

Technical Cooperation Document

I. Basic Information for TC

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| ▪ Country/Region: | REGIONAL/CID - Isthmus & DR |
| ▪ TC Name: | Consolidation of the Small Business Development Centers Network of the Americas in Central America and the Dominican Republic |
| ▪ TC Number: | RG-T3256 |
| ▪ Team Leader/Members: | Gregorio Arevalo (IFD/CTI) Team Leader; Santiago Reyes (IFD/CTI); Michael Hennessey (IFD/CTI); Galileo Solis (IFD/CTI); Maria Fernanda Lopez de Valles (IFD/CTI); Yohana Gonzalez (IFD/CTI) and Esteban De Dobrzynski (LEG/SGO). |
| ▪ Indicate if: Operational Support, Client Support, or Research & Dissemination | Client Support |
| ▪ Date of TC Abstract authorization: | July 17 th , 2018 |
| ▪ Beneficiary (countries or entities which are the recipient of the technical assistance): | El Salvador, Guatemala, Honduras, and Dominican Republic |
| ▪ Executing Agency | Inter-American Development Bank |
| ▪ Donors providing funding: | OC Strategic Development Program for Countries – Economic Growth Priority (CTY-ECG) |
| ▪ IDB Funding Requested: | US\$450,000 |
| ▪ Local counterpart funding, if any: | US\$50,000 |
| ▪ Disbursement period: | 36 months |
| ▪ Required start date: | November 2018 |
| ▪ Types of consultants (firm or individual consultants): | Firms and individual consultants |
| ▪ Prepared by Unit: | Institutions For Development / Competitiveness, Technology and Innovation (IFD/CTI) |
| ▪ Unit of Disbursement Responsibility: | IFD/CTI |
| ▪ TC Included in Country Strategy (y/n): | No |
| ▪ TC included in CPD (y/n): | No |
| ▪ Alignment to the Update to the Institutional Strategy 2010-2020: | Productivity and innovation; Economic integration |

II. Objectives and Justification of the TC

- 2.1 According to studies conducted by the Inter-American Development Bank in 2013 and 2014¹, in Latin America, public policies on innovation and technology "have often focused their efforts on promoting investment in research and development and have provided less attention and resources to programs aimed at disseminating and assimilating technology in small and medium-sized companies (SMEs)". Moreover,

¹ IDOM Consulting 2014, "Servicios de Extensionismo Tecnológico: Análisis y propuesta para la mejora de los SET en cinco casos de estudio en América Latina", Washington DC: mimeo para el Banco Interamericano de Desarrollo; Shapira P., Youtie J., Cox D., Uyarra E., Abullah G., Rogers, Downing C., 2015, "Institutions for Technology Diffusion", Inter-American Development Bank, Technical Note N.IDB-TN-832.

within Latin America and the Caribbean, SMEs in El Salvador, Dominican Republic, Honduras and Guatemala did not fare comparatively well in basic technology adoption indicators. For example, while only 35% of small firms in these four countries have their own website and 72% interact with their clients and supplies through email, the average for South American countries is 61.5% and 92%, respectively.² In this context, it is necessary to make available to SMEs in Latin America public policy instruments that take into consideration the characteristics of the business structure of the region³ and define relevant interventions in technological advice and innovation for diverse types of businesses.

