

PROGRAM TO STRENGTHEN THE COMPETITIVENESS OF SMALL AND MEDIUM-SIZED MANUFACTURING BUSINESSES (SMBs) IN VENEZUELA

(TC-96-09-46-5)

EXECUTIVE SUMMARY

EXECUTING AGENCY: Confederación Venezolana de Industriales [Venezuelan Chamber of Industry] (CONINDUSTRIA).

BENEFICIARIES: Small and medium-sized businesses throughout the nation.

FINANCING:	Beneficiary:	US\$ 1,040,980 (36.7%)
	MIF:	US\$ 1,797,090 (63.3%)
	Total:	US\$ 2,838,070 (100.0%)

Estimated revenues from project:	US\$ 685,441
-------------------------------------	--------------

EXECUTION	Execution period:	36 months
TIMETABLE:	Disbursement period:	42 months

ENVIRONMENTAL CLASSIFICATION: From an environmental standpoint, the basic element of this operation is the possibility of permitting the small entrepreneur to familiarize himself with and to apply clean technologies and pollution prevention methodologies. Besides protecting the environment, steps such as these will help to increase efficiency since they will reduce losses in inputs and resources. The aspects of hygiene and worker safety will also be considered in carrying out the project, and will in turn have a favorable effect on the human environment (paragraphs 4.14 to 4.16).

OBJECTIVES: The **general objective** of the program is to strengthen the market workings of non-financial services for small and medium-sized manufacturing businesses (SMBs) in non-traditional industries in Venezuela, defined as units employing from 4 to 99 workers. The **specific objective** is encourage increased demand for technology consulting services by SMBs for use in production and management. To achieve this objective, it will be necessary to organize the supply of specialized consulting services available in the Venezuelan market. Initially, support will be provided mainly to firms in the areas of textiles, including spinning, garment-making, and clothing; chemicals and plastics; and machine tool production. The businesses in these

sectors are located chiefly in the north central part of the country in the departments of Falcón, Yaracuy, Carabobo, Aragua, and Miranda in the metropolitan Caracas area. Preference will also be given to companies that display a capacity and willingness to participate in groups in coordination with other enterprises in their sectors.

DESCRIPTION:

In order to meet these objectives, the project will finance the creation and institutional strengthening of the Central Coordination Unit (CCU) in CONINDUSTRIA, as the executing unit for the project. The project will be divided into four components as follows: Component I: Establishment of the Central Coordination Unit (CCU) in CONINDUSTRIA. Component II: Promotion of the Technical Information and Consultant Referral System (SITRC). Component III: Development and consolidation of a system to promote, train, certify, and provide referrals for consultants. Component IV: Delivery of services for technology transfer and adaptation and for consultant promotion and referral (paragraph 3.8-3.20).

BENEFITS:

Under the project: (i) a supply of technological services will be developed and consolidated under financial costs and terms accessible to SMBs; (ii) a shift in the culture of small and medium-sized firms towards the use of technical consulting will be encouraged to improve productivity; (iii) opportunities will be provided for worker training; and (iv) the linkages between SMBs, technology research centers, and universities will be strengthened.

**PROGRAM
SUSTAINABILITY:**

The financial sustainability of the program depends on the successful creation and strengthening of a market for technology services. Enterprises will be charged for services according to the size of the business and the type of technology project, as well as the expertise and certification of the consultants. Both sets of rates will cover an increasing proportion of costs until they become self-financing by the end of the third year of the program. The rates charged the consultants themselves during the first and second years of the program and the rates that the firms pay will be subsidized in part to encourage the creation and/or development of consulting firms and/or individual experts in technology and participation by universities and institutes in the preparation and execution of technology development projects and to spur the firms to avail themselves of program services. The subsidy will gradually decrease, until

by the end of the period of project execution, it will disappear altogether. If the revenues from the project are not high enough to cover the operating costs after three years of financing from the Multilateral Investment Fund (MIF), CONINDUSTRIA will pay the difference in order to ensure the financial sustainability of the system (paragraph 4.15 to 4.17).

RISKS:

The most significant risk that could adversely affect program execution is the lack of expertise in the Venezuelan market in terms of the supply and demand for these kinds of services. In order to reduce this risk, the project will accord priority to the creation of a critical mass of specialized consultants that is adapted to the special technological needs of SMBs and their financial conditions. At the same time, the project will introduce incentives to encourage demand for these services by these businesses through the use of public relations campaigns and subsidized rates.

**COMPATIBILITY WITH
STRATEGY OF THE
BANK AND MIF
GUIDELINES:**

The project is consistent with the priorities set forth in the strategy of the Bank and MIF for Venezuela to promote greater efficiency and productivity in the private sector. The strategy is geared toward supporting the consolidation of the economic reform process, modernization of the State, and private-sector participation in the savings and investment process. Moreover, the project meets the eligibility criteria of the MIF's Small Enterprise Development Facility (Window III) as established in Chapter V of the document. The program also complements and reinforces the impact of other Bank operations being executed or considered in order to promote small enterprise development in the country.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

CONINDUSTRIA shall demonstrate: (1) **before the first disbursement** and within two months of signature of the agreement, that it has: (a) hired the Program Director and counterpart personnel; (b) signed agreements with a firm in charge of the instruction and specialized training of consultants, in order to commence the corresponding activities; and (c) prepared an action plan for project development during the first 12 months of execution (paragraph 4.22); and (2) **within three months** of the signature of the agreement, that the board of directors has been formed; and (3) **within six months** of the signature of the agreement: (a) that it has prepared at least two subsector studies for each of the four sectors in the geographical areas to be initially

targeted by the project for the purpose of: (i) determining the specific requirements of the SMBs in terms of nonfinancial services and the nature of the services to be offered by the CCU; and (ii) identifying areas of training and specialization for consultants (paragraph 4.22); (b) that it has designed and activated a register of at least 50 experienced consultants and firms able to provide services to the businesses; and (c) the preparation and implementation of the Consultant Certification system as well as the methodology that will be used for these purposes and to monitor the system (paragraphs 4.6 to 4.22). The proceeds of the MIF funding will be disbursed pari passu with the local counterpart funding (paragraph 4.22).

