



# Donors Committee

For consideration

MIF/GN-78-12  
29 January 2004  
Original: English

**To:** The Donors Committee  
**From:** The Secretary  
**Subject:** Evaluation of MIF Projects: Business development services

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**Remarks:** This report is an integral part of the work program of the Office of Evaluation and Oversight (OVE) to evaluate Multilateral Investment Fund (MIF) activities, since the beginning of its operations in 1993, following the mandate of its Donors Committee. The work of OVE aims at developing a comprehensive image of the Bank activities in support of the private sector, and particularly of the MIF, as established in the document MIF/GN-78 of February 2002.

The evaluation was initiated in 2002, covering four thematic groups of projects: Alternative dispute resolution (GN-78-2), microfinance (GN-78-3), and capital markets & financial reform (GN-78-4). During 2003, as established in the program approved by the Donors Committee (GN-78-1), the project groups to be evaluated include the rest of the MIF thematic areas of intervention: (i) private provision of infrastructure services; (ii) human resources development services (including skills standards and labor market reforms); (iii) **business development services** (including quality standards and promotion of trade and investment); (iv) development of venture capital; (v) environment; and (vi) promotion of competition and consumer protection.

Once these thematic group evaluations are finished in 2003, the results would be consolidated in an overall evaluation report, integrating the results of the evaluation for the 10 years of MIF operations.

A Spanish translation of this document will be distributed shortly.

**References:** MIF/GN-78(2/02), MIF/GN-78-1(11/02)



***MIF/GN-78-12***

***MIF Evaluation –  
Business Development  
Services***

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***Office of Evaluation and Oversight,  
OVE***

Inter-American Development Bank  
Washington D.C.  
December 2003

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*The following Annexes and Appendixes are available on OVE's Website in the Intranet:  
<http://ove/> (All about OVE / Docs. Sent to Board / Independent Evaluation of the MIF). If  
you need a hard copy please contact OVE.*

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## ACRONYMS

|           |                                                               |
|-----------|---------------------------------------------------------------|
| BDS:      | Business Development Services                                 |
| CAMBADU:  | Cámara de Almaceneros Minoristas Baristas y Afines            |
| CDASED:   | Committee of Donor Agencies for Small Enterprise Development  |
| CONICYT:  | Consejo Nacional de Ciencia y Tecnología                      |
| CORFO:    | Corporation for Production Support                            |
| DO:       | Development Objectives                                        |
| EC:       | European Commission                                           |
| EDS:      | Enterprise Development Strategy                               |
| FDI:      | Foreign Direct Investment                                     |
| FINEP:    | Financiadora de Estudios e Projetos                           |
| FONTEC:   | Fondo Nacional de Desarrollo Tecnológico y Productivo         |
| GDP:      | Gross Domestic Product                                        |
| ICT:      | Information and Communicators Technology                      |
| IDB:      | Inter-American Development Bank                               |
| IFM:      | Financial Markets Division                                    |
| IP:       | Implementation Progress                                       |
| IPS:      | Industrial Performance Scoreboard                             |
| ISO:      | International Standards Organization                          |
| LAC:      | Latin American and the Caribbean                              |
| LFs:      | Logical Frameworks                                            |
| MERCOSUR: | Mercado Común del Sur                                         |
| MIF:      | Multilateral Investment Fund                                  |
| MSMEs:    | Micro, Small and Medium Enterprises                           |
| NAFTA:    | Tratado de Libre Comercio de América del Norte                |
| NGOs:     | Non-Governmental Organizations                                |
| OECD:     | Organization for Economic Cooperation and Development         |
| OVE:      | Office of Evaluation and Oversight                            |
| PATME:    | Programa de Apoyo Tecnológico a las Micro y Pequeñas Empresas |
| PDP:      | Programa de Desarrollo de Proveedores                         |
| PPMR:     | Project Performance Monitoring Report                         |
| PROFO:    | Proyectos Asociativos de Fomento                              |

|           |                                                                           |
|-----------|---------------------------------------------------------------------------|
| PTI:      | Programa Territorial Integrado                                            |
| R&D:      | Research & Development                                                    |
| RTDI:     | Regarding Technology Development and Innovation                           |
| S&T:      | Science and Technology                                                    |
| SAPs:     | Structural Adjustment Programs                                            |
| SDS:      | Sustainable Development Department                                        |
| SEBRAE:   | Brazilian Centre for Management Assistance to Micro and Small Enterprises |
| SENACYT:  | Secretaria Nacional de Ciencia y Tecnología                               |
| SENAI:    | Servicio Nacional de Aprendizaje Industrial                               |
| SERCOTEC: | Servicio de Cooperación Técnica                                           |
| TAI:      | Technology Achievement Index                                              |
| UNDP:     | United Nations Development Program                                        |
| UNIDO:    | United Nations Industrial Development Organization                        |

## PROLOGUE

This report of this Group of Projects is an integral part of the work program of the Office of Evaluation and Oversight (OVE) to evaluate Multilateral Investment Fund (MIF) activities, since the beginning of its operations in 1993, following the mandate of its Donors Committee. The work of OVE aims at developing a comprehensive image of the Bank activities in support of the private sector, and particularly of the MIF, as established in the document MIF/GN-78 of February 2002.

In order to proceed with the evaluation, a special methodological framework was developed by OVE to capture the specific characteristics of MIF interventions. Also an initial estimate of its entire project portfolio was done, identifying the main thematic project groups for which common reference points could be established and meaningful lessons could be drawn. The evaluation was initiated in 2002, covering four groups of projects: (i) Financial Reform, (ii) Capital Markets; (iii) Microfinance; and (iv) Alternative Dispute Resolution. These four groups represented 134 projects from 16 countries with a total approved value US\$159.75 millions of MIF resources.

According to the detailed work program for 2003 included in the Progress Report of 2002 approved by the Donors Committee in (GN-78-1), during 2003 the project groups to be evaluated include the rest of the main MIF thematic areas of intervention: (i) private provision of infrastructure services; (ii) human resources development (including skills standards and labor market reforms); (iii) business development services (including quality standards and promotion of trade and investment); (iv) venture capital development; (v) environment and eco-efficiency; and (vi) promotion of competition and consumer protection. The first two groups have already the evaluation completed in the first half of the year, while the other four groups reports were completed during the second semester of 2003.

At the end of 2003, once all the evaluation work is covered for the main thematic project groups, an overall evaluation report would be produced by OVE, integrating the results of the evaluation done for the 10 years of MIF operation, and addressing also issues relating to institutional processes and mechanisms.

## EXECUTIVE SUMMARY

**In total, US\$135 million were allocated for 100 Business Development Services (BDS) projects, approved from 1994 to 2002.** Following the evaluation framework and methodology developed by OVE to carry-out the evaluation of MIF activities, the first Chapter analyses the context for MIF interventions, the second reviews the evolution the strategic approach pursued, and the third summarizes the analysis of the projects according to the evaluative dimensions considered. In the fourth Chapter, there is a review of the main strengths, weaknesses, threats and opportunities for the MIF derived from this evaluation.

**The Bank and the MIF have long recognized the important contribution that smaller enterprises can make to employment, private sector development and economic growth.** In the majority of the countries in Latin American and the Caribbean (LAC), Micro, Small and Medium Enterprises (MSMEs) are the principal source of employment creation offering opportunities for entrepreneurs to raise their incomes and acquiring and applying their skills. MSMEs are privileged instruments of economic growth. Yet, to play this role, these enterprises need to improve substantially their productivity. The productivity gap between MSMEs and big enterprises is wide. On average, MSMEs' productivity in LAC is 40% lower than big enterprise productivity. Narrower productivity gap allows smaller enterprises to participate in production chains contributing to the strengthening and competitiveness of the productive sector.

**A growing body of evidence and economic theory suggests that the close availability of a diverse set of business services is important for economic growth.** Business Development Services (BDS) are a wide array of non-financial services critical to the entry, survival, productivity, competitiveness, and growth of MSMEs. BDS include training, consultancy and advisory services, marketing assistance, information, technology development and transfer, and business linkage promotion. The group of MIF projects evaluated in this report includes a wide scope of interventions that attempted to support the provision of BDS to improve MSMEs productivity and competitiveness in the region.

**In addition to the externalities provided by supporting MSMEs, given their economic and social importance, there are other key issues that make a compelling case for intervention in the development of a market for BDS.** Although strong arguments for market failure exists, careful design in interventions to promote BDS market should take into account that these services are part of existing business systems. The effectiveness of micro-level interventions cannot be separated from the broader policy, and the broader policy cannot be successful without enterprise-level interventions.

**Public policies to support BDS for MSMEs in the region are relatively recent.** The commitment in terms of entities with significant financial resources in charge of MSME policies in LAC countries is limited. As an integral part of MSME policies, BDS support is also affected by these limitations. An insufficient amount of resources and little experience on the field are features seen in many countries. The majority of countries

established programs that lacked funding, sustainability, and in many cases, coordination with related programs.

**In a global competitive context, there is a major need to improve the local offer of business support services so as to facilitate the establishment of linkages and contractual relationships with local MSMEs to enter into this logic.** Furthermore, faced with liberalization and stiffer competition on domestic markets, MSMEs have found it increasingly necessary to expand their markets, both locally and internationally.

**MIF strategic approach to support the Private Sector in the region during the 1990s was highly visible within the IDB Group.** The strategic commitment to BDS programs was particularly important given this new competitive context and limited number of countries that have specific MSME policies and finance corresponding programs. MIF intervention in the BDS area pioneered in a broad range of BDS approaches introducing many innovations in an area of limited action by other donors and with limited public support. MIF went from the strengthening of selected suppliers, to the creation of center, to the promotion of the demand-side approaches.

**The administration of the Bank of MIF resources, particularly in the area of BDS, implied that the Bank interacted with the private sector, providing elements to enrich Bank's organizational culture and commitment to competitiveness.** This allowed Bank Board members, Executives and Staff to be exposed directly and become more sensitive to the critical needs that smaller business were experiencing in this new environment.

**MIF approach to BDS programs in the period evaluated (1994-2002) showed a process of learning and evolution, marked by a clear turning point in 1999.** In general, the first period (1994-1998) was characterized by a broad and general approach to BDS program while the second period (1999-2002) revealed interventions targeting more specific firm needs (such as quality, marketing, networking, and start-up requirements). Additionally this second period showed an emerging trend of interventions that used actively demand side mechanisms to support the development of BDS markets, such as “vouchers” for microenterprises and “matching grants” for SMEs. These changes were also accompanied by a decline in the average amount of money given to projects, from US\$3.5 million in 1995 to US\$0.7 million in 2002.

**BDS interventions that have addressed specific and critical needs of MSMEs have demonstrated the higher levels of relevance during the project life cycle.** Examples are projects that focused on the regulation of SMEs administrative context, or on a particular group of SMEs exporters in a productive sector facing very specific bottlenecks. By the same token, demand driven projects using, for instance, matching grants have showed high levels of relevance.

**Yet, most of the project showed a lack of focus in the targeted action. This was associated to three key issues: the lack of market knowledge, ambitious and not well-defined objectives, and lack of clear target firms.** In general, the evaluation found that projects have not delimited the field of intervention, nor defined target beneficiaries

clearly, on the basis of reasoned criteria of risk, opportunity cost, and potential spill-over or multiplier effect; nor have they used objective criteria such as business size, the sector a business belongs to, or more complex criteria such as firm sector positioning, growth dynamics, etc. As a result, most projects ended in supplying general services to a multisector group of beneficiaries.

**Disperse efforts on BDS intervention prevented the development of a critical mass of activities targeting MSME needs, conspiring against sustainability.** No evidence was found that the MIF's activities helped consolidate initiatives to develop MSME distribution and marketing channels, which could have generated economies of scale in the provision of services in such a fragmented market. Project sustainability was the most important challenge faced by this group.

**Additionally, the majority of BDS programs (with the exception of ISO projects) lacked of rigorous and standardized criteria for institutional analysis and selection of executing agencies.** This then resulted in strong dependence in MIF resources for continuation in the provision of services.

**Another weak area in project design was the relatively short execution period in relation to the stated objectives,** which affects the effectiveness and efficiency of projects. Project design appears to underestimate the complexity and the many conditions needed for success, which are disproportionate compared with the financial resources and timescales. Project design thus sets objectives that are impossible to achieve during the project's life, even actual output sometime falls short of expected values.

**A recurring threat to MIF project efficiency was observed by a low ratio of business services provided to MSMEs vis-à-vis the amount of resources devoted to general activities or “institutional strengthening.”** This was caused in part by execution schemes, which did not have adequate incentives. For instance, this happen when executing agencies where loaded with overlapping roles, such as providing technical assistance for intermediation between consultants and businesses, promoting of services and, at times, also became the supplier of services. This caused a confusion of roles and in many projects absorbed large proportions of resources to the detriment of resources expressly earmarked for supplying services to firms. As a result the cost of the technical assistance for organizing and promoting the services was in many cases exceedingly high in relation to the actual cost of the consultancies to firms. Furthermore, the short time of the project dedicated to service provision did not allow for generating increasing returns to such costs.

**In addition, high consultant budget allocations and duplications of efforts in similar projects and the purchase of equipment in small amounts generated several inefficiencies.** Examples of the above are high use of international consultants, financing of costly projects coordinators, lack of synergies duplicating financing of similar products in many different projects, development of ISO manuals, multiple payments for similar information systems, training modules, and teaching materials.

**Projects evaluability was low overall. Piloting interventions need to integrate evaluation schemes into the decision-making processes in the countries and in the Bank to provide useful lessons for follow-up and scalability of interventions.** Evaluation methodology as well as definition of output and of relevant monitoring data must be predefined during the design phase and when possible made homogeneous by type of project in order to produce benchmarks and to be able to compare project performance. Evaluation and other project reports that are carried out quite regularly suffer from this lack of evaluability and limit themselves to the qualitative or administrative aspects of the project management. Few quantifiable impact results at the beneficiary level of individual firms or groups of firms were found.

**Based on the evaluation results six critical areas opportunity that would require adjustment in the way MIF operates in this field were found:** (i) focused action; (ii) benefiting from emerging needs for BDS to support MSMEs in the integration and trade processes; (iii) systemic approach; (iv) generation of BDS market platforms; (v) stimulate innovation and open competition; and (vi) leverage institutional network and experiences. They are briefly addressed in the following paragraphs.

- **Focusing Actions.** The evaluation identifies that the consolidation of the BDS market would depend, on the one hand, on identifying a target of small and medium-sized dynamic firms with a greater capacity to incorporate tailor-made services and gain economic benefit from them. For the smaller, on the other hand, less structured firms, which have difficulties in integrating BDS cost into their budgets on an on-going basis, innovative interventions that generate a wide range of lower transaction cost-products, such as specialized training programs using voucher schemes proved to be a valid alternative to follow.
- **Benefiting from Emerging Needs for BDS to Support Regional Integration and Trade.** There is a clear trend that forces MSMEs to acquire the skills and ability to compete in larger integrated markets. BDS supply would need to be modified accordingly, and include support to MSMEs willing to export firstly to sub-regional markets, and then to the overall region, or simply to compete at least in a more equal footing with imported goods and services. There is still a great deal of room for increasing investments in technology, where public and private participation should be important in bringing about higher productivity and international competitiveness. By working in clusters and associating with bigger firms, MSMEs in the region have excellent opportunities for tapping synergies and complementarities that can lead to dynamic long-term comparative advantages in sectors close to patterns of productive specialization.
- **Systemic Approach.** MIF could play a more catalytic role in its interventions in BDS by articulated interventions under a systemic approach. This would require moving from the isolated project approach to conceive MIF projects as pilot interventions that could be scalable to broader BDS programs, strengthening the institutional capacity and local policy framework.

- **Generation of BDS Market Platforms.** More coordinated interventions with the focus of development BDS at the country level could be enhanced in terms of impact, by a more synergic use of critical components that could be shared by more of one projects. The support of the development of BDS logistical and institutional platform could provide very important functions to stimulate the development of BDS at the country level such as: (i) competition process for funding different programs that could include matching resources from other sources (i.e. public sector, specialised agencies); (ii) exchange ideas, experiences and best practices; (iii) financing key components that could be of common use such as market information systems of suppliers; (iv) generation of information on databases of clients that could give more light on the size and needs of firms for all players; and (v) improve impact in terms of awareness for firms about possible sources of services and access to possible providers and ways to finance their services.
- **Stimulate Innovation and Open Competition.** Future interventions in this area could benefit from a more open process to identify the best approaches and projects to be financed. The experience gained in the Cluster of Quality projects revealed the advantages of a more open process, and would allow to maintain a high level of innovation, within the evolving areas of priority and intervention of the region. Competitive processes for projects selection would facilitate also the enforcement of standardized criteria for institutional analysis and market analysis, that in addition to provide transparency in MIF action, solving critical deficiencies found in this evaluation.
- **Leverage Institutional Network and Experiences.** The MIF has generated a dense network of business organizations in the region that could be nurtured and strategically use to support the replication of successful models. The good experiences found during this evaluation could prove very useful for their replication in other services and other countries of the region. MIF could leverage these experiences with specific programs that provide incentives for the executing agencies and their teams that participated successfully in their implementation, to participate in the replication of these programs in other countries of the region. Also, a possible course of action to improve leverage, at a general level, could be the establishment of stronger connections with local development strategies and actors, through dissemination and demonstrative actions to promote BDS and best practice.

**The results of the analysis lead to the general conclusion that BDS promotion needs a gradual and more systematic approach.** Initial projects proved to be quite ambitions in their goals and shorter term oriented in their timeframe, showing low effectiveness. MIF projects evaluated can be considered a “first generation”, instrumental in increasing awareness, testing methods and products, improving supply, enhancing local experience, setting up networks of firms and stakeholders. All these conditions represent a necessary background to make BDS a consolidated market in LAC countries, but they have not quite succeeded yet.

**According to the mixed results of the evaluation and to the high local expectations on MIF's future role in BDS, particularly in the face of the deepening of the integration and trade process in LAC, the MIF should learn from past experience and from there set up "right conditions" to develop a "second generation" of a BDS program.** The areas of opportunities highlighted above, point the attention to the future development of markets for provision of targeted services to firms, with a clear impact on firms' performance.

**These interventions will need a stronger starting point from deeper market and institutional analysis.** Improved efficiency could be gained by support initial dissemination of proved successful projects found in this evaluation, and also by developing platforms that could help to reduce transaction cost and leverage common resources of many projects (marketing, information, systems, manuals, etc). If successful, these pilot interventions initiated by MIF would generate a demonstration effect in two directions: as an intervention model to be imitated by other institutions and possibly incorporated into the mainstream of the countries and Bank programs, and to trigger an imitative process to increase competitiveness at firm level.

## **I. THE CONTEXT FOR MSMEs AND BUSINESS DEVELOPMENT SERVICES (BDS)**

### **A. Introduction**

- 1.1 **The MIF intervention evaluated were 100 projects approved from 1994 to 2002 for a total contribution of US\$135 million.** In order to analyze their conceptualization, execution and impact, this Chapter reviews the main reasons for public sector and donors intervention in this area as well as the leading experiences in MSME policies to promote BDS in some countries of the region.<sup>1</sup> This context also includes a brief analysis of the evolution of the regional economic context under which the MIF intervention took place, giving special emphasis on the dynamics of the needs that Micro, Small and Medium Enterprises (MSMEs) face.
- 1.2 **The Bank and the MIF have long recognized the important contribution that smaller enterprises can make to poverty reduction, employment, private sector development and economic growth.** In the majority of the countries in Latin American and the Caribbean (LAC), MSMEs are the principal source of employment creation; they offer opportunities for entrepreneurs to raise their incomes as well as a vehicle for acquiring and applying skills to raise private sector growth and national income. This make MSMEs privileged instruments to raise economic competitiveness in the region. Yet, to play this role, these enterprises need to improve substantially their productivity.
- 1.3 **The productivity gap between MSMEs and big enterprises is wide.** On average, MSMEs' productivity in LAC is 40% lower than big enterprise productivity. Latin American MSMEs are also far behind compared to their pairs in the European Union and US. Narrower productivity gap allows smaller enterprises to participate in production chains contributing to the strengthening and competitiveness of the productive sector. Thus, donors as well as national governments have attempted to promote the MSME sector through support for financial and non-financial services adapted for those firms to increase their productivity.
- 1.4 **A growing body of evidence and economic theory suggests that the close availability of a diverse set of business services is important for economic growth.**<sup>2</sup> The key idea in the literature is that a diverse set of non-financial services (or higher quality set) of business services allows users to purchase quality-adjusted units of business services at lower cost boosting productivity. Business Development Services (BDS) are this wide array of non-financial

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<sup>1</sup> The experience in OECD countries in public policy is presented in Annex I

<sup>2</sup> Markusen, James et al. "Foreign direct investment in services and the domestic market for expertise" National Bureau of Economic Research, Cambridge 2000. Working paper 7700.

services critical to the entry, survival, productivity, competitiveness, and growth of MSMEs. The group of MIF projects evaluated in this report includes a wide scope of interventions that attempted to support the provision of BDS to improve MSMEs productivity and competitiveness in the region.

