

Chapter 2

Promotion Policy for Small- and Medium-sized Enterprises

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2.1 Major Issues Related to SME Promotion

2.1.1 Methodology for problem identification

To encourage promotion and development of SMEs in Venezuela, it is imperative to identify problems that impede their growth from all angles and analyze factors for causing such problems. For this purpose, the following surveys were conducted.

(1) Interview survey

1) Number of organizations and enterprises surveyed

Interviewed		First survey	Second survey
Category	Symbol		
Central government	CG	12	3
Related organizations	CGO	3	1
Trade associations in the capital region	CPO	3	2
Private organizations	GE	2	2
Private enterprises	PO	0	1
Local government	PE	3	2
Related organizations	LG	1	1
Local trade associations	LGO	3	4
Local private organizations	LPO	6	6
Local private enterprises	LPE	5	0
International organization	IO	0	1
Total		38	23

Note: Some organizations surveyed during the first surveyed were also visited during the second survey.

2) Study area

The interview survey was conducted for organizations and enterprises in the following states where relatively high levels of industrial concentration are observed: Caracas, Aragua, Miranda, (Lala), Caravobo, Suria, Ansoategi, and Bolivar.

3) Identification and assortment of problems

From responses made during the interview survey, responses (opinions, especially specific problems) related to SME promotion were identified and were classified to

various categories by assigning keywords that represent them most appropriately. Then, serial numbers were assigned to the keywords for convenience of reclassification of responses. By grouping responses according to the area of interest or other attribute, the study team was able to analyze as to how government and other organizations, both public and private, viewed issues related to SMEs. As the survey successfully collected a large number of opinions on the specific subject and used them as a source of hints for solutions, it can be considered as a “participatory” approach. Note that 506 responses were originally obtained and 57 were dropped as invalid, leading 449 as valid responses.

(2) Interview survey of private enterprises

In addition to the interview survey of companies in the target subsectors, the questionnaire survey was conducted using a questionnaire form for manufacturing establishments (general form). Responses were analyzed to extract problems impeding healthy management of SMEs, both internal and external, by setting aside problems related to individual enterprises and extracting and assorting common elements. Only 25 companies in three subsectors responded.

1) Classification of companies surveyed (rate of response)

Subsector	No. of companies covered	No. of responses
a. Automotive parts		8
b. Plastic products		6
c. Aluminum products		11
Total		25

See Chapter 2 for detailed description of the companies surveyed.

2.1.2 Results of the interview survey

(1) Problems cited

Table 2.1.1 shows a list of items to classify problems, and Table 2.1.2 lists problems cited by respondents and their classification. Table 2.1.3 assorts problems in each classification item by frequency of response.

TABLE 2.1.1 KEYWORD CLASSIFICATION TABLE

	100	200	300	400	500	600	700	800	900	1000	1100	1200	1300	1400
	Policy	Public administration	Regional economy	Industrial structure	Education and training	Infrastructure	Industrial utilities	Modernization	Market	Investment	Finance	R&D	Information	Raw materials
1	Policy continuity	Public administration in general	Regional economy	Industrial structure	Education and training	Infrastructure in general	Industrial utilities	Modernization of management	Market in general	Investment in general	Finance in general	R&D in general	Information in general	Raw materials in general
2	Localization policy	Administration system	Regional division of labor	Industrial restructuring	Human resource development	Infrastructure development	Electricity	Upgrading of technology	Development of domestic market	Investment promotion	Financial policy	R&D support	Information system	Raw material price
3	Environmental regulation	Customs system	Regional product development	Promotion of collective operation		Industrial estate	Water	Strengthening of corporate structure	Export promotion	Entrepreneur support	Financial support	Industry/university joint project	Information dissemination	Raw material supply conditions
4	Prevention of bankruptcy			Promotion of corporate linkage		Revitalization of industrial estate	Energy		Market development	Investment insurance	Foreign exchange		IT promotion	
5	Protective tariff			Revitalization of agriculture		Techno park			Government procurement					
6	Taxation			Subcontracting system					Improvement of distribution					
7	Standards			Growth of the informal sector										
8	Social security system													
9	Inspection system													
10	Technical support													

Source: JICA Study Team

TABLE 2.1.2 CLASIFICACION OF PROBLEMS CITED BY CATEGORY AND ITEM
(1/15)

	Problems cited	Criticality rating		Key-Word	Cited by
1	Venezuela has no history of fostering SMEs	3	100	Promotion policy	PO
2	Requiring support, finance, technology, training, joint venture, etc.	4	100	Support policy	LPO
3	Insufficient SME support policy	4	100	Support policy	LPO
4	MOF decides on incentive	3	100	Support policy	CGO
5	Import promotion is given of priority than development of local products	3	100	General policy	LPO
6	SME support policy is required	3	100	General policy	LGO
7	SME fostering policy is expected	3	100	General policy	CPO
8	The country has no SME policy	3	100	General policy	CPO
9	No incentive	3	100	General policy	CPO
10	No consideration to SMEs	3	100	General policy	LPO
11	It is not a good practice for Venezuela to adopt Japan's policy without knowing the situation in Japan	3	100	Policy choice	PO
12	The plan must be consistent with local conditions peculiar to Venezuela	3	100	Policy choice	LG
13	No specific rules nor measures	3	100	Policy choice	PE
14	Government only promises and do nothing	3	100	Policy choice	PE
15	Industrial policy has not been established or implemented since 1989	3	100	Policy choice	CG
16	Government has no policy for industrial subsectors	4	100	Policy choice	LPO
17	Government decision on focusing on production sector was delayed	4	100	Policy choice	LGO
18	Government has policy consideration favoring large enterprises	3	100	Not clear	CPO
19	Legal framework for finance and taxation is not established	4	100	Legislation	LPO
20	Definition of SMEs is not clear and no clear benefit for participation in cooperative	4	100	Legislation	LPO
21	The SME law should be provisional for one year and should be renewed every two years	2	100	Legislation	CG
22	The most important problem is the lack of long-term policy	4	101	Continuity	CG
23	SME policy should be continued in the long run	4	101	Policy continuity	LPO
24	Management of upstream industries changes frequently under the direction of the central government, accompanied by policy change	4	101	Policy continuity	LGO
25	SMEs may be absorbed by large foreign parts suppliers	4	102	Localization	PE
26	Decline in percentage of locally assembled cars	4	102	Upstream industry	PE
27	Assemblers resisted to local content policy and government compromised	4	102	Local content	LPO
28	Local content is set at 30% but the actual percentage is 10%	4	102	Local content	LPO
29	It is desirable to have the law that raise local content each year	4	102	Local content	LPO
30	Local content is low	4	102	Local content	LPO
31	No development strategy, nor local content policy	4	102	Local content	LPO
32	Poor awareness of pollution control measures	4	103	Environment	LPO
33	Lake Maracaibo is heavily polluted and fish raising is not possible any more	4	103	Environment	CGO
34	Contamination of Orinoco River is aggravated	4	103	Environment	LPO

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35	No pollution control measures for electroplating, leather, food processing industries	4	103	Environment	CG
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TABLE 2.1.2 CLASIFICACION OF PROBLEMS CITED BY CATEGORY AND ITEM
(2/15)

	Problems cited	Criticality rating		Key-Word	Cited by
36	No harmful waste treatment facility in the country	4	103	Environment	CG
37	Waste treatment is responsibility of its source, but currently disposed in other countries due to the lack of domestic treatment facility	4	103	Environment	CG
38	No regulatory control on pollution made by SMEs	4	103	Environment	CG
39	Bankruptcy continues and membership decreases	4	104	Collective operation	CPO
40	Higher rate of bankruptcy among SMEs	3	104	Bankruptcy	LGO
41	8,000 companies went bankrupt over 10 years since 1990	3	104	Bankruptcy	CG
42	Imports increase and we cannot stop bankruptcy of local companies	4	104	Natural selection	LPO
43	SMEs in the state have reportedly decreased 35% since 1997	4	104	Natural selection	LPO
44	95% of furniture makers in the country have closed down	4	104	Natural selection	LPO
45	15-20% tariff rates are too low, and even 40% is not enough to compete with China	4	105	Competitiveness	PE
46	Protective tariff was abolished in 1989 and maximum 20% applies	2	105	Economic policy	CG
47	Protective tariff is used in many countries and should be applied to selected products	4	105	Focused development	CPO
48	Draw-back takes a few years, no improvement	4	106	IVA	PE
49	The draw-back system does not work well	4	106	IVA	PE
50	IVA eligibility	4	106	IVA	PE
51	IVA is not reimbursed	4	106	IVA	PE
52	High tax	4	106	General taxation	LPO
53	The tariff and IVA reimbursement system is poorly designed and takes time	4	106	Tariff/I VA	LPO
54	Fixed tax is not reduced under economic recession	4	106	Fixed asset tax	CPO
55	Business asset tax on SMEs should be exempted	4	106	Business asset tax	CPO
56	Regional gap in local tax	4	106	Regional gap	PE
57	Tax increase rapidly, and 17-18 local taxes	4	106	Local tax	LPO
58	The tax collection system has a problem	4	106	Tax collection system	PE
59	Pooling of system engineers does not progress	3	107	Standardization	CG
60	The public health insurance system does not work and companies bear heavy burdens	4	108	Medical security	LPO
61	Heavy contribution to social insurance for employment of part-time workers	4	108	Part-time workers	LPO
62	High labor cost including social insurance	4	108	Labor cost	CPO
63	Unreliable social security accelerates brain drain	3	108	Working environment	LPO
64	Strict inspection is not carried out other than oil, petrochemical and chemical products	4	109	Export inspection	PE
65	Mandatory quality inspection, standardization, etc. exert heavy burdens on SMEs	4	109	Export inspection	PE
66	For importers, import inspection fee is cheaper than bribe	4	109	Export inspection	PE
67	No technical support from central or state government	4	110	Technical support	LPO
68	Only large companies and those in the central region can receive CONINDUSTRIA's consulting service	4	110	Consulting system	LPO
69	Our state does not have consulting function, neither state government or cooperative	4	110	Consulting system	LPO
70	SMEs do cannot afford to consulting service and advisor service is provided at special price	4	110	Consulting system	CGO

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TABLE 2.1.2 CLASIFICACION OF PROBLEMS CITED BY CATEGORY AND ITEM
(3/15)

	Problems cited	Criticality rating		Key-Word	Cited by
71	It is desirable that CVG has consulting and support function	4	110	Consulting system	LPO
72	Consultant contracts directly with companies	4	110	Consulting system	LPO
73	Local government does not have corporate diagnosis tool	4	110	Consulting system	LG
74	Corruption prevailing in government creates bad impression among companies	3	201	Corruption	LPO
75	SMEs feel government notice as threat	4	201	Public administration	LGO
76	MPC has weak policy implementation capability	4	201	public administration capability	CG
77	CAN countries have poor public administration capabilities	4	201	public administration capability	CG
78	Labor law tends to penalize employers	3	201	Labor standard law	CPO
79	Labor law lacks flexibility	3	201	Labor standard law	LPO
80	Hourly wage is not permitted	3	201	Labor standard law	LPO
81	We cannot participate in policy discussion	3	202	Reflection of opinion	LPO
82	One stop shopping service is expected as means to streamline administrative procedures	5	202	Public administration	CPO
83	Poor government service	4	202	Public administration	LPO
84	Inefficient public service	4	202	Public administration	LPO
85	Streamlining of administrative procedures should be given of priority	5	202	Public administration	IO
86	Approval and permit required for establishment of company and capital increase is a major obstacle	5	202	Public administration	LPO
87	One stop shopping service (Euro Windows) is required	5	202	Public administration	LPO
88	Government service should be advertised to the private sector via Internet	5	202	Public administration	IO
89	Lack of facility to link the central and local governments	5	202	Public administration	CG
90	The building of local organization is the most important issue	5	202	Public administration	CPO
91	The new administrative system for SMEs should have consulting function	5	202	Public administration	CPO
92	Organization required to integrate discrete support functions	5	202	Public administration	CPO
93	Effective organization (with execution power) is required	5	202	Public administration	CPO
94	The customs system affects export costs and should be considered as a structural impediment	4	203	Service	LPO
95	The customs clearance system should be computerized	4	203	Service	LPO
96	Customs clearance requires one week to one month	4	203	Service	LPO
97	Customs service has been improved	4	203	Service	CG
98	Slow customs clearance service and harassment by customs official	4	203	Service	PE
99	Illegal act by customs officers	4	203	Illegal act	PE
100	Invoice control and check price are essential in preventing illegal imports	4	203	Illegal act	CPO
101	Corruption in customs office is a structural problem	4	203	Illegal act	CPO
102	Problems in customs office are serious	4	203	Illegal act	CG
103	Illegal import	4	203	Illegal act	PE
104	Illegal import rampant (smuggling and under-invoice)	4	203	Illegal act	CPO
105	Decline of shoes, furniture, apparel and other industries is caused by illegal import rampant, such as smuggling and under-invoice	4	203	Illegal act	LPO

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TABLE 2.1.2 CLASIFICACION OF PROBLEMS CITED BY CATEGORY AND ITEM
(4/15)

	Problems cited	Criticality rating		Key-Word	Cited by
106	Difficult to compete with imports due to illegal entry	4	203	Illegal act	LPO
107	Acceptance of imports takes 30 days including transshipment	4	203	Import lead-time	PE
108	Training of regional planners is required for regional revitalization	4	301	Regional economy	CPO
109	Processing of farm products is a very important industry to promote	4	301	Regional economy	CG
110	Undeveloped supply chain for processing of farm products and government support is required	4	301	Regional economy	LPO
111	All industrial areas in the country are in trouble	3	301	Regional economy	LG
112	Our state has industrial concentration in north, including supporting industries	2	301	Regional economy	LPO
113	Development potential of Suria??? should be studied	4	301	Regional economy	CGO
114	Plan to decentralize economic activities	2	301	Regional economy	CG
115	Our state does not have automotive and electrical/electronics industries that use engineering technology	4	301	Regional economy	LGO
116	Bolivar has high concentration of metalworking industries	4	301	Regional economy	LGO
117	Our state does not have products that can be sold in the domestic market	4	301	Regional economy	LGO
118	Our state has the metal industry that has the longest history in South America	3	301	Regional economy	CGO
119	SMEs in our state mainly provide products and services for large companies and do not offer their products	4	301	Regional economy	LPO
120	Even farm products are imported from other states	3	301	Regional economy	LGO
121	Major industries in our state are metalworking and food	3	301	Regional economy	LPO
122	Supporting industries in Caravobo??? are thriving and supply their products to our state	3	301	Regional economy	LPO
123	Farmland is increasingly converted to other uses	3	301	Regional economy	CG
124	Prices are 20-30% higher than the central region (due to distribution cost and margin)	4	301	Regional economy	LGO
125	We hope to develop ourselves from service providers to manufacturers	4	303	Conversion	LPO
126	Large enterprises such as DANAVER take up jobs for SMEs	4	401	Issue of monopoly	LPO
127	Wage differential between SMEs and oil industry is three times or more	4	401	Wage level	LPO
128	The number of manufacturing establishments per capita is smaller than neighboring countries	3	401	Industrial concentration	CG
129	The upstream sector of the steel industry is well developed, but not the downstream sector	4	401	Industrial structure	PE
130	Industrial concentration accompanies neglect of the farm and tourism sectors	3	401	Industrial structure	LPO
131	Farmland in our state, 70% of total, is deteriorating due to outflow of labor force to the oil industry	3	401	Industrial structure	LPO
132	The slump in the automobile industry affects suppliers	4	401	Upstream industry	PE
133	Industrial development should be promoted to encourage formation of production chain	4	401	Production chain	CG
134	The production chain is not developed	4	401	Production chain	LPO
135	Feasibility of strategic collaboration (makira???) should be studied	4	403	Collective operation	LPO
136	Our cooperative has reduced membership from 170 to 150 and manages to maintain activities	4	403	Collective operation	LPO
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137	SMEs are small in number and low rate of participation in cooperative	4	403	Collective operation	LPO
138	Weakness of trade associations in the country should be analyzed	4	403	Common weakness	LG
139	No incentive for participation in cooperative	4	403	Future expectation	LPO
140	The participation rate at free is said to be 8-10%	4	403	Low level	LPO

TABLE 2.1.2 CLASIFICACION OF PROBLEMS CITED BY CATEGORY AND ITEM
(5/15)

	Problems cited	Criticality rating		Key-Word	Cited by
141	Our state is very large and companies in other states cannot participate	4	403	Remote participation	LPO
142	The aluminum industry has emerged using hydropower, but development of end user products is responsibility of SMEs	4	404	Downstream industry	CG
143	Business expansion from upstream to downstream sector is a major issue	4	404	Downstream industry	LPO
144	Shift from upstream to downstream industry in the 1980s has failed	4	404	Downstream industry	CG
145	Primary aluminum is low value added and development of end user products is required	4	404	Downstream industry	LGO
146	Promotion of technology cluster is required	4	404	Corporate linkage	IO
147	Horizontal division of labor among SMEs should be promoted	4	404	Corporate linkage	LPO
148	Metalworking cooperative plans to make collective purchase from SIDOR	4	404	Example of collective purchase	LG
149	Collective purchase of utilities is promoted (MERIDA)	4	404	Example of collective purchase	IO
150	Pooling of system engineers is required	4	404	Collective power	CG
151	Incentives for cooperation among companies and mutual support should be provided by cooperative	4	404	Future expectation	LPO
152	Alliance with aim for vertical integration is only one way	3	404	Auto part	PE
153	It is difficult to survive all alone	4	404	Auto part	PE
154	Metalworking technology can only be utilized in upstream industries	4	406	Lack of application	LGO
155	To improve contractual terms, modernization of SME management and collective operation are required	4	406	Self-help effort	CPO
156	Government does not have consideration to SME promotion through procurement	4	406	Subcontract	CPO
157	Outsourcing is on the rise and technology levels are improving	4	406	Subcontract	GE
158	Most SMEs operating in our state are contractors of upstream industries	4	406	Subcontract	CPO
159	Continue to rely on PDVSA	4	406	Subcontract	LGO
160	No willingness to work with assemblers in development of export products	4	406	Subcontract	PE
161	75% of SMEs in Bolivar are small work shops (job shops)	4	406	Subcontract	LGO
162	SMEs are subservient subcontractors of upstream industries and lack dynamism	4	406	Subcontract	LGO
163	No OEM for textile products	3	406	Subcontract	CG
164	Experienced major damage during the turning point of the automobile industry	4	406	Subcontractor	LPO
165	Automotive parts suppliers are too remote from assembly plants	4	406	Lack of upstream industry	LGO
166	Diversifying into construction and other sectors as dependency on the automobile industry is risky	4	406	Contract normalization	LPO
167	Payment terms for products supplied by SMEs are long and unfavorable	4	406	Contractual terms	LPO
168	50% of population works in the informal sector	4	407	Growth of the informal sector	CG
169	Growth of the formal sector is important	4	407	Growth of the informal sector	CG
170	Growth of the informal sector is a major problem commonly seen in CAN countries	4	407	Growth of the informal sector	IO

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171	Most of MBA graduates of our institutions work for large enterprises	3	501	Corporate gap	PO
172	Lack of basic education	4	501	Basic education	PE
173	Social education is important for development of good personality	4	501	Basic education	LGO
174	Educational and technical support is required	4	501	Education and training	CGO
175	Schools and students want to work for large companies, not SMEs	4	501	Education and training	LPO

TABLE 2.1.2 CLASIFICACION OF PROBLEMS CITED BY CATEGORY AND ITEM
(6/15)

	Problems cited	Criticality rating		Key-Word	Cited by
176	University education is based on courses to meet the needs of large companies	4	501	Education and training	LPO
177	Lack of professional education	4	501	Education and training	PE
178	Young people should be incorporated into the formal education system	4	501	Education and training	CGO
179	Upgrading of technology is required	4	501	Education and training	CPO
180	Most members are family industries with low levels of technology and education	4	501	Education and training	LPO
181	IT education should focus on practical skills	4	501	Education and training	LGO
182	Low skill levels of general workers to require additional education and training costs	4	501	Education and training	LPO
183	Relationship between quality and product is not clear	3	501	Education and training	PE
184	Educational facilities are poorly equipped and are not able to meet the needs	4	501	Insufficient facilities	LPO
185	Mitsubishi Motor provides technical guidance for suppliers	4	501	Fostering of suppliers	LPO
186	Labor cost and problem of education (poor cost effectiveness)	3	501	Quality	LPO
187	IT education is still at low level	4	501	High? Low?	IO
188	It is important to adjust content of education to meet the current needs	4	501	Meeting the needs	CGO
189	Educational institutions are actually in shortage, although seeming to be sufficient in number	4	501	Insufficient	LPO
190	Graduates from vocational training centers and schools are not properly trained	4	501	Insufficient	LPO
191	INSE's machinery worker training center was closed down this year	4	501	Close-down	LPO
192	Workers' morale is low and close working relations with companies are not developed	3	501	Moral	LGO
193	High turnover rate of skilled workers at SMEs	4	501	Labor force	LPO
194	Workers' morale in Venezuela is generally low	3	501	Labor force	LPO
195	Lack of management training	4	502	Education and training	CGO
196	Weakness of SME managers is, they do not know what they should do	4	502	Education and training	PO
197	Poor planning capability and execution power	4	502	Education and training	LGO
198	Management skills present a problem	4	502	Education and training	IO
199	Accounting skills present a problem	4	502	Education and training	IO
200	Business planning skills present a problem	4	502	Education and training	IO
201	Training of engineers and technicians to use latest technology is required	4	502	Education and training	LPO
202	Difficulty in VC development comes from the shortage of fund managers	4	502	Education and training	CG
203	Obligation to hire INSE graduates is a heavy burden on companies	3	502	Training system	LPO
204	Immigrant workers	3	502	Promotion of employment	PE

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205	Human drain increases if government takes good care of them	3	502	Human drain	CG
206	Need to maintain instructors' education on latest technology	4	502	Latest technology	CGO
207	Insufficient education and training, including managers	4	502	Insufficient	LPO
208	Schools teaching industrial technology were closed down during the previous administration	3	502	Close-down	LPO
209	Transport safety is threatened and insurance premium is high	3	601	Infrastructure	LPO
210	Inland transport to Colombia needs transshipment on the border due to guerilla threat	3	601	Infrastructure	CG

TABLE 2.1.2 CLASIFICACION OF PROBLEMS CITED BY CATEGORY AND ITEM
(7/15)

	Problems cited	Criticality rating		Key-Word	Cited by
211	Security problem, insurance premium, self-protection cost	3	601	Infrastructure	LPO
212	Rationalization of transportation industry is lagged behind Colombia	4	601	Transportation	LG
213	State shipping company, CAVN, went bankrupt 10 years ago	4	602	Shipping	PE
214	Because there is no national shipping company, we have to rely on land transport	4	602	Shipping	GE
215	Maracaibo Port is shallow and not accessible to large ships, necessitating land transport to Cartahena???	4	602	Shipping	LGO
216	The state shipping company is about to restart	4	602	Shipping	LG
217	There are deep ports, but poorly equipped	4	602	Shipping	LPO
218	We plan to provide transshipment capability at Puerto Cabello???	4	602	Shipping	LG
219	SME promotion measures – 2: upgrading of port facilities	4	602	Shipping	LGO
220	Poor transportation infrastructure	4	602	Transportation	LPO
221	The industrial estate had 187 tenants 10 years ago and 40 companies	4	603	Industrial estate	LPO
222	The average operating rate of our tenant industries is 20% - 40%	4	603	Industrial estate	LPO
223	Los Montones?? Industrial Estate is the most important industrial estate for non-oil industry, but it has poor facilities	4	603	Industrial estate	LPO
224	Development of the free trade zone (MERIDA case)	4	603	Industrial estate	IO
225	The major problem at our industrial estate is the shortage of power supply	4	603	Industrial estate	LPO
226	The major problem at our industrial estate is the lack of proper water supply and sewer	4	603	Industrial estate	LPO
227	Industrial estates are developed as the basis of developing less industrialized areas	4	603	Industrial estate	CG
228	Promotion of industrial estate development outside industrial zones	4	603	Industrial estate	CG
229	Promotion of rehabilitation of abandoned industrial land	4	603	Industrial estate	CG
230	Promotion of industrial estate development in poverty areas	4	603	Industrial estate	CG
231	For development of industrial estates, infrastructure development, incentive and regulation are required	4	603	Industrial estate	CG
232	Among infrastructure issues, revitalization of industrial estates is most important	4	603	Industrial estate	CPO
233	Policy is required to support development of all functions of industrial estates	4	603	Industrial estate	CPO
234	The major problem at our industrial estate is poor maintenance of roads and other infrastructure	4	603	Industrial estate	LPO
235	In industrial estates, many tenants have sold their land and a small number of tenants is operating	4	603	Industrial estate	CG
236	Some industrial estates are surrounded by residential development and are unable to operate	4	603	Industrial estate	CG
237	Generally industrial estates help rural industrialization	4	603	Industrial estate	CG
238	Our industrial estate has many metalworking shops, which serve the automobile industry	4	603	Industrial estate	LPO
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239	Management of public industrial estates is shared by regional development corporations and local government	4	603	Industrial estate	CG
240	Automotive parts suppliers are located in free processing zones	4	603	Industrial estate	CGO
241	Some industrial estates have been developed by the private sector (Carabvov, Aragua, Miranda??)	4	603	Industrial estate	CG
242	Investment in industrial estates should be carried out as part of infrastructure development	4	603	Industrial estate	CGO
243	Free processing zones should be provided with export platforms	4	603	Industrial estate	CPO
244	Utilities (water, electricity and gas) are critical for SMEs	4	701	Industrial utilities	LPO
245	Inefficient supply of utilities (water, electricity and gas)	4	701	Industrial utilities	LPO

