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ACTION MEMORANDUM FOR THE ACTING DIRECTOR

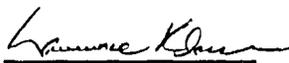
FROM: C/PDSO, Elizabeth Warfield ^{EBW}
THROUGH: A/DDIR, Bambi Arellano 
SUBJECT: Project Assistance Completion Report (PACR) - Entrepreneurial Development Project (520-0380)
DATE: October 12, 1993

Action Requested:

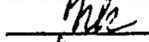
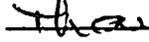
That you sign below approving the attached PACR.

Discussion:

The Entrepreneurial Development Project (520-0380) reached PACD on March 31, 1993. The attached PACR was prepared by Kim Delaney, EAPRI and reviewed by PDSO. It is in accordance with M.O. 3.2: PACD and Project Phase-out Procedures.

APPROVED  **DATE:** 10.22.93
Lawrence Klassen
Acting Director

DISAPPROVED _____ **DATE:** _____
Lawrence Klassen
Acting Director

Drafted: PDSO, MAlban  **Date** 10/12/93
Clearance: PDSO, MKromhout  **Date** 10/13/93
C/EAPRI, TTroung  **Date** 10/19/93
PDSOPUB\DOCS\PACR

Project Assistance Completion Report
ENTREPRENEURIAL DEVELOPMENT PROJECT

Project Number: 520-0380 Grant

Funding: Grant authorized LOP \$ 1,250,000
Grant obligated \$ 1,250,000
Grant expenditures \$ 1,249,828
Amount for deobligation \$ 172*

* Based on most recent figures from AID/W

Counterpart contribution: \$ 2,552,195, equivalent to 67%
of total Program costs

Project Assistance Completion Date: March 31, 1993

Implementing Agency: International Executive Service Corps

Project Goal

To promote economic growth and broader based wealth distribution by strengthening small and medium sized enterprises.

Project Purpose

To improve small and medium enterprise efficiency, quality, productivity, delivery time reliability and competitive position through managerial and technical assistance; and to assist Guatemalan and U.S. firms increase international market participation through cooperative ventures.

Project Outputs

	Projected	Actual	Percentage
Total SME's receiving TA	150	139	93%
Small Enterprises		78	
Medium Enterprises		61	
Joint/Coventures	16	0	0%
American Business Linkage Enterprise Projects	25	41	164%
Trade and Investment Services (TIS) Consultancies	20	0	0%
TIS Trade Shows	3	0	0%
Employment Generation (# of jobs)	4,500	3,000	67%
New Investments (\$,000)	450	1,324	294%

Background

The Project was authorized on July 14, 1989, and the Operational Program Grant between the International Executive Service Corps (IESC) and USAID/Guatemala was signed on July 31, 1989. The project was originally envisioned as a three year project, terminating on July 31, 1992. The PACD was extended three times, resulting in a final PACD of March 31, 1993.

The International Executive Service Corps (IESC) is a non-profit U.S. organization created in 1964 to transfer U.S. managerial and technical expertise to developing countries. It operates through the provision of services from volunteer U.S. executives (who are usually retired) to businesses in the developing world. It is represented overseas by local offices who work with local businesses to define their technical assistance needs. Through their headquarters in Stamford, Connecticut, the needs of an overseas business are matched with the skills of a U.S. volunteer executive. The U.S. executives who work with IESC do not receive a salary; however, they are provided with transportation, food and lodging for themselves and their spouse during their overseas assignment. IESC opened its first office in Guatemala in 1967.

The Entrepreneurial Development Project was conceived as a follow-on project to activities carried out under a sub-grant to IESC in a previous private enterprise development project. The Entrepreneurial Development Project was designed to help develop the capacity of small and medium enterprises, which was being constrained by the lack of financing, lack of management and technical skills and a lack of market awareness.

Project Description

Departing from the traditional IESC assistance mode, the project significantly expanded the types of services provided to include not only technical assistance by U.S. executives but also sector studies, marketing assistance, promotion of investment opportunities and actual negotiation of ventures. The major components of the Project were:

- Specialized Technical Assistance and
- Trade and Investment Services (TIS)

A. Specialized Technical Assistance

Included under this project component were three subcomponents:

1. Management and Technology Transfer: TA from IESC volunteer executives was to be provided to privately-owned, productive small and medium enterprises. For the purposes of this

project, small enterprises were defined as having 10-50 employees and less than \$50,000 in annual production or sales; medium enterprises were defined as those having 51-100 employees and less than \$1 million in annual production or sales.

This sub-component focused on the traditional assistance offered by IESC, i.e. matching the needs of local businesses with the skills of a U.S. volunteer executive. Following each visit of a U.S. executive, a written report was produced by both the executive and the client to evaluate the assistance.

2. Development and Strengthening of Indigenous Business Associations: The goal of this sub-component was to increase the capacity of local organizations to offer IESC-like services, therefore improving the sustainability of service delivery.
3. Guatemalan Volunteer Executive Program: Because of the success of the U.S. volunteer executive program, a program sub-component was included that was designed to recreate the IESC technical assistance delivery mechanism using local retired executives.