To permit compliance with the conditions precedent to the first disbursement by CONINDUSTRIA, the project budget includes an allocation of up to US\$45,000 for technical assistance to help in the process of hiring the Director, to establish an action plan for project activities in year one, and to organize the call for tenders for hiring the firm in charge of training consultants (paragraph 3.12).

I. ELIGIBILITY

- 1.1 On September 20, 1995, the Donors Committee declared Venezuela eligible for all financing modalities under the MIF.

II. BACKGROUND

A. General Background

- 2.1 The non-traditional industrial sector in Venezuela posted sustained growth until the late 1970s, thanks to an import substitution model based on public expenditures as a catalyst for generating domestic demand. Even though the public sector accounts for approximately two-thirds of GDP, the absence of a critical mass of entrepreneurs is striking, albeit not uncommon in economies where the State engages in significant commercial and manufacturing activities.
- 2.2 The sector includes approximately 23,000 small and medium-sized business (SMBs). Most are situated in the north-central coastal region of the country, with a smaller presence in the state of Bolívar, where the Guayana industrial complex is located. The formal sector of SMBs accounts for approximately 9,000 enterprises that employ roughly 800,000 workers. An additional 15,000, mostly small, informal businesses operate in this market. Two-thirds of the formal enterprises produce consumer goods; 20%, intermediate goods; and the rest, base metals and capital goods.
- 2.3 The average size of a company has remained unchanged over the last 20 years. Two-thirds (6,000) of the formal enterprises in the manufacturing sector are small, with between 5 and 20 employees; another 1,700 (almost one-fifth) have between 21 and 49 employees; another 500 enterprises, medium-sized, have between 50 and 99 employees, and 800 are considered large and employ over 100 workers. More than 85% of all enterprises in the sector have fewer than 50 employees on the payroll, an indicator comparable with Chile's and above that of Colombia. SMBs employ 45% of the labor force and large enterprises, the remaining 55%.
- 2.4 Most SMBs are one-man operations, that do not integrate their production and marketing with other companies. As a result, competitiveness in the market depends not only on individual performance of the enterprise at each stage of the production process, but the performance of all the other participants in the system to which the business belongs, as well as on maintaining good relationships with suppliers of inputs and raw materials and with partners, customers, and competitors.

B. Constraints on the development of SMBs

- 2.5 The main constraints on greater productivity in these businesses arise from the model of growth that has prevailed over the past 30 years whereby the State promoted policies of price controls, wide-ranging subsidies, and a protectionist stance toward international trade. The effects of these policies are reflected in an irrelevant management function, little technological innovation, a rigid production process, an absence of linkages between enterprises of different sizes, elevated production and distribution costs, weaknesses in the planning and production programming, an absence of marketing strategies, and poor communications with research and technical assistance centers. The 1993 "Study on the technological capacity of Venezuelan manufacturing" conducted by the Graduate School of Management (IESA) found that 70% of the SMBs considered in the study were subject to most of the above constraints.
- 2.6 Moreover, SMB lack the financial resources needed to contract technological advisory services at market rates. The arrangements for government credits to these enterprises are not structured in a coherent system. The only institution that funds these kinds of services is the Fondo de Crédito Industrial [Industrial Credit Fund] (FONCREI), which does not have the resources to meet the demand of enterprises even if they meet the terms of the loans. In addition, private financial institutions do not customarily grant loans for consulting services.

C. The market for technology services

a. Availability of technology services

- 2.7 A consulting sector that would act as an agent of technological transformation in support of SMBs has not been developed in the country. Consulting services available in Venezuela essentially address the needs of large firms, whose problems are unlike those of small and medium-size businesses. Opinion polls have indicated that should only 5% of the existing SMBs (about 1,000) attempt to boost their operational competitiveness by contracting some sort of technology consulting service, there would not be a sufficient supply of such services in the local market to meet the demand.
- 2.8 There are some institutions that provide guidance and management training to enterprises, but their approaches and methodologies are generally traditional ones and have not been updated for the current role of SMBs. The Centro de Calidad y Productividad a las Pequeñas y Mediana Industria [Center for Quality and Productivity in Small and Medium-sized Industries] (CECAMPI) provides technical consulting services in support of this sector in the states of Carabobo and Aragua. FIM-PRODUCTIVIDAD is an institution that has amassed broad experience over the past 15 years in the design, implementation, and documentation of integrated assistance for

small and medium-sized enterprises, providing advice in areas such as total quality control and productivity. This firm has also designed and taught many training courses for consultants and managers, using the total quality and productivity focus, in Venezuela, the Andean subregion, and the Caribbean.

b. Demand for technological services

- 2.9 Potential demand for technological services exists but does not make itself felt in the SMB market, according to CONINDUSTRIA. The almost total inability of Venezuelan entrepreneurs to identify their own needs and convert them into specific requirements is attributed to several factors, including: the international isolation that has been a feature of the non-traditional industrial sector in Venezuela, protectionist industrialization policies that have discouraged attempts at greater productivity and efficiency, entrepreneurs' misconception about the supply of technological services available on technical and financial conditions that are accessible to small and medium-sized enterprises; and a long-standing lack of coordination between the productive sector and universities and technology training centers. An evident lack of structured demand for services is another reason for the scant development of technological consulting services in the country.

D. The government's strategy

- 2.10 Since mid-1996 conditions have been ripe to stimulate the changes in productivity that the private sector requires. This was demonstrated in January 1997 with the creation of the Ministry of Industry and Commerce (MIC), which is conducting a review of the structures of industrial policy-making and development as set forth in the directives of the Second Venezuela Agenda. In this context, emphasis is laid on the roles of the private sector and the restructuring of the production process in the transformation to a market economy. The MIC is conducting studies on the design of policies that encourage the creation of production chains, with special participation by SMBs.