TABLE 2.1.2 CLASIFICACION OF PROBLEMS CITED BY CATEGORY AND ITEM
(8/15)

	Problems cited	Criticality rating		Key-Word	Cited by
246	Utilities (water, electricity and gas) in the industrial estate are always a problem	4	701	Industrial utilities	LPO
247	Electricity supply to large corporations is priced less than one third that for SMEs	4	701	Industrial utilities	LPO
248	Electricity charges are more expensive in rural regions than the capital area	4	701	Industrial utilities	LGO
249	Poor electricity quality	4	701	Industrial utilities	LPO
250	High electricity charge	4	701	Industrial utilities	LPO
251	Oil price is excessively low	3	704	Energy	PE
252	The system to pursue combination of management intervention and technical support is desirable	4	801	Intervention	CPO
253	Program developed for technical innovation and venture capital	4	801	Technical innovation	CGO
254	Frequently out of standards for evaluation criteria for loan application	3	801	Substandard	LGO
255	SME managers tend to deal with business on an impulse	4	801	Substandard	LGO
256	They talk about money and their true motive needs to be found	4	801	Substandard	LG
257	They have often lack business ethics	4	801	Substandard	LGO
258	They do not have formal management policy	4	801	Substandard	LGO
259	SME promotion measures – 3: Fostering of entrepreneurs with willingness to export	4	801	Education and training	LGO
260	They are enthusiastic about business growth but lack foresight	4	801	Education and training	LGO
261	8Current devaluation in the 1980s facilitated exports and delayed modernization	4	801	Modernization	CG
262	High rejection rate for products (color resin)	4	802	Processing technology	GE
263	Obsolete PVC piping technology	4	802	Processing technology	GE
264	Technology levels are low in every field	4	802	Technology	CPO
265	Aging equipment prevents production of adequate quality	4	802	Aging equipment	LPO
266	Parts suppliers are not profitable, imports are better	3	803	Strengthening of corporate structure	LPO
267	Lack of competitiveness in general, and strengthening is required	3	803	Support needs	CG
268	Weaknesses of SMEs are found in R&D, old organization, human resource development, sales and marketing	4	803	Weakness	LGO
269	Financial issues are critical for SMEs but there are more important factors	4	803	Critical issue	IO
270	SME managers cannot adapt themselves to the environmental change	4	803	Vulnerability	LPO
271	SMEs are vulnerable to sudden crisis	4	803	Vulnerability	IO
272	Economic liberalization has revealed lack of competitiveness of domestic industries	3	803	Natural selection	CG

Central government: CG, Related organizations: CGO, Trade associations in the capital region: CPO, Private organizations: GE, Private enterprises: PO, Local government: PE, Related organizations: LG, Local trade associations: LGO, Local private organizations: LPO, Local private enterprises: LPE, International organization: IO

273	Domestic industries lack competitiveness (illegal imports destruct the market)	4	803	Illegal act	LPO
274	The domestic market dominated by imports	4	900	Competitiveness	PE
275	The major problem is to find a job, whatever it is	4	901	Poor sales skills	LPO
276	Small supply to higher value added products	4	901	Downstream industry	GE
277	Aluminum ingot manufacturers give highest priority to exports	4	901	Neglecting the domestic market	LGO
278	Aggressive marketing of Chinese products	4	901	Market	PE
279	The major problem is a steady decline in sales	4	901	Market	LPO
280	Poor marketing capability	4	901	Marketing capability	CGO

TABLE 2.1.2 CLASIFICACION OF PROBLEMS CITED BY CATEGORY AND ITEM
(9/15)

	Problems cited	Criticality rating		Key-Word	Cited by
281	The most serious problem is the market (buyer relationship, trading company's function, etc.)	4	901	Marketing capability	CPO
282	The major problem is the lack of sales skills	4	901	Marketing capability	IO
283	Small domestic market	4	902	Neglecting the domestic market	GE
284	The domestic market lacks width and depth	4	902	Neglecting the domestic market	PE
285	Large customers should be developed	4	902	Neglecting the domestic market	LGO
286	The sluggish local market drives us to the export market	4	902	Neglecting the domestic market	PE
287	No incentive for export promotion	4	902	Market development	LPO
288	There is a success story in finding the niche market	4	902	New market	LPO
289	The plastics processing industry has no marketing channel and fails to provide proper education and guidance	4	902	Poor sales organization	CGO
290	SMEs do not take action due to the lack of experience and time-consuming paper work	4	903	No experience	LPO
291	Venezuelan embassies in foreign countries are not cooperative other than oil business	3	903	Export	LPO
292	Production of aluminum speakers (bound to the U.S.) was discontinued	3	903	Export	PE
293	It is agreeable that large enterprises in upstream industries cooperate in market development	4	904	Cooperation among downstream industries	LGO
294	The aluminum processing industry is governed by market trends (small market)	4	904	Neglecting the domestic market	LGO
295	The government does not intend to use PVC pipes for public works projects	4	905	Government procurement	GE
296	PVC pipes are not used	4	905	Government procurement	PE
297	The electrical and electronics industry has collapsed	4	1000	FDI	PE
298	How should we access to venture capital?	4	1001	VC	CPO
299	Expecting to form joint venture with Japanese companies	4	1001	Technology transfer	LGO
300	We cannot afford to IT investment, and lack of information is a problem	4	1001	Shortage of capital	LPO
301	For SMEs, acquisition of latest equipment and technology is difficult	4	1001	Capital investment	LPO
302	Technology has not been upgraded in the past 15 years	4	1001	Capital investment	LPO
303	Country risk	3	1001	Investment	PE
304	CAN countries apply common investment methods	3	1001	Investment method	CG
305	In principle, same terms and conditions apply to investment by local and foreign capital	3	1001	Investment method	CG
306	Lack of resources for processing of farm products and related technology	4	1001	Processing of agricultural products	LPO
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307	Frequent changes in government policy impede FDI promotion significantly	4	1002	FDI	PE
308	Joint venture with foreign companies should be promoted	4	1002	FDI	CPO
309	Because end user products cannot be developed, raw materials have to be sold without processing	4	1002	Capital investment	LG
310	The country does not have any organization to provide loan and investment promotion services	4	1002	Investment promotion	CGO
311	A plastics processing manufacturer establishes its advantage by siting its factory adance to PEQUIVEN's mill	3	1003	Planning	CGO
312	The development bank should be responsible for collection of project information and SME promotion	3	1003	Planning	CGO
313	There is no investment guarantee (insurance) system	4	1004	Investment insurance	LPO
314	The central bank aims to reduce operating costs of banks	3	1100	Bank reform	CG
315	The central bank targets financial restructuring	3	1100	Bank reform	CG

TABLE 2.1.2 CLASIFICACION OF PROBLEMS CITED BY CATEGORY AND ITEM
(10/15)

	Problems cited	Criticality rating		Key-Word	Cited by
316	FONCREI's loans are difficult to obtain because banks ask strict requirements	4	1101	FONCREI	CPO
317	No venture fund	4	1101	VC	LGO
318	Venture funds are needed	4	1101	VC	CG
319	Banks lend low-cost funds (provided to rescue during the financial crisis) at high interest rates	4	1101	Reform	LGO
320	The central bank aims to achieve stability of foreign exchange rate	2	1101	Foreign exchange policy	CG
321	The government intends not to make currency devaluation under the strong currency	2	1101	Foreign exchange policy	CG
322	Devaluation of currency will be at 1.5% per month and will continue into 2001	2	1101	Foreign exchange policy	CG
323	SME managers think that they do not have to repay loans	4	1101	Substandard	LGO
324	SME managers do not use loans for the agreed purpose	4	1101	Substandard	LGO
325	SMEs are suspicious about financial institutions (for acquisition	4	1101	Financial institution	CGO
326	Difference in interest rate between large enterprises and SMEs should be corrected	4	1101	Interest	LPO
327	The central bank aims to stabilize interest rates	4	1101	Interest	CG
328	Interest rates are too high (gap between large enterprises and SMEs).	4	1101	Interest	CGO
329	SMEs are forced to pay high interest rates	4	1101	Interest	CPO
330	Interest rates are persistently high and troublesome for SMEs	4	1101	Interest	CG
331	There is a significant difference between active and passive interest rates	4	1101	Interest	CG
332	SME loans are highly risky and interest rates become twice or three times that applied to large c	4	1101	Interest	CG
333	High interest rates	4	1101	Interest	LPO
334	Loans for purchase of motor vehicles are provided at 12% during the first six months and 34% p	4	1101	Interest	LGO
335	Interest rates usually exceed 30%	4	1101	Interest	LPO
336	Quick and efficient loan service is required	4	1101	Service	PE
337	Financial capability of SMEs is limited	4	1101	Fund raising	LGO
338	Financial constraint prevents access to latest technology (equipment)	4	1101	Fund raising	LPO
339	Credit line of commercial banks to SMEs is limited 10% of total	4	1101	Credit line	CPO
340	Banks do not provide sufficient loans	4	1101	Credit line	CGO

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341	SME finance cannot be fully provided due to limited funds	4	1101	Credit line	LGO
342	The strong Bolivar policy comes from the fact that the non-oil sector depends on imported mate	2	1101	Policy ground	CG
343	Government banks require complicated application procedures	4	1101	Government-related	LPO
344	Foreign exchange and financing are major problems for SMEs	4	1101	General	PE
345	Corporate finance does not work mostly	4	1101	General	LPO
346	There are problems related to credit line, interest rate, term, guarantee and other areas	4	1101	General	LPO
347	SMEs cannot obtain favorable loan terms from financial institutions	4	1101	Business environment for SMEs	LPO
348	Banks are reluctant to SME loan due to high risk	4	1101	Business environment for SMEs	LPO
349	Financing is difficult (working capital and investment)	4	1101	Difficult procurement	LG
350	It is difficult to secure financial access	4	1101	Procedures	PE

TABLE 2.1.2 CLASIFICACION OF PROBLEMS CITED BY CATEGORY AND ITEM
(11/15)

	Problems cited	Criticality rating	Key-Word		Cited by
351	Investment funds for equipment upgrading cannot be obtained	4	1101	Investment finance	LPO
352	The devaluation of the real affects our exports	3	1101	Repercussion	PE
353	In the agriculture and livestock industries, 7-8 companies form a cooperative for loan guarantee	4	1101	Guarantee	LGO
354	Venture capital should be introduced to supplement commercial loans that are limited to collateral	4	1101	Guarantee	CGO
355	Banks apply strict collateral requirements, with high commission and interest rate	4	1101	Guarantee	CPO
356	FONCREI does not fulfill its purpose because it serves as an intermediary body	4	1101	Guarantee	LGO
357	Collateral can be equipment, building and land, and FONPYME's guarantee is available	4	1101	Guarantee	CGO
358	Most companies cannot offer sufficient collateral	4	1101	Guarantee	CGO
359	SMEs generally have no solvency	4	1101	Guarantee	LGO
360	Collateral is limited to land and other fixed assets, not machinery	4	1101	Guarantee	LGO
361	No bank guarantee is available for loans by Japan Export and Import Bank	4	1101	Guarantee	LGO
362	SMEs need loan guarantee	4	1101	Guarantee	CGO
363	Machines are rarely accepted as collateral (difficult to sell)	4	1101	Guarantee	LPO
364	Overvaluation of the Bolivar	3	1101	Accepted	LPO
365	The strong currency is a major obstacle to export promotion	3	1101	Accepted	LPO
366	The strong currency has large impacts	3	1101	Accepted	PE
367	Overvaluation of the currency makes it difficult to compete with imports	3	1101	Accepted	LPO
368	The strong currency facilitates imports of intermediate and manufactured goods	3	1101	Accepted	PE
369	CAF loans accompany intervention in management of borrowers	4	1102	CAF	IO
370	Reform of the financial system is required	4	1102	Reform	CG
371	The Ministry of Environment does not provide loans to assist environmental investment	4	1102	Environment investment	CG
372	We plan to harmonize securities markets in CAN countries	4	1102	Financial market	IO
373	Interest rate hikes for automobile loans have large impacts	4	1102	Interest	PE
374	The strategic issue is financial policy to stimulate production and exports	4	1102	Policy	CG
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375	The government has no definite financial strategy	4	1102	Policy	LPO
376	We aim to lower interest rates after the above targets have been achieved	4	1102	Policy	CG
377	Long-term development funds are required	4	1102	Investment finance	CG
378	SME promotion measures - 1: long-term loans	4	1102	Investment finance	LGO
379	20 years ago, there was a financial institution to provide direct loans to SMEs, but not any more	3	1102	Close-down	CPO
380	A mutual guarantee fund can be established for industrial loans	3	1102	Guarantee	LGO
381	A legal system is developed to issue title document to secure land-based loans	4	1102	Guarantee	CGO
382	FONCREI's loan procedures take 8 months, not meeting actual demand	4	1103	FONCREI	LPO
383	We consider the fund to save companies with financial difficulty	4	1103	Finance	CPO
384	Industrial Bank does not provide loans to SMEs under law	3	1103	System	CPO
385	Functionally, we cooperate with lending banks at the second-floor bank level. (New development)	3	1103	System	CGO

TABLE 2.1.2 CLASIFICACION OF PROBLEMS CITED BY CATEGORY AND ITEM
(12/15)

	Problems cited	Criticality rating		Key-Word	Cited by
386	Long-term, low interest rate loan (soft loan) facility is required	4	1103	Soft loan	LPO
387	We aim for streamlining, speed-up and dynamism of procedures	4	1103	Procedures	CGO
388	R&D loans require high interest rates and are limited to short-term	4	1201	R & D	LPO
389	SMEs are not capable of doing research and development by themselves due to financial const	4	1201	R & D	LPO
390	Lack of merchandizing power	4	1201	R & D	CGO
391	We have to give priority to applied research rather than basic research	4	1201	Applied research	CG
392	Techno-park is required (entrepreneur support, R&D, testing laboratory, etc.)	5	1202	Development support	LPO
393	Universities only work with large companies but with SMEs	4	1203	R & D	LPO
394	It is desirable to official encourage industry-university joint projects	4	1203	R & D	LPO
395	VENALM, SIDOR, university research institutes do not conduct R&D projects under commission	4	1203	R & D	LPO
396	Industry-university joint projects are encouraged (MERICA case)	4	1203	R & D	LPO
397	It is agreeable that large companies in upstream industries cooperate in product development	4	1203	R & D	LPO
398	Information service to provide information for companies investing in the country is required	4	1300	Information	LPO
399	Provision of market and technical information is critical	4	1300	Information	LPO
400	MCT has a project to link local cooperatives and the head office	4	1301	Information	LPO
401	Shortage of information is a serious problem	4	1301	Information	CGO
402	SMEs have weakness in information access	4	1301	Information	LPO
403	Lack of market information and buyer information	4	1301	Information	CGO
404	Lack of corporate information (corporate directories)	4	1301	Information	CGO
405	Lack of product information	4	1301	Information	CGO
406	Shortage of supplier information (supply chain)	4	1301	Information	CGO
407	We are neglected at government's symposium and other occasions	4	1301	Information dissemination	LPO
408	We cannot obtain information because of remoteness from the capital region	4	1302	Information	LPO
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409	Shortage of policy information (special tax and export incentive, etc.)	4	1302	Information	CGO
410	Poor communication infrastructure is a major problem	5	1302	Communication	CG
411	Internet service charge is expensive	5	1302	Communication	CG
412	Lack of industrial census	5	1303	Information	LPO
413	Shortage of statistical information	4	1303	Information	CGO
414	PCs are expensive	3	1303	Information dissemination	CG
415	IT needs to be linked to everyday work and service	4	1304	IT	CG
416	PVC is also imported.	4	1401	Materials	GE
417	300,000 tons are imported (rolled products) compared to local production of 560,000 tons	2	1401	Materials	GE
418	The leather industry has difficulty in obtaining raw materials	4	1401	Issue related to raw material supplier	CG
419	Local production of raw cotton is on the decline and 60% is now exported	4	1401	Issue related to raw material supplier	CG
420	Locally produced resin materials are difficult to process	3	1401	Material quality	PE

TABLE 2.1.2 CLASIFICACION OF PROBLEMS CITED BY CATEGORY AND ITEM
(13/15)

	Problems cited	Criticality rating		Key-Word	Cited by
421	LLDPE is not sold well because of poor quality	3	1401	Material quality	PE
422	We aim to monopolize the regional or local market	3	1401	Issue related to raw material supplier	PE
423	Local prices of synthetic resin match import prices in the international market	4	1401	Different opinion	GE
424	Petrochemical materials are expensive	3	1401	Associated gas	PE
425	Raw materials prices need to be same as international prices	4	1402	Price	LPO
426	Raw materials are expensive	4	1402	Price	PE
427	Products become cheaper by using Venezuelan materials imported from Colombia	4	1402	Price	LPO
428	PEQUIVEN's resin prices are 30% higher than international prices	4	1402	Price	LPO
429	Resin re-imported from Colombia is cheaper than the one procured from the international market	4	1402	Price	LGO
430	We cannot compete with VCM imported from Colombia	4	1402	Price	PE
431	Inventory costs are high (raw materials and interest)	4	1402	Interest	LPO
432	Locally available raw materials are more expensive than imports, and we have to depend on imports	4	1402	Issue related to raw material supplier	LPO
433	Delivery at mill and transportation to be arranged by the buyer	4	1403	Delivery conditions	GE
434	Shipping and delivery to the buyer has a safety problem	4	1403	Delivery conditions	GE
435	We never thought of supply base	4	1403	Delivery conditions	GE
436	Emergence of distributors is expected	4	1403	Delivery conditions	GE
437	Collective purchase by SMEs (SOGANPI) is desirable	4	1403	Collective purchase	GE
438	Payment term for rolled products is 30 days after delivery	4	1403	Settlement terms	GE
439	Cut products are delivered on cash (many SME customers)	4	1403	Settlement terms	GE
440	The difference in payment terms between local and export transactions is a large problem	4	1403	Settlement terms	LPO
441	Product delivery was delayed due to difficulty in obtaining raw materials and customer confidence	4	1403	Difficult procurement of materials	PE
442	Purchase negotiation on aluminum ingot is carried out only in Caracas	4	1403	Purchase negotiation	LGO
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443	Delivery of raw materials takes long (45 days)	4	1403	Local lead-time	PE
444	Inventory of import materials is large (30 days)	3	1403	Inventory	PE
445	The payment period from upstream companies to SMEs is long (3-4 months)	4	1403	Payment for subcontracting	LGO
446	Unit of sales is 30-40 tons	4	1403	Unit of sales	GE
447	Small lot sales is not considered	4	1403	Unit of sales	GE
448	Too large supply lot from domestic suppliers	4	1403	Unit of sales	PE
449	Too large lot for SMEs to purchase from domestic suppliers	4	1403	Unit of sales	LGO
450	VC funds are contributed by government, commercial banks and development banks (\$80 million)	2	1500	VC	CGO
451	Food materials are mostly imported	1	1500	Irrelevant	CG
452	Government is slow in reforms for globalization	2	1500	Indirect	LPO
453	The largest import country is Colombia, followed by the U.S.	3	1500	Competitiveness	CG
454	The problem is caused by international agreements, international prices, and illegal imports	3	1500	Competitiveness	LPO
455	In 1989, IMF's structural adjustment funds were introduced and the market was opened	3	1500	Competitiveness	CG

TABLE 2.1.2 CLASIFICACION OF PROBLEMS CITED BY CATEGORY AND ITEM
(14/15)

	Problems cited	Criticality rating	Key-Word		Cited by
456	Trade deficit for non-traditional goods other than oil	3	1500	Competitiveness	CG
457	Petrochemical production capacities are small	2	1500	Modernization	PE
458	We enter the market segments where commercial banks are not willing to provide loans	3	1500	Planning	CGO
459	Government financial institutions review the policy in the context of production-exports	3	1500	Planning	CGO
460	In the norther part of our state, plastics and automtive parts industries will be promoted	2	1500	Planning	CGO
461	No production plan for engineering plastics	2	1500	Planning	GE
462	A software center has been developed (MERIDA case)	2	1500	Planning	IO
463	Dabates on market opening and protection are underway within the government	2	1500	Economic policy	LGO
464	Investment by the private sector in public corporations is increased	2	1500	Economic policy	CG
465	PEQUIVEN has an inefficient organization	2	1500	Streamlining	PE
466	There is no sufficient technology and equipment for processing of petrochemical feedstocks	2	1500	Upstream industry	CG
467	Domestic production is mainly denim and products are mostly shipped to the domestic market	2	1500	Dropped as irrelevant	CG
468	Farm products will become a bottleneck to negotiation with MERCOSUR	1	1500	Dropped as irrelevant	CG
469	50% of rural villages are electrified	1	1500	Dropped as irrelevant	LPO
470	No guarantee for personal property (complaint about land law)	1	1500	Dropped as irrelevant	LPO
471	The development bank should be responsible for regional decentralization, development of industrial estates, and regional development support	2	1500	Dropped as irrelevant	CGO
472	Excessive competition among local companies	2	1500	Dropped as irrelevant	PE
473	The study requires cooperation of government, public and private organizations, and SMEs	2	1500	Dropped as irrelevant	LGO
474	There is an apparent lack of public interest among people.	2	1500	Dropped as irrelevant	LGO
475	Farm products do not international competitiveness and protective tariff should be used as WTO tool	2	1500	Dropped as irrelevant	CG
476	Cotton is not internationally competitive	2	1500	Dropped as irrelevant	CG

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477	The Orinoco/Apure plan will be completed in June.	1	1500	Dropped as irrelevant	CG
478	Up to the1990s, ISE led investment in basic industries	2	1500	Policy shift	CG
479	Many laws are pending at Parliament, without approval	1	1500	Politics	LPO
480	Corruption is a system problem and is entirely caused by the lack of system management capability	2	1500	Politics	PE
481	The oil industry (state-owned) is very large and overwhelms the private sector, which cannot exert much power	2	1500	Politics	CPO
482	Support for a specific political party is not given	2	1500	Politics	CPO
483	Regional agreements bring more disadvantage than advantages	2	1500	Political issue	PE
484	Irrigation is not widely used	2	1500	Agriculture	CG
485	Agricultural policy should be implemented in each state according to regional characteristics	2	1500	Agricultural policy	LPO
486	State-led agricultural policy does not work well	2	1500	Agricultural policy	LPO
487	Venezuela's agricultural policy is based on protection	2	1500	Agricultural policy	CG
488	Agricultural policy is not consistent and investment in the farm sector is very limited	2	1500	Agricultural policy	CG
489	No agricultural policy addresses the need for promotion of fruit growers	2	1500	Agricultural policy	CG
490	Up to the previous adminisitation, resource allocation has been concentrated in specific fields and regions	1	1500	Previous policy	CG

TABLE 2.1.2 CLASIFICACION OF PROBLEMS CITED BY CATEGORY AND ITEM
(15/15)

	Problems cited	Criticality rating		Key-Word	Cited by
491	Recent problems: GDP, deteriorated standards of living, stagnated development, and population increase	2	1500	Macroeconomy	CG
492	Jobless persons cannot be absorbed by large enterprises alone	2	1500	Macroeconomy	LG
493	Increase bankruptcy has led to increased unemployment, accelerated inflation, increase in poverty, and social insecurity	2	1500	Macroeconomy	CG
494	80% of population is now below the poverty line	2	1500	Macroeconomy	CG
495	While demand is gradually recovering, sales of industrial products decline to affect SMEs	2	1500	Macroeconomy	LPO
496	Population is concentrated in the north and resources in the south	2	1500	Macroeconomy	CG
497	Inflation aggravates compared to the financial crisis in 1983	2	1500	Macroeconomy	CG
498	The Venezuelan economy in crisis	2	1500	Macroeconomy	LPO
499	Regional disparity in income is fairly large	2	1500	Macroeconomy	CG
500	Regional decentralization of energy and industry is required	2	1500	Macroeconomy	CG
501	Areas requiring improvement are education, health and poverty	2	1500	Macroeconomy	CG
502	The major objective of economic policy is price stability (international level)	2	1500	Macroeconomy	CG
503	The major challenge for economic policy is the control of inflation	2	1500	Macroeconomy	CG
504	The central bank's goal is price stabilization	2	1500	Macroeconomy	CG
505	The unemployment rate is still high	2	1500	Macroeconomy	CG
506	While government revenues are steadily supported by high oil prices, we should aim for real revenue stability	2	1500	Macroeconomy	CG

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Source: JICA Study Mission

TABLE 2.1.3 FREQUENCY DISTRIBUTION OF PROBLEMS BY CATEGORY

Category No.	Item	Frequency
100	Policy	72
200	Public administration	34
300	Regional economy	18
400	Industrial structure	45
500	Education and training	37
600	Infrastructure	35
700	Utilities	8
800	Modernization	22
900	Market	23
1000	Investment	17
1100	Finance	75
1200	R&D	10
1300	Information	18
1400	Raw materials	34
1500	Invalid	58
Total		506

Source: JICA Study Team

2.1.3 Analysis of the survey results

Major findings from the results of the surveys – responses classified according to the category – are summarized as follows.