- 1.5 **Business Development Services include training, consultancy and advisory services, marketing assistance, information, technology development and transfer, and business linkage promotion.** A distinction is sometimes made between "operational" and "strategic" business services<sup>3</sup>. **Operational services** are those needed for day-to-day operations, such as information and communications, management of accounts and tax records. **Strategic services** are used by the enterprise to address medium- and long-term issues in order to improve the performance of the enterprise, its access to markets, and its ability to compete. For example, strategic services can help the enterprise to identify and service markets, design products, set up facilities, and seek financing.
- 1.6 **The market for operational services may already exist, since there is often an articulated demand and willingness to pay for these services. In contrast, markets for strategic services for MSMEs have largely failed to develop, and they are the focus of most donor interventions.** Despite substantial work to date in this field, definitive "best practice" has yet to be formulated and agreed. What constitutes a "strategic" service may vary according to time and circumstances. For example, communication services may simply facilitate normal business operations for larger enterprises, but for micro enterprises may be a crucial vehicle for strategic reorientation. Responding to the immediate MSME demand for lower-end services may also lead to greater demand for higher-end services. For this reason BDS are broadly defined here to include both strategic and operational services. This implies a variety of markets through which such services may be provided, with different structures, patterns of evolution, and implications for how to intervene.

## **B. The Market Failure in BDS for MSMEs**

- 1.7 **In addition to the simple facts of the externalities provided by supporting MSMEs, given their economic and social importance, there are other key issues that make a compelling case for intervention in the development of a market for BDS.** The economic justification for public or donor intervention to increase the supply and demand for BDS depends on the existence of failures in the private market:<sup>4</sup>

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<sup>3</sup> "BDS Guidelines and Principles for Donor Interventions", Donors Committee for Enterprise Development (<http://www.ilo.org/public/english/employment/ent/>), 2001

<sup>4</sup> A market failure occurs when an externality exists. A private activity that would be economically and socially beneficial is discouraged because the perceived costs to the private activity are lower than the benefits to society. See Phillip, David A., 2000:8

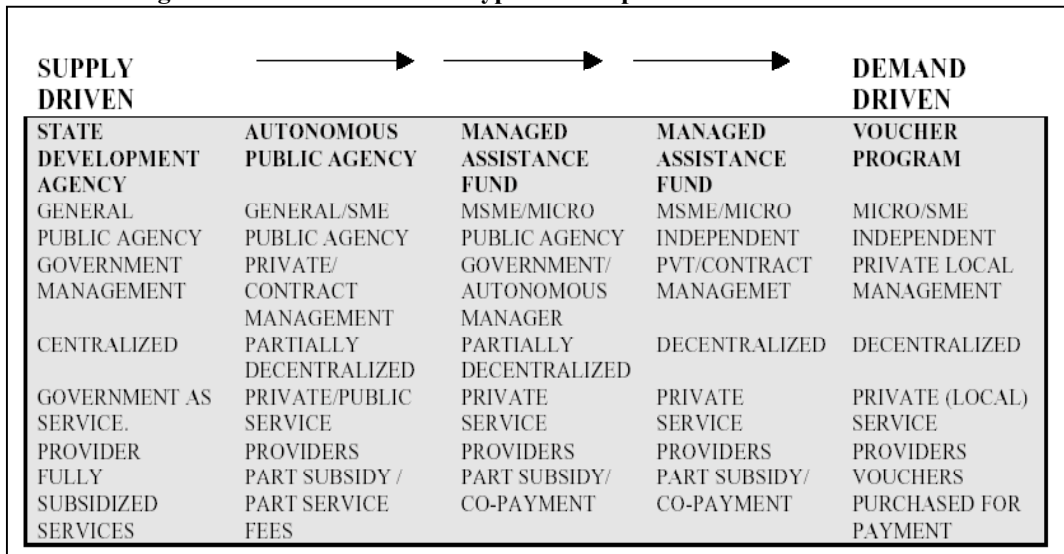
- ***Demand side failures*** may result from lack of knowledge by firms of what is available in terms of business services, and how they can be of use. Such lack of knowledge is often caused by market segmentation with information only flowing to certain firms (usually larger export/import firms). Information on export potential is particularly lacking for SMEs. There is also a problem of ‘short term-ism’. In some poorer economy situations private valuation of training is reduced because of lack of certainty about its benefits, so that its costs appear excessively high in relation to its benefits. Putting a value on training is particularly difficult because it is an “experience good”. The benefit received is difficult to value prior to completion of the training, at which point the incentive to pay is reduced.
- ***Supply side failures*** are linked to the demand side—an underdeveloped market results in low expected returns to business service provision. First mover transaction costs may also be relatively high. Market segmentation can be another problem—if services are tied traditionally to certain sectors and there is a lack of knowledge about other sectors. Preemptive foreign competition (external trade, accounting and auditing services) may put up barriers to local entrants, or, on the other hand, protective policies may reduce the demonstration effects of foreign competition. There may also be a lack of/ appropriate professional training infrastructure to produce advisors— or a relatively high threshold investment in such training.
- ***Linked market failures*** may occur in, for example, the financial sector—MSMEs are seen as risky borrowers due partly to lack of a track record and bank knowledge and lack of access to finance could reduce activity and demand for business services.

- 1.8 **Given these market failures, the challenge for interventions to develop BDS is to ignite a process that develops a market.** The reduction of transaction costs is a key aspect of this process, and therefore interventions to generate cost/return information for MSMEs on key services and reliable suppliers, reduction of unit cost (i.e. by “productization” of services, use of information technology, reduction of marketing costs); and generation of information of potential MSME clients could be some of the avenues for intervention.
- 1.9 **Although strong arguments for market failure exists, careful design in interventions to promote BDS market should take into account that these services are part of existing business systems.** The effectiveness of micro-level interventions cannot be separated from the broader policy, and the broader policy cannot be successful without enterprise-level interventions. The temptation to intervene in a vacuum, assuming that projects are the sole source to “save” the target MSME group is a common story or failed attempts to support BDS.

## 1. The Evolving Characteristics of the BDS

- 1.10 **Public support to promote enterprise, in general, has moved from centralized state development agency initiatives to decentralized market development instruments. It is now increasingly agreed that, if it is to be economically efficient and practically effective, technical assistance for the enterprise sector needs to be flexibly organized and demand-responsive.** While traditional centralized assistance may continue to be effective in some circumstances, assistance needs to be to a large extent moved out of the State or quasi-public agencies to competitive private service providers responding to the evolving needs of client enterprises, subject to service quality control. Stimulation of private service supply and upgrading its capacity to respond to the demands of new and expanding private enterprises is therefore a central task of public policy.<sup>5</sup>

**Figure 1.1: A Continuum of Typical Enterprise Assistance Models**



## 2. Public Support to BDS in LAC

- 1.11 **Public policies to support BDS for MSMEs in the region are relatively recent. The commitments in terms of entities with significant financial resources in charge of MSME policies in LAC countries during the 1990s were limited.** As an integral part of MSME policies, BDS support was also affected by these limitations. An insufficient amount of resources and little experience on the field are features seen in many countries. The majority of countries established programs that lacked funding, sustainability, and in many cases, coordination with related programs. Countries such as Chile, Brazil and Mexico were exceptions since they came close to maintaining their levels of investment in MSMEs over

<sup>5</sup> Such concerns have been the focus of a series of international workshops on business development services (BDS) held during 1999 and 2000 under the auspices of the Committee of Donor Agencies for Small Enterprise Development.

the decade, while the others cut back drastically on their activities directed to the private sector. In many of the smaller countries policies exist only formally, but with limited resources assigned to them. Thus, it appears that MSMEs still do not have the policy or institutional representation in the public sector that would encourage substantial interventions.

- 1.12 **In countries where BDS public policies exist, they have often been linked to efforts to support exports by MSMEs, as well as technological innovation.** The most common forms of support through public institutions, some interventions relating to simplifying administrative procedures and taxes, and some decentralized actions. In contrast, in countries where BDS policies for MSMEs are still at an embryonic phase, BDS supply is limited to isolated interventions by the government or NGOs and projects involving international cooperation, mostly financing the development of certain type services to be provided by specialized institutions.
- 1.13 **The structures that support BDS are of many different types and cover intervention areas from training to innovation, management and marketing services to support exports.** Methods of intervention are extremely diverse and are influenced by the different conditions to be found locally at institutional, regulatory and management levels. In LAC, structures are still public or mixed (managed by public and private bodies), although the role of organizations representing businesses is increasing.<sup>6</sup>
- 1.14 **In many cases there is overlapping and competition between similar structures, which indicates the absence of a clear design in promoting BDS and their integration with the various policies for small and micro businesses.** In a few cases (Brazil and Chile), it can be said that there is a “systemic approach” where policy is able to activate existing “demand” actors (businesses, trade associations, consortia) and “supply” actors (service centres, consultants, universities, chambers of commerce, training institutions, and the relevant offices in public administration). This can be achieved by avoiding overlapping and market distortion, encouraging collaboration and creating stable networks.
- 1.15 **Some important studies of these “systemic” experiences for the development of a market for BDS differentiate the tasks and the role of the different actors involved at different levels that can serve as a base for this analysis<sup>7</sup>.** According to this model, there is a higher level (third level or floor) comprised by those organizations that have political and institutional responsibility in the definition of policies. At the second level, there are those who depending from the first level, are in charge of the technical management of policies and somehow

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<sup>6</sup> Structures in which the private sector carries out an important role in management and overall direction have shown greater efficiency compared with public structures (e.g. Argentina). Key ingredients for success were found in recognition and trust in BDS suppliers from businesses (e.g. Brazil).

<sup>7</sup> Alberti et al, 2002

intermediate the supply and the demand of services. The third group of actors, at the first level, is conformed by suppliers and buyers of BDS.

**Table 1.1: Task Matrix by Actor and Management System**

| Management System                       | Third Floor                                                                                              | Second Floor                                                                                | First Floor                              |                                                              |
|-----------------------------------------|----------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|------------------------------------------|--------------------------------------------------------------|
|                                         |                                                                                                          |                                                                                             | Supply Side                              | Demand Side                                                  |
| <b>Standardization</b>                  | Policy definition oriented to the market of BDS and the quality certification of services and suppliers. | Enforcement of quality standards. Qualification and registration of services and suppliers. |                                          |                                                              |
| <b>Information</b>                      | Policy definition regarding the disclosure of information and oriented to market transparency.           | Provide orientation and information to users regarding standards, suppliers and services.   |                                          |                                                              |
| <b>Administration</b>                   | Hire "second floor" agents in open bids, with fixed time contract and based on results mechanisms        | Administration of the subsidies assignment system.                                          | Sell Services                            | Select and pay for services                                  |
| <b>SME's Innovation and Development</b> | Policy and program formulation oriented to improve the quality of supply in BDS market.                  | If necessary, administrate the supply strengthening components.                             | Develop services oriented to the demand. |                                                              |
| <b>Financing</b>                        | Policy definition regarding the administration of resources and the assignment of subsidies.             | Finance programs based on results mechanisms.                                               |                                          |                                                              |
| <b>Supervision</b>                      |                                                                                                          | Programs' supervision                                                                       |                                          |                                                              |
| <b>Control</b>                          | Auditing of "Second Floor" agents.                                                                       | Control over users and suppliers.                                                           |                                          |                                                              |
| <b>Evaluation</b>                       | Impact and results evaluations of the interventions. Performance evaluation of the "second floor" agents | Input provision to impact and results evaluations.                                          |                                          | Evaluates the quality, efficiency and relevance of services. |

### 3. Summary Analysis of the Market for BDS in LAC

- 1.16 **The BDS sector in the region reflects both the extreme diversity in economic structures across the region and the degree of economic maturity and development.** Evidence of BDS supply in the region is scattered and not homogeneous across countries. This is due, among other things, to the variety of definitions employed by individual countries with different structures, institutions, and levels of development. The non-financial nature of services makes them less visible, and quantitative measurement is more problematical than for financial services. In addition, services are often supplied embedded in products and cannot easily be isolated. For all these reasons, any consistent, comprehensive study of the sector at LAC regional level poses severe problems, and has hardly been attempted.
- 1.17 **Different models of BDS provision prevail in the LAC region. Perhaps the three relatively more active countries, with a longer and more consistent experience of BDS support are Brazil, Chile and Mexico, although they follow somehow structurally different approaches:**

- **Brazil builds its business support service efforts on a solid and dense network of local institutions**, that were initially publicly-funded, and later financed by the private sector, and that although careful to address enterprises' demands tend to be somewhat supply-led.<sup>8</sup> Brazil has probably the MSME support system with the densest network of solidly-financed institutions across the whole LAC region. The risk encountered, however, is sometimes a supply-orientation not always related to enterprises' needs and demands.
- **The Chilean experience is based on a clear decentralization of management and operational responsibilities involving private actors, prioritizing a demand-driven approach, with private agencies in charge of managing publicly-funded support programs.** The tendency is to assign funds and subsidies through open competitive bids.<sup>9</sup>
- **Mexico is also one of the countries where a strong effort has been made in the development of an industry for BDS.**<sup>10</sup> Among the many interventions to support BDS provision, several policy attempts have been made to support the smooth functioning of value chains, such as the *Programa de Desarrollo de Proveedores*, the *Programa de Subcontratación Industrial*, *Empresas Integradoras*, and *Agrupamientos Industriales*<sup>11</sup>. Other programs aiming sustain the upgrading of suppliers has recently been implemented by *National Financiera* and UNDP (2002).

1.18 **Regarding research, training and information technology (IT) services, LAC countries are below the world average.** The last edition of the World Competitiveness Report, published by the World Economic Forum (WEF)<sup>12</sup>, describes the firms' low perception of the local availability of specialized research and training, and of information technology (IT) services. However, the situation shows much diversity throughout the region. Some countries appear to have more support services available locally (i.e. Brazil, Chile, and Costa Rica), while others lag behind (i.e. Bolivia, Ecuador, and the Central American countries) and appear to need most support. BDS regarding Technology Development and Innovation

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<sup>8</sup> In spite of the absence of a clear evaluation of the effectiveness of such support system (Rocha and Da Silva, 2002)

<sup>9</sup> In Chile, the Ministry of the Economy took responsibility for the strategic planning, while the Corporation for Production Support (CORFO) acted as Executive Secretariat of the SME support policy. The Chilean experience is the closest to the systemic approach proposed by Alerti *et. al.* At the first level, private consultants and consulting companies offered technical assistance and business development services. The second level, comprising the public Servicio de Cooperación Técnica (SERCOTEC) as well as other private intermediate agencies, are in charge of administering and monitoring the programs. CORFO, represented the "third level", was in charge of the operational design and regulation of the support schemes, their financial control and evaluation.

<sup>10</sup> Several authors emphasize the vast variety of means used, though noting the ensuing frequent duplications of efforts. See García and Paredes (2001)

<sup>11</sup> De Maria y Campos (2002) describes the long-term evolution of the many innovation support policies for SMEs in Mexico.

<sup>12</sup> (WEF, 2003)

(TDI) are considered a key factor in competitiveness both in national and world markets, particularly in LAC countries that find it increasingly difficult to base their competitiveness on labour costs. Nevertheless, TDI services have less importance in the policy for MSME in LAC as the levels of public investments in Science and Technology (S&T) have been decreasing overtime.<sup>13</sup>

### **C. The Increasing Need for BDS in the Region in the 1990s**

1.19 **In the 1990s the business environment faced changes derived from the new macroeconomic model.** This macroeconomic model was implemented through market-oriented reforms resulting on limiting the degree of intervention of the state in domestic economies. The new environment for business operations was characterized by the following features and show the increasing needs of BDS.

- **More open trade** practices to promote closer commercial ties among countries and stimulate competition;
- **Deregulation and financial openness** to encourage integration and new product development;
- **Less government involvement in economies** as a result of privatization, deregulation, and the dismantling of public monopolies creating new opportunities for private sector service delivery;
- **Development of information technologies and telecommunications**, bolstered by the spread of the Internet, which shortened distances, cut costs, and expedited business dealings;
- **Opening up to surging foreign direct investment** with companies actively seeking out new opportunities for trade and service delivery;
- The trend toward **competitive specialization**, forcing larger companies to focus on their core businesses and to outsource or shed nonessential lines of support services.
- **Shifts in consumer habits and lifestyles** leading to new ways of doing business and new kinds of services; and
- **Shifts in labor market dynamics** toward greater labor mobility and lower opportunity costs, encouraging the development of new business.

#### **1. The Inflow of Foreign Direct Investment**

1.20 **Foreign direct investments (FDI) have risen substantially during the second half of the 1990s, from an annual average of US\$21 billion in the years 1990-95, to US\$85 billion in 2001**, with Brazil and Mexico receiving the bulk of them, followed by Argentina, Chile and Colombia. FDI inflows into the region have

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<sup>13</sup> From 70% of the total investments in S&T in 1990 to 60% in 2000. See “El Estado de la Ciencia” (2002).

also risen in relative terms, increasing its share of developing countries' inflows from 29.9% in the early nineties, to 41.7% in 2001. This trend also included smaller economies, such as the Caribbean and Central American countries, especially the Dominican Republic, Jamaica, Costa Rica and Guatemala.

- 1.21 **The growing presence FDI has profoundly changed the business environment in the region.** Increasingly, local businesses now need to deal with foreign companies in their home markets, and collaborate with them through subcontracting or other forms of arrangements. FDI inflows into LAC represented 38.8% of gross fixed capital formation, while in all developing countries they stood at only 13.4%. This implies that in many LAC countries, capital accumulation, often an important source of modernization and dynamism, heavily relies on the decisions of foreign actors.
- 1.22 **However, the spillover effects of those large FDI inflows were limited in terms of technological and market opportunities for local firms, given the limited capacity in the region to provide key services for those foreign companies.**<sup>14</sup> Qualitative evidence from the most recent WEF "Competitiveness Report" reveals that LAC is not well-placed in this regard: the product and process development of large transnational businesses is seldom conducted with local suppliers and institutions, which often do not participate in value chains and well-developed cluster schemes.<sup>15</sup>
- 1.23 **As a result of this scenario, there is a major need to improve the local offer of BDS to facilitate the establishment of linkages and contractual relationships with local MSMEs to enter into this global competitive logic.** Essential strategic needs have to be fulfilled in order to benefit from FDI and conform to the modern approach to acquiring competitiveness, which requires the resources and abilities to deal with transnational actors in open markets. This often implies collaboration in product and process development and participation in global value chains.<sup>16</sup>
- 1.24 **An emerging need to facilitate these linkages of FDI and local providers is the use of certification processes and qualification of providers.** The certification is a procedure by which a third party, different from the supplier and the buyer, assure that a product, process or service fulfills the specified

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<sup>14</sup> Indeed several studies have established that FDI is not an independent accelerator of economic growth (See Crackovic M and Levine R, Mimeo) and that its positive growth-effects are contingent on other variables that are endogenous to the growth process (See Alfaro L et al., Working paper 01-083, Boston, MA, Harvard Business School, 2001). In this topic, see also Blomstrom et al, NBER Working Paper Nbr 4132, 1992; and Borensztein E et al, Journal of International Economics, 45, 1998.

<sup>15</sup> WEF, 2003.

<sup>16</sup> It should be noted that the composition of FDI in LAC, as documented in the 2003 UNCTAD Report, included less machinery & equipment and productive construction, as compared with Asian countries, diminishing possibilities of stronger local ties with research and development activities and other spillover effects. Additionally it focuses more in the privatization of public services, with fewer linkages that in general have less possibility of local value-chains than industrial operations as in Asia.

requirement. For that reason, it constitutes a key tool in the development of transactions at national and international levels, generating trust and facilitating the relationship between supplier and buyer. Some of the most widespread certifications are those generated by the International Standards Organizations (ISO).<sup>17</sup> Other type of certifications are also being developed and widely required, such as, Euregap for agricultural products and Ecoturism.