B. Trade and Investment Services

Included under this project component were four interrelated subcomponents:

1. Exploration and Sector Strategy Development: Using IESC staff and volunteer executives, the goal of this sub-component was to develop industry-specific development strategies which could be used to spur new investment.
2. Marketing and Promotion: This component was designed to build on the sector strategies developed under the first sub-component through the marketing and promoting of these sectors as areas for new investment.
3. Venture Opportunity Selection: Once the first two sub-components were completed and businesses had expressed interest in investing in the target sector, this component was involved with selecting the most promising businesses to be involved in joint or co-ventures.
4. Venture Negotiation: This was the last step in the process, involving assisting with the actual negotiation of joint or co-ventures among the prospective business partners.

Project Inputs

Following is summary of the resources provided to implement the Entrepreneurial Development Project:

	(in US\$)		Actual as
	<u>Projected</u>	<u>Actual</u>	<u>% of Total</u>
USAID Grant Agreement	1,250,000	1,250,000	25%
AID/W IESC Core Grant	0	1,179,706	24%
Time of volunteer executives	2,200,000	2,085,992	42%
Client firms' contributions	415,675	417,346	8%
Time of IESC Advisory Council	4,000	36,857	.7%
Rotary International	<u>20,000</u>	<u>12,000</u>	<u>.3%</u>
	3,889,675	4,981,901	100%

Constraints to Reaching Project Goals

A number of constraints were presented to meeting project goals, ranging from administrative to funding difficulties.

Administrative

- o During the first three years of the project, there were three different officers hired by IESC to be in charge of implementation of the TIS component of the project. This resulted in minimum results for this project component due to a lack of continuity and follow-through.
- o The mid-term evaluation of the project was not conducted until three months before the original PACD. Although the results of the evaluation were useful, since they were used to evaluate the feasibility of a follow-on activity, they would have been much more so if the evaluation had been done closer to the mid-point of the project, allowing time to make the recommended adjustments in project implementation.

Funding

- o In May of 1991, AID/W changed its funding policy towards IESC field offices. Before this time, IESC funding from a central AID/W project was used to finance the difference between

Mission-funded projects and actual costs of office operations and project activities. When this was changed in May, Missions were expected to cover all IESC local operating costs.

In Guatemala, the grant was amended to use project funds to cover all non-administrative program costs (i.e. mainly per diem and travel for the volunteer executives), with the local IESC office costs being covered through contributions from clients. Following this amendment, lengthy discussions were held with the local IESC office over a period of more than a year to try to establish their local office operating costs to ensure that they would have enough funding to maintain the office. The local IESC office was never able to establish with any precision what their operating costs were, despite continued Mission efforts to assist them, since they did not place any importance on this issue. The result was that IESC did not make any attempts to reduce operating costs to accommodate the new funding situation.

Instead, IESC chose to raise their fees for services rather than reduce their operating costs. Mission estimates of operating costs based on the rough figures provided by IESC showed a ratio of administrative costs (including both local and headquarters expenses) to program costs of 70:30, with most of the administrative costs coming from supporting the local office.

- o Following the change in operating procedures by AID/W in May 1991, IESC decided to increase its charges for services to cover its operating expenses, eventually pricing them out of the reach of small and medium enterprises, even with project support for the costs of the volunteer executives. In addition to the direct costs for the travel and per diem of the volunteer executives, each technical assistance project was charged a fee from Stamford for locating the volunteer and to cover headquarters operating costs, as well as a fee to cover the local IESC operating costs. These administrative fees were not covered by the project, therefore IESC raised the client fees to such an extent that they eventually priced themselves out of their market, slowing project implementation and resulting in extensions of the PACD to reach project goals.

Competition

- o During project execution, it became apparent that other donors (England, Germany, Canada) had similar programs designed to match retired or experienced executives with local businesses to provide technical assistance. All of these other programs offered these services for free, providing fierce competition

to IESC, which charged for their services. These other donors could offer the services for free since these programs were heavily subsidized by their governments.

Accomplishments

Overall, although the project did not reach all of the projected end-of-project goals, it did have a positive impact on the management skills and product quality of small and medium businesses, which was demonstrated by increased sales and production. The most significant results came from the assistance provided by the Volunteer Executives. Little to no results came from the less traditional IESC services such as the sector surveys, the joint venture creation efforts and ABLEs. Therefore, there was little to no impact on the creation of cooperative ventures to increase market access.

Following is a table summarizing the results of a survey of 95 firms that had received technical assistance, which shows that most firms, as a direct result of the assistance received, improved their product quality and increased sales.