(1) Policy

1) Absence of SME policy

Classified as the absence of SME policy, these responses are considered to represent opinions (complaints) that the country does not have the SME law (expected to serve as the foundation of SME policy) and does not even have a clear definition of SMEs. 9 responses are classified into this category. In addition to complaints, however, they include expectations for future policy. Other than the nine responses, responses representing a general criticism on government policy related to SMEs are found, including the absence of the central government's industrial policy, the absence of industry policy focusing on specific subsectors, and the delay in decision to give priority to the manufacturing sector.

In planning and implementing the SME promotion policy in the future, to recognize SMEs as a critical element of industry and assist them in overcoming inherent weaknesses is an important policy objective having social and economic significance, and SME policy should be established in recognition that it should be distinguished from general industrial policy.

2) Continuity of government policy

Three responses criticize inconsistency of government policy, representing the suspicious attitude of companies toward new government policies and programs announced. In fact, many companies were forced to adjust their management policies and actions as government policy is overly affected by politics and has been revised significantly with the changes in the administration and as well as the management of state enterprises. This problem eventually leads to alienation of the government from the private sectors and causes loss of confidence in government and its policy. To avoid this, it is important to establish realistic and sustainable SME policies that are based on the long-term strategy and recognition of realities. However, in the policy implementation process, “provisional measures” – often seen in the government's policy - should be clearly distinguished from “continuous measures.” In particular, it is desirable to deal with the current proposal for legislation of the SME

law as a “provisional law” for one year, followed by renewal in every two years, which may result in the undue change in the legal framework

3) Local content

Five responses express the complaint about “raising local content” in relation to the automotive parts industry. While it is important to consider adequate protection of smaller parts manufacturers, the problem should be addressed as part of the assembler’s international (regional) strategy and needs to be resolved in overall consideration of business conditions (neighboring countries and third countries) and current state of OEM suppliers. Cautious attitude should therefore be taken before exerting “political pressure”. It is important to realize that we should take the most realistic and basic approach: “efforts to upgrade technology levels of suppliers as well as price competitiveness.

4) Environmental regulation

Environmental regulation in the country is managed by the Ministry of Environment and Natural Resources. Under the Environmental Law of 1976 and related laws, it is strictly enforced to large corporations including basic industries. However, environmental pollution by SMEs does not seem to be monitored or regulated. Some responses point out that environmental pollution becomes a serious problem in Lake Maracaibo and Orinoco River near Puerto Ordaz where heavy industries are concentrated. Obviously, stricter environmental preservation needs to be taken into account in promoting industrial development.

Environmental regulation on SMEs is often difficult to enforce because they cannot afford to invest in pollution control measures due to weak financial position. On the other hand, there are industries that create heavy environmental loads unless adequate pollution control systems are introduced, such as food processing, leather, textile and dyeing, and electroplating. These industries are mainly composed of SMEs. While strict environmental regulation should be applied to these industries, the government should provide support for them by minimizing their burdens through financial and technical assistance, together with infrastructure development.

The need for environmental regulation as part of SME promotion policy is confirmed in the following comments of survey respondents: “SMEs are not aware of the need for pollution control,” “no regulatory control is applied to pollution-

generating SMEs (Ministry of Environment),” “there has been no environmental regulation targeting SMEs (Ministry of Environment),” and “no loan program to support pollution control measures (Ministry of Environment).”

5) Bankruptcy

In the 1990s, a large number of SMEs went bankrupt. In 2000 and 2001, bankruptcy continued to exceed startup in absolute number and production of SMEs has been on the decline. Seemingly, a large number of SMEs in light industries went out of business.

Six responses are concerned with bankruptcy, such as “approximately 8,000 companies went bankrupt over the decade since 1990,” “the number of SMEs in Anzoategui declined 35% since 1997 [due to bankruptcy],” and “95% of furniture manufacturers in the country closed down.”

This phenomenal rate of bankruptcy seems to reflect the fact that many manufacturers and marketers of consumer goods (light industries), which grew under the import substitution policy and protective tariff, have lost competitiveness (both price and quality) against imports that have entered into the local market under the policy changes toward an open economy. In a sense, it is considered as one form of “natural selection” that occurred in the economic reform process.

Companies can only avoid a risk of bankruptcy by raising competitiveness (price, etc.), introducing latest technology, and improving product quality. From the viewpoint of public interest, however, the government is expected to take appropriate actions to prevent or reduce bankruptcy which would cause a number of social problems including unemployment. In particular, the government should and can play a crucial role in preventing an avalanche of bankruptcies that are triggered by a collapse of a large corporation that serves as the leader of the multi-tier production system (e.g., automobile, electronics, petrochemical, steel and aluminum). Effective government action can save a large number of SMEs that would otherwise go bankrupt in such catastrophic situation. On the other hand, the government should not always serve as the saviour of every company that cannot make it in the race for “the survival of the fittest.” Rather it should help companies to build up their strength to survive through competition.

6) Protective tariff

Three responses refer to the present tariff rates and vary greatly to reflect position of each respondent. A respondent representing the government gives a formal explanation: “The protective tariff has been abolished since 1989 and tariff rates are now limited to 20%.” On the other hand, a respondent representing the business community requests more protection: “The current tariff rates – 15% for semi-finished goods and 20% for manufactured goods – are very low. We cannot compete with Chinese products, even at 40%.” Another respondent feels the need for adequate market intervention: “The protective tariff is an important tool as it is applied to specific products and is widely used all over the world.”

These opinions clearly reflect the situation facing the country and raise important issues that should be addressed in the future policy. In theory, the use of the protective tariff can be a logical option for the Venezuelan government so long as it is positioned as “strategic market intervention” to promote industries that will serve the national interest on a continuous basis, as identified by the government on the basis of the sound principles of national economic development and the long vision. In addition, the actual use should be decided in careful consideration of restraining factors, such as government policy framework, regional trade agreements, WTO, and other bilateral agreements.

7) Taxation

Eleven responses are related to taxation. Five responses complain about “reimbursement of tariff and IVA” that is in place for the purpose of export promotion.

The “reimbursement issue” has been improved according to the government, but companies do not agree with it. It is boiled down to quality of the public service system, which is perceived as poor by many companies. This issue should therefore be addressed as the improvement of the “public service system.”

Among other responses, five responses are concerned with reduction of tax burdens: “the tax is heavy;” “despite the recession, the government does not reduce the fixed rate tax;” “the business asset tax on SMEs should be exempted;” “tax burdens increase and there are 17-18 local taxes;” and “there is regional discrepancy in local tax.” In fact, these opinions are related to local tax and give some hint for local government when it fosters or attracts industries. The state government should

consider strategic tax incentives that can be used as an effective tool to demonstrate its comparative advantage over competing states in terms of investment climate.

One response points about “problems about the present tax collection system.” This should also be addressed as the quality of the public service system.

8) Standardization

There is only one response in this category, “resource pooling of system engineers is not progressed.” This seems to be a very important issue for industry in Venezuela, which intends to promote exports.

Products made by SMEs in less developed countries are generally below international standards in terms of quality. They can find the market so long as price competitiveness is maintained, but some products are not accepted unless they meet specific quality standards. For this reason, many developing countries in Asia promote the establishment of product standards that are acceptable in the export markets. Standardization is also the foundation of industrial production and an important source of improving work efficiency. It is now becoming a critical element of the software industry if it is to build up the sound technological base for sustainable development. Also, the public campaign to promote standardization would help raise public awareness of quality, serving as an impetus for bottom-up industrilization.

9) Social security

Four responses are concerned with social security. Three responses complain about high social security charges that create a heavy burden on business, including a response that point out an issue related to quality of the public service system, “the medical insurance system does not work and companies have to bear the cost.” Other two responses point out high social security costs; “a heavy burden of social security charges on part-time workers” and “high labor costs including social security.” These responses confirm a general perception of the country where “labor costs are high.”

Another response states that “the unreliable social security system encourages brain drain.” Although the causal relationship is difficult to accept, it is undeniable that the poor working environment – the poor social security system – creates a sense of job

insecurity among workers and causes a higher turnover rate in some industries. On the other hand, people who have completed higher education are provided with wider employment opportunities, including outside the country. Under the free market concept, they are entitled to search for better jobs at their discretion. What is important now is to develop an attractive working environment, including a reliable social security system, which can retain and utilize human resources that can contribute to sustainable economic development of the country. On the other hand, excess social security requirements for employment of part-time workers and the increase in minimum wage may discourage SMEs to hire workers and should be carefully considered.

10) Export and import inspection system

In Venezuela, inspection on industrial products for exports is carried out by independent laboratories (private companies) for major export items, including crude oil, petroleum and chemical products. On the other hand, no special inspection is required for other export items (e.g., farm products, processed food, machine parts) and all import items.

Generally, inspection on export and import products is performed to check quality of content (or compliance with specifications), quantity (weight) and value (price). In addition, the official inspection system on imports is sometimes used as a non-tariff barrier (protection barrier) and serves as policy measures to protect domestic industries. On the hand, export inspection helps raise reputation of export products in foreign markets as government formally accepts and assures their quality according to specific standards, while avoiding commercial disputes attributable to products and their quality.

Some countries require quality assurance on imports, which therefore need to accompany quality certification that is issued by government or government-accredited inspection organizations, which inspect and test the products according to standard methods and specifications. Today, such certification system is essential if a country is to promote exports of products made by light industries.

Nevertheless, if export inspection is required for all products made by SMEs, it will adversely affect their cost competitiveness. Thus, the scope of the certification

system should be limited to strategic products or certification costs should be borne by government.

11) Consulting system

In Venezuela, business consulting service (corporate advisory system) has a relatively young history and is provided by the central government (MPC), local government organizations or independent private organizations, but not available throughout the country (Response 67). Thus, it is not accessible by all SMEs. In addition, service charges vary according to providers, including public organizations. For instance, the consulting service program by CONINDUTRIA (“CONINPYME program”), which was started in January 2000, has been used by a small number of companies. Local trade associations think that the service is limited to large corporations and companies in the capital region (Response 68). Thus, it will take some time to deploy the service nationwide. Also, the PAIPYME program operated by MPC has been suspended due to practical problems before it is extended to nationwide coverage.

As for business consulting service provided by local government, the PTG program conducted by the Carabobo state government (“Business Management Reform Program”) seems to produce good results by providing extensive service. On the other hand, Bolivar and Anzoategui do not conduct such activities, neither state governments or regional development corporations (67, 69, 71 and 73). In Anzoategui, business consultants are retained by individual companies at their own cost (72) and their service charges are very costly for SMEs. In Zulia, consulting service is provided as part of Jose Antonio Sucre Program.

As the government sets decentralization of economic activities through regional development as its strategic goal, it is desirable to establish the consulting service program and/or its support system to make such service available throughout the country and at the same cost. Also, a specific ministry or agency should be responsible for public support related to the consulting service system.

12) Public administration

Generally, “CAN countries have poor public administration (77)” and “private enterprises and government organizations are not in harmony (75). This seems to

come from problems related to the government's management capability, including organization, as well as the poor level of problem recognition among government staff

13) Labor law

As perceived by most companies, the current labor law is “strongly labor-oriented (78)” and “does not permit hourly wage (80)” and “lacks flexibility (79)” including the heavy burden of social security costs. This problem should be considered in connection with the social security issues in 9) above.

14) Government organization and service

Many complaints are cited in the area of government organization and service, including “poor government service (83),” “inefficient public service (84)” and “streamlining of government procedures should be given of priority (85%).”

As for problems related to government organization, “the establishment of the local administrative organization should be given of priority (90),” “the new organization responsible for SME promotion should have consulting function (91),” “an organization to integrate and manage support functions is required (92),” and “a more effective organization is desirable (93).”

Specific problems and proposals include: “the permit and approval system for the establishment of a new company and capital increase impedes smooth business operation (86),” “one-stop service (like Euro Windows) is required (87),” “government service content should be made known to the public via the Internet (88)” and “the lack of facilities bridging the central and local governments (89).” They provide useful hints for improvement.

15) Customs and customs clearance system

Fourteen responses cite problems related to customs and their service, of which six problems are concerned with inefficient service (94-98, 107) and eight illegal trade (99 – 106). They should be dealt with as a structural impediment.

Poor service is manifested as considerable time required for customs clearance (one week to one month) (96), which creates commercial damage (94). Computerization of port management and customs clearance work is desirable (95), as it is adopted by many countries.

To prevent illegal trade, various methods should be considered and adopted, including computerization of customs work, cross-checking, the check price system (to prevent under-invoice) (100), mandatory presentation of the certificate of origin, and the attachment of visa. In particular, import inspection on consumer goods, such as textile, furniture, leather and plastic products, should be enforced strictly in order to protect domestic industries from illegally imported products.

16) Local economy

Seventeen responses are concerned with problems related to local economy. Most serious problems are the lack of economic vitality felt by industries in various areas. In particular, industries serving basic industries (oil in Zulia and Anzoategui, steel and aluminum in Bolivar), such as maintenance service contractors and suppliers, do not have much future prospect and want to change their business (111, 113, 115, 117 and 119). Also, basic industries are capital intensive in nature and do not create much employment opportunities. Furthermore, downstream industries using raw materials supplied by the basic industries are undeveloped, and these industrial complexes do not contribute much to local economy.

In particular, now that petrochemical industries (Zulia) and steel and aluminum industries (Bolivar) are not expected to expand their operation significantly in the near future, contractors and suppliers serving these industries cannot hope business expansion and have no prospect for using their skills (such as metalworking) to other businesses, staggering in the unfavorable business environment (116, 118 and 125).

A respondent in Ansoategi wishes to have public support for a food processing chain using traditionally available farm products (110).

To overcome the stagnant situation, it is recommended to promote diversification of industries through various approaches. First of all, efforts should be made to explore the market for downstream industries by leveraging location advantage of being near industrial complexes as well as skills developed over the years. Secondly, traditional industries should be revitalized through modernization projects to develop them to competitive industries. For this purpose, it is important to promote research and development of marketable "local products" using local resources under concerted

efforts of the upstream industries, and central and local governments. Participation of universities and research organizations is desirable.

In addition, revitalization of local economy can be achieved by correcting economic disparity between the central and rural regions (124) and policy consideration is required for infrastructure development, including transportation and information networks.

17) Industrial structure (126-134)

Nine responses point out problems related to industrial structure. Four responses are concerned with problems related to production chains and proposals for solution (129, 132, 133 and 134), expecting the unexpected industrial structure to diversify through accelerated development of production chains. Special problems include the need for development of downstream subsectors of the steel industry (129) and the concern about an adverse effect of the stagnant automotive industry on the supplier base (132).

Problems related to SMEs include competitive pressure from large foreign-based suppliers in the automobile industry (126) and wage differentials between SMEs and large corporations. Two responses point out a structural problem of the entire industrial sector, characterized by industrial development and deterioration of agriculture (131 and 132).

18) Collective operation (135 – 141)

Seven responses are concerned with collective operation among SMEs. Major problems include the decrease in membership (136 and 137) and the lack of incentive for participation in cooperative or association (139). They seem to want promotion of collective operation by making cooperatives the core target for SME support policy, thereby to strengthen the business base of smaller enterprises and promote their complementary relationship. The need for collection operation of SMEs in rural area is also raised (141) and an approach using information networks should be considered.

19) Industrial linkage (142 – 153)

Twelve responses cite problems related to industrial linkage. Four responses point out the need for promotion of industrial linkage form upstream and downstream industries (142 – 145) and note that “the fostering of downstream industries has been

talked about since initial investment in the basic industries, but it has never been realized.” One response denies responsibility of the upstream industries, stating “development of downstream industries should be done by SMEs (142).” These responses suggest that underdevelopment of downstream industries seems to partly stem from the absence of efforts of upstream industries to develop the domestic market and new products.

Then, five responses are related to some proposals for promotion of industrial linkages: “promotion of technology clusters is required (146);” “horizontal integration should be promoted among companies in complementary relationship (147);” “resource pooling of system engineers is required (150);” “linkage with consideration to vertical integration is only one solution (152);” and “it is difficult to survive alone (153).” All of them conceptually understand the need for industrial linkage, but do not have specific images for solution.

Other responses are concerned with reports on “collective purchase projects” that are already underway, including collective purchase of steel materials through a metalworking cooperative (148); and collective purchase of utilities at an industrial estate (149). These cases provide good examples of collective operation that can be followed by other cooperatives.

20) Subcontracting (154 – 167)

Fourteen responses point out problems related to subcontracting. Six responses are concerned with problems related to dependence on upstream industries (154, 158, 159, 161, 162 and 164), which are located in three states (Zulia, Bolivar and Anzoategui). They reflect the current situation that supporting industries are largely dependent upon large, basic industries as major revenue sources. Although these industries realize problems related to the captive subcontracting relationship but they cannot afford to become independent. Perhaps, such stagnation may not be felt if upstream industries continue to grow dynamically, and SMEs do not have resources or ability to overcome the situation by themselves. A workable solution is to organize SMEs in supporting industries to initiate horizontal integration and rationalization for cost competitiveness and work efficiency. At the same time, they should work together to develop new markets by offering “best-of-breed” skills. In particular, most of SMEs in the three states are metalworking and other specialized shops to supply replacement parts and provide maintenance service for their customers, and

they will be able to find new markets such as production of machine parts and participation in public works projects. In fact, some suppliers for the automobile industry in Anzoategui have diversified to the construction market (166).

Other responses include “unfavorable terms of contract from upstream industries to supporting SMEs (155 and 167)” together with some proposals for improvement. A respondent representing a Japanese assembly manufacturer points out that the company has expanded business with outside contractors and suppliers, while service quality is improving (157).

General opinions include the expectation for government support to encourage the use of outside contractors (156), the lack of OEM contract for textile production (163), and the unwillingness to cooperate in business expansion of the automobile industry.

21) Growth of the informal sector (168, 169, 170)

It is pointed out that SMEs are increasingly engaged in informal activities, a phenomenon commonly seen in the CAN countries (170). Growth of the informal sector disturbs with the evolution process from smaller enterprises to large corporations, and the government loses its tax base as the underground economy grows. To reverse the trend, it is important to provide public support to encourage growth of the formal sector, especially entrepreneurs and SMEs.

22) Education and training (171 – 208)

38 responses are related to education and training and human resource development. The most frequently heard opinions are the lack of technical skills (177, 179, 180, 182, 186, 187, 189, 190, 201 and 207), together with the request for upgrading of vocational training, especially industrial skills. Problems related to facilities and the educational system include the criticism that higher education serves the interest of large corporations (171, 175, 176), poor educational facilities (184), closedown of training facilities (191 and 208), the need to maintain education on latest technology (206), and the complaint about the obligation to hire graduates from INSE (203).

Other opinions include the importance of basic education (172, 173), the need for development of workers' morale (192 – 194), the lack of modern management techniques (195 – 200), comments on the education and training system (178, 181,

188), absence of VC fund manager (202), and a case report on contractor education by upstream industries (185).

23) Infrastructure (209 – 243)

(a) Industrial estate

35 responses point out problems related to infrastructure, of which those related to industrial estate account for 23. Problems cited include poor management, as seen in a rapid decrease in tenant industries and low operating rates (221, 222), functional problems, such as poor maintenance, power supply interruption, poor water supply and sewer, poor transportation access (223, 225, 226, 234), unsuccessful industrial estate projects (235, 236).

There were responses that explain development projects related to the government's new plans. However, these responses emphasize the objectives of industrial estate development that are oriented to social development: "to develop an industrial estate as the basis of promoting industrial development in a lagging area (227);" "promotion of industrial development outside traditional industrial zones (228);" "rehabilitation of an abandoned industrial site (229);" and "development of an industrial estate to promote development of an area under poverty." Industrial investment should be carried out for commercial purpose and must be commercially viable. No investment decision should be made on the basis of other factors, including contribution to social development. If an industrial estate makes an economic sense or offers a solid business case to private enterprises, it will not be able to attract tenants, no matter how it is well supported by infrastructure and public service. It will stand there as an empty site. Thus, superficial comments, such as "[development of industrial estates] generally helps rural industrialization (232)" and "investment in industrial estates should be made as part of infrastructure development (242)," seem to lack the objective viewpoint to promote industrial development projects by ensuring optimum allocation of scarce resources.

(b) Transportation

Comments on transportation are divided into those related to inland transport (209 – 212) and water transport (213 – 219). The former is largely concerned with safety in transportation. However, problems related to public security and insurance seem to stem from "staying behind Colombia in rationalization of the transportation service industry (212)" which makes the Venezuelan industry lose

competitiveness against the Colombian counterpart. As for water transport, there is a plan to revive a defunct state maritime shipping company which was dissolved around ten years ago (213, 216). This is considered to be a very important project to help promote regional transport with Central America. The development of water transport networks that connect the Orinoco river, river ports, and sea ports along the northern coast with the Caribbean sea, Central and South American countries is expected to create a great geographical advantage for Venezuela in terms of an intra-regional, physical distribution system, which can develop to a major industry in the country.

24) Utilities (244-251)

Eight responses are related to utilities, most of which are concerned with power supply. They complain about “poor public utilities (244),” “inefficient supply of utilities (water, electricity and gas (245),” “electricity and water supply to industrial districts is always a problem (246),” “high electricity charges for SMEs (247, 248 and 250),” and “poor quality of power supply (unstable voltage) (249).”

Unstable power supply, poor quality, and high charges will become major obstacles to promotion of SMEs. The inefficient power supply system seems to be major cause for this problem and substantial improvement is required. Stable supply of high quality, low-cost, industrial utilities is a critical factor for development of SMEs in the manufacturing sector. If the reliance on hydropower supply from the Caroni continues to uneconomical and risky, research and study should be made to examine the economy of small-scale generation systems that use energy sources available in local areas (coal-fired thermal, gas turbine, and small hydropower).

25) Management modernization (252 – 260)

SME managers are generally “enthusiastic about business growth but lack foresight (260).” Local financial institutions have critical comments on them: “most SME managers “often lack business ethics (257),” “do not have formal management policy (258),” or “tend to handle business on an impulse (225).” Also, business owners “only talk about money and their true motive needs to be found (256).” In fact, many SME managers cite “financial” as the most important problem, but real problems may come from the lack of their ability, e.g., management or sales.

To implement SME promotion policy in the future, therefore, support programs should include guidance for SME managers with regard to modernization of management, which may include policy recommendation and person-to-person consultation if necessary.

26) Technological advancement (262 – 265)

Four responses are related to technological advancement, but due to a limited number of interviews with individual companies, few comments on actual technical issues are found. In any case, two responses seem to tell it all: “technology levels are low in every field (264)” and “aging of production equipment prevents production of adequate quality products (265).” Many SMEs in the country have reportedly failed to make equipment upgrading or technical innovation for a long period of time. As a result, they cannot compete with imports in both price and quality, as demonstrated by the rapid increase in the number of bankruptcy cases. Similar problems are pointed out in “investment” and “finance” sections.

27) Strengthening of the business base (266 – 273)

Eight responses point out the lack of competitiveness and vulnerability of SMEs, except for two responses (268, 269) that cite general problems observed in SMEs. Response 269 states that “although most SME managers claim the “financial issue” most important, actual issues to be addressed are the upgrading of management techniques, including business administration, sales, and financial management.” Similarly, response 268 points out that “weaknesses of SMEs are R&D, old organization, human resource development, and sales and marketing.” Together with the need for modernization of technology and equipment, SMEs must strengthen their business base in all elements, ranging from management, sales and marketing, and R&D, not to mention financial management.

28) Market (274 – 296)

23 responses are concerned with market-related problems. Problems are stated in diverse forms, while the most important message is “the market should be given of highest priority (281).” Problems related to SMEs include “the lack of marketing capability (280)” and “the lack of sales skills is the most serious problem (282).” Problems cited by SMEs include “the question is how to find work (275),” “the sluggish local market drives us to the export market (286),” “there is a success story in

finding the niche market,” and “production of aluminum speakers (bound to the U.S.) was discontinued (292),” indicating that they strive to develop the new markets.