## **2. Increase in Foreign Trade and Integration**

- 1.25 Faced with liberalization and stiffer competition on domestic markets, MSMEs have found the need to expand their markets, both locally and internationally.** The most pressing needs in this area are: obtaining information on new markets, logistical organization for distribution, finding distributors, obtaining and registering trade marks and patents, marketing and client assistance services. The most dynamic MSMEs have opted to tackle these challenges through specialization and have associated with bigger companies or entered into partnerships with other MSMEs. These changes have revealed growing needs for technical standards and quality control for successful competitive positioning. The case of exports is a good example of the need of MSMEs to seek partnerships or linkages to large companies through clusters of MSMEs, which are fundamental for opening up trade avenues.
- 1.26 Emerging areas of opportunities are the services around the integration process of the region and the trade liberalization.** In the region, the need for diversifying production and upgrading the export sectors is linked to the creation of a competitive service sector for manufacturing exports.<sup>18</sup> The deepening and increase of subregional and bilateral agreements and the on-going negotiation for the Free Trade Area of the Americas (FTAA) would require strong assistance to MSMEs in BDS to materialize the benefits of these new opportunities and challenges. There is a clear trend that forces MSMEs to acquire the skills to compete in larger integrated markets. BDS supply would need to be modified accordingly, and include support to MSMEs willing to export firstly to sub-regional markets, and then to the overall region, or simply to compete at least in a more equal footing with imported goods and services.

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<sup>17</sup> The International Standardization Organization (ISO) is a worldwide organization created in 1947, which promotes international standards in manufacturing, trade and communications. Among its more than 160 member countries are the majority of LAC countries, represented by a local organization. More than 611000 quality or environmental management systems conforming to ISO standards are implemented by organizations large and small, in public and private sectors. More than 611,000 quality or environmental management systems conforming to ISO standards were implemented by large and small organizations in public and private sectors during 2002. The most widespread has been the ISO 9000 certifications, focusing on quality, which reached approximately 562,000 certifications in 2002, with a constant and remarkable growth from approximately 30,000 in 1993. A more recent certification is the ISO 14000 focusing on environmental management, which started in 1996.

<sup>18</sup> This aspect has been associated to the concept of “trade capacity building”, which highlights a set of complementary policies dealing with private sector development as well as skill labor supply, social safety nets and domestic tax reform. (OECD, 2003)

### 3. Increasing Need for Technology

- 1.27 **BDS in technological innovation have become a basic element to increase competitiveness.** The two main elements for understanding the innovation process are, first, the companies themselves as creators and managers of knowledge and, second, the national innovation systems as suppliers of the necessary context and resources. **As mentioned above, the region is characterized by a low degree of cooperation among MSMEs, and between the business community and universities and research institutions in the area of technological innovation.** Recent research indicates that such cooperation is fundamental in chains or partnerships between MSMEs and large companies.<sup>19</sup> It is particularly necessary in highly competitive environments, with freer trade and sector liberalization, since MSMEs suffer from limitations of scale and funding. The process of adapting technology, even for mature goods and services on international markets, is difficult to predict and there is a great deal of uncertainty about how to adapt it to achieve production that is competitive in terms of costs, times and methods.
- 1.28 **There is still a great deal of room for increasing investments in technology, where public and private participation should be important in bringing about higher productivity and international competitiveness.** By working in clusters, MSMEs in the region have more opportunities for tapping synergies and complementarities that can lead to dynamic long-term comparative advantages in sectors close to patterns of productive specialization. The trend toward larger private sector investments in R&D in the region, which parallels the path followed by the more developed countries, and the increases in the number of patents obtained are worth noting. However, investments measured in terms of GDP continue to be very low (i.e. 0.59% compared to 2.84% in the United States).

### 4. Industrial Competitiveness

- 1.29 **The region has tremendous challenges in terms of industrial competitiveness.** A worldwide indicator that measure industrial competitiveness is the Industrial Performance Scoreboard<sup>20</sup> (IPS), which shows that in spite of clear improvements in IPS from 1985 to 1998, the region is far behind not only industrialized countries, but also transition economies and East Asia (Graphic 1.1). The LAC country with the highest ranking is Mexico, 23<sup>rd</sup> in 1998 (an improvement from 28<sup>th</sup> in 1985), followed by Brazil and Argentina, both of which have deteriorated their ranking. The countries that improved their score the most in LAC are Costa Rica, Guatemala, Chile and Mexico respectively. During the same period the

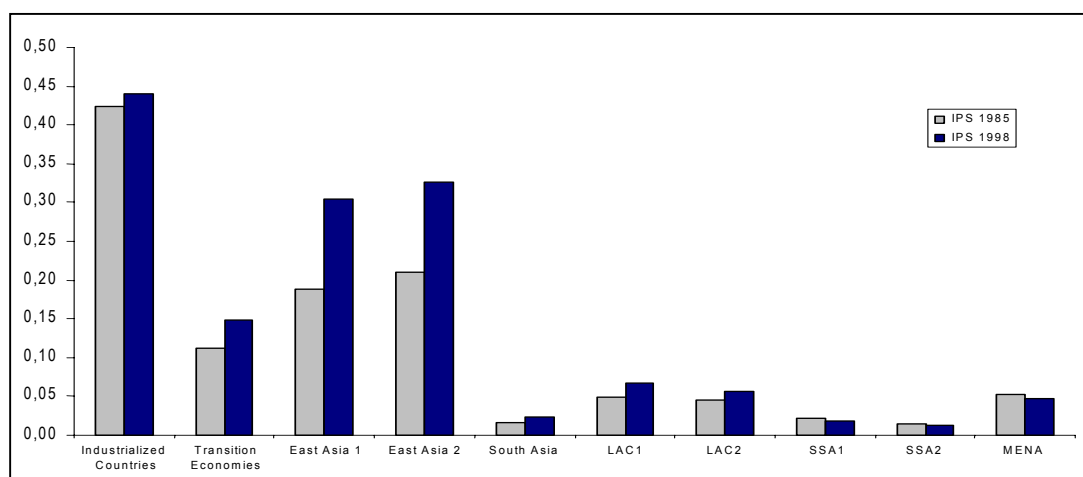
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<sup>19</sup> Studies conducted by the Ibero-American Network of Science and Technology Indicators, 2002

<sup>20</sup> This is a composite index constructed from four basic indicators of industrial performance: manufacturing value added (MVA) per capita, manufactured exports per capita, share of medium- and high-tech activities in MVA, and share of medium- and high-tech products in manufactured exports.

relative positions of other countries visibly worsened (led by Panama, followed by Jamaica, Venezuela, Peru and Paraguay).

**Graphic 1.1: Industrial Performance Scoreboard, Averages**



*Source: UNIDO, 2002. Note: LAC stands for Latin America and the Caribbean; LAC1 includes Mexico, LAC 2 excludes it; East Asia 1 includes China, East Asia 2 excludes it; MENA for North Africa and the Middle East (including Turkey but excluding Israel, which is counted as part of the industrial world). SSA stands for Sub-Saharan Africa; SSA 1 excludes South Africa, SSA 2 includes it.*

- 1.30 Currency appreciation has posed a huge challenge to the competitiveness of MSMEs linked to export sectors and stiff domestic competition with imported goods. In general, large companies are the least affected by the exchange rate, regardless of which sector they operate in. These companies appear to have better mechanisms for protecting themselves from the costs imposed by the exchange rate, and can generally demand price reductions from their suppliers and benefit more easily from imported inputs, compared to MSMEs.

## 5. The Growth in Entrepreneurship

- 1.31 **The new context set by the reforms of the 1990s encouraged the proliferation of new companies.** A recent OECD study<sup>21</sup> on a number of countries for different time periods found a positive relationship between entrepreneurial activity and economic growth and reduction in unemployment. Coincidentally, the Global Entrepreneurship Monitor,<sup>22</sup> one of the most extensive and serious undertakings involving a permanent study of entrepreneurship in 29 countries around the world, has found a statistically significant link between business activity and national economic growth.

<sup>21</sup> David Audretsch et al., "Linking Entrepreneurship to Growth," OECD STI Working Paper, 2001/2.

<sup>22</sup> Global Entrepreneurship Monitor is a program that began in 1999 which seeks to measure the differences in levels of entrepreneurial activity between countries and their linkage to economic growth and national characteristics. It is a joint activity of Babson College (USA), IBM, London Business School (United Kingdom) and the Kauffman Center for Entrepreneurial Leadership (USA).

- 1.32 **However, the leading experts on entrepreneurship stress the need to differentiate between new business initiatives associated with innovations and increases in productivity by conventional business.**<sup>23</sup> Some recent studies stress the contribution of spillovers, where entrepreneurs discover a competitive form of producing a good locally that exists on the world market, drawing a parallel with innovators in mature economies, but subject to strong competition and limited ownership of the invention.<sup>24</sup> The IDB's Sustainable Development Department has recently published a study<sup>25</sup> that sheds light on the process of creating new MSMEs<sup>26</sup> in five countries in the region, identifying key factors that spur or limit entrepreneurial capacity. The most important element underlined by the study suggests that access to networks of contacts is vital for solving problems of financing, inputs and markets. In short, entrepreneurship is becoming increasingly important for spurring growth and employment in the region. BDS are fundamental elements to respond to the needs of these new entrepreneurs and create the conditions for their development.

## **6. Emerging Needs of BDS for Microenterprises**

- 1.33 **Although many of the trends and issues referenced in the previous section reflect more to the needs of SME, the smaller and more informal segments of enterprises in the region are also requiring more access to BDS to address their specific needs.** Several studies in the region document that the lack of access to non-financial services, particularly in the area of marketing, basic business skills and other specific technical needs. However this area has been less developed than microfinance, where most of the attention was oriented, and many of the programs and services in the regions had problems of sustainability given the high transaction costs and the relatively lower capacity to absorb those by microenterprises. As a result, the quality of training and other business development services being offered to them is generally low.

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<sup>23</sup> Peter Drucker, "Innovation and Entrepreneurship," Harper & Row, 1985; William Baumol, "The Free Market Innovation Machine: Analyzing the Growth Miracle of Capitalism," Princeton University Press, 2002; Amar Bidhe, "The Origin and Evolution of New Businesses," Oxford University Press, 2000; and Paul Reynolds et al., Global Entrepreneurship Monitor, 2001.

<sup>24</sup> Ricardo Hausmann and Dani Rodrik, "Economic Development as Self Discovery," National Bureau of Economic Research, 2002.

<sup>25</sup> Hugo Kantis et al., "Empresarialidad en Economías Emergentes: creación y desarrollo de nuevas empresas en América Latina y el Este de Asia," IDB, 2002.

<sup>26</sup> New undertakings were defined as businesses between three and 10 years old, with 15 to 300 employees, in conventional manufacturing sectors and knowledge-based activities, located in a metropolitan area or an industrial park.

## II. MIF STRATEGIC APPROACH FOR BUSINESS DEVELOPMENT SERVICES

2.1 **This Chapter summarizes the strategic approach under which MIF interventions took place.** This involves a review of IDB's strategic documents related to business development as well as specific MIF declarations of strategic intent, and ending up with an analysis of the revealed strategy by looking at the way resources were assigned over time to BDS.

### A. The Framework of Bank Strategies for BDS Interventions

2.2 **During 1993 and 1994 three events took place that gave prominence to the subject of MSMEs:**

- **The first one was the Eighth General Increase in the Resources of the Bank in 1994.** On the broadest level, the strategic mandates of this replenishment gave significant recognition to the importance of MSMEs and begin to break the ground for more focused action in the MSME sector.
- **The second key event in approaching the subject of MSMEs was the administrative restructuring in 1994, which deeply changed the Bank's organization and operating processes.** This event was fundamental for decentralizing operations, with the creation of three Regional Departments and the inclusion in them of a capacity that had previously been centralized. In the technical field, the creation of the Sustainable Development Department (SDS) included MSMEs as part of the responsibilities of its Infrastructure and Financial Markets Division (IFM) and a Unit for Microenterprise Development (SDS/MIC).
- **The third fundamental event was the start up of the Multilateral Investment Fund (MIF) in December 1993 which, with its substantial funding, which pioneered new types of interventions directed to MSMEs.** In fact, the MIF was responsible for almost two out of every three projects targeted to MSMEs. However, as a result of the small nature of its interventions it used less than 3 % of the total funds channeled to them over the decade.

2.3 **In 1995, under the leadership of the Department of Sustainable Development, a consensus was reached on a unified strategy for the SME sector (SME Strategy).<sup>27</sup>** The strategy acknowledges the range of actions that the Bank has undertaken in each country and recognizes the need for a diversity of instruments to address the issue. It proposed to develop a Country Enterprise Development Strategy (EDS) under the leadership of the Regional Departments and within the framework of the Country Programming process. It indicated that the EDS "will consist of a strategy statement to guide Bank's activities and a comprehensive

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<sup>27</sup> The Board of Director's Policy Committee approved this strategy in the document "Enterprise Development Strategy Small- and Medium-Sized Enterprises" (GN-1885)

(multiyear) package of actions.” In 1996 a methodology was designed for the preparation of EDS and during 1996-1998, it was used to prepared EDS for 12 countries.

- 2.4 **The SME Strategy identifies and classifies the typical constraints faced by SMEs** into five types: (i) constraints on inputs, (ii) constraints on marketing, (iii) regulatory constraints, (iv) constraints on management, and (v) institutional constraints. The EDS, for its part, proposes two areas of action to remove these constraints: (i) creation of a level playing field; and (ii) compensation for unfavorable position. The latter involves interventions to promote BDS.
- 2.5 **Complementing this, in 1997 the Bank approved a strategy for the smaller segment of enterprises, the “Microenterprise Development Strategy”<sup>28</sup>.** One of the fundamental objectives of this strategy is “to strengthen sustainable institutions providing financial and non-financial services to meet the demand of microenterprises”. The strategy considers the MIF as one of the main sources of financing interventions, and it provides particular emphasis to the support of “specialized organizations in market-oriented sustainable business services”, using “demand-driven principles”, indicating as the more critical “marketing, quality control, innovation and technology, and management assistance”.
- 2.6 **More recently, in 2000, the Bank approved a strategy for support of science and technology in the region.** This new strategy complements the SME Strategy and emphasizes a strong sectoral and system-wide approach to support technology development. It recognizes the importance of technological development in the productive sector, the support of scientific research with a focus approach to technology and the human resource and institutional development.

## **B. The Strategic Role of the MIF in BDS**

- 2.7 **MIF pioneered in terms of BDS interventions in the region. The experience obtained played an important role in shaping-up the focus of the Bank in its contribution to world-wide efforts to set up guidelines for BDS services.**
- 2.8 **The MIF’s “Facility 3 – Promotion of the Small Enterprise” agreed to finance projects in which improved financial and business practices would aid the economic independence of small and micro-enterprises.** Main MIF objectives with a bearing on BDS projects are as follows<sup>29</sup>: (i) promotion of private investment; (ii) development of MSMEs; (iii) financing of costs relating to reform and expansion of the private sector; (iv) increase in the participation of small entrepreneurs in national economies; (v) promotion of environmentally sustainable economic development in all MIF-supported operations.

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<sup>28</sup> Microenterprise Development Strategy, GN-1938-3, approved February, 1997.

<sup>29</sup> Article I of MIF Constitutive Agreement

- 2.9 **In 1996, The Perry Report<sup>30</sup> highlighted the importance of promoting innovative activities** in this field such as (i) technical assistance to financial intermediaries and (ii) technical assistance in the provision of non-financial services (BDS). According to the report, priority should be given to: (i) projects targeting a specific sector (rather than general) and with major refundable financing; (ii) demand-oriented mechanisms such as vouchers; and (iii) projects promoting the creation of new business and entrepreneurial activities.
- 2.10 **In 1998, the Committee of Donor Agencies for Small Enterprise Development (CDASED)<sup>31</sup> delivered the Report “Business Development Services for MSMEs: Preliminary Guidelines for Donor-Funded Interventions”. This report made concrete proposals and recommendations to improve BDS practices worldwide.** It proposed to (i) improve assessment of current practices by introducing more benchmarking activities; (ii) encourage more projects with emphasis on innovation; and (iii) develop wider dissemination of BDS experience of good and successful practices. It also recommended to (i) design interventions that intends to promote MSMEs development, on an assessment of their own perceptions and needs (ii) regard beneficiaries as discerning clients, rather than plain recipients; (iii) develop transactional relationships with clients (based on exchange, not charity); (iv) develop a sound understanding of the circumstances and needs of clients; (v) regard BDS means (policy tools) as products and adopt a rigorous approach to measuring results in terms of costs and income and; (vi) maintain close contacts with clients so that the demand-driven approach remains dominant.
- 2.11 **From 1998 to 2000, the MIF demonstrated interest in learning from past experience and evolving its approach towards BDS.** For instance, evaluations were carried out on BDS Centers involving 4 projects<sup>32</sup> showing that: (i) the process of setting-up projects and achieving results was slower than expected; (ii) services should be charged to firms that are in condition to pay for them; (iii) types of services were linked to the sustainability issue; and (iv) Centers should not provide services directly to firms, but to limit their role to an intermediary function with a business-oriented vision. Other evaluations suggests that BDS

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<sup>30</sup> In May 1996, a study group was appointed to evaluate projects presented to the Donors Committee and to make recommendations on MIF policies, priorities and strategies. Adjusting the strategy to reflect the on-going needs of private sector development as changes occurred in the region. The study group delivered its report – “The Perry Report” - in August 1996.

<sup>31</sup> The Committee of Donor Agencies for Small Enterprise Development is constituted by 19 multilateral and 20 bilateral development agencies. It was formed in 1979 and the Inter-American Development Bank is member since its constitution. In 1995 the CDASED formed a Working Group on Business Development Services. In 1998, the Working Group published the document “Business Development Services for Small Enterprises: Preliminary Guidelines for Donor-Funded Interventions” and later in 2001 the document “Business Development Services for Small Enterprises: Guiding principles for Donor Intervention”

<sup>32</sup> Centros de Desarrollo Empresarial, 1998, “Análisis de resultados y lecciones aprendidas en cuatro proyectos de América Latina”, BID, December 1998. Additionally MIF and SDS have been studying in depth other specific interventions in Argentina (Rafaela Business Development Center), Chile (Cepri), and Mexico (Nueva Vizcaya).

Centers need to strike an appropriate balance between revenue generation, market penetration and firm level impact, reconciling these interests in an acceptable way to all stakeholders.

- 2.12 **In 2000, the MIF Working Group Report made many recommendations to improve MIF action in BDS projects. The report included lessons learned and best practices and made specific recommendations related to the characteristics of MIF projects.** The report stated that (i) the main characteristic of projects should be innovation<sup>33</sup>, demonstration effect, sustainability, partnership, and additionality; (ii) basic activities should involve the development of MSMEs, market functioning, financial and capital markets; and (iii) projects should be grouped into specific fields (“cluster of projects”) to strengthen project design, improve execution and to contribute to increase the lessons learning and best practices process.

### C. The Strategy Revealed in the Allocation of Resources to BDS

- 2.13 In order to review the revealed strategy followed by MIF in BDS activities, OVE grouped the projects as detailed in Table 2.1. This grouping criterion was used in the 100 projects that are part of this evaluation to identify patterns and evolving characteristics of the overall portfolio<sup>34</sup>.

**Table 2.1: Analysis of Areas of Concern and Focus of MIF BDS Projects**

| Main Concern                                          | Projects Focus                         | Projects revealed categories                                                                                                                                                                                                                                                                        |
|-------------------------------------------------------|----------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Where</b> services are supplied?                   | Main Economic Sector or Activity Focus | Handycraft; Agricultural; Manufacturing; Services & Commerce; Tourism and; Multisector (includes many sectors or are not specific oriented).                                                                                                                                                        |
| <b>What</b> needs are fulfilled?                      | Types of BDS                           | Financial Advice; Accounting and Business Planning; Marketing; Trade and Export; Quality Certification; Firm Networking Services; Technology Services; Services to start-up firms; Policy and Regulatory Services and; General Services (which includes many type of services or no specific ones). |
| <b>How</b> BDS are supplied?                          | Market Development Instrument          | Demand Oriented: Vouchers and Matching Grants. Supply oriented: Supply Strengthening. Intermediation: BDS Centers consolidation or formation                                                                                                                                                        |
| <b>By Whom</b> BDS projects are delivered?            | Institutions/Executing Agencies        | Business Association; NGO's; Private Services Center; Consortiums or Universities and; Public Sector                                                                                                                                                                                                |
| <b>Who</b> demands (and benefits from) BDS?           | Predominant type of beneficiary Firms  | Micro Enterprises; Micro and Small Enterprises, Small and Medium Enterprises                                                                                                                                                                                                                        |
| <b>To Which</b> countries BDS projects were directed? | Countries or Region                    | IDB Countries and A, B, C and D Countries                                                                                                                                                                                                                                                           |

<sup>33</sup> See Document “Promoting Change. Small Business Reform and the MIF” (2001) by Paul Holden.

