

BUSINESS DEVELOPMENT CENTER PROGRAM

(TC-98-06-25-1-UR)

EXECUTIVE SUMMARY

EXECUTING AGENCY: Cámara de Industrias del Uruguay [Manufacturers Association of Uruguay] (CIU)

BENEFICIARIES: Small businesses in manufacturing and related services

OBJECTIVES: The principal objective of the program is to help improve the competitiveness of small businesses in Uruguay. Its specific objective is to strengthen the capacity of small businesses to access and efficiently use nonfinancial business services designed to improve their productivity and capacity for growth as part of the integration and internationalization of their activities, and execute and promote business association activities to further cooperation among enterprises.

DESCRIPTION: To achieve these objectives, a business development center (CDE) will be established, with two nationwide windows, that will carry out the following activities:

- (a) **Generate demand for nonfinancial business services on the part of the enterprises:** Direct advisory services will be provided for 500 businesses, channeling proper quality services and encouraging their use through cofinancing.
- (b) **Stimulate cooperation among firms as an instrument to increase competitiveness:** Pilot projects will be carried out on the following types of specific programs for business cooperation: supplier strengthening programs, sector programs, and internationalization programs.
- (c) **Cooperate in the strengthening of the local supply of business development services and consulting services and the network of private-sector business intermediaries:** A service provider system will be devised to meet small business needs. In addition, an annual consultant training program will be carried out

Executive Summary

Page 2 of 2

for small business, with the support of the methodology developed by the CIU.

FINANCING:	Modality:	Grant
	Beneficiary:	US\$ 834,000 (40%)
	MIF:	<u>US\$1,266,000</u> (60%)
	Total:	US\$2,100,000
EXECUTION SCHEDULE:	The execution period will be 48 months, and the disbursement period, 54 months.	
CONDITIONS PRECEDENT:	As conditions precedent to the first disbursement, the following activities must be carried out: (i) establishment of the Business Development Center (BDC); (ii) hiring of the program coordinator; and (iii) entry into force of the Operating Regulations.	

I. COUNTRY AND PROGRAM ELIGIBILITY

- 1.1 The Donors Committee declared Uruguay eligible to receive all forms of MIF financing on October 6, 1993. The project is eligible since its activities are aimed at establishing and consolidating an instrument to promote the development of nonfinancial services for small businesses and will boost demand for the use of those services. Increased demand will in turn have a positive impact on the management and competitiveness of the businesses.

II. FRAMEWORK OF REFERENCE

- 2.1 MERCOSUR regional integration has posed a series of challenges for the Uruguayan economy, ranging from restructuring of production to cultural adjustment, in order to take full advantage of the new expanded market. Of course, small businesses are not immune from this reality, and often they are those most in need of resources for successful restructuring.
- 2.2 Small businesses, in general, are confident that they offer quality products and services. In some cases, this gives them a strong position on international markets. They understand that their size allows them to be flexible in terms of their business organization, and identify some basic conditions for improving management as their strengths: the ability of human resources to learn, modern equipment, and a willingness to work together. Their main weaknesses are primarily in business, trade, and financial management, implementing new technologies, and human resources. The entrepreneurs do not mention strategic management as a business problem. Nonetheless, the lack of explicitly defined strategies always underlies the problems that they do mention; and when they have implicit strategies, they lack alternatives to address potential problems.
- 2.3 In general, the entrepreneurs are willing to participate in business association activities, although they do not always specifically identify those suited to their needs. Box II-1 summarizes the difficulties small businesses face when they act alone.
- 2.4 The Bank has conducted two major studies jointly with the Uruguayan authorities: one on competitiveness and strategy under a COMISEC/IDB/EU/UNDP program and another on guidelines for a business development strategy for small and medium-sized enterprises. The strategy study identified weak technical support and business management as one of the main obstacles to business development. The main problems found are presented in Box II-2. Based on the problems identified, the following activities were devised to overcome the obstacles to business development:

- a. strengthening business management and training, introducing new techniques for management, diagnostic studies, and strategic planning;
- b. promoting activities for business cooperation and internationalization, support for developing larger-scale regional business, advisory services on foreign markets, and joint ventures; and
- c. supporting business associations, which, given the small size of the businesses, are crucial to promote joint action by enterprises. 1/