III. OBJECTIVES AND DESCRIPTION OF THE PROJECT

A. Objectives

- 3.1 The **general objective** of the program is to strengthen the market workings of non-financial services for small and medium-sized manufacturing businesses (SMBs) in non-traditional industries in Venezuela, defined as units employing from 4 to 99 workers. The **specific objective** is encourage increased demand for technology consulting services by SMBs for use in production and management. To achieve this objective, it will be necessary to organize the

supply of specialized consulting services available in the Venezuelan market. Initially, support will be provided mainly to firms in the areas of textiles, including spinning, garment-making, and clothing; chemicals and plastics; and machine tool production. The businesses in these sectors are located chiefly in the north central part of the country in the departments of Falcón, Yaracuy, Carabobo, Aragua, and Miranda, and the Federal District where metropolitan Caracas is found. Preference will also be given to businesses that display a capacity and willingness to participate in groups in coordination with other enterprises in their sectors.

B. Conceptualization and justification

- 3.2 Manufacturing SMBs need to transform and modernize their systems of management, administration, and production in order to compete in the new environment of price and market liberalization. On these conditions, their opportunities for development depend on the creation of competitive advantages, which are a function of incorporating technological know-how into the management and production process.
- 3.3 It is more difficult for these enterprises to increase productivity than it is for larger firms, because SMBs are affected more adversely by the lack of business services, especially information and advisory services in new management, administration, and production processes. Any technological services that do exist are not suited to needs of this sector or its financial situation, and are thus not available. These drawbacks curb the growth potential of the enterprises by making it difficult to reduce the gap in productivity that separates them from medium-sized and large firms. They also adversely affect the productive structure of the sector by reducing their relative importance in the overall scope of industries.
- 3.4 The project constitutes the response of the SMBs to the structural weaknesses in factor and business services markets in Venezuela. Following the results of a preliminary assessment of similar operations, sponsored by the MIF, the project has been designed: (i) to take advantage of economies of specialization with an initial focus on the few industrial sectors with growth potential in defined geographical areas; (ii) to undertake the institutional strengthening of the project executing agency so that it will have the technical resources needed for project execution; and (iii) to ensure that project activities are demand driven. This operation includes, for the first time a component geared to strengthening the supply of technological consulting services available to the SMBs, particularly in the training, specialization, and certification of consultants. This approach can contribute to a pilot project that offsets the structural deficiencies in the non-financial services market in Venezuela, helping to strengthen the market in the medium term.

- 3.5 The overall goal of the program is to permit the training, rating, and certification of a total of 480 consultants over the three years of program execution and to provide specialized technological consulting services to at least 1,000 SMBs. It is anticipated that the project will have created a technological consulting capacity that will continue to provide services to enterprises in other industrial sectors once the project is completed.
- 3.6 This endeavor is a pilot project; it is geared to a limited number of small and medium-sized manufacturing businesses in sectors with the greatest potential for economic growth (textiles, chemicals, plastics, and machine tools) mainly in north-central Venezuela. Furthermore, the project will benefit the enterprises that demonstrate the ability and willingness to form associations with other firms involved in production and marketing.
- 3.7 Subsidies will help to support the prices charged for consultant training and specialization in year one of the project as well as the fees paid by the businesses for the consulting services they receive. The cost of training the consultants and rates charged for service will need to be high enough to cover the cost of the service provided and a 10% return on investment. This will encourage the creation and/or development of consulting firms and/or individual experts in technology and the participation of universities and institutes in the preparation and execution of technology development projects. It will also stimulate interest among enterprises in using program services. The subsidy will be decreased, and finally reduced to zero by the end of year three of the project. Service will be provided at the going market rate commencing in year four.

C. Components and activities

1. Component I: Establishment of the Central Coordinating Unit (CCU) in CONINDUSTRIA
- 3.8 The following activities will be conducted: (i) establishment and start up of the Central Coordinating Unit (CCU) in CONINDUSTRIA; (ii) initiation of training of CCU professional personnel (iii) preparation of an action plan for project development; (iv) preparation of subsector studies on the sectors and geographical areas to be targeted by the project; (v) negotiation and signature of agreements with business associations in different sectors and regions affiliated with CONINDUSTRIA in order to extend program activities to the rest of the nation; (vi) drafting and signing of agreements with suppliers of information technology (CONICIT), the Bolívar Program, and other specialized institutions in these areas; and (vii) design and use of a consultant roster; and (viii) design and operation of a consultant certification system (paragraphs 4.4 and 4.6).

2. Component II: Promotion of the Technical Information and Consultant Referral System (SITRC)

- 3.9 The CCU will coordinate the activities to sensitize the entrepreneurs and consultants to the need to move towards a culture of technological innovation and the consequent use of services that will be supported by the program. To this end, an advertising agency enjoying local recognition and prestige will be contracted.

3. Component III: Development and consolidation of a system of consultant promotion, training, certification, and referral

- 3.10 The CCU will need to be associated with a specialized firm having international experience in order to carry out project activities and to ensure security in the transfer of updated expertise and experience to improve and enhance the supply of consulting services available in the domestic market. The consulting firm may be a technology institute, business school, etc. and will be responsible for the training and specialization of the consultants. The firm will develop and execute the training and education programs. It will organize, consolidate, and operate a consultant promotion and referral system, with a data base on individual experts, consulting firms, academic institutions, and non-profit organizations which will be available for use by small and medium-sized enterprises. It will also offer alternative consultants for listing on the CCU consultant roster, and will develop and put into practice methodologies for the assessment and monitoring of the works contracted to the consultants, encourage the exchange of experiences and knowledge among consultants, and promote consulting services through meetings and information on how it has been successful.
- 3.11 The program provides for a subsidy amounting to 40% of the cost of the training and specialization courses and programs for the consultant training and specialization in order to stimulate demand for this service in year one of the project (US\$62,974) and to 20% of the costs in year two (US\$39,069). The total cost of courses and seminars, and other consultant training and specialization activities is put at US\$574,280, including a 15% profit for the firm selected. The program includes activities such as basic integrated training, subsequent training improvement, and the exchange of experiences in order to raise the technical level of the consultants and the quality of the services offered to SMBs, as well as to consolidate and organize the consulting services provided to businesses. Three 440-hour training courses will be offered for 60 consultants over the three years of the project (one each year for 20 participants); seven 16-hour seminars and events will be offered to exchange experiences for 490 consultants over three years, for a maximum of 70 consultants per year; seven 8-hour seminars and events for consultants will take place to share information and discuss successful instances of technology assistance for 490 consultants over three years, also of 8 hours