<sup>34</sup> It should be noted that this classification of the projects to proceed with the evaluation proved to be a complex task for the evaluation team given that the projects do not always clearly define the target market by sector, size, specific needs to be fulfilled, the level of subsidies provided and how they are channeled, and how services are going to be provided. This reflects the issues rose in the Chapter III, regarding the fact that projects usually lack of clear market and institutional analysis.

- 2.14 **In term of distribution of MIF projects by groups of countries it indicates that C and D countries received slightly more attention regarding number of projects (53%) and almost the same percentage of money.** Also the significant number of regional projects (14%) suggests the commitment to a networking approach. The absence of BDS projects in Brazil reflects the existence of important sources of internal financing in that country. (indicated in Chapter I).
- 2.15 **In terms of main economic focus, almost 50% of the projects and resources have been directed to projects with a multi-sector focus.** No change in this pattern has been observed overtime. The manufacturing sector was important for MIF during the first years of MIF activities. For the period 1994-1998 it represented more that 40% of the MIF resources yet for the period 1999-2002 it only accounted for 13% of the resources.
- 2.16 **Regarding beneficiaries, the review of BDS Projects indicates that, as expected, major targets were micro and small businesses<sup>35</sup>** yet 50% of projects focusing on General Services are directed at micro-and small businesses. Quality Services were entirely addressed to SMEs.
- 2.17 **In terms of type of services, projects oriented to support a wide range of services (General Services) were predominant.** However, from 1999, a downtrend was seen in the resources involved in these projects in particular as projects started to be oriented to more specific needs. As a result of the MIF concerns on quality certification and ISO standards and following the grouping efforts recommended by the Working Group, the quality certification oriented projects became important part of MIF portfolio after 1999. Almost 20% of the funding were directed these projects. Additionally, in this period there was an increase in projects oriented to other specific firms needs such as for marketing, support to start-ups, and to collective business initiatives through networking and clustering of firms.
- 2.18 **For market development, supply strengthening was the mode of intervention most frequently used to support the provision of BDS, as it was used in 68% of the projects.** Table 2.2 shows that this form of intervention was the choice preferred in the majority of the services. This was consistent with the practices used internationally at that time in BDS, particularly in the first half of the period analyzed. Quality certification-oriented projects, which started to use “matching grant” schemes, and some general services projects for microenterprises that used “voucher” systems, where the forms of interventions commonly used to strengthen the demand for BDS.

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<sup>35</sup> No specific classification between Micro, Small and Medium enterprises can be stated as they differ among countries. Classification for this category is based on what was declared in Donors Memorandum, but they often did not include clear definition of target firms.

**Table 2.2: Market Development Instruments and Type of Delivered Services**

| Market Development Instrument | Type of Services    | 1994 – 1998 |             |                   |             | 1999 – 2002 |             |                   |             |
|-------------------------------|---------------------|-------------|-------------|-------------------|-------------|-------------|-------------|-------------------|-------------|
|                               |                     | # Project   | %           | \$                | %           | # Project   | %           | \$                | %           |
| BDS Centers                   | General Services    | 9           | 24%         | 29,236,441        | 38%         | 5           | 8%          | 3,718,180         | 6%          |
| Matching Grants               | Quality             | 1           | 3%          | 1,767,550         | 2%          | 12          | 19%         | 10,748,297        | 18%         |
| Supply Strengthening          | Trade / Export      | 8           | 22%         | 7,855,661         | 10%         | 7           | 11%         | 6,619,150         | 11%         |
|                               | Financial Advice    | 0           | 0%          | 0                 | 0%          | 2           | 3%          | 1,596,000         | 3%          |
|                               | General Services    | 13          | 35%         | 22,105,731        | 29%         | 10          | 16%         | 7,092,430         | 12%         |
|                               | Marketing           | 2           | 5%          | 2,660,000         | 3%          | 7           | 11%         | 5,823,420         | 10%         |
|                               | Networking          | 2           | 5%          | 8,800,000         | 12%         | 5           | 8%          | 5,804,347         | 10%         |
|                               | Policy / Regulation | 0           | 0%          | 0                 | 0%          | 6           | 10%         | 8,224,000         | 14%         |
|                               | Start Up Services   | 1           | 3%          | 2,500,000         | 3%          | 5           | 8%          | 5,355,000         | 9%          |
| Vouchers System               | General Services    | 1           | 3%          | 1,260,000         | 2%          | 4           | 6%          | 3,780,070         | 6%          |
| <b>TOTAL</b>                  |                     | <b>37</b>   | <b>100%</b> | <b>76,185,383</b> | <b>100%</b> | <b>63</b>   | <b>100%</b> | <b>58,760,894</b> | <b>100%</b> |

2.19 **It is clear that 1999 was a turning point in MIF interventions. After that year the demand driven approach strategy was used in 1 out of 4 projects.** During the first five years the BDS Centers projects and the like represented almost 25% of the MIF portfolio for BDS, but from 1999 to 2002 they represent only 8%. Business Associations and NGOs were the most frequent executing agencies involved in BDS projects. A private sector approach seems to be part of MIF strategy in this cluster as only 20% of the projects were executed by public or semi public institutions.

2.20 **Finally, regarding projects size, there was clearly a downtrend in the average dollar amount per project over the period.** Average project size reached US\$ 3.5 million in 1995 and its minimum of US\$ 0.7 million in 2002.

#### **D. The Relationship of Bank and MIF Activities in BDS**

2.21 **There are indications of increased attention by the Bank of themes addressed by MIF programs, particularly in the area of competitiveness.** A study of Bank and MIF BDS interventions, carried out by SDS/MSM,<sup>36</sup> found that similar areas of attention were addressed by the Bank and MIF in BDS. However MIF

<sup>36</sup> The study is still in progress at the preparation of this report, as further explained in Chapter IV, this study would provide with in depth analysis in several of the critical issues for BDS development, developing best practices identified from successful IDB and MIF interventions in this field. It defined a databank of 85 projects including MIF projects and Bank loans.

interventions also addressed other areas not covered by the Bank activity, like regional competitiveness and entrepreneurial initiatives (appearing slowly in the 2003 Bank program).

**Table 2.3: IDB and MIF Interventions for MSMEs (1990-2002)**

| Category                                              | IDB                  |              | MIF                |            |
|-------------------------------------------------------|----------------------|--------------|--------------------|------------|
|                                                       | \$                   | # Operations | \$                 | # Projects |
| Technical assistance                                  | 357,500,000          | 13           | 60,697,000         | 34         |
| Human Resources Development                           | 1,254,837,000        | 15           | 65,303,000         | 33         |
| Innovation, Technology and Quality                    | 1,112,208,000        | 16           | 42,463,000         | 32         |
| Entrepreneurial Initiative                            |                      |              | 13,127,000         | 8          |
| Regional Competitiveness (Local Economic Development) |                      |              | 14,345,000         | 12         |
| <b>Total</b>                                          | <b>2,724,545,000</b> | <b>44</b>    | <b>195,935,000</b> | <b>119</b> |

*Source: OVE based on IDB Data (SDS/MSM)*

2.22 **Also, the evaluation conducted by OVE on the IDB Science and Technology programs (S&T)**<sup>37</sup> found that the programs have evolved in a similar way to BDS projects, as there is a growing attention to the demand approach in the S&T programs<sup>38</sup>. In recent years, S&T interventions have increasingly moved from supporting basic research and research structures to support technology transfer and R&D actions within businesses and private institutions. Up until 1995, R&S interventions by IDB acted on research services to a very limited extent and only marginally involved MSMEs which leaved an important gap for MIF action.

2.23 **MIF projects for BDS have had a specific role within IDB initiatives and have covered gaps left unfilled by other interventions.** The MIF has given priority to the private sector, while other IDB interventions have placed the private sector in a secondary position. In this sense, the role of MIF appears of fundamental importance and shows a pioneering approach. Under the additionality section presented in the next Chapter, further analysis is given based on the actual relationship between MIF and IDB Programs.

## **E. Summary of Strategic Approach**

2.24 **The strategic approach followed by the MIF played a highly visible role in the IDB Group strategy to support the Private Sector in the region during the 1990s.** This strategic commitment was particularly visible given the limited number of countries that have specific MSME policies and financing of

<sup>37</sup> OVE, 1999 "Science and Technology Program Evaluation", IDB

<sup>38</sup> S&T programs have involved the majority of the resources devoted to BDS (an annual average of US\$161 million between 1990 and 1995). In the 1980s the programs were used by the region's more industrialized countries (Argentina, Brazil and Mexico) but a wider, more varied group of countries as Colombia, Costa Rica, Venezuela, Chile, Uruguay and Ecuador have started to use them since the beginning of the 1990s.

corresponding programs. The MIF has been operating in a field where other interventions were initially relatively few or are not directly addressed to the private sector.

- 2.25 **There was process of learning and evolution in the way MIF approached BDS in the period 1994-2002, marked by a clear turning point was 1999, anticipating the recommendations of the Working Group Report.** The second part of the period analyzed revealed interventions targeting more specific firm needs (such as quality, marketing, networking, and start-up requirements). Additionally this second period (1999-2002) showed an emerging trend of interventions that used actively demand side mechanisms to support the development of BDS markets, such as “vouchers” for microenterprises and “matching grants” for MSMEs.

### III. EVALUATION OF BUSINESS DEVELOPMENT SERVICES PROJECTS

#### A. Introduction

- 3.1 **This chapter summarizes the result of an in-depth evaluation of Business Development Services (BDS) projects<sup>39</sup>.** In total, US\$135 million were allocated for 100 BDS projects<sup>40</sup>. The group includes all projects approved between the years 1994 to the end of 2002.
- 3.2 **This chapter is organized around the seven evaluative dimensions: relevance, effectiveness, efficiency, innovation, additionality, sustainability, and evaluability which follows the methodology developed by OVE and agreed with MIF for all evaluation exercise and covering the dimensions presented in Table 3.1<sup>41</sup>.** The main results emerging from quantitative and qualitative analysis of all projects are shown. In order to illustrate the general results some project examples are also given. Finally, the main strengths and weaknesses around of each evaluation dimension are summarized highlighting the typology of intervention or the main sub-groups of projects that stand out in the analysis.

Table 3.1: MIF evaluative dimensions

| EVALUATIVE DIMENSIONS | PROJECT STAGES          |                               |                          |
|-----------------------|-------------------------|-------------------------------|--------------------------|
|                       | A. EX-ANTE              | B. EXECUTION                  | C. EX-POST               |
| 1. RELEVANCE          | 1.A Needs Diagnostic    | 1.B Demand for Services       | 1.C Market Generation    |
| 2. EFFECTIVENESS      | 2.A Risk Prevention     | 2.B Flexibility               | 2.C Project Output       |
| 3. EFFICIENCY         | 3.A Resource Allocation | 3.B Administrative Management | 3.C Productivity         |
| 4. INNOVATION         | 4.A Product Innovation  | 4.B Process Innovation        | 4.C Demonstration Effect |
| 5. SUSTAINABILITY     | 5.A Partner Analysis    | 5.B Partner Monitoring        | 5.C Institutionalization |
| 6. ADDITIONALITY      | 6.A MIF Value Added     | 6.B Synergies                 | 6.C Catalytic Effect     |
| 7. EVALUATION         | 7.A Evaluability        | 7.B Monitoring                | 7.C Impact Evaluation    |

- 3.3 The evaluation included the entire portfolio of BDS projects. Ex ante analysis was carried out for the entire portfolio as it is based on design characteristics of the

<sup>39</sup> Annex III contains a detailed description of the evaluation analysis summarized in this Chapter and Annex IV includes complete detail of the Methodological Framework.

<sup>40</sup> See complete list of projects in Annex IV

<sup>41</sup> A full description of the methodology is presented in Annex IV

projects. For execution and ex post analysis, the evaluation was based on 83 projects that were in more advanced stage<sup>42</sup>. This analysis was documented with the preparation of project “briefs” (52) and more detailed “cases” (31), following the methodology guidelines (Appendix 1 and 2 show some examples). In order to prepare these project evaluations, field work was conducted in 12 countries<sup>43</sup>, gathering direct performance evidence of 65 projects by interviewing executing agencies and other key actors, as well as MIF and IDB staff, and using project documentation<sup>44</sup>. For the rest (18) “desk analysis”<sup>45</sup> was performed to produce “briefs”. Additionally, to obtain a direct and documented evidence of the perception from MIF partners in the field, a survey was sent to all executing agencies, covering the issues concerning this evaluation with a turnaround rate of 70%.

## B. Relevance

- 3.4 MIF project relevance was defined as the extent to which MIF projects were directed toward fulfilling market needs and to the extent to which these become actual demand. Relevant operations should solve important problems that would allow markets for BDS to develop. Relevant MIF interventions should also be timely with respect to having the proper conditions established for success. Sufficient “due diligence” should have been completed so that projects were directed toward key players in the industry and there was a demand for this type of intervention. Mechanisms should have been incorporated into the project so that clients and markets could provide “feedback” to the MIF that would analyze the cost and quality of the BDS services, and the willingness of clients to pay for these services.
- 3.5 **BDS projects rank relatively high<sup>46</sup> on the criteria of relevance.** As stated in Chapter 1, the problems of the region regarding micro and small enterprises’ competitiveness were very important and the MIF presented itself with a broad and flexible mandate to meet the changing needs of the private sector. Thus, as the projects were generally oriented towards increasing MSMEs competitiveness and productivity through the creation or reinforcement of markets of BDS, they were indeed relevant within the context described in Chapter I.
- 3.6 **The constraints that firms faced embraced several dimensions of their business.** Firms faced input, output, regulatory, management and institutional

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<sup>42</sup> More than 50% disbursed or more than 2 years in execution.

<sup>43</sup> Field work was carried out in Argentina, Bolivia, Peru, Chile, Colombia, Panama, Costa Rica, Honduras, Guatemala, Mexico, Uruguay, and Paraguay. The following criteria was taken into account in the selection of countries for the field work: the representation of different regional levels of development; the coverage of different types of projects; the execution time, and the best and worst cases as measured against MIF project characteristics.

<sup>44</sup> Eligibility Memoranda, Donors Memoranda, PPMRs, Intermediate and Final Evaluations, etc

<sup>45</sup> “Briefs” completed by desk analysis were referred to projects of other countries such as Mexico, Venezuela, Belize, Ecuador, El Salvador, Nicaragua, Guyana, and Dominican Republic.

<sup>46</sup> That is to say “high” and “mid-high”, according to the categories of the variables used to rate projects.

constraints. Consequently, the support of BDS markets for MSMEs, essential for overcoming such constraints, became highly relevant to increase their competitiveness and productivity.

- 3.7 **Only half of the projects evaluated as case studies conducted or considered, during the design phase, market studies, or sector diagnosis regarding specific market needs to target beneficiaries and define specific objectives for them.** This weakness is also reflected in the fact that although more than half of the cases studied the main concern of BDS projects was to improve firm's competitiveness, this objective was most of the time defined in broad terms and beneficiaries were not specifically targeted. To illustrate, the project MIF/AT-58 in Peru stated: *"the main purpose is to improve business practices and competitiveness of small business in Peru"*. Another example is MIF/AT-305 in Colombia which stated: *"the project's overall objective is to make MSMEs in Colombia more competitive by strengthening and fostering a culture of concerns for quality and environmental conservation as keys to success when competing on world markets"*. Only 3 out of these 14 case studies have defined their objective in more specific terms, as for example MIF/AT-203 in Colombia which stated: *"the project's general objective is to increase the productivity and competitiveness of the microenterprises from the city of Medellin, with particular emphasis on metalworking and woodworking sectors"*.

**Box 3.1: A Case of High Relevance: Supporting a Sector with High Economic Potential in Guatemala**

The purpose of the project "Development of Non Traditional Agro-Exports" (AT 161, Guatemala, 1998) was to support the sustainable growth of non traditional agricultural exports; specifically, of those oriented to the USA market (and other potential markets) such as, fruits, vegetables, and their manufactures. Non traditional agricultural exports were one of the most important boosting factors for economic growth in Guatemala (in face of the crisis of the coffee market). They represented around 30% of total non traditional exports and, around 15% of total exports, involving around 100 thousand producers and 85 thousand employees. The project aimed at helping exporters overcome three critical problems identified for the sub-sector: the lack of market information, the need of new technologies and of quality control and, the formalization of protocols with buyer countries. Thus, this project constitutes a clear example of high relevance, in which the families' income improvement was also considered important. The project brought the attention of the Banco Centroamericano de Integración Económica that financed its expansion with US\$15 million.

- 3.8 **In the case of BDS services, the macroeconomic scenario, the low quality of BDS supply, the broad selection of market segments and beneficiaries targeting, also became important elements in stimulating demand and market creation.** Ex ante relevance revealed not to be enough to make projects highly relevant during the execution and ex-post phases. As stated above, relevant interventions should also be timely with respect to having the proper conditions established for success. High relevance in the ex-ante phase did not necessarily imply that it was the best time for a project to be executed.
- 3.9 **In general, recession in the macroeconomic or sector context, limited supply of these type of services constituted serious limitations to the demand of services, and thus, relevance decreased during execution and ex-post phases.** In periods of economic recession, firms' priority is to survive in the market rather

than assigning their very scarce resources to achieve higher competitiveness in the medium or long run. The difficulty of planning on a medium-long run basis, a distinctive feature of MSME management behavior, increases as the conditions worsen or become uncertain and unstable. This has occurred throughout most of the period of MIF project execution. The opposite also held true, a macroeconomic scenario in expansion permitted higher levels of relevance during the projects' execution phase. However, there have been some examples of successful projects in the middle of macroeconomic crises like in Mexico, Argentina and Uruguay where the projects were addressing specific needs and opening opportunities in the new economic context.

- 3.10 **The capacity and willingness of the market to pay for the services was slower to emerge than anticipated.** Although in 80% of the cases studied the perception of clients on cost and quality of services provided was high, the analysis shows that relevance was higher when projects were accompanied by subsidies that allowed firms to cover, at least partially, the costs of the services. In fact, the analysis of the cases studied revealed that 69% of the services that were actually provided, clients manifested a mid-high or a high willingness to pay for them, though at around 50% of the total cost. It should be considered that BDS imply, for the beneficiary firm, an investment expenditure which on average amounts to three or four times the service cost.<sup>47</sup> As stated in Chapter I, the lack of public policies that encourage BDS provision for MSMEs, the limited access to credit, and the lack of follow up of these operations by Bank and other Institutions make very difficult the development of a BDS market for MSMEs.
- 3.11 **The evaluation team was not able to process quantitative information regarding market creation, the information provided was scattered and generally not trustworthy.** This is not surprising since most executing agencies do not carried out estimations on actual and potential demand. Nonetheless, it is clear that market generation for BDS services was low, only 4 out of 10 projects were able to develop solid markets for BDS provided after their execution period.
- 3.12 **There seems to be a discrepancy between the rather unsatisfactory result in generating market for BDS and the firm clients' praise of the quality of the services and willingness to pay for them.** Three main reasons may explain this fact. The first one is that although services provided were relevant to enterprise needs, the macroeconomic context, the absence of other sources of financial aid, and the high cost of applying these services, did not allow the demand to stabilize and thus, market creation was limited. This explanation is particularly true for less dynamic and marginal firms, which very much depends on the macroeconomic scenario and the financial aid. The second reason is that the project duration was insufficient for market consolidation. The effects on firms' competitiveness of services provided were not always perceivable during projects' life cycle. Firms need time, financial resources and adequate management skills to adapt and

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<sup>47</sup> OECD, "Busting business advisory services," 1995.

implement most changes advocated by these services. The third reason found is an unsystematic selection of target beneficiaries, due to the lack of adequate market studies, that may have conditioned the speed of response of firm management to services.

- 3.13 **In many cases, BDS supply was not completely developed when projects ended.** Consequently, the basis on which to create a solid market was still weak when projects finished. In several cases, executing agency offices closed after project completion without assuring a necessary “transition phase” to bridge the market that was being developed. In other cases, executing agencies kept supplying the more general services (mainly promotion and information).
- 3.14 **Projects aiming at improving the regulation context, for example, had a relatively high relevance throughout the lifetime of the project.** (See Box 3.2). As stated above, relevant interventions should have proper conditions established for success. In most cases, dealing with the existing institutional normative (trade regulation, requisites to set-up new firms, conditions to gain access to policy benefits, etc.) hamper rather than assist enterprises to gain competitiveness. These projects aimed at setting up a viable administrative and legal framework to ease MSME creation and management by simplifying procedures, disseminating information, and facilitating a better interaction between MSMEs public and private bodies. The high relevance is due to the fact that most firms considered the new legal framework a necessary condition for MSME development.