On the other hand, upstream industries that supply raw materials to SMEs (their market) seem to keep a distant position: “need to develop volume customers (285),” “the aluminum processing industry is governed by market trends (294),” “the domestic market is small (283),” “supply of raw materials to higher value added production is small (276).” Also, the comment stating that “aluminum ingot manufacturers have policy to give priority to exports (277)” indicates that they are not interest in meeting the needs of the domestic market that consists of SMEs.

As a result, they face competitive pressure in the domestic market: “[the domestic market] is dominated by imports (274),” “the problem is a continued decrease in sales (279)” and “intensive competition from Chinese products (278).”

While some companies strive to regain loss in the domestic market by shifting their focus to export markets, many express difficulty in export promotion: “no incentive for export promotion and strengthening (287)” and “Venezuelan embassies in foreign countries are not cooperative other than oil business (291).” However, the government feels that “they do not take action due to the lack of experience and time-consuming paper work (290).”

Other responses include the request for use of PVC pipes in public works (295 and 296) and a criticism that “the plastic processing industry has not developed marketing channels and do not provide sales education and support (289).”

There are an opinion that cites specific problems that can provide some hints for solution: “upstream industries should cooperate in market development (293).” “For SMEs which lack the ability to promote market development, product development and physical distribution, large corporations in the upstream sector are expected to develop processed products and domestic markets as part of their market development and business expansion strategy for their own products (raw materials). In addition, the government should joint such efforts in policy and financial aspects. (See “raw material” below.)

29) Investment (297 – 313)

Problems related to investment are divided into those related to capital investment and technological upgrading, and those related to policy. The former includes “difficult for SMEs to introduce equipment and technology (301),” “no upgrading of technology in the past 15 years (302),” “no resources such as processing facilities and technology for farm products (306),” “cannot afford to IT investment, but more information is required (300),” “have to sell raw materials because we cannot process them to products (309).” They all point to financial constraint on capital investment in equipment and technology.

Policy-related problems include “there is no organization in the country to provide loans and promote investment (310),” and “there is not insurance program for protection against investment risks (313).” In addition, the lack of public support for “financing” is pointed out (See “finance” section below.)

As for foreign direct investment, problems include “collapse of the electrical and electronics industry (297)” and “the government’s frequency policy change is a major obstacle to FDI (307). For joint investment with foreign companies, “joint venture with Japanese companies (299)” and “joint venture with foreign companies should be promoted (308)” are expected.

Other responses include the explanation on Venezuela’s investment law (304, 305), explanation on development support programs by local development corporations and a new government financial institution (311, 312) and expectation for venture capital (298).

Revitalization of industry must be driven by capital investment. Also, foreign direct investment is an effective means to promote technical innovation, modernization of corporate management, and development of SMEs. Most importantly, however, the improvement of the investment climate (political, economic and social stabilities, etc.) serves as the foundation for investment promotion and needs to be carried out in due course (country risk, 303)

30) Finance (314 – 387)

74 responses, the highest percentage, are concerned with problems related to finance, and are further classified as follows.

(A) Financial policy

- Central bank's targets
 - Reduction of banks' operating costs (314)
 - Restructuring of the financial system (reform) (315)
 - Stabilization of foreign exchange rates (320)
 - Stabilization of interest rates (327)
- Aims to lower interest rates after the above targets have been achieved (376)
 - The government will not revalue because of the strong currency. (321)
 - Devaluation of currency will be at 1.5% per month and will continue into 2001. (322)
 - Reform of the financial system is required. (370)
 - The strategic issue is financial policy to stimulate production and exports. (374)
 - The government has no definite financial strategy. (375)
 - Long-term, low interest rate loan (soft loan) facility is required. (386)

(B) Foreign exchange

- The strong Bolivar policy comes from the fact that the non-oil sector depends on imported materials (65% of total consumption). (342)
- Overvaluation of the Bolivar (364)
- The strong currency is a major obstacle to export promotion. (365)
- The strong currency has large impacts. (366)
- Overvaluation of the currency makes it difficult to compete with imports. (367)
- The strong currency facilitates imports of intermediate and manufactured goods. (368)
- The devaluation of the real affects our exports. (352)

(C) Interest rates

- Banks lend low-cost funds (provided to rescue during the financial crisis) at high interest rates. (319)
- Difference in interest rate between large enterprises and SMEs should be corrected. (326)
- Interest rates are too high (gap between large enterprises and SMEs). (328)
- SMEs are forced to pay high interest rates. (329)
- Interest rates are persistently high and troublesome for SMEs. (330)
- There is a significant difference between active and passive interest rates. (331)

- SME loans are highly risky and interest rates become twice or three times that applied to large corporations. (332)
- High interest rates (333)
- Loans for purchase of motor vehicles are provided at 12% during the first six months and 34% per annum thereafter. (334)
- Interest rates usually exceed 30%. (335)
- Interest rate hikes for automobile loans have large impacts. (373)

(D) Loan guarantee

- Banks apply strict collateral requirements, with high commission and interest rate. (355)
- Collateral can be equipment, building and land, and FONPYME's guarantee is available. (357)
- Most companies cannot offer sufficient collateral. (358)
- SMEs generally have no solvency. (359)
- Collateral is limited to land and other fixed assets, not machinery. (360)
- No bank guarantee is available for loans by Japan Export and Import Bank.
- SMEs need loan guarantee. (362)
- Machines are rarely accepted as collateral (difficult to sell). (363)
- A mutual guarantee fund can be established for industrial loans. (380)
- A legal system is developed to issue title document to secure land-based loans. (38)
- In the agriculture and livestock industries, 7-8 companies form a cooperative for loan guarantee. (353)
- Venture capital should be introduced to supplement commercial loans that are limited to collateral. (354)

(E) Financial institutions

- FONCREI's loan terms vary with banks. (316)
- Credit line of commercial banks to SMEs is limited 10% of total. (339)
- Banks do not provide sufficient loans. (340)
- FONCREI does not fulfill its purpose because it serves as an intermediary body. (356)
- 20 years ago, there was a financial institution to provide direct loans to SMEs, but not any more. (379)
- FONCREI's loan procedures take 8 months, not meeting actual demand. (382)

- We consider the fund to save companies with financial difficulty. (383)
- Industrial Bank does not provide loans to SMEs under law. (384)
- Functionally, we cooperate with lending banks at the second-floor bank level. (New development bank; 385)

(F) Service of financial institutions

- Quick and efficient loan service is required. (336)
- Government banks require complicated application procedures. (343)
- [The new development bank] aims for streamlining, speed-up and dynamism of procedures. (387)

(G) Financial capability of SMEs

- Financial capability of SMEs is limited. (337)
- Financial constraint prevents access to latest technology (equipment). (338)
- Financing is difficult (working capital and investment). (349)
- Investment funds for equipment upgrading cannot be obtained. (351)

(H) Finance in general

- Foreign exchange and financing are major problems for SMEs. (344)
- Corporate finance does not work mostly. (345)
- There are problems related to credit line, interest rate, term, guarantee and other areas. (346)
- Financial access is difficult. (350)
- SMEs cannot obtain favorable loan terms from financial institutions. (347)
- Banks are reluctant to SME loan due to high risk. (348)
- The Ministry of Environment does not provide loans to assist environmental investment. (371)
- CAF loans accompany intervention in management of borrowers. (369)

(I) Others

- No venture fund (317)
- Venture funds are required. (318)
- SME managers think that they do not have to repay loans. (323)
- SME managers do not use loans for the agreed purpose. (324)
- SMEs are suspicious about financial institutions (for acquisition). (325)

31) Research and development (388 – 397)

Generally, SMEs are not capable of doing research and development by themselves due to financial constraint (389). Also, R&D loans require high interest rates and are limited to short-term (388) and are not used for product development or technology development purposes. On the other hand, national research institutes, universities or corporate research institutes do not conduct R&D projects under commissioning of SMEs (393, 395). CAF's MERIDA project encourages industry-university joint projects (396), but there are not much projects or moves in similar nature. SMEs have high expectation for the project. MCT's organization comments on development of the software industry that "we have to give priority to applied research rather than basic research (391)." This is considered to be appropriate in consideration of circumstances facing the Venezuelan economy, although basic research is also critical in the long run. In practice, MCT already sets an example of government-led R&D activities by undertaking various initiatives such the implementation of a model cluster of local industries and product development at SARTENEJA's engineering center (prototype manufacture).

Other opinions relevant to the above issue are as follows:

- Lack of merchandizing power (390)
- Techno-park is required (entrepreneur support, R&D, testing laboratory, etc.) (392)
- It is desirable to official encourage industry-university joint projects. (394)
- It is agreeable that large companies in upstream industries cooperate in product development. (397)

SARTENEJAS Technopolis attached to Simon/Bolivar University has research facilities (not having sufficient resources) and entrepreneur support (incubator) service. These facilities should be expanded and made available to private enterprises (SMEs), and universities have their research organizations conducted research projects under the commissioning of the private sector. As pointed out in "market" section, industries supplying industrial materials should actively be involved in product development by downstream industries (SMEs) because it also contributes to expansion of their domestic markets.

32) Information (398-415)

Information access is a serious problem for SMEs in the country. A variety of problems are cited to indicate strong and diverse needs for information: lack of general information (401, 402, 407), lack of information in remote areas (408), statistical information (412, 413), corporate information (398, 404), market information (399, 403), technical information (399), supplier information (406), buyer information (403), policy information (409), and product information (405).

In response, MCT implements information networking projects linking the head office and local offices (400), under which databases will be enhanced and nationwide information dissemination systems will be provided. In addition, the government should address the “issue of poor communication infrastructure (410)” by focusing on infrastructure development, in light of the fact that it lists regional development as one of major objectives of economic development. Also, efforts should be made to remove other obstacles to development of the IT industry, including “high Internet service charges (411)” and “high PC costs (414).” Furthermore, the government should respond to MCT’s suggestion that “IT needs to be linked to everyday work and service (415)” and should work together to accomplish the goal of revitalizing and rationalizing the economy.

33) Raw materials (416 – 449)

Raw materials referred to here are primarily industrial materials made locally, including plastics and aluminum. 34 responses are concerned with problems related to raw materials.

(A) Price

Price problems are raised for plastics materials:

- Domestic prices of synthetic resin match import prices. (423)
- Products become cheaper by using Venezuelan materials imported from Colombia. (427)
- PEQUIVEN’s resin prices are 30% higher than international prices. (428)
- Resin re-imported from Colombia is cheaper than the one procured from the international market. (429)
- PVC made in Colombia is not price competitive with VCM imported from the U.S. (430)

- Locally available raw materials are more expensive than imports, and we have to depend on imports. (432)
- Raw materials prices need to be same as international prices. (425)

No price problem is raised for aluminum. Price problems related to plastics materials seem to come from the fact that PEQUIVEN exports products at international prices, while domestic prices are much higher and under less favorable terms. As plastics materials are exported to Colombia at export price and are processed to products, which are then imported to Venezuela at no tariff under the CAN agreement, domestic suppliers cannot compete with them. At present, plastics materials for exports are sold at price levels 20% below domestic ones and with payment terms of DA90days. On the other hand, domestic processors have to pay within 30 days and must receive delivery at PEQUIVEN's mill. This is pointed out as "the difference in payment terms between local and export transactions (440)."

(B) Delivery of raw materials

Both aluminum and plastics materials are delivered at the producer's mill. Processors in remote areas have to take delivery at Tabrazo (PEQUIVEN), Losguayos (PEQUIVEN warehouse) and Pto. Ordaz (aluminum mill) and transport materials at their own cost. Comments include: "delivery at mill and transportation to be arranged by the buyer (433); while suppliers comment that "delivery to (the buyer) has a safety problem (434);" "the supply base (distribution stock) is unthinkable (435);" and "emergence of distributors is expected (436)." Conditions are similar in plastics materials.

(C) Payment terms

Payment terms for plastics materials are already mentioned in "price" section. As for aluminum ingot, rolled products are paid within 30 days (438) and cut products are paid by cash because of many SME customers (439).

(D) Delivery time (lead-time)

For aluminum materials, "lead-time is too long (45 days) (443)" and "lead-time for import materials is even longer (3 months) (444)." This affects inventory control and is reflected in production costs as an additional interest.

(E) Unit of sales

Unit of sales for aluminum is considered to be too large for SMEs.

- Unit of sales is 30-40 tons. (446)
- Small lot sales is not considered. (447) (supplier)
- Too large lot from domestic suppliers (448)
- Too large lot from SMEs from domestic suppliers (449)
- High inventory costs (raw materials and interest) (431)

The issue of large sales lot is eventually reflected in the production cost of SMEs in the form of the inventory cost. In Venezuela where interest rates are very high, this is a serious problem for SMEs which financial base is usually weak. The following solutions are suggested to overcome the situation:

- a. Collective purchase by a group of SMEs (437)
- b. Raw material suppliers establish regional stockyards for small lot sales to SMEs in each region.

(F) Others

- The leather industry has difficulty in obtaining raw materials. (418)
- Local production of raw cotton is on the decline and 60% is now exported. (419)
- Locally produced resin materials are difficult to process. (420)
- LLDPE is not sold well because of poor quality. (421)
- Product delivery was delayed due to difficulty in obtaining raw materials and customer confidence has been lost. (441)
- Purchase negotiation on aluminum ingot is carried out only in Caracas. (442)
- Both aluminum and PVC are imported. (416, 417)
- Petrochemical materials (associated gas) are expensive. (424)

2.1.4 Results of the Questionnaire Survey

(1) General description

Questionnaires were distributed to companies in the target subsectors during the study team's visit and was later collected. The rate of response is relatively low and collection took a relatively long period of time. 25 responses were collected up to the second field survey, and the rate of response was 57%. Their breakdown by industry is as follows:

Automotive parts industry	8
Aluminum product industry	11
Plastics product industry	6

Three forms of questionnaires were used: (a) a standard form (manufacturers); (b) a special form to ask about immediate problems; and (c) a special form covering the target industry. Forms (a) and (b) are attached in Appendix. Note that responses to form (a) were analyzed and reported in this interim report.

(2) Preliminary analysis of survey results

The response rate and other data are summarized as follows:

- Number of questions: 31
- Number of respondents (companies): 25
- Number of questions responded: 308 (39.74%)
-)

Preliminary analysis of responses to each item is summarized as follows.

1) Sales and marketing

A. Major problems cited

- Weak sales organization: 13 (52%)
- Excessive competition among local companies: 11 (44%)
- Lack of sales skills: 10 (40%)
- Lack of competitiveness: 9 (36%)

B. Problems less cited

- Lack of product marketability: None
- Poor quality competitiveness: 4 (16%)

Thus, majority of companies has problems related to sales force and feel that they are attributable to the sales organization and sales skills, rather than product marketability and quality. 40% of respondents admits “lack of competitiveness” and thinks that it is caused by lack of price competitiveness or sales skills. Other responses point out competition with imports, illegal imports (2 responses), contraction of the domestic market, and market opening.

Problems cited by majority of companies in each industry are as follows:

Automotive parts industry

- Weak sales organization (7 out of 8)
- Lack of sales skills (6 out of 8)
- Lack of competitiveness (4 out of 8)

Aluminum product industry

- Excessive competition among local companies (5 out of 11)

Plastic product industry

- Excessive competition among local companies (3 out of 6)

Thus, there a clear difference in market relations between the aluminum and plastic product industries, and the automotive parts industry.

2) Production technology

A. Major problems cited

- Low productivity: 14 (56%)
- Aging equipment: 10 (40%)
- Problems related to the production management system: 8 (3%)
- Problems related to the production management system: 7 (28%)

Thus, majority of respondents considers aging equipment and low productivity as major problems. As these items are related to each other, major issues are “modernization of production equipment” and/or “introduction of advanced equipment.” On the other hand, not many respondents consider production technology and production management system as a major cause for their problems (i.e., below the average level of recognition).

Problems cited by majority of companies in each industry are as follows:

Automotive parts industry

- Low productivity (6 out of 8)
- Aging equipment (4 out of 8)
- Low level of production technology (4 out of 8)

Aluminum product industry

- Low productivity (6 out of 11)

Thus, “low productivity” is a major problem for the two industries, except for the plastics product (transforming) industry, and majority of companies have problems related to “aging equipment” and “low level of production technology,” which are conducive to low productivity..

3) Business administration

A. Major problems cited

- Recruitment/labor management: 12 (48%)
- Training system: 12 (48%)

B. Problems less cited

- Financial management: 6 (24%)
- Procurement management: 9 (36%)

Thus, majority of respondents has problems related to recruitment and labor management, and the employee training system. Although the former is not described in detail, it seems to be related to the complaint about the current labor law that is considered to protect labor rights strongly, the complaint about labor skills, and the lack of the internal education system.

Problems cited by majority of companies in each industry are as follows:

Automotive parts industry

- Recruitment/labor management (5 out of 8)
- Inventory management (4 out of 8)
- Training system (4 out of 8)

Aluminum product industry

- Procurement management (6 out of 11)

Plastics product industry

- Recruitment/labor management (4 out of 6)

Thus, majority of companies in the two industries is most concerned about labor management. In the automotive parts industry, majority of companies cited problems related to inventory management and training system. In the aluminum product industry, majority of companies cited the procurement problem that reflects the known problems related to the purchase of raw materials (an excessively large lot and others).

4) Raw materials and utilities

A. Major problems cited

- Unstable raw material prices: 19 (76%)
- Unstable quality of raw materials: 11 (44%)
- Unstable supply of utilities: 10 (40%)

B. Problems less cited

- Unstable delivery schedule of raw materials: 5 (20%)

The results indicate that 76% of respondents are not satisfied with domestic prices of raw materials. In particular, all the companies in the plastic product industry consider it as a major problem.

Problems cited by majority of companies in each industry are as follows:

Automotive parts industry

- Unstable raw material prices: (6 out of 8)

Aluminum product industry

- Unstable raw material prices: (7 out of 11)
- Unstable quality of raw materials: (6 out of 11)

Plastics product industry

- Unstable raw material prices: (6 out of 6)
- Unstable quality of raw materials: (3 out of 6)
- Unstable supply of utilities: (3 out of 6)

Clearly, the most serious problem for the two industries is “unstable prices,” followed by unstable quality of raw materials (aluminum and plastics).

5) Political, institutional and environmental problems

A. Major problems cited

- Taxation and tariff system: 18 (72%)
- Lack of government support: 17 (68%)

- Shortage of training organization: 17 (68%)
- Government procedures and service: 14 (56%)
- Low level of official training: 12 (48%)

B. Problems less cited

- Strict legal control: 7 (28%)
- Pollution control and environmental protection costs: 7 (28%)

As seen in the above, majority of respondents is dissatisfied with five out of seven items related to political, institutional and environmental problems, and expects government action in the form of policy measures. On the other hand, two items are not considered as major problems, probably because environmental regulation is not strictly enforced to reduce them to a minor problem.. Thus, SMEs are most concerned about government action that affects the business environment and public support to improve it.

Problems cited by majority of companies in each industry are as follows:

Automotive parts industry

- Taxation and tariff system: (7 out of 8)
- Lack of government support: (7 out of 8)
- Shortage of training organization: (7 out of 8)
- Low level of official training: (5 out of 8)
- Government procedures and service: (4 out of 8)

Aluminum product industry

- Lack of government support: (8 out of 11)
- Shortage of training organization: (7 out of 11)
- Taxation and tariff system: (4 out of 11)
- Government procedures and service: (4 out of 11)
- Low level of official training: (5 out of 11)

Plastics product industry

- Taxation and tariff system: (5 out of 6)
- Government procedures and service: (4 out of 6)
- Shortage of training organization: (3 out of 6)

Thus, the most important problems for all the industries include taxation and tariff system, government procedures and service, and government support. In particular, companies in the automotive parts industry show high expectation for government support. On the other hand, environmental regulation is only concerned by the aluminum product industry, and most companies in other industries are little concerned due to insufficient environmental regulation

TABLE 2.1.4 SUMMARY RESULTS OF THE QUESTIONNAIRE SURVEY (Problems Cited)

		1	2	3	4	5	6	7	8	Auto-Sub-Total		9	10	11	12	13	14	15	16	17	18	19	Alum-Sub-Total		20	21	22	23	24	25	Plast-Sub-Total		Total	Average number of respondents	Percentage share	
		Autoparts										Aluminum products													Plastic products											
		Auto-1	Auto-2	Auto-3	Auto-4	Auto-5	Auto-6	Auto-7	Auto-8			Alum-1	Alum-2	Alum-3	Alum-4	Alum-5	Alum-6	Alum-7	Alum-8	Alum-9	Alum-10	Alum-11			Plast-1	Plast-2	Plast-3	Plast-4	Plast-5	Plast-6						
(1) Sales and marketing		4	0	3	4	4	3	3	3	24	42.9%	4	1	3	2	0	0	5	0	2	4	2	23	29.9%	3	3	1	2	1	1	11	26.2%	58	8.29	33.1%	
	a. Lack of competitiveness	○		○	○				○	4	50.0%			○				○			○		3	27.3%	○			○			2	33.3%	9		36.0%	
	b. Lack of competitiveness in quality					○				1	12.5%		○					○			○		3	27.3%							0	0.0%	4		16.0%	
	c. Products lack marketability									0	0.0%												0	0.0%							0	0.0%	0		0.0%	
	d. Lack of sales skills	○		○	○	○	○	○		6	75.0%	○						○					2	18.2%	○	○					2	33.3%	10		40.0%	
	e. Poor sales organization	○		○	○	○	○	○	○	7	87.5%	○						○		○		○	4	36.4%		○			○		2	33.3%	13		52.0%	
	f. Excess competition among local companies					○		○		2	25.0%	○		○	○			○		○	○		6	54.5%		○	○	○			3	50.0%	11		44.0%	
	g. Others	*Reimbursement of import duties does not work				Illegal imports		Limited to domestic market		Competition with illegal imports, rather than Asian products	4	50.0%	Aluminum plate manufacturers are operating, but no die cast		Lack of environment conducive to globalization	Cash flow problem created by delay in payment for government procurement					Difficulty in obtaining materials and shrinking of the domestic market	Capital based on the proper cost and loans	5	45.5%	Competition with foreign products						New equipment is operated at capacity	2	33.3%	11		44.0%
	*Overvaluation of Bolivar										0.0%													0.0%												
(2) Production technology		3	1	1	3	4	1	2	3	18	45.0%	0	3	2	3	4	0	2	0	1	2	1	18	32.7%	1	2	2	1	1	1	8	26.7%	44	8.80	35.2%	
	a. Aging equipment	○			○	○			○	4	50.0%		○	○	○	○		○					5	45.5%		○					1	16.7%	10		40.0%	
	b. Low levels of production technology	○			○	○			○	4	50.0%				○	○							2	18.2%			○				1	16.7%	7		28.0%	
	c. Problems related to production management system					○		○		2	25.0%		○		○	○				○	○		5	45.5%				○			1	16.7%	8		32.0%	
	d. Low productivity	○		○	○	○		○	○	6	75.0%		○	○		○		○			○	○	6	54.5%		○	○				2	33.3%	14		56.0%	
	e. Others		*New equipment is costly and diverse				Limited to high value added products			2	25.0%												0	0.0%	Lack of human resources & performance assessment techniques					Intensive competition with imports and other alternatives (ceramics)	Old equipment is also operated at 85% of capacity & procurement of parts is a problem	3	50.0%	5		20.0%
(3) Business administration		2	0	2	4	4	0	4	3	19	39.6%	0	0	3	4	4	0	1	0	3	3	2	20	30.3%	2	1	2	5	3	2	15	41.7%	54	9.00	36.0%	
	a. Employment and labor management	○		○	○	○			○	5	62.5%			○	○	○							3	27.3%	○				○	○	○	4	66.7%	12		48.0%
	b. Purchase management							○		1	12.5%			○	○	○				○	○	○	6	54.5%				○	○		2	33.3%	9		36.0%	
	c. Financial management				○	○		○		3	37.5%				○	○							2	18.2%				○			1	16.7%	6		24.0%	
	d. Inventory management			○	○	○		○		4	50.0%					○				○	○	○	4	36.4%			○	○			2	33.3%	10		40.0%	
	e. Training system				○	○		○	○	4	50.0%			○	○			○		○	○		5	45.5%		○	○	○			3	50.0%	12		48.0%	
	f. Others	Labor dispute								×	2	25.0%											0	0.0%	Difficulty in human resource development				?	Lack of training for workers due to full operation	3	50.0%	5		20.0%	
(4) Supply of raw materials and utilities		1	0	2	3	3	1	1	2	13	32.5%	0	1	0	1	2	3	2	2	2	3	4	20	36.4%	4	1	1	4	3	2	15	50.0%	48	9.60	38.4%	
	a. Instable quality				○	○				2	25.0%				○		○	○	○	○		○	6	54.5%	○			○	○		3	50.0%	11		44.0%	
	b. Instable delivery schedule			○						1	12.5%										○	○	2	18.2%	○			○			2	33.3%	5		20.0%	
	c. Instalbe prices	○		○	○	○	○		○	6	75.0%					○	○	○	○	○	○	○	7	63.6%	○	○	○	○	○	○	6	100.0%	19		76.0%	
	d. Instable supply of utilities				○	○				2	25.0%		○			○	○				○	○	5	45.5%	○			○	○		3	50.0%	10		40.0%	
	e. Others							Excessive lots of materials	Material Price Trends	2	25.0%												0	0.0%						Raw materials can be procured according to delivery schedule	1	16.7%	3		12.0%	
(5) Political, institutional, environmental problems		3	4	4	7	8	3	4	6	39	60.9%	3	3	0	4	5	8	7	4	3	2	5	44	50.0%	5	3	2	7	2	2	21	43.8%	104	13.00	52.0%	
	a. Taxation and tariff systems		○	○	○	○	○	○	○	7	87.5%				○	○	○	○	○			○	6	55%	○	○	○	○	○		5	83.3%	18		72.0%	
	b. Government procedures and services			○	○	○			○	4	50.0%				○	○	○	○	○			○	6	55%	○		○	○	○		4	66.7%	14		56.0%	
	c. Strict regulation				○	○				2	25.0%					○	○	○					3	27%				○		○	2	33.3%	7		28.0%	
	d. Pollution control and environmental protection costs				○	○				2	25.0%				○	○	○	○					4	36%				○			1	16.7%	7		28.0%	
	e. Poor government support	○	○	○	○	○	○		○	7	87.5%				○	○	○	○	○	○	○	○	8	73%		○		○			2	33.3%	17		68.0%	
	f. Shortage of training facilities (sales, technology, management)	○	○	○	○	○		○	○	7	87.5%	○	○				○	○		○	○	○	7	64%	○	○		○			3	50.0%	17		68.0%	
	g. Low levels of official training organizations				○	○	○	○	○	5	62.5%	○	○				○	○	○				5	45%	○			○			2	33.3%	12		48.0%	
	h. Others	Fiance	Poor export incentives			Lack of ability of organizations providing technical information		*Lack of enterprises mesures to improve the relationship between management and laborers *Transfer of the initiative to manage the health insurance ystem to the private sector	Strict exposure of corruption, illegal act and under invoice	5	62.5%	Lack of training organization Lack of market Lack of export support	Small domestic market, no policy and government support for competition in the world market				Problems related to customs				Financial Support		Lack of export incentives	5	45%	Difficulty in customs clearance for export				• High official interest rate • High wage • High social security cost	2	33.3%	12		48.0%	
31		13	5	12	21	23	8	14	17	113	45.6%	7	8	8	14	15	11	17	6	11	14	14	125	36.7%	15	10	8	19	10	8	70	37.6%	308	9.94	49.7%	

2.1.5 Proposed policy measures

Based on the results of the above surveys in 2.1.3 and 2.1.4, which identified major problems facing the target industries and manufacturers, policy measures recommended to address each problem are proposed and summarized in Table 2.1.5.