Specific Results of Technical Assistance to 95 firms

<u>Results</u>	<u>No. of Firms</u>	<u>Percentage of Total</u>
Improved Product Quality	55	58%
Increased Profits	53	56%
Increased Sales	47	49%
Increased Production	41	43%
Increased Wages	29	31%

A. Specialized Technical Assistance

1. Management and Technology Transfer: This was the most successful project component, resulting in assistance being provided to 139 small and medium enterprises. The majority of the businesses assisted were in agribusiness, followed by woman-owned businesses (not categorized by business sector) and manufacturing. As noted above, this assistance had the desired impact of improving the management skills, marketing and technical skills of small and medium enterprises.

2. Development and Strengthening of Indigenous Business Associations: Although efforts were made to coordinate

activities with local business associations, such as the Guatemalan Entrepreneurial Chamber (CAEM), the Guild of Non-Traditional Product Exporters (the Gremial), FUNDAP, FUNTEC and the Guatemalan Management Association (AGG), attention was not paid to strengthening the institutional capability of these organizations. Rather, their members were looked to as a source of potential clients.

3. Guatemalan Volunteer Executive Program: No progress was made in this component due to a lack of interest on the part of the Guatemalan private sector, which stemmed from a basic unwillingness to allow another Guatemalan access to what was perceived as confidential business information. Deep mistrust of others within the Guatemalan private sector and significant competition among firms leading to closely-held business information led to lack of action on this component.

B. Trade and Investment Services

Sector surveys were completed for a range of products (agribusiness, manufacturing, wood products, metalworking, etc.), but specific strategies for the development of these sectors were not done. Because no strategies were developed, no marketing or promotion activities related to these sectors were carried out. Likewise, no businesses were selected or matched with local businesses for investment in these sectors.

However, due to the results of American Business Linkage Enterprise (ABLE) services, a number of Guatemalan firms were put in contact with U.S. firms interested in investing in the region. An ABLE consisted of doing basic market research in the U.S. for a specific local company to assist in export development, joint/co-venture development, new product development, equipment sourcing, licensing and technology transfer or new business development. Following the completion of a profile of the information required, the ABLE request was sent to IESC headquarters in Stamford for analysis. Typically the local business would receive a list of leads on U.S. firms' interested in importing their product or in investment in the region.

As a result of the ABLE's, two different businesses were put in contact with U.S. firms, resulting in negotiations for a loofah export business and a data entry operation. Neither transaction was completed due to difficulties encountered in the negotiation process.

Project Evaluation/Monitoring

TIS Evaluation: An evaluation of the TIS component of the project was carried out in May, 1992 as part of an A.I.D. world-wide

evaluation of these services. As mentioned previously, this component was not successful in Guatemala. The conclusion of the Washington evaluation was that IESC should stay with the services where they have the most expertise, i.e. providing U.S. executives to local businesses to give technical assistance.

Mid-Term Project Evaluation: A mid-term project evaluation was carried out at about the same time, and was used to determine the value of doing a follow-on activity under the Trade and Labor Relations Development Program (formerly called the Trade and Investment Sector Program). This evaluation made numerous recommendations on improving project performance, but unfortunately came too late in the project's life to have much impact. The evaluation confirmed that the project had had the most impact in the area where IESC had the most expertise, namely in the provision of technical assistance from volunteer executives. The evaluation also confirmed that IESC, due to high local overhead costs and mandatory fees to support the operations of IESC headquarters, was pricing itself out of its primary market.

Monitoring of Results: Generally the project suffered from a lack of clarity of objectives and a determination of how to measure results. This resulted in IESC staff spending a lot of time collecting information that was neither useful nor pertinent to measuring project impact. Information collection efforts tried to satisfy, at the same time, the needs of the USAID Mission, IESC headquarters and the local IESC office, resulting in a mix of contradictory and confusing information that ultimately was not useful to any of the parties it was supposed to be serving.

Recommendations and Lessons Learned

- o Overall, a major conclusion as a result of this project is that IESC should focus its energies on the services where it has the most expertise and experience, which is in the provision of technical assistance through Volunteer Executives. Although activities under TIS may have worked in other countries, in Guatemala there was much more success derived from the provision of technical assistance by volunteer executives.
- o The project objectives should be clearly defined at the outset and a clear, uncomplicated monitoring system established that meets both A.I.D. and the implementing institution's needs. While IESC/Guatemala made every attempt to respond to the information needs of the Mission, their headquarters in Stamford and their clients, this needlessly distracted their attention from service delivery and could have been remedied with a bit of initial thought and design work at the outset, establishing reporting and monitoring systems. Because USAID project officers changed frequently during project

implementation, each officer had a tendency to place new reporting requirements on IESC because of a lack of an adequate reporting/impact measurement system.

- o In designing projects targeted to meeting the needs of small and medium enterprises, attention should be paid to ensuring that the services being provided are affordable to them. In the case of IESC/Guatemala, high local operating costs combined with mandatory fees to IESC headquarters in Stamford, gradually raised the cost of the services (even with a high subsidy from the Mission) out of the reach of small and medium enterprises. Although efforts were made to work with IESC on alternative delivery mechanisms and operating procedures to lower their costs, there was a great deal of resistance to doing so, with IESC preferring to charge higher fees and move to larger clientele rather than take appropriate measures to lower local office costs.