**Box 3.2: Cases of High Relevance: *Improving the Regulation Context for MSMEs***

The inefficiency that characterized the application of the numerous SMEs assistance programs in El Salvador, was the main problem to be solved by the “**Micro and Small Enterprises Development**” project (AT 321, El Salvador, 2000). It was argued that although there were numerous programs for benefiting SMEs (public, private, national and international), and a relatively large amount of money involved, they had been negatively affected by the lack of a normative system, the lack of coordination between executing agencies and the limited diffusion of the programs among enterprises. Formal documents taken into account and elaborated by CONAMYPE (National Council for Micro and Small Enterprises of the Ministry of Economics) and, by international organizations, such as GTZ, ILO and The World Bank, also presented these factors as serious limitations. Consequently, in that context, the MIF project was highly relevant as it implemented mechanisms to overcome the problems mentioned and, therefore, make the application of SMEs assistance programs more efficient. Moreover, although firms can be considered indirect beneficiaries, all SMEs existing in the country (470 thousands, approximately) would benefit from this project.

The project “**Rationalization of Administrative Procedure for Enterprises**” (AT 368, Colombia, 2001) is another example of high relevance when the objective is to improve the regulation context. The project had considered formal documents which defined administrative procedure as an important limitation for SMEs development in Colombia and, had also verified this through focus group analysis and field work (for example, in Colombia it takes 17 different administrative steps and 2 to 12 months to set up a new firm and on average costs US\$ 250). The project aimed at creating mechanisms between enterprises and public and/or private entities authorized to undertake the administrative registration of firms, to simplify the procedure drastically. Approximately, half a million productive units operating in the informal economic sector would benefit from the anti-bureaucracy objective of the MIF project.

- 3.15 **Given a context of open economies, export oriented projects, when adequately targeted, had high relevance as they aimed at improving MSMEs competitiveness in international markets, counteracting MSMEs**

**unsatisfactory performance in international trade during the last decade.** Projects providing export services also showed high relevance. In many countries of the region, international market information services are limited and of crucial importance to exporters and firms with export potential. By providing integral information about foreign market conditions and requisites, these services helped MSMEs to overcome strong limitations to compete in the international arena. Some projects pursued the aim of helping producers to change or to adapt their products to the trade regulations applied in developed countries, which was considered, by MSMEs, an important barrier to export. In some other cases, higher relevance of these projects was related to the fact that they helped producer to diversify agricultural exports in countries highly dependent on one or two agricultural products.

- 3.16 **Consistent with the needs of a more open trade and outsourcing, projects related to facilitate the use of quality standards by smaller firms (ISO projects), were also ranked high in relevance.** The lack of a quality certification system embedded in the production process of firms affects principally the trade of those products that need to comply with international quality standards and can act as a powerful limitation for innovation and competitiveness. Quality certified products and processes (mainly by ISO standards) constitute an important pre-requisite not only for international trade but also for internal trade. Particularly, if MSMEs are part of a production chain, in which the final client outlet is a foreign market. In many cases, however, the cost of changes implied in the compliance of ISO 9000 and 14000 standards has turned out too high and projects did not go the whole the way towards individual firm certification. Many times because the targeting of the beneficiaries was not adequate and some firms did not see the need the certification and drop out. Therefore, still for some of these projects their ability to maintain relevance overtime is still a challenge.
- 3.17 **On the contrary, projects aimed promoting networking and “clusters of firms”, revealed lower relevance rates than average, because they were not based on well established clusters and had not clearly identified the groups of firms with clustering needs ex-ante.** Therefore some of these projects faced low willingness and need of cooperation between firms (see Box 3.3). In most cases there was an insufficient analysis of target firms and of their position in the value chain. Consequently, in most of these projects the promotion of clusters failed. Projects aiming at affecting individual or group management attitudes and behavior as well as the forms of inter-firm competition, need more accurate designs, better targeting and longer project life cycle.<sup>48</sup>

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<sup>48</sup> Methodology for cluster evaluation (BID, 2003)

**Box 3.3: Cases of Low Relevance: *When Clusters of Firms are not “Demand Driven”...***

The **“Productive Integration Program” (AT 358, Mexico, 2002)**, identified a need for “import substitution” and defined the need to integrate national production through the promotion of clusters of SMEs. Apart from cooperating between them, SMEs should operate in an integrated way. However, no analysis or diagnosis of the complete value chain in which firms operated was carried out, nor was the firms’ willingness to operate in clusters identified. Consequently, cluster generating was imposed from above (decided from the top-down). The lack of “trustworthiness” and of the “associative spirit” correctly identified in the program, seriously hampered project execution and affected ex-post relevance and effectiveness negatively.

Another project, **“Micro enterprises Network Expansion” (AT 249, Honduras, 1999)**, created to support SMEs competitiveness and productivity through the strengthening of firm networks, was not successful either. The project revealed low ex-post relevance as well as, very low effectiveness in execution and ex-post. Although, an attempt was made to apply a “network development” methodology, firms did not respond positively. The entrepreneurs, who were supposed to buy the services in association, were reluctant to pay for them, even in those cases where payment was possible. The expected result of network development was not achieved. This failure was completely unexpected as the executing agency, CERTEC was one of the five best service providers for firms in the country (according to a ranking made by international organizations). However, the failure was due to the fact that there had been no prior identification of the group of firms, and they were not actually prepared to operate jointly. Consequently, it was verified that the top-down direction of the policy inevitably led to failure.

- 3.18 **To sum up, services offered through MIF project are relevant to overcome some internal managerial and technical shortcomings in MSMEs and to solve market failures. However their ability to generate a market was low due mainly to the slow response from firms in establishing a non-subsidized demand for them. Three reasons may explain this: First, the lack of adequate market analysis lead to a too optimistic expectation of a quick firm responsiveness in managerial, technical and financial terms to undertake all changes introduced by the services and realized the positive impact in productivity and sales. Second, recessions and volatile macroeconomic context negatively affected MSMEs market perspective and growth expectations, weakening their medium and long-term development plans. Third, the lack of possibilities of connection with friendlier public policies for the promotion of BDS, the limited access to credit to finance the actions derived from services, and the lack of follow-up of these interventions by the Bank or other institutions.**

**C. Effectiveness**

- 3.19 **Project effectiveness indicates to what extent desired results were achieved.** It does not take into account whether the project objectives were the most appropriate to fulfill market needs, but it attempts to define whether the means used to achieve them were appropriate. The evolution of the project starts getting shape as early as the design stage where the evaluation measures whether risk factors that could hinder the achievement of expected results were identified, and actions to mitigate them were forecast. During execution, an effective project possesses the ability to adapt its conceptualization to evolving circumstances in

order to achieve expected results, and ex post, it compares actual results with expected ones.

- 3.20 **Overall about half of the projects were classified as being effective.** The rating of effectiveness fluctuated over the project life cycle from an average of 64% of high or medium high effectiveness ex-ante to 60% during execution and 40% ex-post. Several results were obtained from effective MIF BDS projects. This includes: moving forward a “culture of quality” in the region; the introduction of some successful demand-based approach to BDS provision; the strengthening the supply of BDS provision, including the development of new models of business service delivery.
- 3.21 **The point of departure for effectiveness was affected by problems in the lack of clear and well-defined objectives.** To be successful, planning process should produce a clear, unambiguous statement of program objectives and clients to be served. However, it is important to note that the definition of objectives and means are not clear. For example many of the stated specific objectives are actually means, such as “improving the dialogue”, which was a specific objective in 10% of the cases. Additionally, reviewing Donors Memoranda of case studied during the evaluation found diverse specific objectives. The most common specific objective (20%) was to improve management skills or to provide training to firms, also (20%) was to create a “center” or to strength a network of firms, and thirdly (16%) the provision of technical assistance.
- 3.22 **Another problem with the definition of objectives was the ambitious nature, particularly in terms of financial sustainability.** In fact, the goal of *financial sustainability of the BDS services* did not prove to be realistic<sup>49</sup>. The objectives aiming at increase the competitiveness of firms and achieve financial sustainability of the services, turned out to be over-ambitious in relation to the kind activities carried out, the relatively short time available for their execution, and the relatively small amount of money involved in each project.
- 3.23 **In general, risks identified were mainly related to demand and entrepreneurs and firms response than to other factors, but underestimating important risks that materialized during execution such as low supply quality and lack of financial resources.** The slightly higher rating in effectiveness at the time of project design reflects the fact that most projects did identify potential risks that could hamper the effectiveness of their results. The most common potential risks anticipated in case studies were: “low demand and insufficient willingness to pay for the services”, a “change-resistant attitude of entrepreneurs and enterprises” and “inadequate capacity of the executing agencies”. Risks such as, “limited service supply”, “limited access to credit” and “unstable political and macro-economic scenarios” were also mentioned though in fewer cases.

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<sup>49</sup> Along this line, an landmark OECD study concluded, already in 1995, that BDS support for SMEs does not bring, in the short term, substantial increases in productivity, employment or exports, as it encourages firms with insufficient experience to use external services to supplement their own internal resources.

- 3.24 **Actions designed to mitigate the main risk factors forecasted were sometimes insufficient or inadequate, and thus not always successful in practice.** This made projects less effective in the execution phase. The most mentioned actions proposed ex-ante to counteract the risks identified were the promotion of the benefits of services to stimulate the demand as well as offering services at subsidized costs (gradually decreasing over the lifetime of the project), or schemes of co-payment.<sup>50</sup> Other mitigation actions rely in the leadership and the compromise of the Executing Agencies, the quality of the services provided, and the hiring external experts to help developing services and products, which shows not to be always sufficient to enhance effectiveness.
- 3.25 **The evaluation revealed that BDS projects that offered services that targeted very specific firm's needs were more effective than those that offered general services.** Those more successful included “tailor-made” and individual assistance as well as close links between firms and supplier institutions were more effective than projects that provided “general” assistance. Specific supporting assistance, such as quality services and trade, clearly led to higher levels of effectiveness as it adapts better to beneficiaries’ needs. This confirms the results of other evaluations,<sup>51</sup> which concludes that MSME service delivery should be based on an on-site, direct, one-to-one relationship with the entrepreneur, to establish mutual confidence, trust and consensus during the process of change and innovation.
- 3.26 **The analysis also shows that subsidies alone are not enough to generate demand and make a project effective. Other actions, such as intermediation to link supply and demand or actions that tended to improve the quality of services, contribute to enhance effectiveness** (see Box 3.4). The choice of the delivery model is also important and it implies a very clear distinction between an intermediary function, which informs the potential clients and orient them on how to address specific needs, maintaining an up-to date roster of qualified BDS providers.

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<sup>50</sup> The international experience suggests that although it could be true that the demand for BDS need to be stimulated, program work more effectively when clients pay a substantial share, at least 50% of costs of services they receive. OECD (1995)

<sup>51</sup> OECD Boosting business advisory services 1995; ISMERI EUROPA 1998 enquiry on SMEs innovation services demand. European Union, Research Innovation and Technology Plan for Tuscany.

**Box 3.4: Case of High Effectiveness: Not Only Subsidizing Demand but, Adapting Supply to Clients' Needs**

The project “Promoting Instrument Improvement for SMEs” (AT 393, Regional, 2001) applied in Argentina and Chile, illustrates that both, actions to subsidize demand and actions to improve the quality of supply are important to support a BDS market. The program objective was to promote a market for services on quality systems (management of ISO norms and other quality system for “continuous quality improvement”) for small firms. Subsidies to demand decreased in time and, as firms noticed the positive effects of services, they began to pay (partially) for services. The project tried to guarantee services that were designed to meet the needs of small firms and, thus, consultants were specifically trained for that. Although the macroeconomic context in Argentina was in deep recession, parts of the private sector were not so deeply affected by it. A permanent feedback from beneficiaries was implemented and project flexibility permitted the modification of some actions in order to adapt them to the new context, the new needs of clients and also, to overcome some design limitations. Expected results, in terms of outputs and firm involvement, were achieved, and with the supply and the demand side of the market strengthened, the results in terms of impact are promising.

3.27 The portfolio statistics on project execution in the PPMR shows that the “Development Objectives” (DO) of the BDS has improved in recent years. In fact, the percentage of projects in which the results achieved were qualified as “probable” or “highly probable”, rose from 70% in 2000-1 to 92% in 2002. This point is further addressed in Efficiency.

3.28 In order to illustrate the effectiveness of outputs and outcomes, we present a set of expected and actual outputs of the cases studied. The analysis shows the following findings:

- ✓ Studies and market analysis were included in 20% of the projects and were actually carried out.
- ✓ Institutional strengthening activities, changes in regulation and legal frameworks included in a significant number of projects were also successfully executed.
- ✓ Projects involving university networks and other research institutions fell short of the target by 50%.
- ✓ Promotion activities produced mixed results; seminars, conferences and meeting were carried out while there were not successful marketing strategies to generate information on clients, databases of clients (neither within the projects nor within the countries).
- ✓ The highest amount of resources was spent in training and consultancy, including ISO certification and trade. These constitute the bulk of the project output as they are a component in the majority of projects, they reached and often overshot the target values for most activities. These activities reached very large number of beneficiaries, achieved the number of training courses as well as the number of micro enterprises and handicrafts programmed. Yet, most of the time, there is not a quality evaluation of these activities and there is not a systematization or roster of consultants that participate in these projects.

- ✓ Consultancy and technical assistance show a large number of beneficiaries and of services activated by a significant number of projects, which go beyond target values.
- 3.29 **Projects directed to provide BDS to the commerce and service sectors were more effective than those oriented to manufacturing and agriculture.** This is reflective of the situation and conditions present in the region and the international trends during the period evaluated, which indicate more business dynamism in the first two sectors.
- 3.30 **Concerning the instrument used for market development, the projects which used the voucher system<sup>52</sup>, on average, rated lower in effectiveness than the ones that used matching grants or the one supporting the supply side development.** The voucher system was, in most cases, applied to stimulate demand for training services, particularly for microenterprises. Lower effectiveness of these projects was due to two main reasons. First, the demand for training, even subsidized via vouchers that covered approximately 50% of the cost, took longer than expected to be developed since smaller firms did not see clearly training as a source increasing competitiveness. Second, there were few training institutions able to provide specialized training for firms specific needs, and that required a longer than expected process also for adapting the products to be offered to this clientele. This is a challenge in terms of training methods and provision of very concrete skills for the entrepreneur that could be transformed quickly into a new product or service to be offered once back in the firm.
- 3.31 **Projects related to ISO were particularly effective in terms of position the use of quality standards as a key competitive requirement, particularly for smaller firms and in smaller countries of the region. However, in terms of development a dynamic market for quality certification systems the results are yet still limited.** These projects consisted of two kinds of activities: one related to the promotion of a “culture of quality” among entrepreneurs (by making them aware of the benefits of Quality Process in raising competitiveness) and, the other, related to the Quality Certification System. Results achieved by the former fulfilled expectations in most cases, although the impact of the promotion activities is difficult to measure. The second, the certification, shows that fewer firms than expected were certified mainly because certification was not included

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<sup>52</sup> This system was used to give firms the possibility to have the choice of provider of the service they feel more appropriate, involving a cost sharing payment scheme. It was used for smaller firms, particularly microenterprises, including the development of information and reference systems for firms to obtain key input on how to address specific needs from a wide range of qualified providers, giving a coupon or “voucher” that would cover only a portion (usually less than 50%) of the cost of the service. BDS provided through these systems are in general short-term training modules (20 hours) of a very specific and concrete nature (i.e. for microenterprises in textile, the design of a new model of clothing, for an electronic microenterprise service the installation of a new device like satellite TV, or for a catering firm the production of a new menu). The provision through these systems tend to involve a massive amount of clients (thousands), a diverse offer from a wide range of suppliers coming from small technical institutes, NGOs, and specialized providers.

in the project but also because there was not always a good targeting and the fact that, even subsidized, the cost of ISO certification was still high for most firms. Moreover, as benefits were not perceived immediately, the willingness to pay for services at full cost was low. Quality certification can be expensive, it can imply important investments in processes, with a long time required for such changes to produce the benefits. The financial constraints for the quality services are therefore not limited to the mere cost of the consultancy but include those of investments and a long process of change.

- 3.32 **In conclusion, MIF projects often with over-ambitious general objectives and insufficiently specified intermediate objectives failed to reach their expected ex post results.** Actions to counteract risks were inadequate and insufficient. Nevertheless, these projects were substantially and successfully adapted during their execution phase in terms of activities and output, but did not change their set of final objectives accordingly. Indeed, increase the competitiveness of MSME, generate more exports or diversify them, consolidate BDS markets, create a large number of new firms, certify a high number of firms in ISO 9000 or 14000, etc. were proved to be unrealistic goals to be achieved in such a short time. Projects which spend most resources and efforts on training, promotion and marketing, to increase awareness of BDS benefits, and thereby provide a favorable context for BDS promotion, should not be asked to produce any short term micro or macro impact on the local economy, but rather develop pilot models of BDS systems that could be scalable and replicated. By the same token, projects, or individual activities within them, with realistic and narrowly defined objectives targeting more specific business needs and strictly correlated activities were far more effective.
- 3.33 As part of the evaluation, 3 “focus group” were conducted in Argentina and Guatemala with directed beneficiaries selected on the basis of their willingness to participate. The coordinators of these focus groups were the consultants who carried out the field work in the respective countries. Main findings of these focus groups are presented in the box below.

### Box 3.5: Results of Focus Groups Conducted by the Evaluation Team

- a) **Guatemala “Business Services Pilot Project” (MIF AT 255 - ATN/ME 6537 GU)**
- All participants revealed that the project services were highly relevant, in accordance with the clients’ needs. Some clients, considered the program as revolutionary because it changed their entrepreneurial approach.
  - In the microentrepreneurs’ opinion, the executing agency performance was excellent and the costs of the services provided were deemed as reasonable.
  - All participants stated that their participation in the project had already resulted in positive economic revenues
  - The majority of the BDS providers, mainly training institutions, maintained that “firm diagnosis” and “technical assistance” were the most accessible services.
  - All clients said that they would continue to participate, demanding training as well as, technical assistance, providing high prospects for sustainability.
  - Regarding the voucher system, training institutions considered that the course time requirement was “too long” (20 hours) and, that the required maximum number of people registered in each course (20 people) was “low”.
  - All participants agreed that the marketing of the program was delayed.
  - Many BDS providers remarked that the “know-how” they had acquired while participating in the project had led to interesting professional perspectives for the future.
- b) **Argentina “Entrepreneurs Development Centers” (MIF AT 036 - ATN/ME 4851 AR)**
- Entrepreneurs remarked that they discovered and had access to specific services which they would not have demanded otherwise.
  - BDS providers indicated that they noticed that their representing institutions have become stronger, after participating in the project.
  - Although services offered were considered relevant, some entrepreneurs had expected other even more specific and more complex services. For example, services related to technical change and innovation activities.
  - It was also pointed out that projects like this one, should be accompanied by access to financing for SMEs that allow them to make the necessary investments associated with BDS recommendations.
- c) **Argentina “Small Size Merchants Orientation” (MIF AT 299 - ATN/ME 6718 AR)**
- Participant entrepreneurs expressed positive opinion concerning services received (technical assistance, legal assistance and management).
  - They assured that they had gained competitiveness advantages because of their participation in the project. Results exceeded expectations. In some cases, firms revealed higher levels of productivity as, they had benefited from operating jointly with other firms (collective purchasing, for example). They also pointed out that they were in better conditions to gain new markets and discover “niches”.
  - “Clustering” and “association” were generally refused by entrepreneurs because they do not trust each other; they lack that “cultural” element to operate collectively.
  - The lack of access to financing mechanisms was also seen as a main limitation for better results as they faced problems implementing BDS recommendations.

3.34 **Only a few projects planned impact evaluation studies.** However, as of today the evaluation team acknowledged that only 3 projects conducted Impact evaluations but only two of them were available. The main highlights of the findings are presented below.

### Box 3.6: Highlights of Impact Studies

#### a) Argentina “Services to Small Rural Producers” (MIF AT 106 - ATN/ME 5441 AR)

- Changes in rural producers were mainly related to their better perception of BDS usefulness and their increased demand of them.
- 74% of rural producers, put in practice the new “knowledge” they had acquired by participating in the project. In the rest of the cases, they could not put them in practice due to financial limitations.
- Technical assistance and investment projects did determine a new way for producers’ operational organization.
- 20% of total producers registered higher revenues as a result of their participation in the project.
- All producers were prepared to pay for services, in the case they were not else subsidized once the project finished.