TABLE 2.1.5 LIST OF PROPOSED POLICY MEASURES (1/5)

NO.	Problems identified	Key consideration	Related policy	SMEC policy recommendation	Classification	Remarks
1	Absence of SME policy	Formulation of related policy	Formulation of basic law			The bill is under drafting
2	Continuity of policy	Establishment of basic principle	Legislation of basic law			The first stage of legislation
		Consistency with long-term economic plan				
3	Local content	Policies of interested countries	Comparative advantage policy			Examination on similar policies in Latin America
		Upgrading of technology of domestic companies	Upgrading policy	Upgrading support policy	Investment	
4	Environmental regulation	Strengthening of environmental regulation and guidance	Industrial estate development plan	Construction of pollution control facilities for industrial estates	Infrastructure	Promotion of relocation of pollution-generating industries to industrial estates
			Industrial siting promotion policy	Increased monitoring of pollution generating industries		Basic research and study
			Special loan program	Special loan program	Finance	Soft loans for pollution-generating industries
5	Bankruptcy	Prevention of chain bankruptcy	Bankruptcy prevention law	Upgrading support policy		Improvement of competitiveness
		Designation of priority industries	Special loan program	(Special loan program)	Finance	Prioritizing study on eligible industries
6	Protective tariff	Designation of strategic industries	Special tariff			Study on existing trade agreements
		Appropriate market intervention				Study on the need for market intervention
7	Taxation	Improvement of IVA/tariff reimbursement procedures	Current policy	(Improvement of the public administration system)	Public administration system	Improvement of public administration
		Examination on scope and subject of tax reduction	Tax incentives	Policy focusing on priority industries	Taxation	Study on priority industries
				Policy focusing on regions	Taxation	Study on focused development areas
				Taxation on SMEs	Taxation	General incentives
				Tax incentives for entrepreneurship	Taxation	
				Tax incentives for strengthening of technology base	Taxation	Applicable to investment related to technology upgrading
				Special deduction of R&D expenses	Taxation	Applicable to R&D related to SMEs
		Development initiative of local government	Local tax	Special local tax reduction	Taxation	Action by local government
8	Standardization	Standardization system for export promotion	Establishment of national standards	(Export promotion policy)		Considered as part of export promotion system
			Export inspection system			Use of national standard label
		Standardization of designated export products	Standardization planning study			Preliminary study is required
9	Social security	Efficiency of social security system	Special reduction measures for social security costs	(Social security cost reduction measures)	Subsidy	
		Unduly heavy burdens?	Subsidy program	(Ditto)	Subsidy	Part of employment promotion policy
10	Export/import inspection system	Relationship with standardization	Export inspection system			Study on export/import inspection system
		Export/import inspection system and prevention of illegal imports	Import inspection system			Strict inspection on products competing with SMEs
				(Illegal import prevention measures)		To be conducted as part of the illegal import prevention system
11	Consulting system	Integration of existing systems	Subsidy program	Subsidy program	Technical support	
		Application of national uniform standards	Consultant certification system	Consultant certification system	Technical support	
12	Execution power of government	Upgrading of government organization	INAPYMI organization design	Establishment of INAPYMI law	Support system	Detailed organization design
		Increased linkage with regional organizations		Definition of INAPYMI organization and activities	Support system	Integration of related functions and delegation of power
						Integration of related organizations
		Budgeting				Budgeting
13	Labor law	Special provisions on employment by SMEs	SME employment law	SME employment law	Law	Reduction of social security cost

TABLE 2.1.5 LIST OF PROPOSED POLICY MEASURES (2/5)

NO.	Problems identified	Key consideration	Related policy	SMEC policy recommendation	Classification	Remarks
13	Labor law		Subsidy program			
14	Administrative organization and service	Streamlining of procedures	Administrative reform	(See INAPYMI)	Support system	
		National/organizational reform	INAPYMI plan			
		Use of IT	Planning of One Stop Shopping Service	Planning of One Stop Shopping Service	Support system	Establishment of help desk as INAPYMI's function
15	Customs system	Prevention of illegal procedures	Computerization	(Preventive measures for illegal import)		Assessment of results of the ongoing
		Streamlining of service	Improvement of administrative system	(Rationalization of customs clearance procedures)		pilot projects for improvement
		Institutional reform	Adoption of check-price system			
			Introduction of third-party inspection system			
			Introduction of visa system			
			Country of origin certification			
16	Regional economy	Development of downstream industries	Product development and related research	R&D support system	Support system	Organization of research support organizations
		Development of local specialty products	Entrepreneur support	Establishment of regional technoparks	Support system	Research support grant system
		Open recruitment of new ventures	Establishment of incubator	Establishment of regional technoparks	Support system	Provision of facilities
		Revitalization of agriculture and fishery	Resource development and basic research	Establishment of regional technoparks	Support system	Local industry resource research and study
		Development of related infrastructure	Infrastructure development			
			Development of information networks	Building of information networks	Support system	
17	Industrial structure	Promotion of production chain development	Policy support (finance, human resources, technology)	Establishment of the entrepreneur support and investment promotion center	Support system	INAPYMI's entrepreneur support and investment promotion organization
		Downstream development for steel, aluminum and plastics industries	Promotion of university-industry joint development support	Building of the university-industry joint development program	Support system	Product development, commercialization testing, etc.
		Promotion of development of agriculture and farm product processing	Market development support	Development of production chain and cluster development	Support system	
18	Collective operation	Collective operation	Incentive policy focusing on cooperatives	Promotion of collective operation	Support system	Promotion of formalization of SMEs
			Cluster planning, development and promotion	Development of production chain and cluster development	Support system	Industrial estate design
			Collective operation promotion policy	Tax incentive and guarantee cooperative program	Taxation	Promotion of collaborative operation and division of labor
			Development of SME networks	Building of information networks	Support system	MCT's cooperation (pilot project)
19	Industrial alliance	Fostering of downstream industries	Promotion measures for downstream fostering and development	R&D support	Support system	Cooperation by R&D organizations of public corporations
		Promotion of division of labor	Investment promotion policy	Establishment of the entrepreneur support and investment promotion center	Support system	Cooperation by national research institutes and universities
		Promotion of collective operation	Collective operation promotion policy	Promotion of collective operation	Support system	Promotion of collective operation, cooperative formation, and division of labor
				Industry chain and cluster promotion	Support system	Solicitation of development support by upstream industries
						Cooperation by local government
						Investment finance, technical cooperation, market development
						Cooperation in research and study
20	Subcontracting	Promotion of subcontracting	Improvement of contractual terms	Administrative guidance	Public administration system	
		Rationalization of subcontractors	Support for technology upgrading of subcontractors	Upgrading support	Investment	Promotion of division of labor
		Diversification into new markets	Collective operation promotion policy	Promotion of collective operation	Support system	Promotion of cooperative formation and division of labor
			Cooperation in promotion of product development	R&D support	Support system	Promotion of diversification to other fields
21	Growth of	Strengthening of SME incentives	Formalization policy	Basic law and definition of SMEs	Legislation	Drives for collective operation, cooperative formation, industrial estate development, and incentiv

TABLE 2.1.5 LIST OF PROPOSED POLICY MEASURES (3/5)

NO.	Problems identified	Key consideration	Related policy	SMEC policy recommendation	Classification	Remarks
21	Informal sector	Use of incubator	Entrepreneur support program	Establishment of the entrepreneur support and investment promotion center	Support system	
22	Education and training	Upgrading of technology levels	Upgrading of training facilities	Human resource development and education	Support system	Redesigning of existing training facilities and programs
		Refocusing on basic education	Upgrading of vocational training school education	Human resource development and education	Support system	Upgrading of training equipment and reeducation of instructors
		Manager education	Manager education program	Human resource development and education	Support system	
		Improvement of workers' morale	Strengthening of internal education			
23-1	Infrastructure (industrial estate)	Redevelopment of industrial estates	Promotion of rehabilitation plan	Enhancement of communal facilities and incentives	Support system	Utilities, infrastructure, communal facilities, information service, etc.
		Tenant recruitment	Investment promotion policy	Establishment of the entrepreneur support and investment promotion center	Support system	Product/market development, technical research, development study
			Collective operation promotion policy	Promotion of collective operation	Support system	
		Refining of development planning study	Promotion of local industry development	Establishment of the entrepreneur support and investment promotion center	Support system	Screening of industrial estate plans based on commercial viability (not social contribution)
23-2	Infrastructure (transportation)	Rationalization of land transportation	Rationalization plan for land transport	(Rationalization of land transportation)		Implementation of the existing national plans
		Development of port facilities and promotion of shipping service	Port development plan	(Development of port facilities)		Implementation of the existing national plans
			Restoration of the national shipping company	(Development of shipping service)		Implementation of the existing national plans
24	Utilities	Improvement of electricity supply	Improvement of power transmission and distribution systems	(Improvement of power transmission and distribution systems)		Reduction of power outage and improvement of supply quality
		Adjustment of electrical charge	Adjustment of electrical charge for industrial use	(Improvement of electricity rate system)		Improvement of electricity rate system
		Improvement of water supply	Improvement of water supply and sewer systems	(Improvement of water supply and sewer systems)		Stable supply
25	Modernization of management	Upgrading of management techniques	Manager education program	Management support	Support system	Dissemination of modern management techniques
			Management guidance program	Consultant system	Support system	Dissemination of management information
26	Technology upgrading	Equipment modernization	Technology upgrading policy	Upgrading support	Investment	Investment finance support
		Upgrading of production technology	Technology support policy	Technical support	Support system	Support for introduction of modern technology
27	Strengthening of business		Strengthening of management base	Support for upgrading of management base	Support system	Modernization of management organization, cash flow management
						Sales, marketing, distribution
						Human resource development
						Research and development
						Production management, quality control
28	Market	Development of domestic market	Physical distribution system upgrading program	Infrastructure development	Support system	Upgrading of transportation system
			Market structure improvement	Development of distributors		Fostering of wholesalers
			Product development and related research	R&D support	Support system	Solicitation of development support by upstream industries
			Market development support	Provision of market information, etc.	Support system	Dissemination of market information, finance, subsidy
		Export market development	Export promotion program	(Export promotion policy)	Taxation	Export incentive
					Support system	FTZ development
					Support system	Upgrading of export infrastructure (customs, port facilities, and inspection)
					Support system	Cooperation in export market development
					Support system	Provision of export market information
						Development of trading company's function
					Support system	Standardization

TABLE 2.1.5 LIST OF PROPOSED POLICY MEASURES (4/5)

NO.	Problems identified	Key consideration	Related policy	SMEC policy recommendation	Classification	Remarks
					Support system	Export inspection system
29	Investment	Promotion of capital investment	Modernization support	Support for technology upgrading	Investment	Investment finance program
			Promotion measures for downstream fostering and development	R&D support	Support system	Product research and develop
			Entrepreneur support	Establishment of the entrepreneur support and investment promotion center	Support system	Development of new ventures
			Establishment of incubator	Establishment of the entrepreneur support and investment promotion center		Dissemination of investment information
			Establishment of investment promotion organization	Establishment of the entrepreneur support and investment promotion center		Establishment of consultation desk for investment
			Investment insurance system	Establishment of the investment insurance system	Law	
			FDI promotion policy			Improvement of investment climate
			Joint venture promotion policy	Establishment of venture capital		Establishment of government VC
30	Finance (policy)	Central bank's financial policy	Rationalization of banks	(Bank reform)		Delineation of financial policy
			Financial restructuring			
			Stabilization of foreign exchange rate			
			Stabilization of interest rate			
		Foreign exchange policy (economic stabilization)	Business base strengthening policy			
		Interest policy	Policy to induce lowering of interest rates			
			Promotion of bank reform			Rationalization, promotion of consolidation, reduction of spread
		Loan guarantee	Establishment of a loan guarantee association			
			Promotion of establishment of a loan guarantee cooperative	Promotion of organization of a loan guarantee cooperative	Support system	
		Financial institutions	Bank reform			Expansion of credit line
		Banking service	Promotion of competition			Streamlining of service
						Simplification of procedures
		Finance in general	Management guidance by banks			
			Special loan program	Special loan program	Finance	Environmental investment finance
		Others	Establishment of venture capital	Establishment of venture capital	Finance	Substitution for direct finance, entrepreneur support, investment promotion
31	Research and development	R&D investment	Special loan program	Special loan program	Finance	Subsidy system
		Promotion of R&D	Promotion of industry-university joint development projects	Promotion of industry-university joint development projects	Support system	Cooperation of public and university research organizations, and commissioning
			Technopark project	Technopark project	Support system	Cooperation of upstream industries
			Augmentation of incubators	Augmentation of incubators	Support system	Local deployment
32	Information	Meeting the information needs	Establishment of SME networks	Establishment of SME networks	Support system	Development and publication of database
		Promotion of IT use				containing information on markets, enterprises, supply and demand, statistics, policies and product
			Upgrading of communication infrastructure	(Upgrading of communication infrastructure)	Infrastructure development	National deployment of information service centers
			IT promotion policy	IT promotion policy	Support system	Subsidy system
						IT investment finance system
		Normalization of domestic prices of plastics materials	Adjustment of domestic prices	Adjustment of domestic prices	Support system	Adjustment by taxation, subsidy and others
		Normalization of domestic sales conditions of material suppliers	Administrative guidance	Administrative guidance	Support system	Formation of domestic sales networks

TABLE 2.1.5 LIST OF PROPOSED POLICY MEASURES (5/5)

NO.	Problems identified	Key consideration	Related policy	SMEC policy recommendation	Classification	Remarks
33	Raw materials					Distribution costs borne by suppliers
						Improvement of payment terms
						Reduction of lead-time
						Small lot sales transaction
			Promotion of collective operation	Promotion of collective operation	Support system	Promotion of collective purchase
		Improvement of supply conditions of other industrial materials	Promotion of development of industrial materials			Revitalization of local industries

Source: JICA Study Team

2.2 SME Promotion Policy Proposals

2.2.1 Basic Goals

From the results of the study and analysis of the present socioeconomic conditions and the results of the interview surveys of various public and private organizations in major areas within the country, the study team has identified the basic goals for improvement of the socioeconomic environment to be expected for effective promotion of SMEs, as summarized as follows.

(1) Shift from the oil-dependent economy (modification of the economic base that heavily depends on petroleum)

As it is widely realized that the economy is over-dependent on oil, the country has been making efforts to develop a new economic base by means of active investment in basic industries, including aluminum, iron and steel, and petrochemical. However, these industries have failed to serve as nuclei of industrial growth and remain as suppliers of primary materials to export markets, for the downstream industries that consume these primary materials and create value added have not developed as expected. Needless to say, the oil industry is one of the major industries in the country and will continue to maintain the present position. At the same time, however, it is subject to price volatility that creates risks of instability and uncertainty for the national economy and government finance. It is therefore imperative to develop non-oil industries to build up their presence in the national economy and increase economic stability. And development of SMEs is expected to serve as an effective vehicle for growth of the non-oil sector and provide an opportunity for emergence of strategic industries.

(2) Development of the multi-tier industrial structure (strengthening of inter- and intra-industrial linkage)

It is also recognized that manufacturing industries in the country lack strong linkages with each other. It is evident from the absence of production chains. Basic industries have been growing by developing large enterprises as national projects, but downstream industries have failed to grow as expected. The similar situation is seen in other industries that belong to the primary sector, and primary materials are exported due to the lack of local industries to transform them to value added products. Again, development of SMEs can form an essential element of production chains and clusters and drive their growth. By doing so, the non-oil sector will expand in breadth and

depth to accelerate transformation of the entire industrial structure by strengthening inter- and intra-industrial linkages.

(3) Correction of income distribution and social unrest due to the continuous rise in unemployment rate and increase income disparity

In Venezuela, the rapid rise in unemployment rate is a major disturbing factor for society. Although oil revenues remain firm to reflect high prices in the international market and GDP records steady growth, the oil industry creates very small employment opportunities and the increased oil revenues contribute little to equalization of income distribution. Employment growth occurs in the agriculture and service sectors, but loss continues in the manufacturing industry. Overall, industry in the country is incapable of absorbing growth of labor force. Development of SMEs, particularly SMMEs, is therefore effective in creating employment opportunities on a large scale and distributing income more equally, thereby to correct social unrest.

(4) Promotion of regional development and decentralization of economic activities to correct concentration of population and industry in the northern region

In Venezuela, economic activities and population are concentrated in the northern coastal area, especially in urban areas. The situation causes social problems, including concentration of jobless population in large cities. The government has announced a regional development plan to decentralize economic activities and population by revitalizing local industries. SME development constitutes an integral part of the major thrust for the decentralization plan, and is expected to foster industries that process local resources. To promote SMEs in line with the decentralization policy, it is important to encourage development of the strategic areas specified in the national plan as having high potential for resource-based development (special economic zones) by designating them as strategic bases for SMMEs.

(5) Economic revitalization through investment promotion and expansion of employment opportunities in the manufacturing sector

Investment in the country is largely directed to the oil industry, whereas the manufacturing industry receives less and less in comparison to other sectors. Furthermore, nearly 80% of investment in the manufacturing sector come from foreign sources, indicating that local manufacturers do not have much interest in making capital investment. To stimulate the manufacturing sector that can create a large number of

jobs, it is urgent to promote new investment, including modernization by smaller manufacturing enterprises.

(6) Reinforcement of environmental protection efforts by enforcing an effective audit on SMMEs

Venezuela has enacted the environmental law and has introduced environmental regulation relatively early. Yet, it fails to enforce environmental standards to smaller manufacturers. To foster SMMEs under the government leadership, it is imperative to prevent them from becoming a major source of pollution. As the classification of environmental control framework by topography of regions are defined in accordance with the regional development plan, the environmental audit is to be strictly enforced in the course of promotion of industrial investment in collaboration with regional administration work.

(7) Focused development of industries with sustainable growth potential (industrial development leveraging natural resources)

Historically, industrial development in Venezuela has been emphasizing petroleum and other mineral resources that can be exhausted through commercial exploitation. To build the economic base that can support the country in the long run, however, it is desirable to use sustainable resources. The country is endowed with a variety of sustainable resources including agriculture, livestock farming, forestry, fishery, and tourism. In fact, the regional development plan names these resources as development opportunities. Furthermore, development of industries processing sustainable resources is effective in controlling and reducing environmental destruction and pollution by development of mineral resources.

2.2.2 SME fostering principles

We hold up the following fostering principles prior to fostering and development of SME's, small-to-medium-sized manufacturing enterprises in particular, for achieving the basic strategic targets indicated above.

(1) Strengthening of constitutional predisposition of existing enterprises and supporting of enterprises of strong constitutional predisposition

Many of small-to-medium-sized manufacturing enterprises of Venezuela, which neglected modernization of themselves for an extended period of time under the domestic industry protecting policy, lost competitive strength in the market-oriented economy and free trade system introduced in 1989. Furthermore, these enterprises were exposed to severe competition with imported goods under the high bolivar value policy introduced in the middle of 1990's as a commodity price stabilizing policy, and a substantial number of SME's were weeded out.

Many efforts are needed to survive in the competition under the open economy, that will become severer in the future, when low competitive strength of enterprises, generally low technological level, deterioration of equipment, financial weakness, low level of managerial technology, weakness of selling power and others, which are recognized in the results of study, are taken into account.

However, internationalization and survival of SME's in Venezuela cannot be achieved unless this handicap is overcome. Therefore, strengthening of competitive strength is the first requirement that is wanted for SME's in Venezuela.

Furthermore, it is necessary to formulate policies in the future with the principle to selectively support "enterprises of strong constitutional predisposition" and "enterprises having latent powers" among existing SME's. That is, the policy to give aid to the weak enterprises having no ability for expansion or latent powers will obstruct growth of the entire SME's and such efforts will not be rewarded.

(2) Promotion of creation of new enterprises

It is necessary to expect vigorous evolution of vital new enterprises, which are free from shackles of the conventional concept of enterprises and capable of accommodating themselves to the new environment in the new age. For this objective, policies that

promote creation of new enterprises by accelerating industrialization and enterprise building from new points of view such as new use and development of domestic resources, development of new resources, development of new technologies and development of new products are wanted. The government, therefore, needs to establish such policies and provide financial supports as well as institutional supports.

(3) Development and fostering of regional SME's

The regional development policy should not be a part of "population dispersing policy". It should be implemented as a policy that is substantially based on the economical rationality to the end. That is, it is fundamental to uprear local industries having substantial competitive strength in various regions of the nation. How to develop regional resources having economical competitive strength and make economically effective use of them is the key factor. It is necessary for the government to execute formation of the infrastructure that promotes private investment while suitably implementing public investment (infrastructure investment) that is effective for research and development of regional resources as well as for creation of economy. Fields of high feasibility as regional light industries are farm commodities processing, livestock farming and dairy husbandry, forest commodities processing, marine commodities processing, textile industry, tourism and others.

(4) Elimination of investment without probability (wasteless investment)

There were cases in the past where creation of industrial complexes failed due to the layout plan in which policy philosophy took a lead. For implementation of projects and also for eliminating such wasteful investment, sufficient study and prudent planning of resources distribution are wanted. It is desirable that planning is implemented as centered on investment plans lead by private sectors if possible. Thus, development of projects led by investment in infrastructure requires prudent examination.

(5) Supporting of development of key categories of business and of key regions

Also from the viewpoint of distribution of limited resources, it is necessary to promote centralized development upon determination of fields and regions to be strategically developed and fields and regions having large possibilities such as the following: industries of relative superiority for Venezuela, fields having superiority in the holding technology, fields of potentiality with domestic resources, fields of products that suit target markets, categories of business effective for development of domestic economy and regions to be developed as strategic bases. In this respect, it is highly

evaluated that bases of development ("special economic zones") are specified and development themes at each base are set in the regional economy plan being created by MPD.