- 2.2 With the support of the US Federal Government through the Small Business Administration (SBA) and various state and local agencies, the Small Business Development Centers (SBDC) program constitutes the main source of technical and managerial assistance for small businesses in the United States, promoting growth, innovation, productivity, diversification, and increased revenue for small businesses through improvements in their business practices, technology, and management practices. The SBDC program is a collaborative effort between the public, academic, and private sectors, with the support of the US federal, state, and local government agencies, which jointly invest in efforts to guarantee the sustainability of the program and maximize its efficiency. The national network of SBDCs in the US assists over a million US business clients per year with more than 900 services delivery points, to create more than 98,660 jobs, open 17,207 new businesses, generate US\$ 7.1 billion in new sales, and secure US\$ 4.7 billion in new financing in 2017. As a result, the national SBDC network generated fiscal revenues of more than US\$ 615 million, yielding a return of US\$ 2.79 per dollar invested in the program.
- 2.3 The SBDC model in the US also includes the Women Business Development Centers (WBDCs), which are nationally recognized leaders in promoting women's economic development. These centers provide specialized services and programs to support and accelerate women's business ownership and strengthen the impact of women in the economy by creating jobs, fueling economic growth, and building stronger communities. They also aim to increase awareness of women entrepreneurship, promote their economic self-sufficiency, accelerate firms' growth, and stimulate positive public policy changes for women. One of the main lessons learned of SBDC's approach on gender is that SBDCs must have specialized areas to support women entrepreneurs and women-led businesses. As explained in 3.2, this TC will incorporate those lessons learned in the program.
- 2.4 Because their goals are not defined by the number of firms supported but by the incremental growth in sales and employment of those small businesses, the SBDC program focuses on supporting formal firms with high growth potential. Since SMEs are disproportionately affected by market failures related to lack of information about optimal business practices, technology, market strategy, access to finance, etc., their performance can be substantially improved through direct interventions, such as the SBDC program, that help these firms overcome those market failures. Moreover, one of the key performance indicators used by SBDCs is the aggregate impact of all the companies with which the SBDCs work. Success of SMEs supported by SBDC also

² Own calculations based on World Bank Enterprise Surveys. Available at: <http://www.enterprisesurveys.org/data>

³ Firm size distribution in Latin America and the Caribbean, and especially in the beneficiary countries, is dominated by small-sized firms, where micro, small and medium enterprises represent more than 99% of all firms.

has a positive demonstration effect in other firms. These spillover effects also contribute to the program's impact at the microeconomic level, which can also add considerably to the overall macroeconomic impact on growth and productivity that the beneficiary countries need. For example, Stucchi, et. al (2014) show that small and medium firms that received technical assistance by the FONTAR program in Argentina not only increased employment and wages, but also workers who were working on those firms and then moved to other SMEs, brought with them new knowledge that improved performance of the new firms⁴.

- 2.5 In terms of its operation strategy, the SBDC model is designed to provide support services to companies in terms of training, business consulting, financial linkages, technical assistance, internationalization, entrepreneurship, among others. This type of advice allows companies to improve their productivity and capacity in different areas, which leads them to be more efficient and at the same time achieve increase in production and sales. Additionally, the SBDC model also supports technological improvements through the diffusion of better technologies, not only for products but also in areas such as organizational management, business practices and production processes, which also contribute to the increase in firms' productivity.
- 2.6 Since 2003, the University of Texas at San Antonio (UTSA) has been hosting one of the most successful SBDC programs in the United States and has been the leading institution in promoting and expanding the SBDC model throughout Latin America. The SBDC network development process in these countries follows five phases: i) Start - Up: introducing the SBDC model to the SME authorities and stakeholders to secure a national commitment to adopt the methodology in the hosting country; ii) Transfer: training future advisors and directors on how to operate successful centers and assisting national SME authorities in funding, administering, and launching a national network; iii) Implementation: guiding the launch of a pilot network of SBDCs and assisting with national network administration at the Ministry level; iv) Consolidation: creating accreditation quality standards, generating economic impact results and developing a sustainable funding and legal framework for the national SBDC network; and v) Internationalization: applying the SBDC methodology to export promotion and linking SMEs clients to trade opportunities among Small Business Network of the Americas (SBNA⁵) countries.⁶ Institutionally, participating countries provide the operating budgets for their Center networks from domestic resources, typically with Ministries funding about 50%, matched by universities, local agencies and private sector, for an integrated and sustainable Public-Private-Academic partnership structure.
- 2.7 Due to this effort to expand the model to other countries in the region, since 2010, the Government of El Salvador and UTSA adapted the SBDC model and opened the first pilot projects in the country. In 2017, with 14 centers operating in El Salvador, as a result of the interventions carried out by these centers, firms created 2,343 new jobs,