BOX II-1

ISOLATION: THE GREATEST PROBLEM FOR SMALL BUSINESSES

Despite the attention that small and medium-sized businesses have been given over the last 20 years, in policy issues designed to stimulate job creation and development the sector, small businesses continue to face major obstacles to their development. The main obstacles stem from the lack of access to various instruments. The first concerns **access to inputs and components**, which is often a problem given the lack of local suppliers or difficulties obtaining imports. The second is inadequate **access to credit**, since small business face discrimination by financial institutions, due to the high costs of processing a large number of small loans. Small businesses also lack **access to technology**, which frequently must be imported or implies high costs. They face problems in securing **access to markets**, given their lack of contracts with supplies or due to weaknesses in information on and promotion of their products. Lastly, small businesses also encounter difficulties gaining **access to government agencies**, given their lack of political clout. All of these problems are difficult to remedy if they are approached by the firms in an isolated manner ("Clusters as an Industrial Development Strategy," Banco do Nordeste, Brazil, 1999).

- 2.5 With regard to the supply of nonfinancial services, in Uruguay, there is an extensive supply of certain services for specific segments of business. The services are provided primarily by firms and individual consultants, training institutes (public and private), and institutions and organizations (public and private), which in many cases receive international development financing. Generally speaking, small businesses tend

BOX II-2

INSTITUTIONAL SUPPORT SYSTEM AND BUSINESS MANAGEMENT

- Insufficient supply of business advisory services targeting small and medium-sized businesses, business training, and technical education
- Lack of coordination among the large numbers of agents operating in foreign trade
- Difficulty gaining access to business information systems
- Insufficient services for technological assistance and quality standards
- Little willingness to organize or join business partnerships

1/ The extension centers for small and medium-sized businesses supported by the United States government have found cooperation among firms to be a vehicle that produces positive results in the modernization of such businesses. This arrangement is used for: (i) training and the procurement of services and equipment; (ii) improving services for market opportunities and sector and/or regional assistance.

to use services supplied by institutions, which offer the most guarantees, are lower in cost, and are often subsidized. Private consultants tend to serve businesses with the highest demand - large and medium-sized enterprises. However, the support instruments for small businesses are dispersed among a large number of institutions, which makes it difficult to access and efficiently use them. Moreover, the majority of these institutions are concentrated in Montevideo, further hindering the access of small businesses in the interior of the country to the different services.

- 2.6 The development potential of the small business sector is directly related to the maturity and consolidation of the service infrastructure in the productive sector. Some indicators of maturity are a supply of efficient, versatile financial products, a well diversified system of consulting services, and fluid channels for interconnection with research and training institutes. In the face of the essential need to develop international business, small businesses lack the financial and technical means to resolve the problems arising from facing this process alone. There is therefore a need for an efficient infrastructure of support services for the businesses to adopt and implement appropriate development strategies.

MIF experience and IDB projects

- 2.7 The lessons learned in the execution of other, similar projects financed by the MIF were taken into account in the preparation of the proposed program, specifically, the recommendations made in the document entitled "Access to the Market for Nonfinancial Services: Reflections on Experience Gained and Proposed Actions" (MIF, 1998).

III. PROGRAM OBJECTIVES AND ACTIVITIES

A. Objectives

- 3.1 The principal objective of the program is to help improve the competitiveness of small businesses in Uruguay. In the current context of the globalization of economic activities and, primarily, the consolidation of MERCOSUR, this will be achieved by strengthening the managerial and cooperation capacity of the businesses and their entrepreneurial spirit. The specific objective of the program is to help small businesses gain access to and efficiently use nonfinancial business services designed to improve their productivity and capacity for growth, and execute and promote business association activities to further business cooperation. The program will have a Logical Framework for its activities (Annex I).

B. Activities

3.2 To achieve the established program objectives, a business development center (BDC) will be established in the Manufacturers Association of Uruguay (CIU), 2/ which will carry out the following activities:

- a. **Generate demand among businesses for nonfinancial business services.** This activity implies stimulating greater, more diverse demand for business services and facilitating the selection, use, and supervision of consulting and business development services, by cooperating to improve the supply of qualified services so that the demand generated can be met. The BDC will identify and visit small businesses in the manufacturing sector and related sectors to provide entrepreneurs with an initial evaluation, free-of-charge, on the situation and strategic positioning of their businesses. This evaluation will be conducted according to the methodology established in the Operating Regulations. The BDC will use the initial evaluation to identify demand for advisory services to improve small business management, following the selection criteria also established in the Operating Regulations. The entrepreneurs will be motivated to use the consulting services through cofinancing resources. 3/ Improved management will generate sustained demand for the services. During the program, advisory services will be provided to over 500 businesses in order to resolve specific problems. At the same time, a promotion and marketing campaign will be launched to disseminate the program and to create dynamics between the supply of and demand for nonfinancial business services.
- b. **Stimulate cooperation among firms as a means of improving competitiveness.** 4/ The purpose of this activity is to increase the capacity of small businesses to compete in an open market, by strengthening their strategic management and improving quality through cooperation. Innovative activities will be launched in the country in the form of pilot projects for future development. For this purpose, through the BDC, at least eight business association activities will be carried out, involving no fewer than 120 businesses. The programs will

2/ Establishment of the BDC will be a condition precedent to the first disbursement.