duration each, for a minimum of 70 consultants per year. Nine 24-hour refresher and professional development courses will be held for 270 consultants over the three years of the project, for a minimum of 30 consultants a year. As well, the total cost of the consultant training activities includes the cost of establishing and operating a list of consultants receiving specialized training from the consulting firm which will be different from the roster established and updated on a regular basis by the CONINDUSTRIA CCU. The program budget set a figure of US\$170,000 for consultants training for the firm with the winning bid. This figure includes (a) the resources earmarked for financing the subsidy fund (US\$102,000), (b) the cost of administering the subsidies (US\$8,000), and (c) one half of the costs of disseminating information on and promoting the benefits of the subsidy system for organizing and strengthening the technology consulting market for the SMBs with a maximum of US\$10,000, and the sum of US\$50,000 to permit the firm in charge of providing training and specialization to consultants to pay for the services provided by the specialized firm with international experience (see paragraph 3.10), with which a relationship should be established for bidding on the project.

- 3.12 The proceeds of the project will also be used to finance the technical assistance provided by the CCU/CONINDUSTRIA in an amount of up to US\$30,000 to help it draw up the criteria for the design, establishment, and workings of the consultant certification system. A maximum of US\$30,000 will be authorized for the activities of selecting the Program Director, preparing the action plan for year one of the program, and preparing the terms of reference for the tender procedures for selecting the firm in charge of consultant training and specialization. It will also be used to hire a second firm to provide support to CONINDUSTRIA in the selection itself of the firm, in order to ensure a quality process that is transparent (US\$15,000). The consulting services must be provided to CONINDUSTRIA by a consultant or consulting firm that has an arm's length relationship with CONINDUSTRIA, that is unable to take part in the bidding for the consulting firm providing specialized training to consultants, and that has no ties of any kind with any of the firms participating in the bidding. These resources will be made available to CONINDUSTRIA before compliance with the conditions precedent to the first disbursement, so that these conditions can be fulfilled more easily.
- 3.13 The bidding procedures for the selection of the firm responsible for consultant training and specialization will be prepared and implemented with the support of a consultant hired in accordance with IDB policy and will need to contain the following elements: (i) the Bank's procedures for the competitive bidding process; (ii) a clear definition of commitments as to maintaining the quality and number of courses; (iii) be associated with a specialized firm having international experience; (iv) a commitment by the firm with the winning bid to keep course fees from varying and to set out clearly the mechanism used to calculate any

adjustments that do occur, for a period of at least five years after completion of the course; and (v) maintain in operation a system to disseminate information on the courses and a transparent mechanism for granting the subsidies.

4. Component IV: Provision of services for technology transfer and adaptation and consultant promotion

- 3.14 The CCU will be responsible for delivering specialized technological services to the SMBs, which will be charged fees set according to the production costs of the services and market prices, with a subsidy to stimulate demand for technological assistance and a willingness to innovate on the part of the entrepreneurs. This subsidy will be modest and will decrease over time, being reduced to zero by the end of year three of the program. Project services will not be limited to entrepreneurs associated with CONINDUSTRIA; rather, all enterprises that request assistance will receive it, even larger businesses, although the latter will not benefit from subsidized rates.
- 3.15 The program provides for technical assistance for businesses, with support for associations or groups of businesses that share common problems and are willing to receive assistance as a group. The service will be geared to providing assistance to individual businesses and groups of at least five small and medium-sized firms. With the groups, joint activities and actions will be promoted to address specific problems such as procurement of machinery and equipment, raw materials, etc. and the identification and development of export targets for specific products and markets, including the logistics and development of new products and processes. Assistance will be provided to businesses through the formation of about 11 associations during the three years of the program.
- 3.16 Joint activities carried out as group activities does not involve the creation of a legal and management unit outside the company. It means that an advisor will be available to support, facilitate, and offer technical expertise to help attain the target set. Accordingly, the group's success will depend on the actions prescribed being fully performed by the members.
- 3.17 For purposes of organizing and determining more precisely the nonfinancial services to be provided by the CCU as well as the areas of training and specialization for the consultants, CONINDUSTRIA will prepare, within six months of the date on which the agreement is signed with the Bank, at least two subsector studies for each of the four sectors in the geographical areas to be initially targeted by the project. These studies will include those subsectors most representative of the SMBs in the project area and will be carried out on the basis of surveys and direct contacts with businessmen and/or business associations. Up to US\$40,000, to be drawn on the project resources, will be made

available to the CCU to finance these studies. These studies will be coordinated by the Program Director.

a. Technology information services

- 3.18 The CCU will match the demand of the businesses for technological assistance with the specialized supply of individual consultants and consulting firms available in the national market. To this end, it will offer technology information services, specific assistance, and will provide referrals so experts and consultants can make the initial contact with firms requesting consulting assistance. In this process the CCU will provide the entrepreneurs with technological information on technical standards, industrial processes, and state-of-the-art technologies, as well as profiles on investments, machinery, equipment, materials, designs, etc. The system will be organized on the basis of information acquired, collected, classified, and processed by the CCU and under agreements that allow access to existing data bases and information systems. 1/ The program calculates that the CCU will facilitate some 1,450 consultations over the three years of the program, spread out as follows: 50 in the first year, 400 in the second, and 1,000 in the third.

b. Technological assistance and diagnostic services to businesses

- 3.19 When the complexity of the entrepreneurial problem so warrants, the CCU will be able to organize and coordinate consulting projects (on an individual or group basis) for the enterprises, consisting of integrated diagnostics and assistance and include responses to problems involving technological problems and the adaptation and transfer of technology. These projects may be executed by either individual consultants and/or consulting firms. Some 150 diagnostic and technological assistance efforts have been programmed for the three-year program.