⁴ Knowledge Spillovers of Innovation Policy through Labor Mobility: An Impact Evaluation of the FONTAR Program in Argentina. Stucchi, R. Rojo, S. Maffioli, A. Castillo, V. IDB Working Paper Series IDB-WP-488. 2014

⁵ SBNA is comprised of small business service providers helping more than two million entrepreneurs create jobs locally by connecting globally. Through SBNA, these centers of expertise connect with many of their counterparts throughout the Americas and extend their businesses' links beyond national borders

⁶ Institute for Economic Development –University of Texas at San Antonio, Small Business Network of the Americas, San Antonio, 2017.

and generated additional sales of US\$ 22.2 million dollars⁷. New SBDC programs have also been adopted in Guatemala, Honduras, Dominican Republic and, more recently, in Colombia and Chile⁸. The potential growth impact for SMEs is clearly illustrated in the case of Chile, where 50 new centers were implemented in 2015-2016. These centers managed to generate, up until the end of 2017, an increase in sales of the companies served by more than US\$44 million, 3,180 new formal jobs and a ratio of US\$2.2 of incremental sales for every dollar of public resources invested⁹. It is important to point out that when promoting growth in employment, production and sales of formal SMEs, especially in this region (thus transferring resources and productive factors from informal to formal sector firms¹⁰), interventions such as the SBDC program also contribute to the increase in aggregate productivity, since formal SMEs tend to be substantially more productive than their informal sector counterparts. Ibarrán, Maffioli and Stuchi (2009) find that a properly targeted SME policies can induce an increase of 5.7% in aggregate productivity, mostly due to resource reallocation towards more productive firms¹¹.

- 2.8 The institution that has led this effort in the Central American countries has been the *Centro Regional de Promoción de la MIPYME (CENPROMYPE*, which is part of Central American Integration System - SICA¹²) which, in 2011, together with UTSA, began the transfer of the SBDC¹³ model to the countries of the SICA region in coordination with key actors from the public, private and academic sectors. The existence of a network of SBDCs in Central America and the Dominican Republic has generated added value in terms of strengthening the political dialogue between the authorities promoting SMEs, the development of a common agenda for the region, and a more efficient use of resources through the implementation of services and common tools for the centers in the region.
- 2.9 Currently, the SBDCs network in Central America is trying to strengthen its centers both nationally and regionally, through standardizing the quality of services, certification of SBDC advisers and directors, and centers' accreditation. At this stage, the centers require further consolidation in countries where the SBDC model has been implemented and there is already a track record of implementation¹⁴, both at the country and regional network levels. There is a need to strengthen the quality of services delivered by the SBDCs, as well as their operation and administration, in

⁷ Informe de Centros de Atención MIPYME de Centroamérica y República Dominicana, Resultados e Impactos 2016, CENPROMYPE 2017.

⁸ U.S. State Department initiative "Small Business Network of the Americas," ([pdf report attached](#)) 2017 Progress Report by UTSA.

⁹ Centro de Sistemas Públicos, Departamento de Ingeniería Industrial, Facultad de Ciencias Físicas y Matemáticas, Universidad de Chile, "Evaluación de Impacto de los Centros de Desarrollo de Negocios en Chile", Santiago de Chile, January 2018.

¹⁰ The TC will include an exploratory study in one of the participating countries to better understand this mechanism of improving aggregate productivity. Specifically, it will explore the extent to which growth in formal SMEs supported by the SBDC program contributes to transferring productive resources (particularly labor) from less productive informal firms to growing formal SMEs.

¹¹ Ibarrán, Pablo, Alessandro Maffioli, and Rodolfo Stucchi. "SME policy and firms' productivity in Latin America", IDB, 2009.

¹² SICA - Sistema de Integración Centroamericana.

¹³ The SBDCs in El Salvador are called CDMYPE, Centros de Desarrollo de Micro y Pequeña empresas.