3/ The cofinancing subsidy will be 60% for the first two years of the program, 40% the second year, and 10% the last year.

4/ At the Annual Meeting of the Bank held in Paris in March 1999, emphasis was placed on the importance of joint ventures for small and medium-sized enterprises and on how partnerships are an excellent way of increasing overall competitiveness.

be designed jointly by an international consultant and the BDC and may be of the following types: 5/

- **Programs to strengthen providers.** There is no systematic experience in the country with launching programs structured around large businesses working jointly with suppliers to strengthen the chain of production by improving quality, prices, and delivery capacity, so that they can compete internationally.
- **Sector programs.** These programs will improve productivity and quality through cooperation, by incorporating several levels of the chain, like cluster programs.
- **Internationalization programs.** Their objective is to help the businesses penetrate international markets. They will focus on developing a comprehensive plan for joint ventures with businesses in the region. 6/

c. **Cooperate to strengthen the local supply of business development and consulting services, as well as the network of intermediary institutions in the private business sector.** The BDC will provide referral services to entrepreneurs to meet their needs and will coordinate the supply of services that meet those needs, providing easy access to efficient services, at prices within their means. In addition, a yearly training program will be carried out to train consultants, based on the methodology development by the CIU. It will consist of a 50-hour curriculum covering the following topics: labor system, business organization, production programming and planning, industrial costs, and others. The course will be given to 20-25 consultants each year.

3.3 The BDC will be a clearinghouse for the businesses. It will help the small businesses assess their technical and managerial problems, assist them in engaging technical assistance services, share the cost of those services on a diminishing basis during the program, evaluate the results stemming from the use of those services jointly with the beneficiary businesses, and disseminate

5/ The number of cooperative activities of each type will be determined by demand. For budgeting, it was assumed that three programs to strengthen providers, three sector programs, and two to support the internationalization of businesses would be implemented. Those numbers will be revised on an ongoing basis throughout program execution.

6/ The proposed program clearly differs from the NEX program financed by the MIF. The NEX program focuses on training, whereas the proposed program will be proactive in developing partnerships with foreign businesses.

those results. The BDC will take the initial steps with international consultants, who will conduct the initial evaluations.

IV. PROGRAM EXECUTION

A. Executing agency

- 4.1 The Manufacturers Association of Uruguay (CIU) will be the executing agency of the program. The CIU is the business association that represents the country's manufacturing sector. It was established on November 12, 1898 to promote the interests of Uruguayan manufacturers, protect their rights, and stimulate industrial development in the country. The CIU today has some 1,300 members, with the participation of over 50 trade associations that represent their respective industrial sectors. 7/
- 4.2 The BDC will be structured based on two windows: one in Montevideo at CIU headquarters and the other, which will operate on a pilot basis, in the northern region of the country in the city of Paysandú. The program coordinator will act as manager of the Montevideo window; and a manager working under the supervision of the program coordinator will head the other one.
- 4.3 The program coordinator will be responsible for preparing annual plans, coordinating and supervising BDC activities, as well as standardizing management procedures and promoting the joint use of instruments, methodologies, and experiences between the windows. The manager's specific tasks will include the administration of his window, actively promoting business services for the businesses, structuring the supply of services so that the window can effectively add value to the businesses demanding those services. They must maintain an active attitude in order to boost the demand for services in their respective areas. Both the coordinator 8/ and the manager of the northern window will be selected and hired with the Bank's agreement, based on previously determined terms of reference and selection criteria. The terms of reference will include a clause on performance in which the program managers will agree to ensure that: (i) in the first year of execution the use of cofinancing resources will exceed the cost of the managerial unit and, in the second year, the ratio will be at least 1.5:1.

7/ The institutional features of the CIU are included in the program technical files.

8/ The program coordinator must be hired as a condition precedent to the first disbursement.