#### b) Regional “Expansion of Microenterprise Training” (MIF AT 017 - ATN/MH 4689 RG CO).

- Almost all beneficiaries, considered the courses curricula as very relevant for their needs.
- 68% of beneficiaries showed that they had not only acquired new knowledge but, put it in practice.
- Almost half of the cases, revealed changes in their entrepreneurial practices in accordance with their new “know-how”
- Around 60% of the beneficiaries stated that their participation in the training courses had had positive effects on them.

## D. Efficiency

- 3.35 **Efficiency focuses on the way in which inputs are used to produce the expected outputs and the trends in the relationship between inputs and outputs.** It takes into account the administrative and management performance to achieve the results anticipated. Time management is usually an important determinant of efficiency, because poor time management tends to increase overhead, non-productive expenses related to project coordination, among other fixed expenses
- 3.36 **Results in terms of efficiency were low for the BDS group of projects.** On average, ratings of high or medium high efficiency were given to 60% of the project at the time of design, 33% during execution and 30% ex-post.
- 3.37 **The evaluation found that several issues relevant to efficiency were considered during project design.** In general, projects provided clear task descriptions (75% of the case studies); resource allocation (80%), mainly at component level and to a lesser extent at product level; detailed terms of references for key consulting services (90%); yet only half of the cases had strict time allocation for project activities.
- 3.38 **The evaluation found that activity planning was frequently not based on in-depth analyses of local contexts in which projects had to operate or even on specific firms’ demands and needs.** According to best practice, good ex-ante planning, is supposed to ensure higher efficiency during project execution. The main areas that require more attention were: defining target groups for the provision of services, determining new services to provide, how to merge existing

services with new activities, and how to coordinate these pilot interventions with projects from other sources (including government resources) to provide an efficient market development process for BDS. Furthermore, while most projects incorporated Logical Frameworks (LFs), these were rarely used as management or monitoring tools. In fact, in some cases, LFs were almost completely ignored during execution.

**Box 3.7: A Case of Low Efficiency: *Many Reasons for Low Efficiency in a BDS Project...***

The “Entrepreneurial Services Centres” project (AT 058, Peru, 1996), is an example that illustrates low efficiency. The purpose of the project was to benefit small firms by creating a network of service centres in the most important cities of Peru. These centres would offer firms technical assistance and training. The project was expected to become self-sustainable in the future. However, during the execution, it became clear that the financial contribution from the private sector (payment for services) had been overestimated by at least 100%. The budget design was too general; no by-product resource allocation was made. Consequently, the amount of money spent on some items was fairly high compared to the results achieved.

In addition, the executing agency had no previous experience in managing projects with multilateral organizations and, although the agency received information on administrative procedures, serious problems with purchasing procedures were detected leading to execution delays.

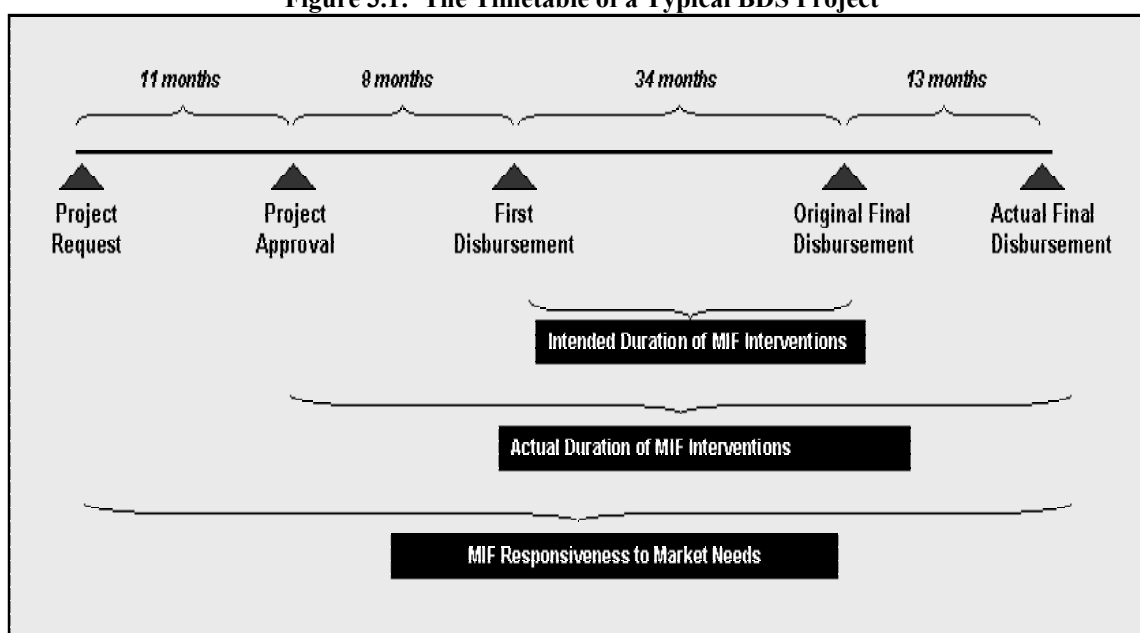
As a result of this, the project was redefined. The final evaluation found that some changes were still needed to improve resource allocation. Recommendations were included to improve subsidies allocation to services, create incentives to consultants based on performance, target better sales and marketing programs, design better consulting contracts and standardize procedures to monitoring service delivery, reduce salaries of the executives (that were considered overpriced in the context of the country).

- 3.39 **The ability of executing agencies to carry out project efficiently was, in part, influenced by their previous experience managing similar projects.** The evaluation found that only 40% of the projects were assigned to agencies with previous experience with similar projects. Executing agencies with low technical and administrative expertise had serious problems and delays in project execution (see Box 3.7).
- 3.40 **Bank administrative procedures for MIF projects were not easy to deal with.** According to the survey of Executing Agencies (EA) conducted, although 86% of the EA indicated they had received information about Bank administrative procedures, they considered the information supplied as inadequate to ensure high efficiency. Hence, 30% of the EAs considered these procedures as an important obstacle to project execution. Furthermore, interviews with EAs revealed that, most of the time, Bank’s country offices took action to correct rather than prevent procedure mistakes. These problems have led to projects delays.
- 3.41 **The main delays in project execution (found in 40% of cases studied) were related to meeting Bank conditions for eligibility, using 15% of original execution period for the time elapsed between signature and first disbursement, and showing lack of readiness of some EAs.** Administrative procedures regarding purchases, contracting and consultancies also caused considerable delays. Another important reason for delays in execution (reported in 30% of the case studied), was the lack of definition and identification, during

design, of clients to be served; so without clear definition set in project documents, selecting target beneficiaries proved to be a very time consuming task.

- 3.42 **This issues related to efficiency were reflected in delays in executions and extensions to the original scheduled periods.** For earlier projects, those that are now 100% disbursed, the Original Disbursement Period (ODP) was planned for 39 months,<sup>53</sup> which, according to best practices, is the minimum period required for BDS programs. Yet, due to delays in execution, these projects received, on average, an extension period of 13 months (See Figure 3.1). For the active MIF BDS portfolio (including those recently approved), the ODP was extended from 39 months to 46 months.<sup>54</sup>

**Figure 3.1: The Timetable of a Typical BDS Project**

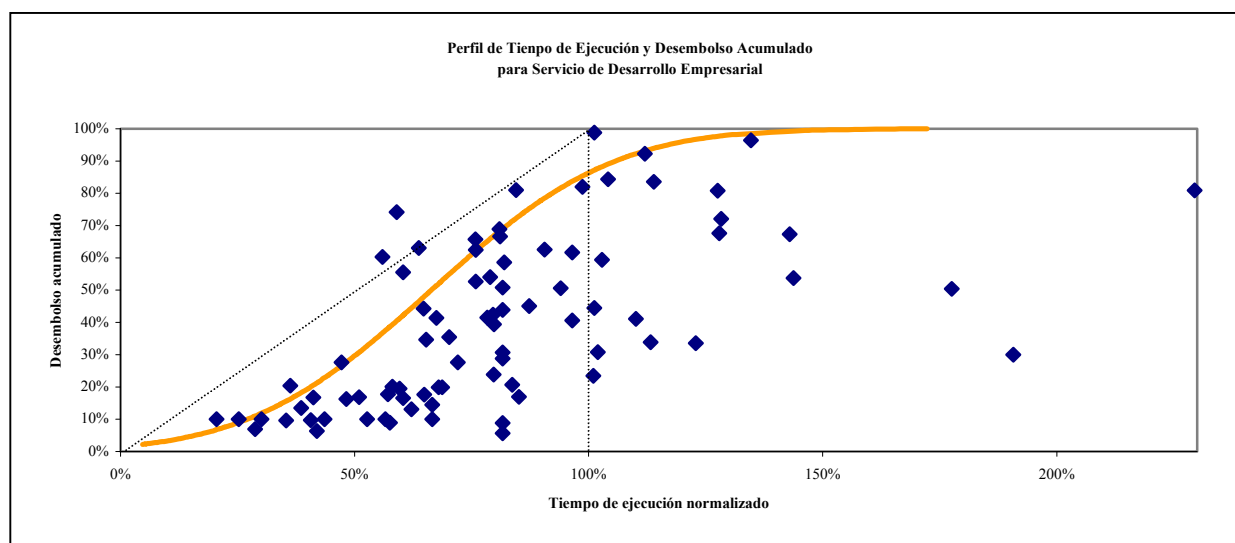


- 3.43 **An examination of the rate of disbursement as compared to the execution time shows that BDS projects are well behind the trend for the MIF as a whole.** In Figure 3.2 below, the curve represents the average of disbursements cycle for MIF projects in execution as of March 2003, while the dots represent BDS projects currently in execution. About 90% of them are below the curve. The outliers come from all categories of projects within this group.

<sup>53</sup> Measured as the time elapsed from project signature to original disbursement date.

<sup>54</sup> Comparing the entire active BDS portfolio to those 100% disbursed it seem that MIF takes longer to approve projects, (from 11 months to 13 months) and longer for the EA to meet eligibility criteria (from 2 months to 6 months).

**Figure 3.2: Profile of Execution Time and Accumulated Disbursement**



- 3.44 **The MIF monitoring system has a mechanism to oversee Implementation Progress and the achievement of Development Objectives (DO) of projects through the PPMRs.**<sup>55</sup> Forty-four projects of the BDS group were monitored through PPMRs in 2000; 49 projects in 2001 and 73 projects in 2002<sup>56</sup> and this shows an improvement in the BDS portfolio overtime. In the year 2000, 75% of the projects were ranked simultaneously with the best categories (HP/P- HS/S). In 2002, 84% of the evaluated portfolio of projects ranked in the same category.
- 3.45 **Similar findings arise by looking at those projects with “Red Flag” status. In 2000, the Red Flagged projects were 8 and represented 18% of the reviewed portfolio. In 2002, those numbers were reduced to 5 projects representing only 7% of the total projects.** This may reflect a better project monitoring and/or a faster Bank reaction to problems arising in execution<sup>57</sup>.
- 3.46 **Efficiency in resources allocation is also an important issue for this analysis. An inefficient use of resources was noted in around 40% of the case studies.** Extensive investments were directed to “equipment” and “consulting services” (as an example of inefficient use of resources, the ISO projects had paid several times for the development of training manuals). Some of these results were confirmed by the EAs. According to the EA Survey, 56% of the project had activities or

<sup>55</sup> PPMRs assess the “implementation progress” (IP) by rating projects according to one of the following categories: HS (highly satisfactory), S (satisfactory), U (unsatisfactory) and VU (very unsatisfactory). It also take into account the possibility of achieving the development objectives (DO), the categories defined are: HP (highly probable), P (probable), LP (low probability) and I (improbable).

<sup>56</sup> The MIF entered in the new PPMR system in 2002, before there were called MPPMR.

<sup>57</sup> These five projects are: **MIF/AT-236** “Building cooperative alliances between small and large firms” in Paraguay, **MIF/AT-111** “Agribusiness Support Services” in Panama, **MIF/AT-209** “Industrial Small Enterprise Support” and **MIF/AT-191** “Export and Investment Promotion” in Bolivia and finally, **MIF/AT-109** “Trade Promotion and Business Development” in Belize.

products that required lower or higher resources than those allocated, most of them related to “consulting services”. Moreover, among the eliminated activities reported in the Survey, 15% were “consulting and technical assistance” components of the projects. Finally, the overlapping roles of “intermediation” and “direct execution” of some executing agencies in the supply of services also generated low efficiency because it involved delays, bureaucratic problems and confusion of roles.

- 3.47 **In conclusion, the initial high rate for project efficiency is based on the fact that projects do have formal planning and budgeting but the planning and resource allocation is so general that revealed to be of little use during execution. Plans and budgets are often modified to adapt to local context, actual needs and demand. Limited experience of executing agencies and Bank procedures caused delays affecting the efficient execution of projects. The MIF self-monitoring system (PPMR) identifies problems related to implementation progress.**

#### **E. Innovation**

- 3.48 **Innovation criteria examines if the products or processes introduced by projects were new to a particular market or to the country.** In the execution and ex-post phases, it takes into account whether innovations were introduced and whether they generated “demonstration effects” at the local and national level or if attracted attention from outside entities.
- 3.49 **BDS projects have tried to introduce very innovative concepts and almost 70% of total projects were rated as highly innovative in their designs.** A challenge for these projects has been to turn these innovations into mainstream concepts adopted by others. Projects rated high or medium high in terms of innovation represented 40% during execution and 45% in the ex-post phase.
- 3.50 **MIF intervention in the BDS area pioneered in a broad range of approaches in an area of limited action by other multilaterals and where public support for BDS was only significant in a few countries.** They went from the strengthening of selected suppliers to the creation of center or to the promotion of the demand- side approaches like voucher and matching grant systems. They dealt with many different sectors: agriculture, handicraft, service and commerce, manufacturing; and bringing experiences taken from other parts of the world or even working in new areas. On the whole, innovations were diverse and focused many areas of firms’ needs: training, technology and information, marketing and trade, organizational capacity, management and networking, and regulatory framework.
- 3.51 **The EA Survey results show that 61% of MIF projects have introduced “innovative” elements.** Asked about the type of innovation, executing agencies declared that the projects had innovative elements related to “training”

components, “new products” or “new services”, “institutional” innovations and “process” innovations.

- a. **The “training” components were recognized as an innovative element in 27% of the surveys.** This relate mostly to new “taylor-made” type of training as well as the “on-the-job” training that were new for many firms. In general, traditional programs supporting education and training in the region were on "general matters" instead of focusing on specific needs and “on-the-class” conventional training.
- b. **“New services” or “new products” were recognized in about 20% of the surveys.** New services were recognized with the very specific consulting services, or the marketing activities that projects provided to firms. New products were recognized with activities that transferred to firms a new methodology like a new monitoring system or new quality systems approach that could be implemented within the firms.
- c. **“Institutional” innovations were reported in 17% of the surveys.** This is mainly related to new arrangements made between Executing Agencies and other institution in the public or private sector, or in the academia. An example of this is the integration of the “*Instituto de Fundición y Maquilado de Jalisco*” (a business association) with educational institutions and governmental entities. Another type of institutional innovation identified in the survey was an internal transformation of the AE, as in the case of the “*Cámara Venezolana de Industriales*” and “*Federación Agraria Argentina*” that were both transformed from mainly “lobby” entities into more modern business associations.
- d. **Innovations in “process” were reported in 14% of the surveys.** Innovations in process were mainly identified in “methods of delivery” principally through matching grant and voucher systems. Traditional programs in the region were mostly supply oriented, so when MIF projects introduced these demand-driven approaches, it represented an innovative way of pursuing of service delivery for MSMEs.
  - i. The “matching grants” system was implemented for the first time with MIF/AT-268 “Investment promotion for MSME's” in Peru in1999. In this project, MIF and counterpart funds paid for 50% of the cost of consulting services that MSMEs hired to develop investment projects. After this project, eleven projects were developed using this approach in different countries and in different sectors of the economy.
  - ii. The “vouchers” as a method of delivery system was first introduced in 1997. The “Voucher Program for Entrepreneurial Service” (MIF/AT-132) in Ecuador was the first project of this type. More than 60 thousands of “vouchers” were delivered and 12

delivery “windows” were opened all across the country. After this project, the same concept was used in four additional countries, and its experience has received strong attention from international agencies as a way to develop BDS markets. The system focused on subsidizing the demand of training services by proving discount coupons to interested clients catalyzing the development of a market particularly for microenterprises.

- 3.52 **During the execution, very innovative products and services proved to be very difficult to implement, sometimes because there were not well grounded in local realities or, local markets were not always sufficiently developed or mature to receive, take up and diffuse these new practices.** Others, because executing agencies were not in condition to implement highly innovative projects. As stated above, only 40% of them had previous experience with similar projects. An example of the first and the second are presented in Box 3.8.

**Box 3.8: Too Innovative Projects are Sometimes Difficult to Implement**

**The case of a highly innovative project not well grounded in local markets:** The project **MIF/AT-390 - Training Financial Analysts for SMEs** intended to introduce a new financial analysis technique for SMEs in three Latin American countries (Mexico, Colombia and Venezuela), using Bunkenroad Reports. This technique was developed in an U.S University and is used by investors as an investment-screening tool. This is a very North-American concept that supposed that SMEs are willing to reveal critical financial information, which was proved to be erroneous for the Latin American context. The executing agencies of the three countries tried to “tropicalize” the reports by adapting them to the local context, but companies were not interested in participating in the project and the demand was lower than expected.

**The case of lack of executing agency capabilities to implement very innovative projects:** The project **MIF/AT-191 - Export and Investment Promotion** overall objective was to contribute to the positioning of Bolivia in the global marketplace by establishing mechanisms for promoting exports and investment. The project introduced two main innovations, one institutional, linking the public and private sectors; and the second, technological through the development of a business opportunities information system (SICON) based on the Internet that did not exist in the country. The project succeeded in adapting part of the regulatory framework to promote export and investment. However it failed in establishing an effective alliance and participation with the private sector, having as a result lack of financial sustainability in the executing agency (CEPROBOL). The SICON is not being updated and is not used as a trading tool anymore.

- 3.53 The relationship between innovation and effectiveness shows that effectiveness seems to decrease as projects become too innovative during the design phase, although some promising exceptions were found. Innovations, if there are well grounded in local realities, could lead to very effective projects. The evaluation also found projects that were not only very innovative, but also very effective. Some examples are noted in the Box 3.9.

### Box 3.9: The Case of Innovative Projects Well Grounded in Local Realities

**MIF/AT-172-UR – Strengthening of Small Retailers:** The program was introduced as a response of the impact of the arrival of large supermarket chains to Latin America with the consequent shrinking market for small retailers, and the changes in consumer habits. The project main goals was to improve the business management capacity of small retailing shops through the introduction of new marketing techniques, and specifically targeted training and technical assistance services to help small retailers to compete in the new market. The Executing Agency was CAMBADU (*Cámara de Almaceneros Minoristas Baristas y Afines del Uruguay*), a business association created 110 years ago. The most important innovation was behavioural, the project aim at changing “the way of doing business” of small retailers to adapt to new consumer habits and the new environment, basically transforming “*almacenes*” into convenient stores. The program also introduced “Macromercado” to reduce costs by large scale buying and the “Bolsa Amiga Cambadu” (a combo of basic staples) a selling tool to face competition from sales of large supermarkets. The project has been successful in generate a demand for services and has helped small retailers to keep on business. This concept was replicated in Argentina. (See Box 5.1)

**MIF/AT-128-ME Productivity Center in Jalisco:** The project aim at supporting SMEs in the foundry and machinery sector in Jalisco (Mexico) by providing technical and technological assistance, training and laboratory services for improving the quality of parts products. Firms with less than 100 employees accounted 98% of the manufacturing establishments in Jalisco. Mexico already had a revealed competitive advantage in the foundry and machinery sector, but was facing increasing competition from other countries and improvement in its productivity to gain competitiveness was very relevant. A deep analysis of needs was conducted during the design of the project including: surveys to with large corporations, as Siemens, Honda and Keystones Valves, interviews with 17 beneficiary firms, visits from international experts, and detailed analysis of their suppliers and clients. Finally the operation was structured with clear components and specific services. As a result, Jalisco Productivity Center is fully operational and provides a number of new services that include: physical testing, metallography analysis and dimensional metrology. It also provides training for production control process, quality control, product design, etc. More than 300 firms from Jalisco had benefited from the Center.