(6) Strengthening of environmental considerations

The principle to minimize environmental disruption that accompanies industrial development should be adopted. Since most of the fields of small-to-medium-sized manufacturing enterprises in Venezuela were not subject to the environment control in the past, strictness is not observed in the attitude of enterprises against environmental preservation. To aim at sustainable growth of sound industries in the future, it is necessary for government agencies to provide guidance for pollution control under stern restricting conditions. Particularly for environmental measures to the food industry, leather industry, plating industry, textile dying industry, etc. of high environmental load, it is necessary to take strict administrative measures including site guidance. Furthermore, it is necessary to take supporting measures such as burden reducing measures (low interest credit, subsidies, etc.) and cooperation by public projects, with the fact that investment for the pollution control equipment is a large cost accounting burden for SME's taken into account.

2.2.3 Proposal of principal policies and policy structure

We systematically propose principal policies as indicated below, upon coordination of necessary policies generalized in section 2.1.5 above by the degree of importance. The policies proposed below are "necessary policies" for promotion of SME's in Venezuela, regardless of the rank order of implementation. The structure of policies is shown in Figure 2.2.1

(1) Strengthening of the management base

The policies important for strengthening enterprise's constitutional predisposition are as follows.

1) Smoothing of fund supply

A. Financial policies

a. Long-term fund loan system:

Improvement and expansion of existing system (see 2.3.1)

b. Short-term fund loan system:

Improvement and expansion of existing system (see 2.3.1)

c. Debt guarantee system:

Improvement and expansion of existing system (see 2.3.1)

B. Special taxation system

Application of the special taxation system is an incentive that reflects the course of the government with an emphasis in fostering SME's, and its effective implementation is needed.

a. Special taxation system for key regions:

Applicable to special economic zones, depopulated zones, 3-axis project object areas, etc..

b. Special taxation system for encouraged categories of business:

Categories of business such as strategic new enterprises, as centered on key sectors included in the government's economy plan, to be specified using the development effect as the criteria at each occasion.

c. Special taxation system for investment for research and development:

This special taxation system to be established with the objective to promote investment in technological development is applicable to research and development of regional products and testing for commercialization.

d. Tax deduction and special depreciation system:

Applicable to investment for research and development and investment in pollution control equipment, besides existing export promoting tax deduction (drawback), refund of IVA, etc.

2) Strengthening of managerial resources

A. Management and technology support

a. Consultation at window:

This window is for consultation related to all problems such as management, technology, sales, labor affairs and legal affairs of SME's. It is opened as a place of one-stop-service function that provides advice making use of INAPYMI information network, INAPYMI headquarter function, etc. (See 2.3.1 (6).)

b. Consulting system:

To institutionalize equal conditions in the whole nation by generalization of functions of various existing management consulting and supporting mechanisms (such as PAIPYME and SEDEC-PTG programs). (See 2.3.2.3.)

c. Consultant qualification approval system: To institutionalize approval by qualification test for standardization of consultant qualification and for enhancing the level of consultants. (See 2.3.2.4.)

B. Human resources fostering

a. Enterpriser and executive officer training system:

System for education and training of administration technology and management technology (INAPYMI senior worker training mechanism)

b. Technical worker training system:

To expand and improve existing INSE training centers.

C. Computerization support

a. INAPYMI information network system:

To construct a system that provides, in a nationwide network, broad information related to SME's and to freely make such information available to SME's without PC's at INAPYMI regional support centers. (See 2.3.2 (1).)

b. Computerization support for SME's:

Support for promotion of computerization of SME's. (See 3.4.)

D. Penetration of patent system

a. Penetration of patent acquisition and support of acquisition:

Support at industrial property consultation windows (SPIC). (See 2.3.1.4 (4).)
INAPYMI regional support centers also provide this service.

b. Promotion of use of patented technologies:

Disclosure of developed technologies, promotion of their use and provision of patent information by public research institutions.

E. Environmental measures

a. Promotion and guidance of environmental measures:

Strengthening of auditing of environment of SME's and guidance for improvement.

b. Promotion of investment on environment:

Special measures (special loan, taxation system) for promotion of investment on environment.

3) Exchange, liaison and association

A. Association (See 2.3.1.5.)

a. Promotion of exchange among enterprises:

Promotion of exchange among enterprises of the same category of business and also of different category of business (implemented as an event operation of INAPYMI).

b. Support of promotion of union formation:

Guidance for union formation, financing for enhancing the level, etc.

c. Support for activation of integration of industries:

Support for activation of industrial complexes, construction of relevant infrastructure, promotion of cluster formation, etc.

B. Optimization of trading

a. Elimination of unfair trading:

Guidance for prevention of unfair trading, guidance for optimization of subcontracting conditions, etc.

4) Consolidation of market distribution

A. Increase of efficiency of physical distribution

a. Support of activation of wholesale business:

Promotion and guidance for development of wholesaler (trading house) functions.

- b. Promotion of increase of efficiency of physical distribution system:
Reduction of physical distribution costs, research and development and infrastructure construction

(2) Promotion of initiation of business

1) Creation of strategic enterprises

A. Research and development

- a. Promotion of use of public research and development institutions:
Use of public research and development institutions such as IVIC, colleges and technological parks (free use of facilities, joint development, entrusted studies, etc.) (See 2.3.1.4.)
- b. Research and development expenses aiding system:
Application of special loan, special taxation system, subsidy, etc.
- c. Support of acquisition of patents: (See 2) D above.)
- d. Support of industrialization:
Advice for use of government venture capitals and for industrialization.

2) Promotion of initiation of business (See 2.3.1.3.)

A. Creation of new enterprises

- a. Promotion of incubation:
Expansion of incubators appended to technological parks to the whole nation.
- b. Industrialization support program: Antonio Jose de Sucre program, etc.

B. Support and advice for business initiating proceedings

- a. Consultation at window and provision of information:
Available at INAPYMI regional support centers. (See 2.3.1.6.)

C. Education and training

- a. Administrator and manager training: INAPYMI senior worker training system.
(See 2) B above.)

D. Support of research and development

- a. Support of industrialization, commercialization, study and research:
Support of development by new enterprises ... Special loan, VC, special taxation system, subsidy, etc.

E Implementation of events

a. Planning of various exchange meetings:

Venture business exchange meeting, different categories of business exchange meeting, etc. (event operation of INAPYMI)

b. Holding of fairs:

New products fair, new technology fair, international trade fair, etc. (event operation of INAPYMI)

c. Holding of seminars:

Various management and technology seminars (event operation of INAPYMI)

(3) Other measures

1) Promotion of regional SME's

A. Determining key strategic areas

a. Deployment of INAPYMI regional support centers with priority:

Priority is given to determination of support centers in special economic zones (8 zones). Consolidation of information functions and appointment of regional industry experts.

b. Strategy of development of key fields in the region:

Consolidation of business initiation promoting system, consolidation of information, input of human resources, application of key region special incentive, etc.

2) Promotion of export

A. Development of export products and establishment of production system

a. Reactivation of industrial complexes and promotion of development of regional specialized products:

Conformity with key development strategy in MPD regional development policy, implementation of Antonio Jose de Sucre program.

B. Development of export markets

a. Development of export markets in key regions (CAN, Caribe, Middle America):

Study and research of regional markets and construction of the export infrastructure. (See 2.3.1.8.)

- C. Consolidation of export infrastructure
 - a. Establishment of VENEXPO:
Acquisition of export market information, market research. (See 2.3.1.8.)
- 3) Consolidation of administrative organization and system
 - A. Human resources fostering system
 - a. Fostering the staff to be in charge of SME administration:
Use of INAPYMI senior worker training system.
 - B. Study and research
 - a. Study and research of SME measures: Study of policies by SME Bureau of MPC.
 - b. Creation of SME white paper: Analysis of current situations of SME's
- 4) Formulation of special measures
 - A. Determining promotion measures by category of business
 - a. Promoting measures for recommended category of business:
Planning of individual policies.
 - B. Formulation of special economic zone development strategy
 - a. Study of development strategy by zone:
Research and development of regional products and their relevant industrial products.
 - b. Creation of development plan by zone:
Creation of regional development implementation plan.

FIGURE 2.2.1 STRUCTURE OF SME PROMOTION POLICIES AND PROGRAMS

	Basic Strategy	Program design policy	Basic Programs	Programs and institutions	Remarks	Implementation body
I	Reinforcement of corporate base	Improvement of financial access	Directed finance	Investment finance program	Long-term loans	FONCREI, BANDES
				Working capital finance program	Short-term loans	Commercial banks, credit guarantee organizations
				Credit guarantee program	Credit guarantee	SOGAMPI, RGF
			Special taxation	Tax incentives for specific areas, industries, and R&D, special deduction, and special depreciation		MPC/MF/SIEX
		Upgrading of management resources	Management, technology and sales support	Consultation at INAPYMI Local Support Center	Management/technology consultation (one stop service)	INAPYMI
				Consultant service system	Subsidy	MPC/INAPYMI
				Consultant certification scheme	Consultant registration program	MPC
			Human resource development	Entrepreneur/manager training program	INAPYMI Manager Training Program	INAPYMI
				Skilled worker training program	INSE Training Center	INSE
			Support for computerization	INAPYMI Information Network System (Information Service)	Database, information service on government policy, technology and product, finance, VC, event, market, and Q&A	INAPYMI
				Support for SME computerization		MPC/MCT/INAPYMI
			Promotion of the patent protection system	Promotion of patent application and support	SPIC Consultation Desk	SPIC/MPC
				Promotion of patent use	Dissemination of patent information, publication of patent portfolio held by public organizations	SPIC/MPC
			Environmental protection measures	Promotion and guidance for environmental measures	Technical guidance for environment protection	Ministry of Environment and Natural Resources
				Promotion of environmental protection investment	Special loan program for environmental protection investment	MF/MENR
		Interaction, alliance, collective operation	Promotion of collective operation	Promotion of interaction among enterprises	INAPYMI event program	INAPYMI
				Support for formation of cooperative	Guidance for cooperative formation and loan program	MPC/MF
				Support for revitalization of	Plan for revitalization of industrial estates, infrastructure development, guidance for clustering promotion	MPC/MCT/MINFRA
		Development of Market and Distribution Systems	Streamlining of physical distribution	Support for revitalization of wholesales industry	Prevention of unfair trade, normalization of subcontracting conditions	MPC
					Tax incentive, loan and guidance	MPC, MF, SIEX
				Promotion of streamlining of physical distribution	R&D, infrastructure development, loan	MPC/MINFRA/MF
II	Promotion of entrepreneurship	Creation of Strategic Enterprises	R&D	Promotion of use of public	IVIC, MCT/EC, universities, technoparks (promotion of commissioned research)	IVIC, MCT/EC, universities, and technoparks
				R&D investment subsidy program	Special loan, tax incentive,	MF/MPC
				Support for patent application	SPIC consultation desk	INAPYMI/SPIC
				Support for commercialization	Venture capital investment	FONCREI
		Promotion of entrepreneurship	Creation of new ventures	Promotion of incubation	Reinforcement of technoparks and incubators	MPC
				Entrepreneur support program	Antonio Jose de Sucre Program	MPC, FONCREI, SOGAMPI
			Support and advice for incorporation	IND consultation & information service (one stop service)	INAPYMI local support center	INAPYMI
				Manager education	INAPYMI manager training program	INAPYMI
			R&D support	Support for business startup, commercialization, R&D	Loan, tax incentive, subsidy	MF/SIEX/MPC
			Event sponsoring	Planning of entrepreneur meeting (creation of opportunity)	Interactive meeting for new ventures	INAPYMI
					Interactive meeting for entrepreneurs in different businesses	INAPYMI
			Sponsoring of technology/idea exchange forums		New product and technology fairs	INAPYMI
				Sponsoring of seminars on technology and other knowledge	Management and technology seminars	INAPYMI
III	Other Programs	Promotion of local SMEs	Development of strategic areas	Priority deployment of INAPYMI support centers	Installation of information systems and assignment of local and industrial experts	INAPYMI
				Development strategy for local priority industries	Entrepreneur promotion system, information service, assignment of human resources, and application of local incentive policy	INAPYMI
		Export promotion	Development of export products and establishment of the production system	Revitalization of industrial estates, and promotion of development of local specialty products	Antonio Jose de Scuré program, MPD regional development plan	MPC/INAPYMI
			Development of export markets	Development of priority export markets (CAN, Caribbean, Central America)	Market study, development of export infrastructure	BANCOEX/MPC
			Development of infrastructure for external trade	Establishment of VENEXPO	Export market information and market study capabilities	BANCOEX/MPC
		Development of the administrative organization and system	Human resource development program	Education of government staff in charge of SME promotion	INAPYMI manager training program	INAPYMI
			Research and study	Research and study on SME policy	MPC SME Development and Policy Planning Departments	MPC
				Publication of white paper on SME		MPC
		Development of special measures	Development of promotional measures by industry	Industry-specific promotional measures	Planning of operational policies	MPC
			Establishment of development strategy for special economic zones	Research on area-specific development strategy	Product development and development of related industries	MPC/MPD
				Development of area-specific development plan	Preparation of implementation plan	MPC/MPD

A3

2.2.4 Policy implementation structure and action plan

2.2.4.1 Points to be kept in mind in implementation of policies

It is necessary to keep in mind the points indicated below and careful preparations prior to implementation of policies.

(1) Conformity with upper level plans

Importance should be attached to the conformity with "Economic Development Plan", which is currently promoted as a national project, National Regional Development Plan and its relevant plans in particular. These upper level plans seize the concept of a region on geographic relation with peripheral areas having economical relation, and executes multi-aspect evaluation of potentiality of the region. Another important target of this regional development plan is "de-centralization". It indicates "reform of industrial structure of the region and activation of industries" as the strategic principle for achieving this target and sets development of the regional industry as the prime mover for promotion of de-centralization. In the stage when this regional development plan is implemented in the future, investment will be made to many industrial infrastructures according to the principle for development of key regions and development of strategic products of each region will be executed based on increase of the efficiency of physical distribution among regions. Therefore, development of SME's also needs to be evolved by following this regional development plan.

(2) Construction of policy implementation structure

Success of SME promoting measures and their relevant programs is largely dependent on whether a good policy implementation structure is constructed or not. The major part of the currently assumed implementation structure consists of SME Promotion Bureau, as an organization in MPC, and its subordinate agency, INAPYMI which is an SME policy implementation agency. INAPYMI has local organizations (INAPYMI regional support centers) besides the central organization, and directly implements support activities for SME's. For implementation of policies, this MPC organizations (MPC and INAPYMI) will act as the nuclei and other relevant government agencies participate and cooperate with their individual support functions. Therefore, construction of the relation of collaboration with other government agencies (Ministry of Planning and Development, Ministry of Finance, Ministry of Science and Technology, Ministry of Education, Ministry of Environment and Resources, Ministry of Infrastructure, etc.) each of which has support functions and their relevant institutions

(governmental finance institutions, research and development institutions, colleges, technology training institutions, etc.) is an extremely important subject. Particularly, as the organization and functions of INAPYMI, which is started as a new policy implementing organization, are incomplete, transitionally it is unavoidable to largely depend on existing support functions outside of MPC. Furthermore, it is necessary to accumulate know-how of existing functions, with generalization and consolidation as the unique functions in the future as the target. To make this collaboration smooth, it is necessary to form a liaison meeting among relevant government agencies and to make deliberation regarding problems involved in implementation of policies at this meeting.

(3) Fostering administrative officers in-charge of policies

Education of policy in-charge administrative officers is needed as matched with construction of new administrative organizations for promotion of SME's. For their education and training, professional education is to be implemented regarding fundamental knowledge on SME's, knowledge on support measures (all fields), etc., using the "senior worker training system" (training of business administrators and executive officers is the prime objective) that is established in INAPYMI. Particularly in the stage where INAPYMI is newly established and a number of staff members is needed, it is necessary to formulate an intensive fostering program. Furthermore, since INAPYMI is the front line for supporting SME's and SME's are "customers", INAPYMI staff members are required to have "to-customer servicing spirit" and "wide knowledge on SME's" as an important qualification.

(4) Composition of staff of INAPYMI regional support centers

For establishment of INAPYMI regional support centers, it is necessary to appoint the staff having a thorough knowledge of the region, because communication with SME's in the region is an important role and function. In addition, since a series of "government permit/approval" operations related to establishment of enterprises and investment, which constitute a part of regional support center functions, is provided as one-stop service, possibility should also be studied as to having workers on loan from the local government at the window for operations of permit/approval by the local government. Furthermore, as window consultants, who are most important staff members, those who are able to provide consultation and appropriate information with a background of thorough knowledge on management, technology, sales, etc. are needed.

There also is an idea to use UEMPC, which is a local organization of MPC, as a regional support center of INAPYMI. But, duplication of human resources should be avoided to the utmost (although joint use of an office is admissible), so as to avoid complication of INAPYMI's independent organization structure, managing principle, chain of command, etc.

(5) Cooperation structure and development efforts of local governments and self-governing bodies

The regional development plan is created and development is implemented with a focus on development of regional products, under the proposition of de-centralization. For implementation of such a plan, however, cooperation of local governments, self-governing bodies and regional development public corporations, etc. is indispensable, and whether development of the region succeeds or not also largely dependent on cooperation of local governments and self-governing bodies. In other words, there is a possibility where regional difference arise in the level of regional development depending on the structure of cooperation of local governments and self-governing bodies. Each local government and self-governing body, therefore, should make unique efforts such as inducement of investment from private enterprises including foreign enterprises by consolidating investment environment such as special treatment of local taxes, unique supporting system and consolidation of industrial infrastructure, to make the development of the region successful. At the same time, they should positively cooperate INAPYMI with support activities and make full use of INAPYMI.

(6) Equal opportunity by deployment in the whole nation

SME's can be developed in any region in the nation including a depopulated region. Support of development of SME's by the government should also be deployed in the whole nation, aiming at provision of equal opportunity to the people. It will be necessary, however, to make adjustments for the scale and contents of the support system in correspondence to the latent development powers and characteristics of each region.

2.2.4.2 Implementation plan (action plan)

We propose the action plan for promotion of SME's in Venezuela as follows.

(1) Short-term plans

1) Consolidation of structure

Consolidation of implementation structure is required prior to implementation of SME promoting policies, and the following matters should be taken care of first.

A. Consolidation of laws

SME Promotion Act is being prepared aiming at establishment in coming November, and its draft specifies establishment of INAPYMI as an agency for implementation of SME measures. It is therefore considered that no special law is required for establishment of INAPYMI, and there is no necessity for further consolidation of laws in the immediate future.

B. Consolidation of organizations

a. SME Bureau of MPC

First of all, it is necessary to newly establish "SME Bureau" in MPC. This bureau is to have such duties as formulation of SME policies, creation of laws, investigation of types of operation of SME's, SME policy publicizing activities, promotion of liaison with other relevant government agencies and coordination with them, and guidance and support for conduct of INAPYMI. Regarding the scale of the organization, however, it is better to establish such a principle as to start with necessary functions and necessary personnel at hand only and to make a gradual expansion in the future.

b. INAPYMI headquarters (Caracas)

The functions required of INAPYMI are of a broad range (see 2.3.1.6). But it is better to limit the organization in the initial stage to workable functions only and to expand the organization along with consolidation of the structure. Consolidation of support functions, however, should be started beginning with those of higher necessity as matched with needs of SME's.

c. INAPYMI regional support centers

INAPYMI regional support centers are to be located in all the provinces as a rule, and additional establishment at strategic bases should also be considered as required. In the initial stage, however, locations should be selected with a focus on

the key locations, followed by establishment of those in local regions. Thus, it is desirable to establish support centers in eight "special economic zones", which are key development areas of the regional development plan at the beginning.

C. Construction of cooperating relation with relevant supporting institutions

Based on the precondition that INAPYMI becomes the window in the future to implement support activities in response to the requests from SME's, it is necessary to request for cooperation to relevant government agencies, local governments and self-governing bodies of areas where INAPYMI regional support centers are located and to other institutions. It is also necessary to individually make mutual confirmation of the procedure for implementation of cooperation with each one of these institutions.

D. Education of in-charge administrative officers

It is necessary to urgently educate staff members of new organization (SME Bureau) in MPC and of INAPYMI headquarters and regional support centers to be newly established. INAPYMI itself will set up "senior worker training system" and conduct training of business administrators and executive officers in the future. As the need for fostering administrative officers is pressing, it is necessary to ask for cooperation of appropriate experts (college professors, senior consultants, etc.) and to have administrative officers acquire education and training related to general fundamental education related to SME's, SME relevant laws, administrative proceedings related to initiation of business, fundamentals of business administration (management, finance, accounting, personnel, production, sales, etc.), information managing technology, etc. within a short period of time.

2) Consolidation of support functions

It is hard to fully hold planned functions from the initial stage, and a certain length of time is required for repletion of functions. It is therefore more practical to use existing functions at the beginning and to improve these functions through implementation. The following methods can be considered, for example:

Management consultation:

Use of existing consultants for window consultation on business management at regional support centers of INAPYMI

Business diagnosis:

Rebirth of diagnosis mechanism (subsidy) by improvement of PAIPYME

Financial support:

Use of FONCREI, SOGAMPI by improvement of mechanisms and advertising of new system

Business initiation support:

Continuation of Antonio Jose de Sucre program

Information provision:

Provisional use of MCT's information network and joint development of national network (INAPYMI information network)

Incubator:

Expansion of existing facilities (appended to technological parks) and establishment of new facilities (special economic zones)

Investment support:

Operation of venture capital (FONCREI)

Research and development:

Acceptance of entrusted research, product development, analysis and testing, etc. by the use of functions of colleges and technological parks

Human resource fostering:

Use of technology training (INSE) and executive officer training (IESA)

Enterprise liaison:

Joint study of model clusters of MCT development and promotion of evolution to the whole nation

Since publicity activities for these existing functions were not sufficient before, they will be broadly advertised through the information network and regional support centers. Furthermore, it is necessary that requests for support from SME's are entirely accepted at regional support centers and these centers provide guidance and support to SME's regarding proceedings that are applicable to their requests.

3) Construction of information network system

Principal functions of each regional support center in the initial stage are window consultation and information provision, and the bridge of the back support is INAPYMI headquarters, relevant government agencies, etc. Therefore, use of information network is indispensable for providing these services, and establishment of information network is an important subject in the initial stage. Regional support centers will be established at around ten places (including special economic zones) in the immediate future. But it is necessary to construct a usable setup as early as

possible, with cooperation of MCT acquired for construction of the network system that links regional support centers with INAPYMI headquarters. Furthermore, planning should be made so that contents of information that can be consolidated in a relatively short period of time are prepared in the immediate future and to gradually expand them along with expansion of the network system to the whole nation. It is assumed that the web site (pilot project) of the venture capital will become accessible in the early stage.

4) Development of priority policies

Critical policies for SME promotion should be developed to facilitate their early implementation. In particular, implementation plans should be developed for the following policies in order to ensure timely implementation.

A. Reforming and expansion of the financial system

a. Implementation bodies

- Long-term loan: FONCREI, BANDES
- Short-term loan: RDF and commercial banks
- Credit and guarantee: SOGAMPI, RGF, FONPYME
- Venture capital: FONCREI
- Trade finance: BANCOEX

b. Field guidance/assistance: INAPYMI Financial Assistance Department, Local Support Center

c. Program outline

- Reduction of interest rates (low-interest loan)
- Expansion of credit lines
- Development and expansion of the guarantee program for long-term loans
- Simplification of loan service (reduction of the examination period)
- Dissemination of financial market information
- Establishment of special credit lines (R&D, business association, consulting service, etc.)

See 2.3.1.1 for detail.

B. Human resource development

- a. Implementation body: INAPYMI Education & Training Department “Senior Manager Education Program”
- b. Program outline
 - Training of government officers specialized in SME promotion policy
 - Training of entrepreneurs
 - Training of senior managers

C. Business startup promotion and support program

- a. Implementation body: INAPYMI Entrepreneur Support Department, local support center
- b. Implementation support: Universities, technoparks, public testing and research organizations, MCT, financial institutions (institutional lending), local governments, etc.
- c. Program outline
 - Promotion of nationwide allocation of incubators
 - Reviewing and continuation of the Antonio Jose de Sucre program
 - Consultation service by local support centers
 - Cooperation in improvement of investment climate
 - Provision of related information
 - Field guidance by experts
 - Promotion of R&D initiatives (product development, technology development, market development)
 - Planning and holding of events
 - Promotion of venture capital

See 2.3.1.3 for detail.

D. Functional enhancement of INAPYMI’s local support center

- a. Implementation body: INAPYMI headquarters, local support center
- b. Implementation support: MPC, MPD, MTC, MF, MINFR, Ministry of Environment, INE, SIEX, SENIAT, BANCOEX, FONCEI, BANDES, SOGAMPI, RDF, RGF, INSE, universities, technoparks, regional development corporations, local governments, etc.
- c. Program outline
 - Information desk/consultation service (approval, permit, application, finance, technology, management, patent, business startup, law, taxation, incentives, etc.)