1/ The agreements will be entered into with national institutions such as the Consejo Nacional de Investigación Científica y Tecnológica [National Council for Scientific and Technological Research] (CONICYT), Servicio Autónomo del Registro de la Propiedad Industrial [Independent Industrial Property Registration Service] (SARPI), Comisión Venezolana de Normas Industriales [Venezuelan Industrial Standards Commission] (COVENIN), universities; and international organizations such as the United Nations Industrial Development Organization (UNIDO), the United Nations Conference on Trade and Development (UNCTAD), the Junta del Acuerdo de Cartagena [Cartagena Agreement Commission] (JUNAC), the World Intellectual Property Organization (WIPO); and enterprises devoted to providing information services. In addition, CCU will provide services to search and access information on the INTERNET and for training in INTERNET use.

c. Financial consulting service

- 3.20 The project provides for technological assistance to the enterprises in order to help them raise resources in the financial market to fund activities to incorporate new technology. The service will be limited to identifying the financing available, informing interested enterprises, and assisting them with the requirements and demands that need to be met in order to obtain financing. In this endeavor, the CCU should use recognized consultants in the field who have received specialized training under the project. Moreover, to facilitate this task, the CCU will heighten awareness among the financial institutions of the need to provide funding for innovative technology in the SMBs.

D. Project demand

a. Demand for technology assistance services by SMBs

- 3.21 Potential demand for the project is estimated to exist among 2,500 businesses, or 10% of existing firms; while effective demand in the first three years of project execution is estimated to exist among 1,000 enterprises.
- 3.22 Initially, the CCU will provide support mainly for SMBs in the areas of textiles, including garment making and clothing; chemicals and plastics; metal working, including metal goods, machinery, and electrical equipment; and transport equipment in the north central part of the country where the metropolitan Caracas area is found. There are 2,930 SMBs in these sectors at the national level. Of this number 2,625 businesses or 85% of the total are active in the sectors and areas targeted by the project. The areas showing the greatest concentration of SMBs are machine tool production firms (1,182 firms or 85% of the national total); textiles and garment-making with 909 businesses, or 96% of the total; and plastics which accounts for 317 firms, or 97% of the national total.

b. Demand for consultants's training and specialization

- 3.23 Assuming that each consultant can provide an average of 1,000 hours of service a year to the companies, demand for technological assistance is estimated at some 300 consultants over the first three years of the project. Assuming, also, that there are between 100 and 150 consultants who can provide between 100,000 and 150,000 hours of service per year currently available in the market, there will be a deficit of approximately 200 consultants. Under the project some 60 new consultants will be trained and with the different activities - retraining, ongoing education, and specialization for professionals currently in large enterprises who are interested in adapting to the requirements of SMBs, it is estimated that the project will contribute to the skills upgrading of a total of 480 professionals over three years.

IV. ORGANIZATION AND EXECUTION

A. Executing agency

- 4.1 The program will be executed by CONINDUSTRIA, which will act as the Bank's local counterpart through the Central Coordinating Unit (CCU) established in Caracas. In order to reach the different areas of Caracas where technological consulting services are concentrated, the CCU will coordinate its activities with the chambers in the sectors and regions of CONINDUSTRIA in the selected localities in order to launch the program. CONINDUSTRIA is the largest association of unions, in the Venezuelan industrial sector, with 3,664 members in 1997, representing approximately 87% of industrial production of the country and 40% of the established industrial concerns.
- 4.2 CONINDUSTRIA has the necessary technical and administrative capacity to execute the proposed program. It has a staff of 20 employees, of whom nine are professionals. However, the size of its staff does not reflect the activities performed, because the main services performed are subcontracted. The annual budget of expenditures for 1997 was US\$570,000. The institution has the capacity to work in a decentralized manner since its affiliated chambers act as executing branches throughout the country for the services it provides to its members. Service centers are scheduled to open for the project execution to assist regional and sector business associations in order to make access to services viable with the support of the Bolívar Program.

B. Execution mechanism

1. Central Coordinating Unit

- 4.3 On October 8, 1997, CONINDUSTRIA created the CCU as a private, non-profit entity within its organization in order to facilitate program execution. The CCU has the capability of generating, collecting, and managing resources that will ensure its financial sustainability and permanent development.
- 4.4 In order to perform its activities, the CCU will: (a) promote and disseminate information on the project objectives and services through an advertising agency; (b) provide guidance and specific technology consulting services to enterprises; (c) control and monitor the execution of technology projects executed by individual consultants and/or consulting firms; (d) encourage firms to form associations and groups; (e) offer consultant options to enterprises that request them, providing a short list of individual consultants and consulting firms that are capable of providing services to the SMBs; (f) manage MIF resources; (g) design and introduce a roster of consultants and firms with experience in

providing consulting services to enterprises; and (h) establish and coordinate a consultant certification system.

- 4.5 The consultants roster will be created through a competitive bidding in which consultants will be invited to enroll. The results of the training and specialization courses offered by the specialized firm and consulting services provided to companies under the project will be used to expand the number of consultants in the register as well as the information on their activities. This roster will be required to contain basic information on the professional experience and academic background of the consultants.
- 4.6 The data base used to create and update the consultants' roster will contain the necessary inputs for creating and maintaining the consultant certification system. The consultants' certification activities will be related to the experience and studies and the effectiveness of the work performed by the consultants. The certification system will be applied by a Supervisory Committee. The Committee will have three members, recognized as leaders in the area of small and medium-sized businesses. They may be an academic, a business leader, or a representative from the area of the public sector concerned, the Ministry of Industry and Trade, say. The certification system, the methodology that will be used for this purpose, and the monitoring of the system will be determined within the first six months of the project, and approved by the IDB. Plans call for project resources to be used to finance technical assistance to support CONINDUSTRIA with the design and implementation of the certification system. A maximum of US\$30,000 will be earmarked for this purpose.
- 4.7 CONINDUSTRIA will sign a service contract with a firm, technology institute, or business school, with the winning bid, that will be responsible for the training and specialization of consultants selected through a bidding competition in furtherance of the activities planned, for Component III of the program. It will also enter into a cooperation agreement with the Bolívar program to facilitate access by project beneficiaries to the network of linkages set up under the Program in order to maximize national and international opportunities in trade, finance, technology identification and transfer, and the opening up of new markets.
- 4.8 The Bolívar Program is an international cooperative effort that promotes the creation of businesses with the participation by enterprises and institutions for science and technology development in participating countries. It is supported by the IDB and has set up National Liaison Offices (ONES) in 20 Latin American countries in addition to those existing in the United States and France and the referral centers in Europe and on other continents. This relationship with the Bolívar Program will also help to obtain the participation of consultants and experts where the Bolívar Program operates, especially with entrepreneurial training and the dissemination of technological applications. The program will sign

