

IMPACT EVALUATION CASE STUDY

THE BUSINESS DEVELOPMENT PROGRAM FOR URUGUAY'S SOFTWARE INDUSTRY



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Dalberg

Global Development Advisors

New York
San Francisco
Washington, DC
Copenhagen
Geneva
Johannesburg
Mumbai
Nairobi
Santiago

Alonso de Córdova 5151, Ofic 2202
- Las Condes - Santiago, Chile
Phone: +562-246-1307
www.dalberg.com

1. Introduction

As one of its goals, the Multilateral Investment Fund (MIF) aims to improve the management and competitiveness of small and medium enterprises (SMEs) in different sectors in Latin America and the Caribbean. To that end, MIF supports activities that promote the creation and strengthening of support services that will spur development of SMEs and stimulate demand for the use of such services. The Program for the Support of the Software Sector (PASS) in Uruguay presents a good example of how MIF works in tandem with local institutions to strengthen different dimensions of SME development.

The case study that follows, prepared based on the PASS impact evaluation conducted five years after project completion, aims to help improve the design, execution, evaluation, and impact of future MIF programs. It is presented as an educational tool for program officers at MIF and the Inter-American Development Bank (IDB), stakeholders, and potential partnering institutions.

Pranasys: Bringing Mobile Technology to International Markets

When Uruguayan engineer Alvaro Cardozo started Pranasys in 1999, he had a good idea of the company's main market.¹ "Pranasys was born as a technology company with a clear vision to enter and excel in international markets. From the start, we decided it should pursue international market opportunities," says Cardozo, who is now Pranasys' CEO. Pranasys decided to participate in PASS to improve its international positioning and develop its new mobile commerce platform, PhoneCash! The company took advantage of the program's technical assistance activities aimed at prospecting international markets. Thinking Chile could be a good fit for their products, Pranasys officials traveled there, backed by PASS. However, they found that the fit was not good. Again supported by PASS, they then conducted a prospecting mission to Mexico, which turned out to be a better fit. The company decided to focus on this market. Pranasys knew that it was not completely ready for the Mexican market and that it needed to be better prepared and continue to develop its products. PASS supported Pranasys in developing a marketing plan that will make its marketing efforts sustainable in Mexico and elsewhere. PASS was also instrumental in advancing the design and development of its new product, PhoneCash! To expand its business to other markets, Pranasys also participated in trade shows in London, Miami, and New Orleans, supported by PASS.

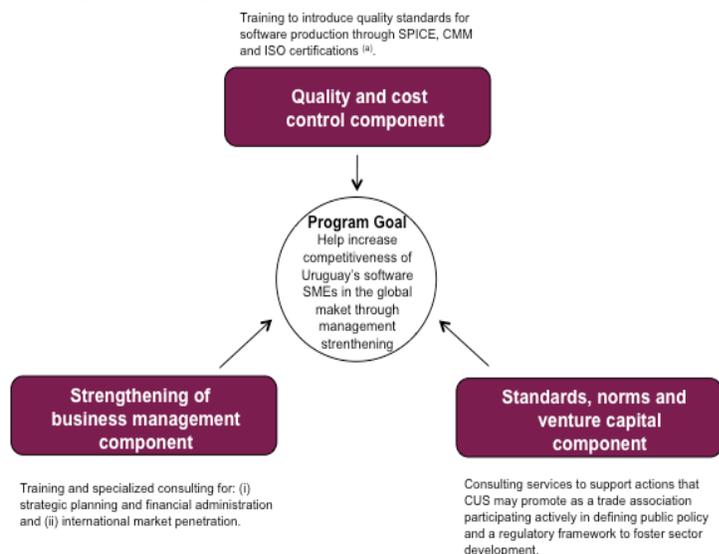
¹ <http://www.pranasys.com/>

As a result of its participation in PASS, Pranasys created a marketing and international department. The support that PASS provided to help the company expand to international markets allowed Pranasys to sustain and accelerate its growth. "The program exceeded our expectations," says Cardozo, who now spends most of his time in Mexico, and also oversees Pranasys' presence in markets such as Argentina, Bolivia, and Miami.

2. Program Background

Pranasys was one of 72 Uruguayan SMEs from the software sector supported by PASS. The program was a non-reimbursable MIF facility designed and developed with the objective of increasing the competitiveness of small Uruguayan software-producing business in international markets by strengthening their management. The program was run in partnership with the Uruguay's Software Association (CUS) (later renamed the Uruguay Chamber of Information Technology, CUTI), which served as the executing agency². PASS was approved by MIF in May 2001, formally launched in March 2002, and implemented over a period of 39 months, until 2005. MIF provided 55 percent of the total budget of US\$1.62 million, and CUTI provided the remaining 45 percent. The program was structured around three components, as shown in Figure 1.

Figure 1. Program Components



^(a) SPICE (Software Process Improvement and Capability Determination), CMM (Capability Maturity Model), ISO (International Organization for Standardization).

Source: PASS Donors Memorandum.

