COOPERATION FOR A BUSINESS SERVICES PILOT PROJECT IN GUATEMALA

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 República de Guatemala, and to take such additional measures as may be pertinent for the execution of the project memorandum referred to in Document MIF/AT-_____ with respect to a technical cooperation for a Business Services Pilot Project in Guatemala.

2. That up to the amount of US\$1.585.070, or its equivalent in other convertible currencies, is authorized for the purpose of this resolution, chargeable to the resources of the Small Enterprise Development Facility of the Multilateral Investment Fund.

3. That the above-mentioned sum is to be provided on a nonreimbursable basis.