a letter of cooperation with the Ministry of Industry and Commerce (MIC) in order to coordinate efforts to meet the project objectives.

- 4.9 To obtain access by program services to the areas established, the CCU will enter into agreements with the businesses associations in the sectors and regions of CONINDUSTRIA in order to ensure that there will be service centers or "access points" in all areas with significant user potential. A major part of this activity will involve the accommodation of the chambers of commerce, so that they can channel the demand for services. It will be necessary to train technical personnel so that the SMBs can use the chambers as access points to the program and be assured of quality service. Thus, it will be necessary to set up mechanisms that afford ongoing contact between the CCU and the units established in the chambers of commerce.
- 4.10 The CCU will be run by a **Program Director** who will be assisted by two industrial engineers and/or economists with expertise in small and medium-sized firms to act as agents for cultural change among the entrepreneurs in the use of technological innovation. The CCU staff will be rounded out by: a full-time assistant-economist with special expertise in SMBs, in business associations, and statistics; an executive secretary, and a messenger. An accountant from the permanent staff of CONINDUSTRIA will work part-time. The CCU will have the support of a **board of directors** which will set out the strategic guidelines for CCU activities and will be comprised of the President of CONINDUSTRIA or an individual designated by the latter, the Project Director, a representative from the MIC, an individual from the firm responsible for consultant training, and a representative from the Bolívar Program.
- 4.11 Should the CCU activities warrant it, full-time staff could be expanded to include the kinds of professionals that are most in demand. In that event, up to the equivalent of 30% of the proceeds from the sale of services could be earmarked for expanding the CCU professional staff. The Director should be hired before any of the other CCU staff. CONINDUSTRIA will hire the permanent CCU staff and the professional and secretarial support staff available for the program.

C. Environmental feasibility

- 4.12 At its meeting on December 5, 1997, the Environmental Management Committee reviewed this operation. From the environmental standpoint, the fundamental element is the possibility that small entrepreneurs will have to become informed about and to apply clean technologies and methodologies to prevent contamination. In addition to protecting the environment, these measures also contribute to raising efficiency through reductions in the loss of inputs and resources. The areas of worker health and safety will

also be considered in the execution of the project, thereby making a positive impact on the human environment.

- 4.13 Component II (promotion of the technical information and consultant referral system) and Component III (development and consolidation of a system for consultant promotion, training, certification, and referrals), will make it possible to create and maintain in Venezuela a group of consultants and consulting firms capable of guiding industries in aspects of environmental protection and the use of the ISO 14,000 as a tool in areas such as environmental management and industrial health and safety.
- 4.14 Component IV (provision of services for technology transfer and adaptation and consultant promotion) is programmed to link CONINDUSTRIA to the International Cleaner Production Information Clearinghouse (ICPIC) of UNIDO/UNEP and other national and international centers that have information available on clean technologies. It is anticipated that the enterprises will recognize the benefits of using clean technologies and the savings in resources resulting from the use of systems that require fewer inputs.

D. Financial sustainability

- 4.15 The financial sustainability of the program is based on the success that is achieved in the first three years of project execution in creating and strengthening the supply of technological services available to SMBs and the extent to which the SMBs follow through on using the services. The program was designed on the assumption that CCU revenues from the fees charged the enterprises for the services they use will allow CCU operations to pay for themselves by the fourth year of project execution. Should the revenues generated by the project be less than the cost of operations after three years of MIF financing, CONINDUSTRIA will cover the difference in order to ensure the financial sustainability of the system.
- 4.16 Services provided to the SMBs over the first three years will receive declining levels of subsidies through a discount on the fees charged for services. On average, the subsidies will amount to 60% of the cost of services programmed for the first year, 50% of the cost of services for the second year, and 40% of the cost for the third year. Given that these figures are the averages for the years in question, the individual subsidies granted for each project or group of projects will be set by the Program Director in coordination with the board of directors. In allocating subsidies, consideration will need to be given to at least the following criteria: (i) the technical aspects of the projects and their economic feasibility, (ii) the innovative nature of these projects, (iii) the commitment made by the business submitting the bid on the basis of the monetary contribution that it is prepared to provide, (iv) the possibility of replicating the experience in other

businesses, and (v) the impact on the number of beneficiary businesses. During the program, amounts allocated as subsidies for one service can be shifted to another when it is seen that such a transfer would benefit project development. Commencing in year four, services will be provided at rates reflecting market prices.

- 4.17 The estimated revenues generated from the sale of CCU services (US\$685,441) will be recorded in a profit and loss account as they are received. As much as 20% of the revenues (US\$137,100) will be placed in a reserve fund. A maximum of US\$144,000 will be used to finance one-third of the costs of fees for CCU professionals; a maximum of US\$205,630 will go toward the salaries of additional professional staff working on the project; and the remaining US\$198,711 will be used to defray the subsidies on project activities.

E. Schedule of activities calendar

- 4.18 Execution of the program is anticipated to take 36 months from the signing of the agreement. As a condition precedent to disbursement, CONINDUSTRIA will present to the Bank an action plan for project development during the first 12 months of execution.