² PASS was a key factor in supporting CUTI's strengthening. CUTI's membership grew from 170 to more than 180 member-companies by the end of the program, and totals more than 250 today. Today, it operates various working committees in areas relevant to the development of the sector.

PASS concentrated on supporting technical assistance, specialized businesses development consulting, international marketing studies, and trade missions focused on improving companies' competitiveness. The program also backed some consultant studies on norms and standards to define public policies and a regulatory framework to foster sector development.

3. The Impact Evaluation Process

The evaluation methodology used to assess PASS's impact had three objectives:

- Identify and measure the outcomes achieved by participating SMEs, using the indicators specified in the logical framework included in the Donors Memorandum³ and research workplan
- Assess how well the goals for each of the project's three primary components were met
- Identify areas of strength and areas that could be improved, which can be used by MIF to improve program results, the sustainability of outcomes, financial sustainability, and internal processes.

The assessment framework used for the impact evaluation included five dimensions, for each phase of the project lifecycle, as appropriate: (i) scope and strategic relevance of the program; (ii) internal quality; (iii) likely impact; (iv) dialogue and dissemination; and (v) inputs and processes. The assessment relied on quantitative data as well as qualitative data. The evaluators interviewed MIF/IDB staff members, CUT's board of directors, and surveyed program participants and nonparticipants. In conducting the impact evaluation, the evaluator faced some challenges related to information gathering. Perhaps the most critical was building the program's relevant document history (five years after the program had been completed, many documents could not be obtained) and gathering specific data and information relevant for the impact assessment (baseline information). In the absence of a baseline, the evaluator had to rely on statistical information about the software sector and use the data collected through the surveys.

4. Key Findings of the Evaluation

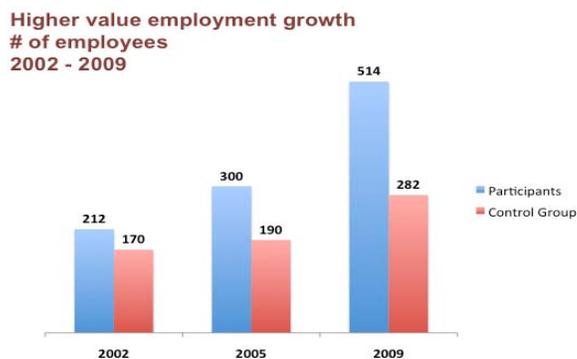
The program pursued almost all the activities and achieved almost all of the outputs set forth in the Donors Memorandum and the modified logical framework. Overall, performance was good. As a result of project activities: (i) At least 160 SMEs and

600 in the software sector received training or technical assistance; (ii) An estimated 600 staffers in participating SMEs were trained in the areas of international markets penetration, management, and quality control; (iii) At least US\$2.5 million in new exports and US\$ 3.78 million in new sales were generated by participating SMEs; (iv) At least 88 new high value-added jobs were created by participants SMEs through 2005 and another 214 through 2009.

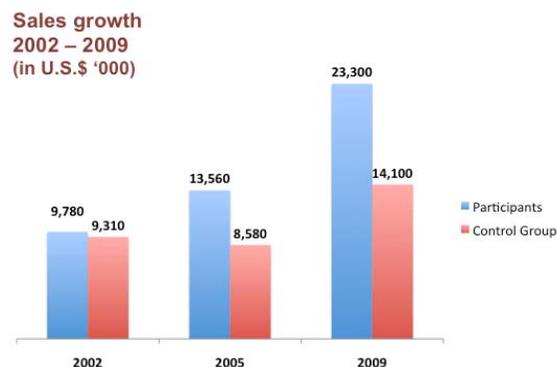
During the three-plus years the program was underway, overall sales, exports, and generation of higher value employment increased substantially. Such increases were sustained five years after the project was completed. Compared to a control group, PASS beneficiaries show higher rates for the growth in employees, sales, and exports than nonparticipants in the control group, as shown in Figure 2.

Figure 2. Growth in Employees, Sales, and Exports, 2002–09

a. Growth in employees



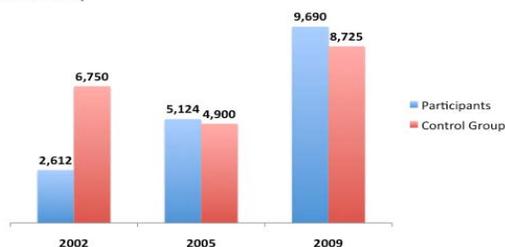
b. Growth in sales (US\$ thousands)



³<http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=423274>

c. Growth in exports (US\$ thousands)

Exports grow
2002 – 2009
(in U.S.\$ '000)



Source: PASS Impact Evaluation Assessment Survey. May 2010.