¹⁴ These countries are El Salvador, Guatemala, Honduras and the Dominican Republic. According to the "Informe de Centros de Atención MIPYME en Centroamérica y República Dominicana, 2017", Guatemala had 7 SBDCs in 2017, which served 2,420 SMEs. In El Salvador, 14 SBDCs served 2,718 SMEs. In Honduras, 13 SBDCs, including 2 new ones, served 4,594 SMEs that generated 9,068 additional jobs. Finally, in the Dominican Republic there are now 12 SBDCs (7 of which newly opened in 2017), which served 958 SMEs.

order for them to grow and develop closer to the level of the SBDCs operating in in the United States.

- 2.10 In support of this goal, the ultimate objective of this TC is to promote growth, innovation, productivity, and competitiveness of small businesses in El Salvador, Guatemala, Honduras, and Dominican Republic¹⁵. The specific goal is to foster economic growth through the improvement in the quality and impact of the Small Business Development Centers (SBDC) networks in the selected countries. This will strengthen small businesses in the region, helping them attain better access to capital, technology, and markets.
- 2.11 The proposed TC is consistent with the updated Bank's Institutional Strategy 2010-2020 (AB-3008) and is aligned with the challenge of productivity and innovation development, as well as with the objective of the first pillar of *the Plan de la Alianza para la Prosperidad del Triángulo Norte (PAPTN)*, as the main activities of this technical cooperation are focused on improving institutions that foster the performance of SMEs in the region. This TC is also aligned with the Sector Framework Document for Innovation, Science and Technology 2010 - 2020, which identifies the lack of small firms' capabilities to increase their productivity, incorporate and/or adapt new technologies as one of the region's main economic challenges. Moreover, this TC complements Bank operations that have promoted the improvement of business climate and SME promotion policies in countries such as Guatemala (GU-0163) and El Salvador (ES-L1075).

III. Description of activities/components and budget

- 3.1 The activities to be financed by this TC will be directed to providing expert guidance for each participating country on improving their SBDC model, developing better SBDC accreditation standards, reinforcing the regional SBDC network and promoting its further internationalization. Additionally, and depending on the results of the external evaluation in Component 1, the activities will incorporate a strategy to reinforce gender inclusion, increased access of finance, and firm's digitalization as part of the services offered by these centers. The components to be financed by this TC are:
- 3.2 **Component 1. Evaluation of service quality, demand and relevance of the SCBDs in Central America and Dominican Republic (US\$ 105,000).** This component will finance operational evaluations of SBDCs networks in El Salvador, Guatemala, Honduras, and Dominican Republic to assess their individual performance in terms of the volume, quality and relevance of the services they provide to businesses under the SBDC methodology. The evaluation proposed will be based on determining how beneficiary countries have adapted the US model of SBDCs into their centers and at the same time a demand study of the business development service needs of companies in beneficiary countries will be carried out. In addition, this component will evaluate the Central American and Dominican Republic network of SBDCs and the capacity of the country SBDCs to participate in and benefit from this network. Although the UTSA has carried out periodic evaluations of the performance

¹⁵ Countries in the region included as beneficiaries of this TC are those with an established track record developing and operating SBDCs, and also requested to be part of the regional effort to improve their SBDCs and make them more relevant to support SME development in their respective countries.

of these centers, an external operational evaluation can help to better identify areas in which the transfer of this model to the beneficiary countries needs to be strengthened. This component will include identifying possible interventions to improve the network to be included in an Action Plan to be agreed with all key TC stakeholders, taking into account best practices and lessons learned in the transfer and implementation processes of these centers, ways to help companies improve their access to finance to support the development and growth of their businesses, a strategy to mainstream gender issues in the operation of the centers, and ways to promote the digitization of beneficiary firms in each country. It will also finance a demand study for the centers to identify ways to improve the relevance of SBDC services provided in each country, in response to the needs and potential demands of SMEs. This evaluation will also include specific gender and financial aspects, such as women's access to and support from SBDC, as well as SBDCs future financial sustainability¹⁶. A consulting firm is expected to be contracted under a simplified competitive selection process under GN-2765-1 guidelines.