F. Project cost and financing

- 4.19 The total cost of the program is US\$2,838,070; the MIF will provide US\$1,797,090, or 63.3% of the total, with the local counterpart covering the remainder. The project revenues from the sale of services will amount to US\$685,441 in the first three years of project execution. A summary budget is presented below, with a classification of the categories to be financed by the MIF and the local counterpart.
- 4.20 The MIF will finance in their entirety: (a) the selection and training of CCU personnel, (b) training for consultants, (c) contingencies; (d) travel costs and per diems; (e) the external evaluation, (f) the Technology Services Fund; (g) advisory assistance for establishing the executing unit. It will also provide part of the financing for: (a) the purchase of computer equipment and software for the CCU; (b) the initial publicity campaign to promote these services; (c) the salaries of CCU professional staff assigned to the program; and (d) the purchase of technology and information on the consultants.
- 4.21 Local counterpart resources will be used to finance in their entirety: (a) the physical facilities for the offices (rent, furniture, and communications); (b) annual audits of the financial statements of the program; (c) support staff; and (d) the expenses of the 15 chambers of commerce in the national access network. They will also provide part of the financing for the remaining activities. Project revenues will be used to finance a portion of the fees of CCU professional staff and the subsidies on the costs

of the services provided under the program. Also, CONINDUSTRIA will provide the general support required for the operation, the electronic connections for information access, office supplies, local transportation, per diems, communications, and publications.

G. Disbursements

- 4.22 The Bank funds will be disbursed according to standard procedures and the following special contractual conditions: CONINDUSTRIA shall demonstrate: (1) **prior to the first disbursement** and within two months of signature of the agreement that: (a) the Program Director and the counterpart personnel have been hired; (b) the agreements have been signed with the firm responsible for providing training and specialization to consultants; and (c) an action plan has been prepared to carry out the project during the first 12 months of the project (paragraphs 4.20 and 4.24); (2) **within three months** of signature of the agreement, CONINDUSTRIA shall demonstrate to the Bank that the board of directors has been formed; and (3) **within six months** of signature of the agreement, that: (a) that it has prepared subsector studies for the sectors and geographical areas in which the project is to concentrate, for the purpose of: (i) determining the specific requirements of the SMBs in terms of nonfinancial services as well as the nature of the services to be offered by the CCU; and (ii) identifying the areas of training and specialization for consultants; (b) that it has designed and activated a register of at least 50 experienced consultants and firms to begin providing services to businesses; and (c) that it prepared and introduced a consultant certification system as well as the methodology that will be used for these purposes and to monitor the system. The proceeds of the MIF funding will be disbursed *pari passu* with the local counterpart funding.
- 4.23 At the request of CONINDUSTRIA, a revolving fund will be established for a maximum of 5% of the MIF contribution to be replenished regularly upon presentation by the beneficiary of disbursement requests duly documented and justified. The establishment of the FUND will be subject to CONINDUSTRIA's fulfillment of the conditions established for the first disbursement.

BUDGET SUMMARY

FINANCING MODALITY	MIF	LOCAL SUPPORT	TOTAL
Individual consultants (cost of hiring firm for training available supply of consultants)	170,000		170,000
Other consultants	115,000		115,000
Staff fees	288,000	404,862	692,862
Personnel recruitment and training	100,000		100,000
Travel and per diems	45,000		45,000
General support		300,942	300,942
Premises		146,146	146,146
Furniture		25,000	25,000
Computer equipment	17,200	57,430	74,630
Software	2,800		2,800
Teaching materials and others		76,600	76,600
Technology Services Fund	759,090		759,090
Advertising campaign and promotion	70,000	30,000	100,000
External evaluation	30,000		30,000
Contingencies	200,000		200,000
TOTAL	1,797,090	1,040,980	2,838,070

H. Recruitment and hiring of consulting services

- 4.24 The contracting of consulting services undertaken by the SMBs participating in the program, given that they are private sector entities, will follow procedures that adhere to the policy on the appropriate use of the technical-cooperation funding, nationality eligibility, the eligibility of the services, and compliance with the rule of economy and efficiency. 2/ The contracting of the firms responsible for the consultant training and certification, the advertising campaign, and the other program activities will be conducted through a competitive bidding process. The selection criteria for these firms will be determined by the Project Director in collaboration with specialized consultants. The firm or institution winning the competitive bidding must demonstrate: experience in the SMB sector, commitment to providing similar services for a prudent period of time once project financing with MIF resources is finalized, and a willingness to provide resources for the program.

2/ IDB basic procurement policies and procedures; private sector procurement rules.

I. Follow-up and progress reports

- 4.25 The executing agency through the Program Director will prepare three progress reports during project execution. These reports will be discussed with staff from the IDB Country Office in Venezuela and with the Project Team at Headquarters at meetings in Caracas, to be attended by consultants and by staff of CONINDUSTRIA and other institutions providing services set forth under the project. The first report will be presented at the end of the first six months after the first disbursement; the second, mid-way through execution; and the third, at the conclusion thereof.
- 4.26 The first of the reports will review the effectiveness of the program and staff recruitment, contracting, and training. The second and third reports will also focus on fulfillment of the specific objectives of the action plan prepared by CONINDUSTRIA and on meeting the mid-term targets of the project. These reports should note the effects of program activities on the environment. In addition, all the reports should include an assessment of the number of SMBs served as a proportion of the total number of enterprises benefiting by the program. The SMBs must represent more than half of the enterprises that used the program during its execution. In addition, each report should propose modifications deemed necessary in any of the programs in order to ensure fulfillment of the respective objectives and targets. These modifications should be approved by the Project Team in coordination with the office of the MIF.
- 4.27 Because this endeavor is a pilot project and is experimental in nature, the services of an international consultant will be financed by the MIF so that an external evaluation of program operations and the fulfillment of its objectives can be conducted. This assessment will be conducted mid-way through the project and (ex post) upon its conclusion. The assessment will be conducted in coordination with the progress reports drafted by the General Coordinator and analyzed and discussed by the Project Team, the Bank's Country Office in Venezuela, and CCU officials.