- 3.54 **In terms of BDS projects having demonstration effects and turning innovations into mainstream concepts adopted by others, this evaluation found that in only 35% of the cases studies third parties adopted some of the products or services introduced by these projects.** Usually, there were adopted by other non-profit institutions, NGOs, national agencies, universities, but rarely by the private sector. Possible explanations of the low adoption of projects’ products and services by other institutions could be that: innovations were not well grounded in local realities or local markets were not always sufficiently developed or mature to receive, take up and promote these new practices; promotion of innovative products was limited; institutionalization and financial capacity of EAs was limited to keep providing innovative services.
- 3.55 **Regarding the Group classified as “Regulation” projects, there were several innovative approaches in public-private partnerships.** A high level of innovation constituted in the creation of “one-stop-shops” to facilitate compliance with existing norms and procedures, reducing transaction cost and improving attention to MSMEs. That proved to be a difficult concept to implement, failing in some attempts (i.e. Costa Rica) but more successful in others (i.e. Colombia) when institutional conditions and capacity of the executing agency offered more

potential. Other important innovations dealt with regional approaches to facilitate business transactions and customs procedures<sup>58</sup>.

- 3.56 **Diverse types of innovations characterized projects that supported new entrepreneurs.** Some of these consisted in the creation of new methodologies to coach new entrepreneurs, like in the case of Fundación Endeavor ([www.endeavor.org](http://www.endeavor.org)), that created and expanded to smaller countries of the region a unique scheme of identification, coaching and supporting innovative new ventures with a network of successful entrepreneurs and companies. Other innovations include the development of platforms to accelerate new businesses (see Box 3.10).

**Box 3.10: A Case of High Innovation: Supporting the Creation of ICT Enterprises**

The “Panama Technology Business Accelerator” (ATEP) project (AT 417, Panama, 2001) had the purpose of promoting the creation of enterprises based on information and communication technologies (ICTs). Specifically, its objective was to transform the already existing “center of creation” of enterprises in Panama, into a center that accelerated the creation of new firms based on high-tech. The project was innovative because nothing similar existed in the country and, because it aimed at supporting one of the most dynamic economic sectors (ICTs) in the world by adapting the best international practices to the specific national context. Its innovative spirit was also based on the development of an interactive system between enterprises, science and technology research centers, government and banks. Although the project is still at an early stage, its demonstration effects have already been proved: numerous institutions at national and international level request ATEP participation in ICTs forums. In addition, the creation of a similar center in a rural area for technology-based agricultural enterprises was a direct result of the demonstration effects generated by this project.

- 3.57 **Export oriented projects were highly innovative for various reasons:** they introduced new methodologies to diversify markets, designed tool-kits for setting up virtual commercial information services for firms<sup>59</sup>, generated strategic alliances between private and public bodies for a better access of MSMEs to international markets, or those, that created new methods to help some regions become more attractive to “foreign direct investments”.
- 3.58 **ISO standards and certification was an innovative concept in OECD countries and the US in the 1980’s and was new to the LAC region when MIF began supporting these projects in the 1990s.** Thus, ISO projects were very innovative for the region, particularly at the MSME level. The introduction of ISO standards started to develop in the region in the nineties and MIF projects move them forward into the region, sometimes for the first time. That was the case of projects that supported the ISO 14000, that have enforced environmental and safety norms, and have provided a service for environmental assessment which in most cases was not available in the region.
- 3.59 **It has been demonstrated that “clustering” is a good way to achieve MSMEs competitiveness.** Firms gain collective efficiency by overcoming obstacles

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<sup>58</sup> MIF/AT-342 - Business Facilitation Through Customs Procedures.

<sup>59</sup> MIF/AT-380 Internet Based Export Information System

derived from their size limitations. However, and although projects focused in the promotion of clusters of firms constituted themselves innovations, sometimes they were not relevant for the regions and couldn't reach its goals during execution. Main reasons for this failure was the unclear identification of the firms' and their clustering needs, lacking of a clear criteria to identify strong potential clusters and also the absence of a key locomotive company to could push the cluster forward.

## **F. Sustainability.**

- 3.60 **Sustainability evaluates to what extent the benefits of the project can be maintained after its completion.** This is most often associated with the sustainability of executing agencies (EAs) themselves. It also considers whether or not results were institutionalized at the end of the project. Important factors influencing sustainability include the process through which executing agencies are selected, their level of commitment to the project and the extent to which the services generate sufficient financial resources and a market for their continuance.
- 3.61 **Overall, sustainability has been difficult to be achieved for the BDS projects.** Only 4 out of 10 projects were determined to have high sustainability upon project completion.
- 3.62 **One of the key issues in the sustainability is the capacity of the executing agency. The evaluation found no uniform process of selection and analysis of executing agencies for BDS projects.** Moreover, no information exists about requests received by the MIF and decision made on which were accepted or which rejected. In the projects evaluated the institutional analysis was limited, particular in financial and operational issues. Most agencies were selected without a competitive selection process. The only exception was the ISO Projects, organized under the International Accounting and Auditing Standards Cluster.<sup>60</sup>
- 3.63 **The commitment of EAs during execution together with their experience in attending firms' needs are also key factors for achieving high levels of project sustainability.** One characteristic of projects with high sustainability is that the EAs incorporated them into its own institutional objectives and activities. In the case of BDS, data from the case studies shows that the level of internalization of project activities within the institutions was very high (90%). Also, in almost all case studies, the quality of human resources involved was also considered high. However, commitment in terms of counterpart funds was much lower (25%). Besides, EAs with previous experience in managing similar projects represented

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<sup>60</sup> MIF organized a conference and then opened a bid for proposals in 1999. Eligible areas of support, eligible institution as well as application and financing requirement were stipulated. MIF has received around 200 information requests about the ISO program through the internet and from January to July 2000, MIF has received 46 formal requests from 14 countries and has accepted 12 based on the following criteria: operational, institutional and financial capacity of the requesting institution; impact, leadership and demonstration effect in country or region; expected results of technical assistance activities; levels of commitment as demonstrated by the institution's contribution of counterpart funds and human resources necessary to carry out its proposed project; and demonstrated discipline to operate under market conditions.

around 40% of the case studies, which was found as low considering it was the most mentioned criteria for selecting executing agencies was their previous experience.

- 3.64 **Maintaining the supply of services introduced with MIF project was a challenge for most EAs.** From all services introduced by MIF projects in the case studies, about 50% of them are being maintained, while around 20% of the services supplied could not be maintained at all. It should be noticed that 50% of the case studies are still in execution. The possibility to continue providing key business development services within the EA after project completion depends on institutional and financial aspects. However, in the vast majority of cases, budgets of EAs were not sufficient to continue with services provision<sup>61</sup>.
- 3.65 Concerning the financial aspect, only 35%<sup>62</sup> of the total services offered managed to cover costs with actual prices, while, in the rest, prices should be at least 20% to 50% higher to keep providing services in the market. Consequently, sustainability is expected to be low after project completion. On the contrary, high sustainability was easier to achieve when other sources of financial aid for firms were available.

**Box 3.11: A Case of High Sustainability: High Executing Capacity and a Successful Project Execution**

The “Small Size Retailers Orientation” project (MIF/AT-299, Argentina, 2000), aimed at supporting the competitiveness of small retailers enterprises through training, technical assistance and market information, clearly illustrates a case of high sustainability. The executive agency (“Coordinadora de Actividades Mercantiles Empresarias”, CAME) was a trade entity formed by 27 Provincial Federations and 953 Chambers of Commerce spread over the whole country; it had a well recognized trajectory in representing the interests of retail firms since its creation, in the year 1956 and also, its operational and financial capacities were satisfactory. In addition, the agency had acquired great experience in managing projects with other multilateral organizations. During the execution, the actual commitment of CAME to project activities was high and the human resources assigned to coordinate activities were highly qualified. By executing this project, the entity gained more experience in management and changed its profile towards a more firm-specific services oriented vision. The project offered services that the institution had never offered before. This put CAME in a closer contact with firms and their representatives. Consequently, its institutional capacity and leadership were greatly reinforced. In addition, the entity incorporated more administration staff members and extended its infrastructure. Although the project is still in execution, it is highly probable that the service market generated will continue to operate in the future. In fact, project services are today supplied at market prices and also, a financial contribution from CAME is assured after project completion. Moreover, the improved infrastructure, technical and administrative capacities of the executing agency is consolidating the development of services in the market.

<sup>61</sup> The lack of financial capabilities of the EA was a constant in the great majority of the projects. An example of this constitutes the project MIF/AT-249 in Honduras “Microenterprises Network Expansion”. The goal of this project was to increase the productivity and competitiveness of micro enterprises and small manufacturers through the organization of enterprise networks. Donors Memorandum mentions sustainability issues as one of the main risks that the project could face. The financial sustainability of the EA was very weak. The resources of the counterpart were completed with a donation of the Government of the Netherlands. EA was not successful to get more additional funding to continue its operations. Thus, the possibility to provide services after project completion is very low.

<sup>62</sup> Only 13 projects data could be analyzed since in the other cases the Executing Agencies did not provide data on their financial status

- 3.66 **In terms of institutionalization as the ability of projects to leave the BDS markets created and operating independently of MIF funding, the conclusion is that most projects were not sustainable.** As mentioned before, MIF intervention has been broad in terms of approaches, economic sectors, and type of services; most of them were isolated interventions (synergies were rare), with the exception of the group of ISO projects, most interventions do not to have a specific business model to be replicated.
- 3.67 **With regard to the type of instrument for market development, projects that used the voucher system revealed higher sustainability compared to projects that used the “matching grants” or “supply-support” systems.** Although these projects had some problems of effectiveness because subsidies to demand alone were not enough to make a project effective, it seems that once the supply was adapted to firms’ needs and a better quality of services was assured, sustainability was not a problem after project execution. Services that satisfied the needs of the demand were, in fact, easier to sell.

#### **G. Additionality**

- 3.68 Additionality measures the degree to which MIF financial and technical resources were instrumental in achieving the expected results of the project whether because there were not other financial resources or because of the technical assistance provided. Additionality also refers to whether the project held important lessons for similar projects or offered insights into how EAs and/or MIF can manage similar projects or processes. Extreme Additionality leads to “catalytic effect” meaning that direct or indirect benefit are produced without the direct funding of the MIF.
- 3.69 **The evidence gathered in the evaluation indicated that the Bank and the MIF played an important role in shaping up and improve the coherence of objectives, definition of execution mechanisms, and modalities of market interventions in projects approved.** Although there is no tracking record in many cases of the analysis that takes place before project approval to actually assess each party contribution to the project, field analysis indicates that the Bank and the MIF made important contributions in project design.
- 3.70 **MIF management played an important role at the moment of eligibility.** The evaluation team reviewed all Eligibility Memoranda available for BDS projects<sup>63</sup> looking for particular recommendations made by MIF before eligibility. It was clear that main concerns of MIF management were related to increase the coordination between projects. Around 40% of the eligibility Memos included specific recommendation to improve coordination with other projects. Almost all documents included some reference to improve the sustainability of the project, yet only 15% gave specific recommendations. Other important recommendations

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<sup>63</sup> OVE Team have reviewed the Eligibility Memoranda that were available on-line in the MIF site for BDS projects.

were related to improve the evaluability of projects (45%), better definition of objectives and market targeting (30%) and recommendations related to counterpart fund definitions (30%).

**Table 3.2: MIF Office Recommendations at Eligibility**

| <b>Recommendations at Eligibility</b>                | <b>%</b> |
|------------------------------------------------------|----------|
| Specific issues to ensure sustainability.            | 15%      |
| Include Indicators, Evaluations, Monitoring System   | 45%      |
| Increase Coordination with other projects            | 40%      |
| Include / Review Learned Lessons from older projects | 15%      |
| Clear Market Definition / Precise Objectives         | 30%      |
| Counterpart funds issues                             | 30%      |
| Technical Aspects related to execution               | 25%      |

Source: OVE based on MIF Eligibility Memoranda

- 3.71 **As most projects were not related to other Bank and MIF initiatives, synergy and coordination with other projects during execution was low, in spite of recommendations given by MIF management to improve coordination.** There were some cases that showed good coordination with other institutions, like the MIF/AT-68 in Honduras (See Box 3.10). However, in general, there was little exchange of information and very little cross-learning experiences between different EAs and different projects in the same field. Moreover, this evaluation found that this lack of synergy was found also in a same project managed by three different EAs as is the case of MIF/AT-331 in Bolivia where there was virtually not coordination among the three EAs “*Cámara Agropecuaria de La Paz*”, “*Cámara Agropecuaria del Oriente*” and “*Federación de Ganaderos del Beni y Pando*”. The EAs Survey confirmed that half of the projects did not have any coordination with other projects inside or outside the Bank. Moreover, of those that declared to have coordinated some activities during execution, coordination was considered low in 48% of the cases.

**Box 3.10: A Case of High Additionality: Same Interests Increased Institutional Cooperation**

In January 23, 1996 the MIF approved the operation **MIF/AT-68-HO “Rural Entrepreneurship Development Program”**. The goal of this project was to help small and medium-sized agricultural and agro-industrial producers in the Honduran rural sector become successful and environmentally responsible entrepreneurs. Diagnosis revealed that lack of business culture, entrepreneur organization, low technological capabilities and lack of market information was a strong barrier of local producers. During project preparation, many Developmental Organizations, for example ACDI and FORD Foundation, collaborated with information and recommendation related to rural groups. During execution, the executing agency worked together with many of these organizations. By doing so, they could offer more services to small rural producers. Some of the organizations that worked closely with the Project are: European Food Information Council: US\$14.000 in equipments for 28 groups of small rural producers and subsidies for 50% of the cost of technical assistance services; FINSA: Financial Support to 10 out of 37 trained companies. Credit amounts varied from US\$ 6.000 to US\$ 35.000.

National Agrarian Institute, (INA): training in legal and organizational issues. Provided legal services; PROEMPRESAH: logistical support; Local Buffet: legal counseling for firms operations, legal advising to create and operate a marketing company; FINACOP: financial resources. Also requested technical training for its members. As a result of the project, 40 organized groups, formed by 1421 members received technical assistance, marketing training and business consulting services. Moreover, during project execution, 9 trademarks were registered on behalf of the rural producers. By the end of the project many small rural producers were operating using regular credits, and more than 25% of the producers declared that they have improved their access to market.

- 3.72 **MIF interventions in terms of financial support of services to firms and EAs proved to be fundamental for BDS service supply.** Most projects included some kind of subsidies for purchasing or providing BDS services. These subsidies were reduced from 70%-30% in the early projects to 50%-50% in the new projects. Consistently with the international experience that demonstrated that programs work more effectively when clients pay a substantial share (at least 50%) of the costs of services they receive. Thus, one of the main concerns during project preparation was to design schemes to allow decreasing levels of subsidies overtime. Most projects declared that, by the third year, subsidies were supposed to disappear. This factor revealed to be very difficult to put into practice, and in many cases MIF had to agree to adjust the original scheme of subsidies in order to allow EAs to keep providing services at subsidized prices as in the case of MIF/AT-58 “Entrepreneurial Services Center” in Peru.
- 3.73 **However, it is important to note that in terms of financial additionality, case studies revealed that 80% of the services or products financed by MIF projects had a low probability of being obtained without MIF funding.** This fact was also reinforced by the EAs Survey: respondents declared that 132 out of 145 identified services and products would not have been obtained without MIF financial support, in almost all services and products of the 62 projects that respond to the EA Survey, MIF funding was essential. MIF resources played a key role in institutional strengthening and coordination (92% and 100% considered the MIF resources as essential), training components (90%) and almost all actions related to increase the awareness levels of the market for BDS services (94%).
- 3.74 **Additionality ex-post was much lower. Yet, there are few examples of “catalytic effects” brought about with MIF projects.** This is the case of the projects that included components related to regulatory frameworks that affect MSMEs’ operations. Some of these components were very successful in introducing the discussion of adapting regulatory frameworks to the needs of MSMEs or in creating market awareness of some undetected needs. For instance, the project MIF/AT-321 “Micro & Small Enterprises Development” introduced the discussion and as a result a National Policy for MSME was adopted. Additionally, BDS projects for microenterprises using “vouchers” were later imitated by other organizations or national entities. Also Quality projects (ISO) also revealed some “catalytic effect”. All projects included component to train consultants to assist firms to implement ISO mechanisms into the organizations. Once project concluded, those consultants became the best instrument to diffuse and create awareness of the ISO and quality programs advantages. Moreover, as they are the supply side of the market, they play an active role in promoting their services generating an expansion beyond the direct MIF intervention.

## **H. Evaluability**

- 3.75 **This dimension examines if BDS projects were designed to yield measurable results.** The evaluation team reviewed if projects included measurable indicators,

if they were appropriately defined and used as a monitoring tool. It also takes into account if adequate resources were budgeted for evaluation activities. Projects evaluations (when available) were reviewed in order to see if they provided valuable lessons that could be applied to other projects.

- 3.76 **Overall, the evaluability of BDS projects received one of the lower ratings.** Analysis of case studied revealed very weak definition of indicators. The evaluation reviewed 149 indicators in 25 cases. Only 23% of them included base line data to measure the starting point, 64% included a measurable target, and only 6% included benchmarks. Although the BDS industry has developed benchmarking for different type of services. In terms of planning, the review of the cases studied show that some projects ranked high in terms of “evaluability”. For instance, 76% of projects included budget for “evaluation, monitoring and auditing”, 84% planned “mid term or final evaluations”, and 80% defined “output indicators”. In terms of impact evaluations, only 3% of the projects analyzed as case studies have executed them, usually included as a line item into the planned final evaluation<sup>64</sup>. Only 40% of projects included some kind of impact indicators for monitoring purposes.
- 3.77 **Qualitative analysis of mid term and final evaluations scheduled and financed by the projects revealed mixed results.** There is not standardized model for evaluations. Some evaluations included quantifiable information on objectives achievement, absolute values for proposed indicators, and base line data. They also included recommendations for future evaluations and implementation issues to be solved. However many other evaluations were very poor. In some cases, evaluations included limited information regarding indicators that were previously stated in donor’s memorandum<sup>65</sup>. Other evaluations ignored those indicators<sup>66</sup>. No “standardization” for evaluation reports, at least for similar projects, was observed.
- 3.78 **The Project Performance Monitoring Report system introduced by MIF in 2000 played an important role in project monitoring.** The PPMR system was implemented starting in 2000 providing key step forward in terms of availability of information and instilling a culture of monitoring and evaluation in the IDB

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<sup>64</sup> For instance, “the final evaluation will be done two months prior to the final disbursement and will examine the following: the extent to which the project’s specific objectives have been achieved; the number and size of the beneficiary business, the quality of the services offered; the extent to which clean technologies are being applied; the success of the alliances in establishing the production chain; the program’s sustainability; the possibility of the project being replicated, and the project’s end results and impact” (MIF/AT-371-CO, page 14)

<sup>65</sup> For instance, the mid term evaluation of the project MIF/AT-114-AR is 10 pages long, provides some information related to the first component of the project but it does not provides any information related to the other 5 implementation indicators.

<sup>66</sup> Final evaluation of the MIF/AT-111 –PN was supposed to measure the increase of national exports of non-traditional farmers. The evaluation focused in implementation indicators, and the impact evaluation was only focused in the sustainability of the Executing agency with no mention at all to the non-traditional farmers.

Group. Almost 90% of the BDS projects had at least one PPMR. OVE compared the 77 projects that had self-reported ratings from the PPMR system and those assigned by OVE to each project over the course of this evaluation<sup>67</sup>. In 73% of the cases there were differences between OVE and PPMR. For Development Objectives (DO) ratings when compared to OVE's effectiveness ratings differences were found in 56% of the projects and in 88% of the projects with differences, the PPMR was more optimistic than OVE ratings. Differences between Implementation Progress (IP) as rated by PPMRs and OVE's efficiency ratings were also important. Discrepancies about this issue have already been described in the Efficiency dimension of this evaluation. These results were similar to those found in other group evaluations.

- 3.79 **Clear assignment of responsibilities for monitoring activities seems to be needed, strengthening the participation of EAs.** It was found from interviewing executing agencies, that project monitoring is seen as a task for Bank/MIF officials rather than for the executing agencies. Most of the time, resources allocated to evaluation were considered “too high” by EAs. Other observation in the field is that Country Offices do not often use evaluation documents as a management tool to correct and or prevent mistakes.
- 3.80 **Evaluations that measure the impact of a project and the extend to which it met its development objectives are important for every project, but even more in the case of a new and dynamic field like BDS where the MIF pioneered new approaches.** Moreover, as BDS project included so many innovations and were addressed in many different ways, the need for ex-post and impact evaluations is particularly greater as they are critical for the learning process of MIF/Bank policies and countries as well. However, as already commented in the Effectiveness section, only 3 projects conducted Impact evaluations but only two of them were available<sup>68</sup>. It is also important to mention that MIF, following the “Working Group” recommendations, has published, during the last years, documents and sectorial studies<sup>69</sup>. Also is important to note that evaluation documents are not easily available. The evaluation team faced difficulties to find evaluation documents, most of them have to be collected from Country Offices.