- 3.3 **Component 2. Strengthening the Central American and Dominican Republic SBDC Network and its internationalization (US\$ 280,000).** This component will finance the implementation of technical aspects of the Action Plan for the improvement of the SBDC network in participating countries resulting from the first component, including in the areas of gender, access to finance and digitalization of firms, and to improve the SBDC model implementation where weaknesses are identified. This will include improving the interaction within the Central America and Dominican Republic network and with other networks in Latin America. As part of this component, an exploratory study on some of the mechanisms by which formal SME growth promote aggregate productivity will be conducted in one of the beneficiary countries. Country selection for this latter study will take into account data availability about applicant firms and potential sample size. Component 2 will be executed with technical support from UTSA under a single source selection process, as described in paragraph 4.2.
- 3.4 **Component 3: Communication and Dissemination Strategy (US\$ 60,000).** This component will finance the design and development of a communication and dissemination strategy for the SBDC centers. This strategy would also include the development of events and materials that help in the diffusion, dissemination and awareness about the services and benefits provided by these centers, both at the central and local government levels.
- 3.5 A consultant in Headquarters will be hired with TC resources to provide technical support for the execution of this TC. This consultant will coordinate with country counterparts, CENPROMYPE and UTSA and help monitor the technical execution of TC activities.
- 3.6 The development and implementation of the program has an estimated total cost of US\$500,000, of which up to US\$450,000 will be financed on a non-reimbursable basis by the Bank from the OC Strategic Development Program for Countries – Economic Growth Priority Fund, and US\$50,000 will be financed, in kind, by the beneficiary countries and CENPROMYPE.

¹⁶ SBDCs are fully supported by country-based budgetary resources, a fact that indicates they remain a top priority in each country, and which perhaps constitutes the best guarantee of their future sustainability in the medium and long term.

Indicative Budget

| Activity/Component | IDB/Fund Funding | Counterpart Funding | Total Funding |
|--|-------------------------|----------------------------|----------------------|
| Component 1: Evaluation of service quality, demand and relevance of the SCBDs in Central America and Dominican Republic | \$ 85,000 | \$ 20,000 | \$ 105,000 |
| a. Country Network Evaluations | \$50,000 | \$20,000 | \$70,000 |
| b. Central American Network Evaluation | \$15,000 | | \$15,000 |
| c. Demand Study | \$20,000 | | \$20,000 |
| Component 2: Strengthening the Central American and Dominican Republic SBDC Network and its internationalization | \$ 260,000 | \$ 20,000 | \$ 280,000 |
| a. Plan of action implementation to improve SBDCs centers and the regional SBDC Network | \$220,000 | \$20,000 | \$240,000 |
| b. Interaction with other SBDC Networks in Latin America | \$40,000 | | \$40,000 |
| Component 3: Communication and Dissemination Strategy | \$ 50,000 | \$ 10,000 | \$ 60,000 |
| a. Communication and dissemination strategy | \$5,000 | \$10,000 | \$15,000 |
| b. Logistics for dissemination activities and events | \$10,000 | | \$10,000 |
| c. Dissemination Meeting and Workshops | \$35,000 | | \$35,000 |
| TC Monitoring and Execution Technical Support | \$40,000 | | \$40,000 |
| Final Audit | \$15,000 | | \$15,000 |
| Total | \$450,000 | \$50,000 | \$500,000 |

3.7 The results of the studies and actions to be carried out under this technical cooperation will be disseminated through the workshops envisaged under component 3. The non-confidential final reports and main results of the TC will also be published on the CTI website.

IV. Executing agency and execution structure

4.1 At the request of the public agencies in charge of the SBDCs in the beneficiary countries and, in accordance with Appendix X of the document GN-2629-1, the Bank will be the executing agency of this technical cooperation, due to its experience in the implementation of competitiveness and innovation programs in the countries of the region and in the identification of the consultants and institutions that can guarantee the quality of the products to be contracted for the development of this project. Furthermore, this execution arrangement will ensure the independence needed for the evaluation of the SBDCs and the regional network under Component 1, and will help coordinate actions to be implemented in four countries under Components 2 and 3.