V. COMPLIANCE WITH ELIGIBILITY CRITERIA

- 5.1 Venezuela was declared eligible by the Donors Committee for all MIF financing modalities and was found to satisfy the requirements for nonreimbursable funding at the country level. Moreover, the recommendation that the MIF financing be granted as nonreimbursable funding, under Window III, is justified by the fact that the following operational priorities have been fulfilled: (i) the project seeks to strengthen the efficiency, competitiveness, and vitality of the non-financial intermediaries that provide services

to the SMBs; (ii) it promotes technical assistance and entrepreneurial extension services for SMBs in such areas as market information, technology, and management; and (iii) it promotes and stimulates cooperation with SMBs in light of local realities as well as regional, and supranational conditions of present economic trends.

**PROGRAM TO STRENGTHEN THE COMPETITIVENESS OF SMALL
AND MEDIUM-SIZED MANUFACTURING BUSINESSES (SMBs) IN VENEZUELA**

(TC-96-09-46-5)

LOGICAL FRAMEWORK

SUMMARY OF OBJECTIVES	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
OBJECTIVE			
Access to services market for SMBs in nontraditional sectors	Percentage of growth in the value of production from participating SMBs. Percentage of growth in the value of exports from participating SMBs. Financial statements of the SMBs.	Industrial production and foreign trade statistics of Central Bank of Venezuela and/or the Central Office of Statistics and Information (OCEI)	Access of SMBs to appropriate financial instruments. Political and economic stability. Public and private support for SMBs maintained.
OBJECTIVE			
Consulting services organized and especially those associated with chains and of those that have capacity and willingness to work with other businesses in the sector.	Number of trained consultants providing service on a regular basis. 60 consultants trained, 225 consultants with specialization, and 480 consultants certified. 1,000 SMBs involved that will use project services. 11 groups formed.	Progress reports prepared by Project Director and external evaluation reports on project execution.	Sufficient number of good professionals interested in devoting themselves to the project. Availability of instructors and facilities for courses and activities. Effective response from the SMBs. Interest in participating in chains and networks.
Establishment of the CCU in the area	CCU established and functioning two months after agreement is signed.	Legal standing and other legal aspects established (licenses, registrations, etc.) Staff hired. Directing and advisory bodies formed. Appropriate facilities. Equipment and furnishing procured. Network of "contact points" established.	Suitable staff identified and hired. Cooperative spirit among potential "contact points" and information suppliers. Fulfillment by consulting institutions in participating actively as "contact points" in the country.
Technology Information and Transfer System (SITEC) created and functioning	Advertising firm hired and promotion program approved and under way.	Brochures, publications, videos, lists, press releases.	Creativity in preparing materials.
Consultants and consulting services trained and qualified in activities relating to management and production.	Firm in charge of consultant training and specialization hired within two months of contract signature.	Contract signed. Courses being offered.	Firm in charge of training consultants and advisory assistance to SMBs. Availability of firms, institutions and individuals qualified to provide services and advisory assistance to different fields.
Technology and other services transferred to businesses.	Completion of activities planned for the project.	Progress reports and external evaluation prepared.	Development of effective demand. Available supply of consulting services and professional assistance.

SUMMARY OF OBJECTIVES	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>Established and functioning within STRIA.</p> <p>Completion of training of professional</p> <p>Design of the system.</p> <p>Execution and signature of agreements with technology information providers and consultants.</p> <p>Completion of consultants training</p> <p>Introduction of consultant</p>	<p>Executing unit</p>	<p>Program budget information.</p>	<p>Suitable staff identified and hired. Cooperative spirit among potential "points" and information suppliers. Fulfillment by consulting institutions in participating actively as "contact" in the country.</p> <p>Suitable training providers found for consultants.</p> <p>Satisfactory agreements are reached with consulting institutions.</p> <p>Firm in charge of training consultants meets obligations. Availability of trainers and facilities.</p> <p>Firm in charge of training consultants meets contractual obligations within specified time.</p>
<p>Selection and hiring of specialized advertising agency.</p> <p>Preparation of promotional material.</p> <p>Execution of campaign in mass media and specialized media.</p> <p>Use of direct marketing of project</p>	<p>Advertising agency</p>	<p>Program budget information.</p>	<p>Existence of at least one public relations company capable of fulfilling the specific requirements of the promotion program.</p> <p>Creativity in the preparation of the promotional material.</p> <p>Agency performs quality work. Media are receptive.</p> <p>Availability of information. Motivation of users to learn more about services. Leading companies willing to support the program.</p>
<p>Implementation and consolidation of a referral, training, and promotion program.</p> <p>Agreement with firm in charge of consultant training and project supervision in accordance with terms of the agreement.</p>	<p>Firm in charge of consultant training and specialization.</p>	<p>Program budget information.</p>	<p>Firm in charge of training consultants meets obligations. Availability of firms, institutions, and individuals qualified to provide services and advisory assistance to different fields.</p>

SUMMARY OF OBJECTIVES	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>and technology assistance</p> <p>and technology assistance r SMBs.</p> <p>support for SMB consortium.</p> <p>advisory assistance services.</p>	<p>Delivery of technology services.</p>	<p>Program budget information.</p>	<p>Development of effective demand.</p> <p>Available supply of consultants and assistance.</p> <p>Interest in the consortium. Proper p</p>

PROPOSED RESOLUTION

**VENEZUELA. TECHNICAL COOPERATION. STRENGTHENING OF THE COMPETITIVE CAPACITY
OF SMALL AND MEDIUM SIZE INDUSTRIAL ENTERPRISES**

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, on behalf of Multilateral Investment Fund, to enter into such agreements as may be necessary with the Venezuelan Confederation of Industrialists (CONINDUSTRIA) and to adopt such other measures as may be pertinent for the execution of the plan of operations referred to in Document MIF/AT- _____, with respect to a technical cooperation in support of the strengthening of the competitive capacity of small and medium size industrial enterprises.

2. That up to the amount of US\$1,797,090 is authorized for the purpose of this resolution, chargeable to the Small Enterprise Development Facility of the Multilateral Investment Fund.

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