- Provision of information (technology information, financial information, investment information, market information, product information, policy information, statistical data, event information, registered consultants, corporate information, venture capital information, etc.)
 - Q&A service
 - Management guidance
 - Technology guidance
 - Business startup guidance
 - Collective operation guidance
 - Market development guidance
 - Regional development cooperation
 - Infrastructure development cooperation
 - Various events (forum for interchange of business enterprises in different industries, seminars, fairs, etc.)
 - Others (regional development study and research, etc.)
- See 2.3.1.6 and 2.3.2.1 for detail.

E. R&D support

- a. Implementation body (cooperation) : INAPYMI Technical Cooperation Department
 - b. Implementation assistance: Universities, technoparks, public testing and research organizations, MCT, national enterprises in basic industries
 - c. Program outline
 - Cooperation in product development
 - Cooperation in technology development
 - Cooperation in promotion of patent application
 - Publication of developed technology
 - Promotion of cooperation in technology and product development by upstream industries
 - Provision of product and technology information
- See 2.3.1.4 for detail.

F. Building of information system and support for development of IT-based business process

- a. Implementation body: INAPYMI Information Service Department, local support center

b. Implementation support: Universities, technoparks, consultants, MCT, INE, BANCOEX, Ministry of Finance, etc.

c. Program outline

- MPC's web site
- Development of related databases
- Provision of management information
- Provision of overseas information
- Venture capital information
- Q&A network dialogues
- Event information
- Others

See 2.3.2.1 for detail.

G. Special taxation measures

a. Implementation body: Ministry of Finance, SENIAT

b. Program outline

- Taxation on SMEs (reduction of income and business asset tax rates)
- Special taxation on startup companies
- Special taxation on equipment modernization
- Tax incentives on R&D expenses
- Special taxation on pollution control-related investment
- Tax incentives on promotion of tax payment by microenterprises and small enterprises
- Special taxation on priority industries
- Special taxation on priority areas

See 2.3.2.1 for detail.

The procedure for promotion of short-term plans is shown in Figure 2.2.2.

(2) Medium- and long-term plans

Sequential implementation of policies enumerated in section 2.2.3 above and review of policies implemented in short-term plans are needed for medium- and long-term plans. The principal items are as follows.

1) Improvement and strengthening of financing mechanism

It is anticipated that the demand for investment increases and supply of abundant funds under appropriate loan conditions becomes necessary in accordance with progress of economical development. Measures such as strengthening of human capacity of loan institutions, expansion of fund supply volume including introduction of low-interest funds, strengthening of supporting power of guarantee institutions and increase of efficiency of loan affairs will become necessary because of this reason.

2) Construction of information system and support of computerization

Information providing service will be improved to a system that promptly deals with needs of SME's with the new age, its contents will be replete, and more efficient and more appropriate servicing activities will become feasible by the use of the database accumulated through servicing activities. Furthermore, it is considered that "electronic government" function will become common in the near future and all of the government proceedings through regional support centers will become feasible with this "electronic government" function. Therefore, consolidation of information at INAPYMI headquarters will become an extremely important function and the information system will become a key means for supporting SME's. Therefore, management and repeated improvement of the information system are gists of medium- and long-term strategy toward the future.

IT innovation at SME's in Venezuela has not yet made progress, but IT innovation will supposedly make progress in the aspects of business administration and production activities, together with expansion of the software industry in the future (see 3.4). Increase of efficiency of production and strengthening of competitive strength by the use of IT are indispensable factors for growth of SME's in the future. The government, therefore, is required to strengthen support for promotion of IT innovation of SME's. Support of IT innovation of SME's in local regions in particular is essential for promotion of efficient development of regional products, and it is an indispensable factor also for introduction of advanced technology.

3) Establishment of consultant qualification certification system

Transiently, the current mechanism and consultants fostered up to the present time are used. In the medium and long run, however, the system of certifying the qualification of consultants as "national qualification" should be established, for promising homogeneous consulting service based constantly on advanced knowledge

to accepting enterprises. For establishment of qualification certification system, provisional measures and transition plan such as use of existing consultants during the transition period and opening of the road toward acquisition of qualification should be fully examined.

4) Consolidation of research and development system

Sustainable upgrading of production in farming and cattle breeding, forestry, fishery, etc. is basically required for achieving the basic targets of development and industrialization of local products in all the regions of Venezuela according to the principle of the regional development plan. That is, technological development such as breed improvement, improvement of input materials and improvement of measures of production (mechanization, etc.) is a pre-condition for promoting efficient production of these products. Furthermore, development of processing technology and product development for commercialization are required for industrial development using these materials as raw materials. It is necessary that these series of developments are conducted continuously at research institutions having sufficient facilities, and participation of public research and development institutions is indispensable. In other words, it is necessary that research themes are shared among regional colleges and their ancillary research institutions and central research institutions and that convenience of use of developed technologies by SME's is provided.

5) Promotion of business initiation

The ultimate objective of promotion of SME's lies in promotion of initiation of many strategic SME's with strong constitutional predisposition. Among policies related to promotion of business initiation, the following can be raised as medium- and long-term plans.

- a. Establishment of incubators in the whole nation
- b. Continuous implementation of Antonio Jose de Sucre program
- c. Improvement of investment environment (infrastructure, industrial utilities, finance and taxation system, information system)
- d. Promotion of research and development
- e. Holding of various events
- f. Penetration of venture capitals

The measures that correspond to each item of principal policies indicated in 2.2.3 should be continuously promoted in accordance with the business environment and needs at each point.

FIGURE 2.2.2 SHORT-TERM ACTION PROGRAM FOR SME PROMOTION PLAN

Activities	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
I. Legislation																		
Enactment of SME Promotion Law																		
II. Organizational development																		
Organization of MPC SME Bureau																		
Organization of INAPYMI headquarters																		
Organization of INAPYMI local support center																		
Model districts																		
Economic special districts																		
State capitals																		
Education of government staff																		
III. Building of Collaborative Relations with Related Support Organizations																		
Ministry of Science and Technology																		
Installation of information system																		
Engineering center																		
Model cluster																		
IVIC, other research organizations																		
Ministry of Finance																		
Government financial institutions																		
Guarantee organizations																		
SENIAT																		
Ministry of Planning and Development																		
Regional development corporations																		
Ministry of Education																		
Universities and technoparks																		
INSE																		
Ministry of Environment																		
Environmental audit and guidance																		
Vice President Office																		
State governments and municipalities																		
IV. Development of Support Functions																		
Management consultation desk																		
Assignment of full-time staff																		
Formation of back support organizations																		
Implementation of the new PAIPYME program																		
Institutional improvement and implementation																		
Financial system																		
Institutional improvement and implementation																		
Entrepreneur support (Antonio Jose de Sucre program)																		
Modification and implementation																		
Incubator reinforcement plan and implementation																		
Information support																		
Building of preliminary information networks																		
Building of nationwide information networks																		
Collection and incorporation of data and information																		
R&D																		
Selection of research topics and joint development																		
Development of the system to promote commissioning to private enterprises																		
Human resource development																		
Development of the manager training program																		
Promotion of collective operation																		
Joint development of model cluster (MCT)																		

Source: JICA Study Team

2.3 Particulars on the Main Policies, Systems and Measures

2.3.1 Main Policies

2.3.1.1 Tasks and Measures for Coping With the Situation in Smaller Business Financing

The public financing system for smaller businesses implemented by the Venezuelan Government has the following problems:

- a. The system is not very well known.
- b. The scale of capital and the organizational system scale of government financing entities are small.
- c. Access by companies located in the provinces is difficult.

Regarding problem a., publicity should be reinforced, it being particularly important to have financing programs sink into and take hold in private banks, regional chambers of commerce and industry and smaller business related organizations handling them, and an effective way of accomplishing that is to have regional chambers of commerce and industry serve as windows for small businesses to go to apply. Furthermore, in cases in which private banks act as intermediaries it is necessary to have not only top management but also the persons charged with actual handling of such financing for smaller businesses have a more thorough understanding of them.

As for scale of capital, cited in b. above, both FONCREI and SOGAMPI are now moving in the direction of reinforcement thereof, but the scale of their organizational systems has remained just about the same. Reinforcement of scale of capital is very much needed since it also has a bearing on how much trust is placed in them as financing entities. Furthermore, the number of cases handled and the amounts involved are small for both of those entities, and they are making only an extremely limited degree of contribution to smaller businesses as a whole.

The Venezuelan Government is planning to set up a Regional Development Fund (RDF) and a Regional Guarantee Fund (RGF), and in that connection we would like to propose that the central government strengthen the public financing system in the regions by providing standard operating norms (concerning operating methods, funds, evaluation methods, etc.) and human resource programs to serve as a basis for building institutional financing at the level of local governments that is in tune with actual regional and local conditions. Furthermore, in order to strengthen relations of trust

between the guarantee entities set up in the different regions and regional and local private banks and to make linkage between the two more efficient it is necessary to establish a powerful backup system in which the central government takes on its shoulders the difference between the amounts paid and the amounts guaranteed.

The problems cited below are those that were particularly striking in the opinions voiced by the companies and company organizations at the time of our local survey.

(1) High Interest Rates

As already pointed out, loan interest rates are too high, even considering the rate of inflation, and it is not practical for smaller businesses to borrow from banks in view of their difficulty in making enough profit to be able to fully bear such interest rates. The reason why interest rates on loans to smaller businesses are so high is that real loan interest rates are high and that interest rates on loans to smaller businesses are higher than those on loans to large businesses. One reason that can be cited why the base interest rate is high is that the large volume of government bonds that has been issued has caused what is known as “crowding out.”¹ A way of countering that would be for the central bank to implement buying operations, but because of high risk of triggering inflation it is surmised that it would be difficult to adopt that method in Venezuela’s case. Furthermore, because of high bank costs (fund procuring costs, operating costs, etc.) spread is greater than even in surrounding countries.

¹ “Crowding out” is the effect that government spending has of raising interest rates and reducing private investment.

Another reason why interest on loans to smaller businesses is high is that with liberalization of interest rates, there has been coverage of the high risk of loans to them by high interest rates. With the present trend of economic contraction, a situation in which many smaller businesses are going bankrupt, it is not easy to lower interest rates to high-risk smaller businesses. That dilemma can be coped with by creating a mechanism that holds down interest rates on guaranteed debts to add to the improving of debt guarantees like those of SOGAMPI which is presently under way. Also, it can be a viable option to introduce low-interest, long-term loans from foreign sources as funds to provide low-interest SME loans.

(2) Limited Total Volume of Financing of Smaller Businesses

A reason that can be cited for that is that the large volume of government bonds purchased by banks has reduced the total volume of funds available for financing operations by them. Since it will take time to change the way private bank view financing of smaller businesses, it is first important that there be expansion of financing to smaller businesses by the government-run financing institutions BIV and BANDES (development bank) and supply of original funds to institutional financing by regional and local governments and to public financing institutions servicing local industries as well as fostering such systems and institutions. For instance, although its amount lent per loan is only about 12 million bolivars, FONDAPYME in Lara Department is operating efficiently with a small staff. It is necessary to foster the growth of and have program development for financing institutions like that that have close relations with local chambers of commerce and industry and organizations of smaller businesses and that also have consulting and training functions. If it were to be possible to also improve the management of smaller businesses through such consulting and training along with financing, it would be possible to reduce the risk of bad debts resulting from bankruptcies.

(3) Inability to Borrow Long-Term Funds

At the present time there are very few financing institutions other than FONCREI that can furnish smaller manufacturing businesses with long-term funds. Furthermore, since the private banks that act as the lending agents in financing by FONCREI have to bear 100% of bad debt risk in such financing, private banks are reluctant to make use of it. It would seem that in order to deal with that it is necessary to have development of programs that offer private bank financing and debt guarantees by SOGAMPI and others as a set as well as to have diversification of conditions, including setting of flexible interest rates in exchange for the amount of decrease in the risk assumed by the private banks. Since long-term funds are more often than not for things like machinery and equipment, one might also consider the possibility of comprehensive contracts by SOGAMPI or FONPYME concerning lease credit insurance and installment loan guaranteed sales credit insurance for the sake of promoting leasing and installment sales by the operators that supply such machinery and equipment (lease operators, manufacturers, sales operators), and another measure that should be considered is establishment of lease companies by local governments.

(4) Long Screening

Although that problem is also to a considerable extent due to inadequate screening capacity of the financing institutions themselves, it can also be partly ascribed to things like diversity of required documents, insufficient information and complicated formalities such as those for setting mortgages or other collateral. One thing that could be considered is training of staff in screening of loans to smaller businesses, and as for insufficiency of information, there is also the possibility of building information networks with the cooperation of chambers of commerce and industry and local governments for the sake of making such screening easier.

Furthermore, in the case of smaller businesses it also takes time to prepare the information materials that are needed in order to receive financing. In order to make it possible to facilitate screening, support can be provided regarding things like preparation of the information materials necessary for screening of loan applications, such as advisory for rational simplification of documentations, preparation of manuals for that purpose by the government and utilization of guidance to be furnished by the smaller business local support centers (INAPYMI) that are going to be set up.

(5) Proposals Regarding Public Financing Institutions

1) Financing and Guarantees

This is not yet a quantitative problem in that economic contraction is making for weak demand for funds because of remaining anxieties regarding the future. That being the case, qualitative improvements should be made now in public financing and public credit guarantee systems to be institutionally prepared to cope with increase in demand when it does occur. Considering that public financing systems and public credit guarantee systems are moving in the direction of expansion, the task at hand is that of building systems that can gain the trust of both users and financial institutions. What is more, it is more important to expand public credit guarantee systems than to create new government banks specializing in serving smaller businesses. The reason is that that will make it possible for credit guarantee systems to utilize the human resources and funds of private banks and that there are already FONCREI, BANDES, BIV, BANFOANDES and other public financing institutions capable of financing smaller manufacturing industries, all of them with their own expansion plans.

The short-term aim will be that of getting more banks to handle the SOGAMPI guarantee system and the RGF guarantee system to be newly established. Since few banks presently utilize such systems, it is hard for users to make use of them.

Basically, the method to be used is that of working toward adoption of improved conditions that are mutually acceptable to all three parties—the financial institutions, the ministries in charge and the users, i.e. the smaller businesses—through ongoing dialogue among them. If it is difficult for SOGAMPI and RGF themselves to arrange such a forum, it will be necessary for the Ministry of Production and Trade and Ministry of Finances to actively make opportunities for dialogue. Furthermore, in view of the importance of such systems to the development of smaller businesses it will also be necessary that there be negotiations in the different regions concerning them between the regional and local governments, chambers of commerce and industry, industrial organizations and regional and local banks. At the same time it will be necessary to improve the situation in which only a very few banks such as the government-run BIV and the private Banco Mercantil, Banco Occidental de Descuento and Banco Caracas have actually handled FONCREI programs (as of 2000) in spite of the fact that many more are capable of doing so.

Besides increasing the number of banks handling such programs and systems, there is also to be improvement of the services of public financing institutions. It cannot be said that public financing institutions are presently operating in a way that puts much emphasis on the convenience of smaller businesses as customers. Since government institutions do not have to compete with the private sector and also in view of the better financing conditions that they offer, they tend to have the attitude that it does not matter if their customer service is not so good, and that attitude has to be corrected. For that, it will be necessary to survey and assess degree of customer satisfaction, mainly by interviewing and sending questionnaires to those who have received financing in the past or inquired about it, and to work on improvement of service on the basis of the findings.

In the medium and long term:

- 1) Once the RDF and RGF have grown to a certain extent there should be organization of an association for building an information network concerning collateral information, risk information, etc. and for joint system building and operation.
- 2) There should be joint development of smaller business support programs with other parties such as regional and local governments and smaller business support organizations, such programs including:
 - a. Programs for business cooperatives:

- Financing of joint purchasing, procurement and utilization facilities
- b. Program for fostering suppliers (subcontractors)
 - Provision of operating funds (particularly funds for purchase of raw materials) needed by suppliers
- c. Programs for joint acquisition of ISO 9000 (or other quality assurance certification) status
 - Loans for engaging the services of consultants

The above programs are comprehensive support programs for system development, consultation and training and instruction in support of smaller businesses and cannot be implemented only by public financing institutions. That being the case, they have to be joint programs with other organizations. Coordination between those different entities will be the responsibility of INAPYMI, the role of the public financing institutions being that of lending the funds needed by the programs.

Furthermore, the following financing programs are to be provided regarding technology development and product development, which are areas in which smaller businesses lag behind, as a part of overall measures for promoting smaller businesses. Such financing support is to include both the method of direct financing and investment by public financing institutions and that of commissioning technology-related entities.

- a. Supporting joint research in “tecnoparks” by industry and educational institutions
- b. Supporting of company new product research and development

The development should be carried out on the basis of deciding of priority support fields by the central or regional and local governments. Program risk should be shared by the central and regional and local governments making use of guarantee systems and by other means.

2) Pilot Project (venture capital)

As a part of this study, advisory services are being provided with respect to a pilot project based on venture capital, the following being a summary thereof:

a. Purpose

It is important that there be strategic investment in industries and technologies of future importance to Venezuela that find it hard to receive financing from public financing institutions. The entire amount of the venture capital in this case has been provided by the government, and therefore it should be invested in industries

and enterprises that are considered to be important for the future in spite of involving considerable risk instead of just in those for which maximum profit can be expected as in the case of private investment.

b. Implementing Entities

As already mentioned, government funds represent the entire amount in this case, the investing entities being FONCREI and FONCREI subsidiaries, and for that reason the advisory services are being carried out with respect to FONCREI.

c. Future Development

If this project is successful, the funds should be increased, and technology transfer to the private sector should be undertaken. Furthermore, we are proposing utilization of a web site in the project aimed at nationwide unfolding and penetration.

2.3.1.2 Tax System

The targets of the most criticism that we heard in our visits to the companies and organizations concerned were: (a) the business tax, (b) slowness of drawbacks and payment back of VAT and (c) the burdensomeness of municipal taxes. Regarding the business assets tax, although wide application of the tax even to companies that do not have to pay income tax is understandable from the viewpoint of tax burden fairness, the tax burden gap between manufacturing businesses and service businesses due to manufacturers' greater quantity of plant and equipment is problematic. As for (b), improvement is being made regarding that, and an effect should be evident before too long. The influence is not all that great in view of the fact that few smaller businesses are directly engaged in exports, but still that is of importance from the viewpoint of promotion of exports. If possible, there should also be consideration of enhancing confidence in the tax system in ways such as making the state of progress in processing payments back more transparent. Regarding (c), although improvement of the situation is difficult in view of the fact that such taxes are outside the purview of the central government, it is important that the Ministry of Production and Trade make comparative studies of the actual situation regarding such taxes in different local governments to determine the extent to which smaller businesses are affected and on that basis see to it that the different local governments realize the problems posed by their tax systems as regards promotion of industry.

But the biggest problem is that many small and very small businesses are not paying their taxes, and that means that it is necessary to devise ways of encouraging them, particularly very small companies, individual proprietorships and small enterprises that are just getting started, to do so. At the same time providing of government support to companies that honestly pay their taxes ought to encourage smaller businesses in general to pay their taxes.

In Japan small corporate businesses (those capitalized at less than 100 million yen and having an annual income of under 25 million) have a reduced corporate tax rate applied to them (22% for the part of income up to 8 million yen and 30% for the part above that versus a flat 30% for other corporate businesses), and in local taxes there are also other measures such as application of reduced corporate business tax rates, and besides that, in order to promote modernization of smaller businesses there is also recognition of tax deductibility or special depreciation of plant and equipment costs and partial deduction of research and development expenses.

Japan also has a system that gives preferential treatment in tax declaration calculations and other aspects to one-man businesses that keep their books correctly. That system not only encourages individual proprietors to pay their taxes but also contributes to rationalization of their operations through furtherance of correct bookkeeping, and since some individual proprietors lack ability to accomplish correct bookkeeping and tax declaration, there is also a guidance system concerning those tasks.

The following preferential treatment measures are proposed in view of the above:

- a. Reduced income tax and business assets tax rates for smaller businesses
- b. Special tax systems that reduce the tax burdens of businesses just getting started^{*} and individual proprietors
- c. Preferential treatment measures regarding plant and equipment outlays for modernization of smaller businesses and their research and development expenses (e.g. exemption from VAT, special depreciation and partial income tax deductions)
- d. Tax exemption measures and tax deductions to encourage procurement of equipment for prevention of pollution

^{*} The business asset tax is already exempted for entrepreneurs for a specific period of time. See 1.6.1 for detail.

- e. Incentives to and encouragement of payment of taxes by small and very small businesses (e.g. guidance for correct bookkeeping and guidance for rationalization of operations through correct bookkeeping)

It is important that special tax systems be established for priority sectors or regions that the government is particularly interested in promoting instead of for smaller businesses in general. Therefore, it is important that the special tax system targets a specific sector/area that the government intends to promote with priority, rather than SMEs in general. While the central and local governments will select priority sectors and areas according to a set of criteria, they have to review the currently available incentives and modify them as required, including acceleration of their implementation. The study team has identified priority fields of development, which are described as follows.

- a. Agricultural product development and agricultural product processing industries
- b. Forestry product development and forestry product processing industries
- c. Fisheries development and processing industries
- d. Livestock raising and dairy farming
- e. The tourism industry
- f. Industries related to the above

For further details see section 2.3.1.8, “Regional Smaller Business Development Strategy.”

2.3.1.3 Support to Smaller Businesses That are Getting Started

Further to the description of the present situation regarding support to smaller businesses given in section 1.9.2 of Chapter 1, in the following are set forth the tasks involved and proposals concerning such support.

(1) Problems

The problems that the AJS program has as perceived by the Japanese side are as follows:

1) Basic Strategy

In the 2000 program it is mandatory for entrepreneurs to occupy existing industrial parks, but it would appear that that is not necessarily in line with their needs. The 2001 program eases that restrictive condition, but still the fact that support of entrepreneurial initiatives is linked with industrial park development and development of regional industries is problematic. In other words, the basic strategy of promoting

entrepreneurial initiatives in regions lagging behind in industrial development is internally flawed.

2) Perception of Entrepreneurs

How entrepreneurs are perceived and evaluated is a very important point. That is because of the big difference in foundation for existence between newly started businesses and existing smaller businesses. Unfortunately, the Venezuelan side is not sufficiently capable of seeing the difference.

3) Evaluation of Entrepreneurs

For correct evaluation of entrepreneurs one's own method and plenty of experience and know-how are necessary, but in the present situation it is done on the basis of screening methods that include requirement of the same kind of collateral as that required of existing smaller businesses. In other words, in evaluation of entrepreneurs there is insufficient understanding of the relationship between risk and investment on the Venezuelan side.

4) Support Mechanisms

The content of the entrepreneur support program is not in tune with the growth stage of entrepreneurs, in the final analysis there being only constriction of financing to occupancy of industrial parks and certain industrial regions or areas. The program has little capability of developing into a policy menu for promotion of smaller businesses, and it offers no mechanisms for fostering of emergence of one entrepreneur after another.

(2) Proposals

1) Reformulation of Basic Strategy

The economic revitalization program consists of the AJS program and the industrial estate rehabilitation program. The AJS program is primarily designed to create employment opportunities regularly and contribute to the national industrialization process. Nevertheless, it is difficult to promote business startups by implementing the program activities focusing on decentralization of economic activities, such as promoted relocation of businesses to industrially lagging areas, development of non-traditional industries in selected areas, and inducement of manufacturers to the existing industrial estates.

That is because entrepreneurs have a foundation for existence, characteristics and behavioral patterns different from those of existing smaller businesses. Strategy regarding entrepreneurs should be newly formulated strategy suited to entrepreneurs rather than being merely an extrapolation of conventional industrial development strategy. For that, it is first of all necessary to have a correct perception of entrepreneurs. In other words, new strategy for support of entrepreneurs should be formulated only after reconsidering various premises such as what differences there are between entrepreneurs and existing smaller businesses, what the characteristics of entrepreneurs are and what strengths and weaknesses they have, what method should be used to evaluate entrepreneurs, whether or not the present method of screening regarding collateral is appropriate, whether or not those who do the evaluation and screening have accurate and specialized knowledge about entrepreneurs, whether or not the present MPC method of support represents a mechanism for fostering entrepreneurs and whether or not the present activities at universities, graduate schools, INCE, CONIINDUSTRIA, etc. represent a system that can groom entrepreneurs.

2) Provision of Content of Support and a Support System Geared to the Different Stages of Growth of the Companies in Question (egg stage, chick stage, young bird stage and adult bird stage)

The entrepreneurs in Venezuela covered by the project can be roughly classified into three groups: undergraduate students, graduate students and people who have finished their schooling and are functioning out in society. That last group can be subclassified into people with ideas that are either presently not working, presently working in a company or small businessmen who have suspended their businesses.

In carrying out support of entrepreneurs, it is necessary to implement different methods and programs according to whether they are for undergraduate students, graduate students or nonstudents. In the case of undergraduate and graduate students the emphasis is on “hatching” and fostering novelty and creativity in the form of new knowledge and ideas, new technologies, etc., whereas in the case of people already out working in society it is on making improvements in existing types of business in order to start up new, more viable businesses.