- 4.4 The program will have a steering committee composed of the general manager and the two CIU directors. One task of that committee will be to establish the selection criteria for the program coordinator and the manager of the northern window. Its other functions will include organizing the activities and services, setting program fees, and evaluating the program activities and the performance of the managers. The program will be carried out according to the Operating Regulations (in the program technical files). ^{9/}
- 4.5 The terms of reference for the selection and hiring of the coordinator and the draft Operating Regulations have been prepared, as have the terms of reference for the hiring of consultants. A physical space has already been assigned. The Bank continues to support the executing agency in these tasks.

B. Eligibility of program beneficiaries

- 4.6 Small businesses will be eligible for the program through the BDC, as stipulated in subparagraph 3.2(a) of the program Operating Regulations. They must have legal status and a technical, administrative, and financial control structure that will ensure proper use of the resources allocated under the program. Service providers interested in participating in the program must have qualified human resources with the necessary technical expertise, experience, and caliber; be financially solvent; have previously conducted similar work satisfactorily; and not have any conflict of interest.

C. Procurement of goods and consulting services

- 4.7 In keeping with Bank policy, the CIU will follow the rules on proper use of the contribution and the eligibility of goods and the principles of economy and efficiency. The CIU may not add any conditions restricting or preventing the participation of consultants from MIF-eligible countries to the selection procedures agreed upon with the Bank.
- 4.8 In the event that specific consulting services need to be hired, in order to provide information, training, and technical assistance services to the small businesses, the Bank must be informed of the selection and hiring process. However, given their amount, volume, short duration, and the speed with which the selection and hiring are to be executed, the Bank may participate in the consultant selection process for contracts under US\$50,000 by conducting subsequent review. The CIU must make available to the Bank for review the respective background documents.

^{9/} Entry into force of the Operating Regulations will be a condition precedent to the first disbursement.

D. Schedule and disbursements

- 4.9 The execution period will be 48 months, and the disbursement period for the MIF contribution will be 54 months. A revolving fund will be established with 5% of the MIF contribution, based on a duly justified budget of expenses set upon program start up. A detailed schedule of activities is included in the program technical files.

V. COST AND FINANCING

A. Cost

- 5.1 The total cost of the program is US\$2.1 million. MIF financing totals US\$1,266,000 (60% of the total) and the local contribution, which the CIU formally commits to contributing, is US\$834,000 (40% of the total). Table V-1 below summarizes the budget and the sources of financing.
- 5.2 The MIF contribution will be used to finance the: (i) cofinancing incentives to promote the use of technical assistance services and their participation in the business cooperation programs; (ii) honoraria of the program coordinator and the manager of the northern window; (iii) fees of the local and international consultants; and (iv) part of the promotion and marketing campaign.

Table V-1 BUDGET AND SOURCES OF FINANCING (in thousands of US\$)			
Category	MIF	Local contribution	Total
Administration	300	331	631
Strategic advisory services	489	0	489
Business cooperation programs	200	200	400
Technical and operations support (demand and supply)	220	268	488
Evaluation, auditing, and contingencies	57	35	92
TOTAL	1,266	834	2,100
Percentage	60	40	100

B. Sustainability

- 5.3 The program is feasible and sustainable, so long as a significant number of businesses are mobilized to provide demand for services and the BDC acts as an effective instrument to channel services to the businesses. The critical factors for success are the ability to motivate businesses in the initial thrust and channel services under appropriate conditions. Reaching the enterprises (most of which are not members of the CIU) will increase CIU membership and income from

the services, and will help it defray the increase in fixed costs the BDC will entail.

- 5.4 With consolidation of the program and with withdrawal of the MIF, the BDC will charge a fee for its value added in the various activities carried out by the center with entrepreneurs and service providers. The participating enterprises will receive services at market prices.

VI. PROGRAM JUSTIFICATION AND RISKS

- 6.1 **Justification.** The program will make it possible to strengthen the capacity of the small businesses to compete and operate in an open market, through better business management and business association activities that promote that capacity. It combines: (i) broad-based mobilization of businesses ensuring an impact on the business fabric (including a demonstrative effect); and (ii) execution of innovative cooperation programs that can be replicated once they have been evaluated, and that share the goal of improving the productivity and competitiveness of the businesses. Lastly, the program will help strengthen a roster of consultants trained to work with small businesses, duly ranked and evaluated according to the quality of their work, both by the enterprises and by the BDC.
- 6.2 **Risks.** There are three principal risks: (i) a critical mass of demand may not be generated through the mass awareness-raising; to mitigate this risk, the program calls for a professionally-designed promotion campaign to be carried out; (ii) the BDC may not be able to generate an attractive supply of services (gap in the link between the businesses, the BDC, and the consultants); this risk will be offset by hiring specialized consultants and by the training courses to formulate activities to generate that supply; and (iii) the BDC may neglect the target sector, which is small businesses, and instead serve demand from medium-sized and large firms, which are those most able to pay for technical assistance services. This risk will be mitigated through the program's periodic evaluations, which will verify the participation of small businesses by subsector and geographic location.