4.2 The activities to be executed through this TC are included in the Acquisitions Plan (Annex III) and will be contracted in accordance with Bank policies as follows: (a) AM-650 for Individual consultants; (b) GN-2765-1 and Guidelines OP-1155-4 for Consulting Firms for services of an intellectual nature and; (c) GN-2303-20 for logistics and other related services. Pursuant to the provisions of the Bank's Policies for the selection and hiring of consultants (GN-2765-1), the direct contracting of the Institute for Economic Development at the University of Texas at San Antonio (UTSA), for up to US\$ 300,000, is envisaged following criteria (d) of Single Source Selection under

GN-2765-1. UTSA will execute activities related to Component 2, Strengthening the Central American and Dominican Republic SBDC Network and its internationalization, and to Subcomponents 3.a and 3.c, Communication and Dissemination Strategy and Dissemination Meeting and Workshops, respectively. As part of the services expected from this contract, UTSA will also accompany and support the consultancy to be contracted for the external evaluation and to provide inputs for the design of the Action Plan envisaged under Component 1. The UTSA has a unique experience in the creation and development of the SBDCs in the United States and its dissemination throughout the Latin American region, being the only qualified entity to guarantee the provision of the services required by the network of SBDCs in Central America and Dominican Republic.

- 4.3 In terms of the organizational structure, SBDC networks located in each of the beneficiary countries are led by local government entities supporting SME development, which are members of CENPROMYPE, which in turn forms part of the Integrated System of Central America (SICA). CENPROMYPE acts as the regional-level coordinating organization of these country-based institutions, being the regional institution that has been promoting the development of SBDCs in Central America and the Dominican Republic. To ensure the active participation of public agencies that are already part of the SBDCs in the beneficiary countries, each beneficiary country will appoint a counterpart agency and focal point that will actively participate in the execution process to be led by the Bank and coordinated regionally by CENPROMYPE.

V. Major issues

- 5.1 The execution of this TC will rely on the support that the SBDCs and the institutions related to the Central American and Dominican Republic SBDC network in each country provide to the gathering of data for the evaluation, the actions required for the delivery of results, and the implementation of the plan to strengthen the SBDC. Since several institutions are involved, there is a risk of insufficient coordination between the different national SBDCs, the relevant SME support institutions in the countries, and the SBDC network. To mitigate this risk, the Bank will work with CENPROMYPE, which will act as the regional-level coordinating organization of the country-based institutions participating in the project. Additionally, the TC will incorporate the SBDCs and relevant country SME support institutions in all key activities, to ensure proper consultations and socialize the findings of the evaluations.
- 5.2 The execution of the Action Plan under Component 2 will rely on changes that each beneficiary country will have to implement in their SBDCs. As part of the Action Plan it is expected that UTSA will provide training to SBDCs managers, administrators and professionals to ensure the appropriate implementation of the Action Plan and mitigate the risk that some of them could be less willing or able to implement the required technical changes.
- 5.3 The execution of this TC is limited to technical aspects of the Action Plan to be agreed under Component 1. Material investments beyond the technical scope of this TC will need to be financed by each participating country. In this regard, it is expected that the external evaluation of the SBDCs and of the regional SBDC network will help stakeholders identify major weaknesses and opportunities for improvements, which would in turn help them make an informed case to obtain the resources needed to make those additional investments in each country.

VI. Exceptions to Bank policy

6.1 There are no exceptions to Bank policy.

VII. Environmental and Social Strategy

7.1 According to the Environment and Safeguards Compliance Policy (OP-703), the TC has been classified as category C (see [Safeguard Policy Filter](#) and [Safeguard Screening Form](#)). No potential negative environmental and/or social impacts of the TC were identified and therefore no mitigation strategy is required to address any impact.

Required Annexes:

- Annex I : [Request from the client](#).
- Annex II: [Results Matrix](#).
- Annex III: [Terms of Reference](#).
- Annex IV: [Procurement Plan](#).