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<sup>67</sup> OVE utilized similar although not exactly the same concepts to rate projects. Effectiveness is similar the achievement of development objectives (DO) utilized in the PPMR records. Efficiency is similar to the implementation progress (IP) utilized in the PPMR, as the strongest determinant of efficiency is adherence to the time schedule.

<sup>68</sup> A brief analysis of these impact evaluations was presented in the Efficiency section. The projects with impact evaluations are: 1) Argentina “Services to Small Rural Producers” (MIF AT 106 - ATN/ME 5441 AR, year 1997) and 2) Regional “Expansion of Micro enterprise Training” (MIF AT 017 - ATN/MH 4689 RG CO, year 1995). Additional impact evaluations might exist, but no system exists for collecting them, or tracking where they were conducted.

<sup>69</sup> For example: “Promoting Change”, January, 2001. “Consultoría de Evaluación de los proyectos FOMIN de apoyo a los pequeños productores agrícolas”, August, 1999

### **Box 3.11: Case of Relatively High Evaluability: An Effort to Make a Project “Evaluable”**

Among all the projects evaluated, not one of them showed outstanding performance in “evaluability”. The project “Rural Enterprises Development Program” (AT 068, Honduras, 1996) simply constitutes an example of an important attempt to make a project evaluable. The objective of this project was to help the small and medium rural producers achieve higher levels of competitiveness, through the application of a pilot system of training and technical assistance. The “Pan American School of Agriculture” was to be in charge of the execution and the School’s capacity to provide the agricultural sector with technical assistance was expected be strengthened by the project. An impact on rural development was also expected as a project result. In the logical framework diverse indicators were defined to allow the evaluation of project performance. The goals to be achieved for each of them were quantified. Resources were assigned for monitoring, intermediate and ex-post external evaluations. A specific expert was nominated to monitor and more specific indicators were defined for economic, financial, marketing, management and social aspects. In the final report, although there was a reference to the previous socio-economic situation of beneficiaries, no base line was precisely defined. This limited the possibility of comparing ex-ante and ex-post values of indicators. However, the external evaluator made an attempt to do this and the methodology of “control groups” and groups of non participants that abandoned the training process, was applied. An impact evaluation was also suggested and will probably be carried out.

- 3.81 **An example of improvement in the monitoring system has been made in the “ISO” Cluster.**<sup>70</sup> In 2000, MIF implemented a system to monitor the execution of these projects. The information is collected thorough surveys to participant companies and EAs. At the moment a database has been created and the information collected allows MIF to have detailed data regarding the implementation progress of ISO projects and firms reaction to Quality Standards. In the near future, the system will include impact indicators of quality standards in firms.
- 3.82 **In conclusion poor results in terms of evaluability are based on the lack of careful planning and design before project approval, as well as disperse and generic set of objectives.** This has made difficult and sometimes impossible to define and monitor key variables to measure actual output and impact results, making a difficult task the application of the enhanced monitoring systems applied by the MIF since 2000.

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<sup>70</sup> The ISO clusters comprise 12 projects with the objective to establish the ISO 9000 and ISO 14000 quality standards between the firms in the region.

## IV. CONCLUSIONS AND AREAS OF OPPORTUNITY

- 4.1 In this Chapter, the main conclusions are grouped highlighting strengths and weaknesses of MIF interventions, as well as areas of opportunity derived from the analysis of the in depth evaluation process that was carried out in this group of projects.

### A. Strengths

#### 1. Pioneering Role in the Region and in the IDB Group

- 4.2 **MIF pioneered in terms of interventions in the BDS field in the region.** The administration of the Bank of MIF resources, particularly in the area of BDS, implied a new direct contact with MSME organizations from the most varied sectors and regions, which was similar to the exposure derived from the Banks experience in the area of Microenterprise with the Small Project Program back in the 1980s. That experience marked a qualitative change in the way the Bank interacted with the private sector, providing elements to enrich Bank's organizational culture and commitment to competitiveness. This allowed Bank Board members, Executives and Staff to be exposed and more sensible to the critical needs those smaller businesses were experiencing in the new environment. This experience also played an important role in shaping-up the Bank's contributions to world-wide efforts to set up guidelines for BDS services, materialized in the Report "Business Development Services for MSMEs: Preliminary Guidelines for Donor-Funded Interventions" of 1998.

#### 2. Evolution and Learning

- 4.3 **BDS interventions addressed critical needs to improve competitive needs of MSMEs, evolving from dispersed, more generic and supply oriented interventions towards smaller and more focused projects trying to address specific MSME needs or specific subsectors.** Projects that targeted specific needs such as regulation for MSMEs, specific subsectors such as exporters, or market niches such as ISO 9000, have demonstrated the highest relevance during the project life cycle. By the same token, demand driven projects, using "matching grant" and "vouchers" as delivery mechanisms, have also higher levels of relevance since their activities are actually demanded by firms.
- 4.4 **In a ten-year period the MIF has followed a path of on-going strategic re-definition of objectives, working methods and means, showing increasing awareness gained through experience and some evaluation efforts.** The indications given by the Perry Report 1996, and those contained in the Working Group Report on MIF Strategy (2000) showed a consistent overall strategic framework. However it should be observed that there is not yet a clearly defined and specific BDS strategic approach.

### 3. Innovation

- 4.5 **MIF intervention in the BDS area pioneered in a broad range of approaches in an area of limited action by other donors and where public support for BDS was only available in a few countries.** They went from the strengthening of selected suppliers, the creation of centers, to the promotion of the demand- side approaches like “voucher” for microenterprises and “matching grant” systems for SMEs. They dealt with many different sectors: agriculture, handicraft, service and commerce, manufacturing; and bringing experiences taken from other parts of the world or even working in new areas. On the whole, innovations were diverse and focused many areas of firms’ needs: training, technology and information, marketing and trade, organizational capacity, management and networking, and regulatory framework. It is also important to remark the MIF role to promote entrepreneurship through the support new ventures or highly innovative companies.

#### 4. Reducing the Size of Interventions and Promoting Co-Payment Schemes with Final Clients.

- 4.6 **Overtime, projects became smaller in terms of the average amount of money allocated and increasing counterpart funds. This reflects an orientation toward a different kind of interventions with the participation of final clients through “matching grants” and “vouchers”, or a more “broker-type” kind of projects; instead of financing bigger projects associated to BDS Centres.** There was clearly a down-trend in the average dollar amount per project over the period: from US\$ 3.5 million in 1995 to US\$ 0.7 million in 2002. Projects became much smaller, 1999 appearing as a watershed, since it was from then on that the average amount of resources per project barely exceeded US\$1 million.

### B. Weaknesses

#### 1. Lack of Focus in BDS Interventions

- 4.7 **Lacking an articulated strategy from the Bank, MIF interventions in BDS area responded flexibly to a wide set of requests from the MSMEs in the region.** Fragmented planning, based on individual projects, leads to the design of projects that seek to resolve numerous MSME needs and constrains at once, that is, projects with a very broad focus. Projects that are broad in scope run the risk of diluting the focus. **Disperse efforts on BDS intervention prevented the development of a critical mass of activities targeting MSME needs, conspiring against sustainability.** No evidence was found that the MIF’s activities helped consolidate initiatives to develop MSME distribution and marketing channels, which could have generated economies of scale in the provision of services in such a fragmented market. Design should avoid temporary interventions with no connection to other activities.

- 4.8 **The lack of focus in the action was found associated to three key issues: the lack of market knowledge, ambitious and not well-defined objectives, and lack of clear target firms.** First, it was found insufficient knowledge of firms conditions, needs, and the market in where they compete, and of the firm market conditions (market strength and position in the value chain) supporting MIF project interventions. Second, objectives, and the risk associated to their attainment, were not clearly defined during design, tending to be ambitious and without concrete targets. Third, the lack of homogeneity in defining the concept of MSMEs which also included micro-businesses, makes the targeting task even more difficult. In general, the evaluation found that projects have not delimited the field of intervention, nor defined target beneficiaries clearly, on the basis of reasoned criteria of risk, opportunity cost, and potential spill-over or multiplier effect; nor have they used objective criteria such as business size, the sector a business belongs to, or more complex criteria such as firm sector positioning, growth dynamics, etc. As a result, most projects ended in supplying general services to a multisector group of beneficiaries.

## **2. Leverage and Coordination**

- 4.9 **Synergic and Multiplier effects need to be improved.** This situation is caused by a factor that has already emerged in other evaluation areas, that is, individual projects' inability of interacting and communicating with MIF projects themselves and with national policies and other Bank projects in related areas. The lack of connection of piloting interventions by MIF with larger national programs or IDB loans to support to follow-up or scale-up posed severe restrictions in terms of sustainability. However, the Bank did not explore the use of MIF projects as pilots, with almost no interaction with larger programs, when available, and even to a lesser extent that was tried with national programs

## **3. Market and Institutional Analysis**

- 4.10 **During the evaluation it was found that interventions were conceived with a limited knowledge of firms needs, of the market in where they compete, and of the relative position in the value chain.** This is due to a lack of diagnosis and context analyses, and a lack of in-depth knowledge of those proposing projects. This lack of market analysis was a handicap to strengthen the development of more specific business services and resulted in difficulties in starting the projects and later in establishing conditions of sustainability when the projects were expected to be finished. **In addition, as described in the sustainability section, the majority of BDS programs (with the exception of ISO projects) lacked of rigorous and standardized criteria for institutional analysis and selection of executing agencies.** This then resulted in strong dependence in MIF resources for continuation in the provision of services.

#### 4. Underestimation of the Timeframe Required

- 4.11 **Another weak area in project design was the relatively short execution period in relation to the stated objectives**, which affects the effectiveness and efficiency of projects. Project design appears to underestimate the complexity and the many conditions needed for success, which are disproportionate compared with the financial resources and timescales. Project design thus sets objectives that are impossible to achieve during the project's life, even actual output sometime falls short of expected values.

#### 5. Evaluability

- 4.12 **Projects evaluability was low overall. Piloting interventions deserve a more rigorous and integrated evaluation schemes into the decision-making processes in the countries and in the Bank to provide useful lessons for follow-up and scalability of interventions.** Evaluability consists of two elements identified as problematical, that is, the precise definition of general and specific objectives and their quantification in terms of output and impact, and the definition of baselines for these values. This requires in-depth knowledge of the situation in the chosen context, apart from a clear identification of firm targets, their demand for services, and the activities to be carried out, which was very limited during project design.
- 4.13 **Evaluation methodology as well as definition of output and of relevant monitoring data must be predefined during the design phase and when possible made homogeneous by type of project in order to produce benchmarks and to be able to compare project performance.** Evaluation and other project reports that are carried-out quite regularly suffer from this lack of evaluability and limit themselves to the qualitative or administrative aspects of the project management. Few quantifiable impact results at the beneficiary level of individual firms or groups of firms were found. The evaluation suffered from strong limitations of information on basic data of the clientele of BDS programs and the benefits attributed to services received. Regular use of standardized systems that make it possible to measure the impact of programs on the development of BDS markets for MSME and on the MSMEs themselves is called for. Methodologies and evaluation mechanisms, that do not necessarily have to be full impact studies, could be made compatible and made to resemble market and client satisfaction studies more closely.<sup>71</sup>

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<sup>71</sup> For example, the United States Agency for International Development (USAID) developed a series of five practical tools (qualitative and quantitative) to measure the impact of microlending programs, which could be adapted to BDS.

## C. Threats

### 1. Risk Identification

- 4.14 **Inadequate risk identification and appropriate mitigation measures posed a severe threat to the group of BDS projects.** Due to design problems, as indicated in the previous section, projects changed substantially during execution thereby putting pressure on the administrative structure of the executing agencies as well as of the Country Offices. Risk prevention turned out to be sometimes inadequate. Projects, where objectives were specific and limited, allowed a better definition of risk prevention while in the case of generic objectives, which were the majority, problems of effectiveness manifested themselves during execution, when activities had to be adapted.

### 2. Institutional Dependence on Subsidies

- 4.15 **A recurring threat to MIF project efficiency was observed by a low ratio of business provided to MSMEs vis-à-vis the amount of resources devoted to general activities or “institutional strengthening”.** This was caused in part by execution schemes which did not have adequate incentives. For instance, this happen when executing agencies where loaded with overlapping roles, such as providing technical assistance for intermediation between consultants and businesses, promoting of services and, at times, also became the supplier of services. This caused a confusion of roles and in many projects absorbed large proportions of resources to the detriment of resources expressly earmarked for supplying services to firms. As a result the cost of the technical assistance for organizing and promoting the services was in many cases exceedingly high in relation to the actual cost of the consultancies to firms. Furthermore, the short time of the project dedicated to service provision did not allow for generating increasing returns to such costs.

### 3. Duplication of Efforts and Inefficiency

- 4.16 **High consultant budget allocations and duplications of efforts in similar projects and the purchase of equipment in small amounts generated several inefficiencies.** Examples of the above are high use of international consultants, financing of costly projects coordinators, lack of synergies duplicating financing of similar products in many different projects, development of ISO manuals, multiple payments for similar information systems, training modules, and teaching materials.
- 4.17 **Measured solely in terms of unit cost of activities, this would indicate a low degree of project productivity.** However, in cost-benefit terms, setting a value also on the learning process and the acquisition of know how by local institutions and actors is certainly a very important achievement of MIF projects and an asset for the future. The programme does not place a high enough value on these learning-by-doing aspects of a project, which could increase efficiency with very

little extra effort. Some of these inefficiencies could be considered the price for innovation and such experience, if diffused and utilized, could be compensated by improved future project performances.

## **D. Areas of Opportunity**

### **1. Focusing Actions**

- 4.18 **Given the situation described in Chapter I regarding operational and strategic services, the evaluation identifies that the consolidation of the BDS market would depend, on the one hand, on identifying a target of small and medium-sized dynamic firms with a greater capacity to incorporate tailor-made services and gain economic benefit from them.** On the other hand, for the smaller, less structured firms, which have difficulties in integrating BDS cost into their budgets on an on-going basis, innovative interventions that generate a wide range of lower transaction cost-products, such as specialized training programs using “voucher” schemes, proved to be a valid alternative to follow. The “productization” of services to microenterprises needs resulted in very well defined courses, which quickly translate into new product to be offered, enhancing the productivity and the bottom line of the firm in the short run.

### **2. Benefiting From Emerging Needs for BDS to Support Regional Integration and Trade**

- 4.19 **Drawn from the context of regional integration described in Chapter I, there is a clear trend that forces MSMEs to acquire the skills and ability to compete in larger integrated markets.** BDS supply would need to be modified accordingly, and include support to MSMEs willing to export firstly to sub-regional markets, and then to the overall region, or simply to compete at least in a more equal footing with imported goods and services. There is still a great deal of room for increasing investments in technology, where public and private participation should be important in bringing about higher productivity and international competitiveness. By working in clusters and associating with bigger firms, MSMEs in the region have excellent opportunities for tapping synergies and complementarities that can lead to dynamic long-term comparative advantages in sectors close to patterns of productive specialization.

### **3. Systemic Approach**

- 4.20 **MIF could play a more catalytic role in its interventions in BDS by articulated interventions under a systemic approach.** This would require moving from the isolated project approach to conceive MIF projects as pilot interventions that could be scalable to broader BDS programs, strengthening the institutional capacity and local policy framework. This experience has been

already done by several MIF projects in the area of Human Resources<sup>72</sup>. In those cases, the MIF was a fundamental actor in adapting public agencies and public-private consortiums, to make specific changes in its architecture to promote more efficient use of resources for these programs and make them more responsive to market needs and more relevant to firms. There are interesting opportunities to leverage MIF pilot experiences with larger programs in the area of Technological Development, Trade Facility, and the new generation of Competitiveness Loans. Also other areas of synergy could emerge in relation IIC financing, such as in Value Chain Projects, where the IIC associates with a larger corporation to provide services to a Cluster of MSMEs related to it,<sup>73</sup> or in the area of business and technology parks.<sup>74</sup>

#### **4. Generation of BDS Market Platforms**

- 4.21 **More coordinated interventions with the focus of development BDS at the country level could be enhanced in terms of impact, by a more synergic use of critical components that could be shared by more of one projects.** In that regard, BDS interventions could follow the paths of MIF in the area of Venture Capital, as in the case of Brazil under the INOVAR Program.<sup>75</sup> The support of the development of BDS logistical and institutional platform could provide very important functions to stimulate the development of BDS at the country level such as: (i) competition process for funding different programs that could include matching resources from other sources (i.e. public sector, specialised agencies); (ii) exchange ideas, experiences and best practices; (iii) financing key components that could be of common use such as market information systems of suppliers; (iv) generation of information on databases of clients that could give more light on the size and needs of firms for all players; and (v) improve impact in terms of awareness for firms about possible sources of services and access to providers and ways to finance their services.

#### **5. Stimulate Innovation and Open Competition**

- 4.22 **Future interventions in this area could benefit from a more open process to identify the best approaches and projects to be financed.** The experience gained in the Cluster of Quality projects revealed the advantages of a more open process, and would allow to maintain a high level of innovation, within the evolving areas of priority and intervention of the region. Competitive processes for projects selection would facilitate also the enforcement of standardized criteria

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<sup>72</sup> The detailed evaluation of MIF Human Resources and Labor Market program is included in document MIF/GN-78-8.

<sup>73</sup> Like the one recently approved to support a big group of small suppliers of milk with Nestle in Mexico.

<sup>74</sup> The MIF experience in Panama with a business accelerator facility successfully installed, taking advantage of the infrastructure of the reverted canal area, is an illustrative case for the selective opportunities in this regard, being that an area where the IIC projects in Uruguay and Honduras with for profit business and technology parks, also showed good results.

<sup>75</sup> The detailed evaluation of MIF Venture Capital Development programs is included in document MIF/GN-78-10.

for institutional analysis and market analysis, that in addition to provide transparency in MIF action, solving critical deficiencies found in this evaluation.

## **6. Leverage Institutional Network and Experiences**

- 4.23 **The MIF has generated a dense network of business organizations in the region that could be nurtured and strategically use to support the replication of successful models.** The good experiences found during this evaluation in areas such as the development of specific business development services in quality certification as well as the introduction of market development schemes such as ‘voucher’ systems could prove very useful for their replication in other services and other countries of the region. MIF could leverage these experiences with specific programs that provide incentives for the executing agencies and their teams that participated successfully in their implementation, to participate in the replication of these programs in other countries of the region.
- 4.24 Also, a possible course of action to improve leverage, at a general level, could be the establishment of stronger connections with local development strategies and actors, through dissemination and demonstrative actions to promote BDS and best practice. At a micro level, a catalytic effect could be achieved by concentrating on potentially successful beneficiary targets, which can sustain a process of growth, as a result of BDS. This would encourage other firms to imitate and trigger a positive multiplier in the area or sector.

## **E. Final Remarks**

- 4.25 **The results of the above analysis lead to the general conclusion that BDS promotion needs a gradual and more systematic approach.** Initial projects proved to be quite ambitious in their goals and shorter term oriented in their timeframe, showing low effectiveness. MIF projects evaluated can be considered a “first generation”, instrumental in increasing awareness, testing methods and products, improving supply, enhancing local experience, setting up networks of firms and stakeholders. All these conditions represent a necessary background to make BDS a consolidated market in LAC countries, but they have not quite succeeded yet.
- 4.26 **According to the mixed results of the evaluation and to the high local expectations on MIF’s future role in BDS, particularly in the face of the deepening of the integration and trade process in LAC, the MIF should learn from past experience and from there set up “right conditions” to develop a “second generation” of a BDS program.** The areas of opportunities highlighted above, point the attention to the future development of markets for provision of targeted services to firms, with a clear impact on firms’ performance. A next phase of BDS projects, would benefit by focusing intervention in pilot experiences that could be scalable to develop a BDS market.

- 4.27 **These interventions will need a stronger starting point from deeper market and institutional analysis,** and will also need to incorporate a long-term vision of a “system”. The challenge to maintain innovation and enhance transparency could be addressed using the experience travelled already in the Quality programs.
- 4.28 **Improved efficiency could be gained by support initial dissemination of proved successful projects found in this evaluation, and also by developing platforms that could help to reduce transaction cost and leverage common resources of many projects (marketing, information, systems, manuals, etc).** If successful, these pilot interventions initiated by MIF would generate a demonstration effect in two directions: as an intervention model to be imitated by other institutions and possibly incorporated into the mainstream of the countries and Bank programs, and to trigger an imitative process to increase competitiveness at firm level.