VII. MONITORING AND EVALUATION

- 7.1 Program execution will be monitored through progress reports to be submitted every six months to the coordinator, the consultant's report, and the financial statements of the program and the executing agency. Two evaluations will be conducted, at month 18 and month 36 of program execution. The reports must review the following aspects: (i) program execution to date, evaluating the level of achievement of the expected results; (ii) assessment of the positive developments

and the problems encountered in execution; (iii) evaluation of the quality of the services, user satisfaction, and the impact on the management of the businesses vis-à-vis the benchmarks set; and (iv) proposals for reprogramming activities for the remainder of the execution period. The evaluations will be conducted by consultants hired by the CIU according to the terms of reference previously agreed upon with the Bank.

VIII. CONDITIONS PRECEDENT TO THE FIRST DISBURSEMENT

- 8.1 As conditions precedent to the first disbursement: (i) the BDC must be established; (ii) the program coordinator must be hired, according to terms of reference agreed upon with the Bank; and (iii) the Operating Regulations must have entered into force.

IX. SOCIAL AND ENVIRONMENTAL CONCERNS

- 9.1 The technical support services for small businesses related to the production process will promote, where appropriate, the adoption of measures designed to offset any adverse environmental impact, stressing the use of loss minimization processes and clean technologies. Occupational health and worker safety will also be addressed. In the program progress reports, the results of the activities carried out with regard to production and the environment must be evaluated.

LOGICAL FRAMEWORK			
	Indicators	Means of Verification	Assumptions
<u>GOAL</u> To contribute to improving the competitiveness of small businesses in an expanded market.	Program completion: — increased productivity in participating businesses — export activity by participating businesses	— Evaluations/surveys — Accounting records and financial statements	— Macroeconomic stability — Consolidation of the regional integration process — Continued support by CIU for BDC
<u>PURPOSE</u> Establishment of a Business Development Center to provide technical support for small businesses to access and efficiently use technical assistance services and to carry out business association activities	Program completion: — Increased investment in training and technical assistance — Increased sales for service providers	— Surveys of small businesses and service providers — Program evaluation	— There is demand for services. — The businesses have funds to pay for the services.
<u>ACTIVITIES</u> a. Generate demand for nonfinancial business services on the part of the businesses. Promote, select, finance, and monitor advisory service projects to improve small business management in terms of productivity and competitiveness b. Stimulate cooperation among firms as an instrument to improve competitiveness. Promote, select, finance, and monitor business cooperation projects to improve productivity and competitiveness c. Cooperate in strengthening the local supply of business development and consulting services and the network of intermediaries in the private business sector	— 500 business evaluations — Promotion campaign — Advisory services for 500 businesses — 8 programs 3 programs for providers 3 sector programs 2 programs for internationalization of businesses (120 businesses) — Number of consultants trained (60)	— Evaluation reports — Progress reports — Annual plan review — Surveys of small businesses — Records — Evaluation reports — Progress reports — Annual plan review — Training evaluation reports	— The small businesses maintain their vitality. — There is increased awareness among small businesses that technical assistance is an investment. — Program to promote and raise awareness of the establishment of groups of enterprises working in partnership — Small businesses express interest in participating in business association activities. — Consultants are interested in participating in the program.

PROPOSED RESOLUTION

URUGUAY. NONREIMBURSABLE TECHNICAL COOPERATION FOR THE CREATION OF AN ENTREPRENEURIAL DEVELOPMENT CENTER

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the Camara de Industrias del Uruguay of Uruguay and to take such additional measures as may be pertinent for the execution of the project memorandum referred to in Document MIF/AT- with respect to a technical cooperation program for the creation of an Entrepreneurial Development Center.

2. That up to the amount of US\$1.266.000, or its equivalent in other convertible currencies, is authorized for the purpose of this resolution, chargeable to the resources of the Small Enterprise Development Facility of the Multilateral Investment Fund.

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