Although the results shown above and some other outcomes cannot be attributed exclusively to PASS, based on the outcomes of the control group and on interviews with beneficiaries, it can be reasonably argued that program activities contributed to the positive business development impact of participating companies. As Abel Diaz, CEO of one of the beneficiaries, GEOCOM, stated: *“It is difficult to estimate the direct economic benefits from participating in PASS, but we credit 45 percent of our growth to participating in PASS and believe that the new marketing strategy has made us appear more professional and sophisticated in the market.”*

Moreover, the program components reflected the sector’s needs, specific activities addressed specific SME needs, and in general beneficiaries were pleased with effectiveness of technical assistance received and the overall impact of the program impact on the sector. As Justo Miranda, CEO of WIZPRO, stated: *“We were extremely satisfied with our PASS consultant, and maintain a formal relationship with them today.”* Abel Diaz of GEOCOM added: *“CUTI implemented PASS well, and the program was clear and simple. Participating gave us a big advantage.”*

The software sector in Uruguay benefited from a “spill-over” effect from PASS. As participants improved their production processes and products quality, they started to demand more efficiency and higher quality standards from providers. Their improved quality also helped increase the efficiency of its clients.

Three factors, among others, explain the program’s success. (i) The program design included a bottom-up approach to private sector participation, resulting in a sound project that addressed the actual needs of participant SMEs and was executed with a good quality content. (ii) The program was executed and

managed with a pragmatic approach and MIF/IDB staff were able to recognize and react to evolving conditions, and adopt the resources available in the project to the changing needs of project beneficiaries. (iii) The active partnership between MIF and CUTI ensured proper coordination and fine-tuning between them as the project was being carried out.

The combination of these factors translated into a sound program that had a good impact on beneficiaries. *“PASS supported us in developing a new marketing strategy at a time when we needed to completely redo our marketing materials and strategy”*, said Jorge Duclosson, CEO of Kayla, a software development company with applications for the construction industry that participated in the Strengthening of Business Management component of the program.

5. Conclusion and Recommendations

- On the whole, the results of PASS were satisfactory. About 70 percent of participants surveyed acknowledged that the PASS contributed directly or indirectly to the products and services they offer today.
- Factors contributing to the positive assessment of the program include the following:
 - The choice of the software sector (a good potential for success, since it was a growing sector with a set of competent beneficiaries supported by a program with clear goals and activities)
 - Adequate focus of program activities on strengthening preconditions for the business development of beneficiaries
 - Satisfactory quality of content of program activities
 - Beneficiaries’ high level of satisfaction and the program’s positive impact on their development (as shown by higher growth in value added employees, sales, and exports)
 - Active role of beneficiaries and the executing agency (CUTI), complemented by MIF, through its work on the fiduciary aspects of program execution.
- There is potential for improvements in some areas of the project, particularly in the area of dialogue and dissemination with other key stakeholders in the country such as legislators, local government officials, civil society groups, local academics, and the private sector. The program could have pursued a more systemic approach to maximize program activities and other ongoing efforts.

- For an impact evaluation to provide an objective basis for assessing the performance of MIF interventions, certain minimum performance-related data need to be available, such as (i) Program Approval Committee documents; (ii) baseline studies, and a database of contact information for beneficiaries and the control group; (iii) monitoring and evaluation (M&E) reports; (iv) terms of reference (ToRs) used for specific activities throughout the project life cycle and consultant reports; (v) fiduciary oversight documents; (vi) peer review comments and meeting minutes throughout the project life cycle and (vii) procurement and financial management documents.
- In future dialogue or MIF/IDB sector operations, consideration could be given to generating “stretch objectives” to enable the sector to lead change, rather than respond to it. Attention could be paid to the following aspects: (i) systemic upfront diagnosis of sector policy and institutional issues standing in the way of sustained growth in productivity, sales, and exports, as well as business development; (ii) mobilization of appropriate technical skills and international knowledge and experience to provide value added; and (iii) strengthening the development of a more deliberate or explicit review of project performance to enable different levels of management within MIF/IDB to interact, learn, and generate feedback from and to the project and the executing agency.
- Specific recommendations that can help improve MIF future interventions include the following:
 - Coordination between local MIF officials and the executing agency needs to go beyond the fiduciary role and expanded to address sector development and technical aspects of the beneficiaries, such as ways to improve productivity and business development strategies.
 - Monitoring and evaluation indicators need to go beyond an itemized list of activities; they need to measure the specific impact on the beneficiaries’ development through indicators such as new niche markets developed, new products developed, incorporation of new clients, cost production productivity, and efficiency.
 - Development of a systemic relation among MIF (at both the headquarters and local office level), the executing agency, and beneficiaries needs to be strengthened so that MIF’s value added throughout the project’s lifecycle (in the form of knowledge and experience about the development of

the sector and SMEs) supports the project’s execution and beneficiaries in technical aspects, while increasing MIF’s international expertise and understanding of country and sector realities in the country where the program takes place.

At the beginning of each intervention, MIF needs to ask itself: How can further development of the participants and the sector in which they operate be ensured without special (and potential distortionary) incentives? How can a vehicle be introduced, resources mobilized, and international partnerships forged that will free the sector from relying on special subsidies or MIF support?