That being the case, the content and methods of providing support should be considered separately for those two different types of entrepreneurs. In support for the first type, students, the universities themselves should be requested to formulate curricula that are conducive to supporting entrepreneurs, and active use should be made of “incubators” set up at the universities in question. For that type it is

necessary for MPC to work together with the universities, coordinating and maintaining linkage with them, for the purpose of furnishing entrepreneur support programs that make it easier for undergraduate and graduate students to start businesses.

In support for the second type, nonstudents, entrepreneur training and instruction seminars and symposiums should be held all over the country under INAPYMI sponsorship in an effort to discover budding entrepreneurs. It is particularly necessary to actively promote entrepreneur seminars in coordination with various regional and local organizations and UEMPC since they represent training that is needed in order for people to acquire the knowledge and know-how that they need in order to become entrepreneurs. Carrying out such training throughout the country in support of potential entrepreneurs should make it possible to uncover new potential entrepreneurs and lead to their growth to the next stage, that of startup businesses.

3) Building by INAPYMI of a One-Stop Service System for Support of Entrepreneurs and Smaller Businesses

INAPYMI is to furnish the following support services after building a system for support of entrepreneurs and smaller businesses:

- a. Walk-in advisory services by experts
- b. Sending of experts to companies
- c. Furnishing of information
- d. Training and instruction
- e. Research and development support, etc.

4) Active Introduction and Utilization of “Incubators” (Technoparks) at the Initiative of INAPYMI

There are now five incubators in operation in Venezuela: at B... Technopark in L... Department, at Simon Bolivar University and Metropolitan University in Caracas, at Los Andes University in Medina Department and at Zulia University in Zulia Department. Plans call for establishment of others in G... Department, in F... Department and at Valencia in Carabobo Department. Incubators in Venezuela are characterized by the fact that they have close linkage with universities, many of them having been set up on university campuses. However, the present situation is still one in which there are physical limitations such as not enough space for occupancy by incubators and in which the number of occupant companies and the number of

companies that graduate are very small, such incubators not yet having attained an important standing in Venezuela's industry.

That being the case, it is necessary to undertake entrepreneur support in Venezuela making active use of incubators with reference to the incubator content set forth below. Table 2.3.1 below gives an outline of incubators in Europe and the U.S., Japan and elsewhere in Asia.

TABLE 2.3.1 QUANTITATIVE CHARACTERISTICS OF INCUBATORS IN DIFFERENT COUNTRIES

	U.S.	U.K.	Finland	Japan	Republic of Korea	China	Australia
Number of bases (places)	850	90	54	200	135	110	79
Average number of occupant companies	20	19		20	14	16	
Number of companies fostered	6,458	1,710		1,500	1,902	5,293	
Number of companies that have graduated	19,000			800		1,934	
Average year of establishment	1991			1995	1999		1994
Average floor space (m ²)	4,073	2,044	1,042	1,994	1,712	17,163	1,167
Average staff strength (number of persons)	2.8	5.8	6	0.7			3.3

Source: Information furnished in speech by Mr. Ichiro Sakata of the Ministry of International Trade and Industry's Siting Policy Section and information published by the Development Techniques Society in November 2000.

a. Summary of Business Incubators

Business incubators are attracting attention as specific means of supporting entrepreneurs, startup companies and venture enterprises. They are presently rapidly developing in places throughout the world, with 2,500-3,000 programs in all active in the world according to data for May 2000. In the U.S. approximately 850 programs have already been implemented ahead of others, and some 1,900 companies have graduated from business incubators, resulting, it is reported, in contribution to creation of about 250,000 jobs in the IT industry. Thus, it has become widely known that business incubators in the U.S. have a function of promoting startup of new businesses, and in recent years they have also come to be introduced in Japan, Korea, China, India and elsewhere as an effective tool of economic development.

b. Definition of “Business Incubator”

Let us therefore try to define “business incubator” to give clarity and order to the concept. The definition given by the U.S. National Business Incubation Association (NBIA) is “programs that comprehensively furnish diverse business support services based on coherent efforts by both internal staff and external experts in order to help the growth of startup enterprises with new ideas and technology seeds,” and U.K. Business Incubation (UKBI), Britain’s business incubator network organ, defines the concept as “a dynamic business development process of support to entrepreneurs and early stage enterprises for startup and development of business operations, with the emphasis on those with particularly high growth potential.”

The definition given by Siting Policy Bureau of Japan’s Economy and Industry Ministry is “programs for support of groups of entrepreneurs in startup or a stage of difficulty of rapid growth by ordinary means through comprehensive supplementation of resources that they lack for the purpose of accelerating startup or growth and that have the concept of having them graduate from such support after passing of a certain amount of time from commencement thereof, i.e. when they have cleared the program’s goal (criteria for graduation). But the incubation facilities themselves are also called incubators and are an object of statistics, and those without facilities are differentiated by the term “virtual incubation” or “cyber incubator.”

c. Specific Activities of Business Incubators

Business incubators are specifically constituted by material and nonmaterial aspects. On the material side they provide inexpensive office space, experimentation facilities, common conference rooms and floors, information equipment and facilities, etc. as physical infrastructure, and on the nonmaterial side they provide entrepreneurs with overall consulting and support, basic business support, educational-industrial linkage support, fund procurement support, business management guidance support, support in the form of access to lawyers, certified public accountants, VC, etc., support in the form of networking with related companies, marketing support and so on and so forth. The following is a representative list of the services provided by business incubators in the U.S. as based on the findings of a survey carried out by the NBIA in 1998:

- Business basics in general
- Accounting and legal matters
- Marketing

- Networking
- Loan funds access support
- Linkage with higher research institutions
- Provision of conference rooms and shared office space
- Technology development
- Patents
- International trade
- Government procurement
- Human resource development
- Provision of physical infrastructure

From the above list one can appreciate the variety of the business support services that are provided. Survey findings show that the standard services provided by more than 70% of the institutions are concentrated in the 8 items of Table 2.3.2 below.

TABLE 2.3.2 STANDARD SERVICES IN U.S. INCUBATORS

Listing of services	Provision of shared office space (%)
Percentage (%) of incubators that provide them	96
Basic business support	89
Market support	77
Accounting and financial management	77
Loan funds access support	86
VC and other networking	76
Linkage with higher research institutions	92
Provision of conference rooms	88

Source: Information furnished in speech by Mr. Ichiro Sakata of the Ministry of International Trade and Industry's Siting Policy Section and information published by the Development Techniques Society in November 2000.

As can be seen from the above, business incubators are institutions that provide comprehensive services instead of just support restricted to particular specialized fields. In order to efficiently provide diverse services management capability is needed internally, and for services that cannot be provided internally it is necessary that there be the role and activities of broadening the range of services through external procurement. In other words, "advanced integration of diverse services" is needed by business incubators as an important function.

d. Indispensable Conditions of Business Incubators

According to the findings of a survey carried out in the U.S. in 2000 by the Japan Conference of New Business Support Organizations (JANBO) the following 8 points can be cited as the indispensable conditions of business incubators:

- Assignment of capable incubations managers and staff and implementation of support programs
- Formation of diverse external resource networks for better order-made support functions
- Process for screening of occupants suitable for the character of the individual incubator
- Provision of good graduation screening and graduation support functions
- Promotion of exchanges and joint-use of facilities and services between occupants
- Formation of networks between companies that have graduated
- Building of win-win relationships with universities
- Securing understanding and cooperation with local municipalities, industry support organizations, funds, etc.

7) Establishment of Methods of Evaluation of Entrepreneurs (Accumulation of Know-How)

It is necessary to set up an “Entrepreneur Research Committee” consisting of university professors, entrepreneurs, management consultants, businessmen, venture capitalists and other external experts and people with knowledge and experience, with MPC and INAPYMI serving as its secretariat, and have it carry out research on various themes for about one to two years, including basic guidelines for promotion of entrepreneurs and venture enterprises in Venezuela, methods of evaluation of them, the content of support for them and support systems, etc., followed by preparation by it of a final report on its research findings as a means of accumulating Venezuela’s own pertinent know-how.

2.3.1.4 Research and Development

(1) The Present Situation Regarding Research and Development in Venezuela and the Tasks Faced Concerning It

The following is a description of the main institutions in Venezuela relating to industrial technology development and the present situation regarding their activities.

A. IVIC

Venezuela has only limited public industrial technology development facilities. Representative of them is the Venezuelan Institute of Scientific Research (Instituto Venezolano de Investigaciones Cientificas) (IVIC), organized under the Ministry of Science and Technology (MTC). Its facilities are the best among the country's public research and development institutions, the main research departments thereof being as follows:

IVIC's Scientific Service Departments:

- Chemistry
- Pharmacological testing
- Microbiology and biocystology
- Biophysics and biochemistry
- Advanced research center
- Mathematics
- Anthropology
- Ecology
- Nuclear physics
- Technology center
- Natural science research
- Physics
- Marcel Rochet Library
- Graphic design and image science
- Computation system
- Bioterio

However, except for macromolecular research, synthetic organic research, catalyst science research, etc. (all of which are chemical center departments) on commission by PDVSA, that facility does not accept research commissioned by private enterprises. In other words, it is basically a scientific research institute that concentrates on government-initiated basic research and not an entity the engages in things like technology development on the commercial level and product development.

B. Tecnoparks Attached to Universities

The PTS (Parque Tecnológico Sartenejas), attached to Simon Bolivar University in Caracas, is representative of technoparks attached to universities in Venezuela and is a member of the International Association of Scientific Parks (IASP). That facility

is a complex that includes high-tech industry, research facilities, an advanced technology training center, company offices, support services, commercial facilities, etc., its composition being roughly as follows:

- Training facilities
- Conference halls
- Accommodation services center
- Recreation center
- Members' club
- Engineering basic research institute
- Incubator facilities
- Advanced technology research institute
- Occupant enterprises zone
- Scheduled development zone
- Housing zone
- Administrative building

That facility has a system for cooperation with private companies, which means that it is possible for it to work on practical research and development, but access to it by private companies is somewhat problematic because of its location next to the university campus in the hills away from where companies are concentrated. Furthermore, many smaller businesses do not even know of the existence of such a facility with private sector support functions, and particularly smaller businesses in the provinces lack information and knowledge concerning technopark functions. To sum up the situation, the number of public research and development facilities of that kind in Venezuela is very limited, and they are small-scale, and although the individual technoparks are enthusiastic about supporting the private sector, they do not have adequate systems for acceptance of research on commission from a wide range of private enterprises. Furthermore, the situation is one in which information concerning the existence of such institutions and ways of making use of them is not reaching private enterprises very well.

The following are the other main technoparks attached to universities besides the PTS:

- Universidad de Los Andes (Merida)
- Universidad de Zulia (Zulia)
- Universidad de Carabobo (Carabobo)
- Universidad Central de Venezuela (Caracas)

- Universidad de Oriente (Anzoategui)
- Universidad Experimental de Tachila (Tachila)

C. MCT Engineering Center

On the grounds of the above-mentioned PTS there is an engineering center under MCT where cooperation with private companies in development of metal processing products is carried out. Its activities center on CAD/CAM design, making of wooden patterns and making of prototypes (metal dies) by machining. That center is starting to implement plans for expansion based on the MPC budget. Starting in October of next year, there is to be a training course in machining metal design for production of machinery for use in agricultural and livestock raising as the MPC's "Sobre Marcha" (Metal Mechanica) plan, and the trainees are to be university graduate entrepreneurs and people from companies. The orientation of the activities of the center has very practical content for smaller business product development, and it is considered that one could expect location of the same kind of facilities at Puerto Ordaz, Barcelona, Maracaibo and elsewhere where there is high concentration of metal processing industry to be effective. It might also be mentioned that one of the biggest headaches of that center is insufficient die-making technology, and hence a desire for advanced technology transfer concerning die production from Japan and elsewhere.

D. Developed Technology and Patent Applications

Judging from the number of technology patent applications, industrial technology development activity by private companies in Venezuela does not appear to be very vigorous. There are only about 2,500 industrial invention patent applications in Venezuela a year, 85% of them by foreign companies. Most of the remaining 15% is accounted for by patent applications by individuals, there being hardly any by companies, universities, research institutes, etc. The most patent applications by a domestic corporation are those by INTEVEP (a PDVSA research institute), but even they number only about 10-15 a year, and applications by technoparks number less than 10 a year. The background for that is basically insufficient investment in research and development, but it is also surmised that private companies lack knowledge about patent applications as well as there being problems in patent application formalities. Among the things that it might be possible to do about that situation are expansion of research facilities attached to technoparks, promotion of educational-industrial joint research, promotion of public disclosure and utilization of technology developed by public research institutes (IVIC, technopark basic research

institutes, etc.), making information on technology development and patent applications more widely available, encouragement of patent applications, etc.

E. Technology Development and Product Development by Public-Run Materials Industry

The PDVSA and other public-run materials industries such as petroleum-related industries, the aluminum industry and the iron and steel industry all have the form of “bulk materials export industries,” there being little interest in fostering industries derived from them. Market economy principles identify the domestic market as the most important and advantageous to domestic industry, and development of the domestic market through fostering of processing industries using domestically produced materials ought to be the most important task for Venezuelan materials industries, too. Considering at the same time the present situation in which Venezuelan smaller businesses are unable to carry forward technology development and product development on their own because of insufficient strength, what is needed is technology development and product development efforts by upstream materials industries themselves in line with domestic market needs with a view to fostering and securing the domestic market. Specifically, the testing and research facilities of material industries themselves should develop and implement a strategy of expansion of domestic production and domestic and foreign markets by carrying out plastic, aluminum, iron and steel and other materials processing technology and product development research and development and furnishing domestic industries, including smaller businesses, with such technology.

F. Tasks of Research and Development by Smaller Businesses

As we have seen in the above, except for some key industries, in Venezuela research and development concerning industrial technology is quite insufficient, research and development in fields needed by smaller businesses in particular lagging behind as regards development of systems for it. In terms of the overall picture the following can be said to be the kind of strengthening and support measures that will be needed in view of that situation:

- a. Expansion of the functions of public research and development facilities and setting up of systems for their cooperation with the private sector
- b. Strengthening of technoparks attached to universities and expansion of their local impact
- c. Setting up and strengthening of policy-determined support systems

- d. Enhancing awareness concerning acquisition of technology patents
- e. Disclosure to the private sector of technology developed by public research institutes
- f. Making information on new products, new technologies, etc. more widely available

(2) Need for Research and Development and Tasks Involved in It

In industrial society characterized by progressive technological innovation research and development is an extremely important theme for advancement of smaller businesses based on coping with change in their environment. However, unlike the case of large enterprises that are able to engage in research and development with their own research and development facilities and personnel, the investment in the future that research and development represents is too great a burden for most smaller businesses in terms of both funds and personnel, and that is why countries that give priority to industrial development establish systems for supporting technology development by smaller businesses in different ways.

A. Necessary Themes of Research and Development

The order of importance of the different technology development needs of smaller businesses as determined taking into account the findings of studies concerning that in Japan is as follows:

- a. Development of new products
- b. Rationalization and achievement of labor savings regarding production processes
- c. Enhancement of degree of value added in existing business areas
- d. Acquiring higher and more advanced technological capability
- e. Securing of new technology (introduction of technology)

Regarding a. above, development of new products, it is only natural for companies to engage in it for the sake of meeting ever diversifying market needs and new industrial needs, and it is carried out for development of innovative industrial products in terms of functionality, design, price and other aspects as well as products meeting the needs of areas closely related to regional and local markets, new products geared to rapid technological progress, products to be supplied to niche markets, etc. Furthermore, as needs arising in the course of social capital improvement newly occurring on the basis of government policy, much is expected in the way of development of new industrial products relating to the field of housing development,

the field of infrastructural development, the field of vitalization of regional and local industry, the field of information and communications, the field of environmental improvements, the field of medical care and social welfare and so on and so forth.

As for the other four items above starting from b., rationalization and achievement of labor savings regarding production processes, they represent technical improvement of the company's own means of production and are important themes for strengthening of the foundation on which the company's operations are based in that they are directly linked with enhancement of the price and quality competitiveness of the company's products.

B. Establishing the Systems Necessary for Technology Development

In general, the problems that smaller businesses face in engaging in technology development lie in points like the following:

- a. Shortage of technology development personnel
- b. Shortage of funds
- c. Insufficient awareness as an enterprise
- d. Shortage of equipment and facilities for research and development
- e. Shortage of information needed for research and development

Smaller businesses, most of which do not have very strong constitutions as enterprises, can usually hardly be expected to be able to establish on their own systems for overcoming such problems, and it is therefore necessary to furnish outside support for reinforcement in order to make it possible for them to strengthen the foundations of their operations to a level from which they will be able to go forward with research and development on their own.

(3) Support Measures Needed in the Way of Research and Development

From the above, the following are considered to be possible ways of supporting research and development by smaller businesses in Venezuela:

A. Technical Support Measures

- a. Technical guidance for research and development
- b. Technical training systems (training of research and development personnel)
- c. Guidance concerning putting new technology on an operational footing (startup guidance)

- B. Support Measures for Making the Necessary Funds Available
 - a. Tax breaks (deductions for research and development expenses and special depreciation system for research and development equipment and facilities)
 - b. Research and development loans system
 - c. Guarantees for research and development loans
 - d. Research and development subsidies (to cover part of the expense)
 - e. Venture capital
- C. Utilization of Public Research Facilities
 - a. Opening the facilities and services of public testing and research institutions to the outside (equipment and facilities of government research institutes, universities, technoparks, etc.)
 - b. Acceptance of privately commissioned research by public research and development institutions
 - c. Educational-industrial joint research
- D. Cooperation in Furnishing Information
 - a. Furnishing of technical information (new technology, new products)
 - b. Disclosure and furnishing of technology developed by public entities
- E. Other Measures
 - a. Holding of technology exchange events
 - b. Technology development seminars
 - c. New product and new technology fairs
 - d. Making patent information more widely available and encouraging acquisition of patents

(4) Proposed Measures

The following measures are proposed considering the present situation of smaller businesses in Venezuela and government support policies and the circumstances of related facilities and institutions there:

A. Technical Support

a. Technical Guidance

Undertaking of research and development on the basis of hiring by companies of competent experts in research and development by means of government subsidies based on a consultant system to be newly established. Also gratis technical consulting services offered by INAPYMI regional offices on a walk-in basis and by technoparks, universities, etc.

b. Training and Grooming of Research and Development Experts

Establishment of a “development and research experts” training course under the “experts training system” that is one of the activities of the INAPYMI for the purpose of grooming company in-house research and development personnel.

c. Guidance for Putting New Technology on an Operational Footing

Provision of guidance for putting new technology on a operational footing under the INAPYMI “startup guidance” activity. The items of the proposed guidance include support for application for patents concerning new technology (protection of intellectual property rights), fund procurement support, including support for utilization of venture capital, guidance concerning obtaining of authorizations and permits relating to startup, guidance in preparation of operation plans, etc.

B. Support Measures for Making the Necessary Funds Available

a. Tax Breaks

Authorization of application of tax deductions and accelerated depreciation to research and development investments based on utilization of research and development loan systems.

b. Research and Development Loan System

There is to be establishment of a loan system for investment in research and development, the loans being medium-term and long-term. INAPYMI’s approval of the planned content and implementation budget of the research and development investment to be covered by the loan will be required. Furthermore, the loans are to be covered by a loan guarantee system.

c. Direct Investment (venture capital, etc.)

In connection with the startup guidance mentioned in (1) above, support measures such as venture capital investment on the basis of a government fund or equity financing might be considered, depending on the project.

C. Utilization of Public Research Facilities and Research and Development

a. Opening Public Testing and Research Facilities to Outside Use

For nationwide spread and unfolding of technology development in Venezuela, which has few public testing and research institutions (in Japan’s case the number of testing and research facilities for smaller businesses nationwide is 182), the most

practical approach for the time being is extension of testing and research facilities of technoparks attached to universities. There is therefore to be extension of the engineering center facilities at technoparks and opening of a part thereof to private smaller businesses at low fees, making it possible for them to use such facilities under guidance personnel. The facilities to be opened to smaller businesses should be equipped with the latest equipment and new technology, which such users are unable to purchase themselves. The purpose will be to have the smaller businesses learn new technology and understand the use value thereof as well as themselves search for possibilities regarding their own technology improvement and development and thereby find clues to raising the level of their technology and to how to accomplish their own technology development.

The Saretnejas Engineering Center is a good model case, and a premise for implementation of this proposal is that universities throughout the country and existing technoparks attached to universities establish or improve and extend engineering centers of the same kind and carry out the necessary arrangements and preparations, including assignment of expert guidance personnel, for accepting smaller businesses and meeting their pertinent needs.

b. Acceptance by Public Research and Development Institutions of Research Commissioned by the Private Sector

For complementation of the research and development functions of smaller businesses it is necessary that there be facilities that accept technology development, product development and other similar tasks on commission from them. The possibilities regarding entities for accepting such research and development on a commission basis include national research institutes, universities, technoparks and research facilities of state-run enterprises, but for the same reason as indicated in 1) above the most likely candidates are universities and technoparks attached to universities. The fees for such work on commission should be set low, including on the basis of government research and development subsidies. In return, the technology and products developed on that basis by such public testing and research facilities will be disclosed to smaller businesses in general, and they will be given the rights to use them.

c. Educational-Industrial Joint Research

There is also to be creation of systems for technology and product development based on joint development themes between smaller businesses and universities and

technoparks attached to universities. The meaning of educational-industrial joint development is creation of products meeting new needs by demonstration of technology developed at universities and their research facilities on production lines operating on a commercial basis or by fusion of actual achievement regarding production technology and skills with research capacity. It will also be possible for university students to participate in such educational-industrial joint research groups, and it is hoped that there will be fomenting of a linkage environment that can serve as a base for regional and local enterprise creation activities. Promotion of such activities should make it possible to contribute to vitalization of regional and local industry through things like creation of new joint undertakings and prevention of the brain drain phenomenon through participation of university research workers and students in business.

D. Cooperation in Furnishing of Information

a. Furnishing of Technical Information (on new technology and new products)

Regarding furnishing of information, as a part of the “INAPYMI Information Network” planned by INAPYMI, furnishing of information on technology and products will be undertaken as information services provided at INAPYMI walk-in information windows located throughout the country or on the Internet at INAPYMI’s website. Also planned is an Internet Q&A service regarding questions concerning technology (see the INAPYMI information network for details).

E. Encouragement of Wider Availability of Information on Patents and Acquisition of Patents

In technology development it is extremely important to clearly establish intellectual property rights. Therefore full consideration has to be given to protection of the rights of those who have developed technology, and it is necessary to furnish adequate knowledge and information concerning patents of those concerned. Patent formalities are handled by SAPI under the MPC, where applications are received for industrial invention patents, industrial designs, utility models, registration of designs and agricultural technology use rights. It also has conferences with universities and works with technoparks under the MPC in activities for wider use of patents. However, in the present situation the patent application system is not adequate, what is needed first of all being extension thereof. Since insufficient protection of patents and intellectual property rights concerning

technology constitute a major obstruction to development and spread of technology, urgent improvement of administrative organization concerning patents is needed.

Specifically, there is to be placement of information and advisory personnel concerning patent applications at INAPYMI regional and local reception windows (“patent advisory windows”) (or provision of a Q&A service on the Internet) for creation of an arrangement for providing advice concerning patent applications as a clear and swift support service. The following is an outline of the work of such “patent advisory windows”:

WORK OF INDUSTRIAL PROPERTY RIGHTS ADVISORY WINDOWS

- (A) Advisory work
 - a. Application formalities
 - Patents
 - Utility models
 - Designs
 - Trademarks, etc. and instructions and explanations concerning electronic application procedures
- (B) Various formalities after application
 - Intermediate formalities between application and completion of screening
- (C) Various formalities after registration
 - Transfer of rights
 - Changes in indications
- (D) How the screening and decision process is coming along
- (E) Disputes over rights
 - The kinds of cases that constitute infringements
 - Guidance concerning what steps or measures to take in case of infringement of one’s patent or other similar rights
- (F) Matters concerning implementation
 - Encouragement of utilization of implementation
 - Introduction of ways of utilization of the services of the Science and Technology Agency, the Inventions Association, etc.
- (G) Other aspects
 - General interpretation and explanation of pertinent laws and ordinances
 - Whether or not there are existing rights
 - Patent fees
 - Situation regarding payment of registration fees
 - Deadlines for payment
 - Guidance concerning things like different categories of patents and trademarks
 - Explanation of how to make use of pertinent bulletins and other publications
 - Other matters

F. Other Aspects

a. Holding of Technology Exchange Events

There is to be holding of various kinds of technology exchange events in different areas under INAPYMI sponsorship, the aim being to offer possible opportunities for one's company's technology development and technology improvement through presentation of technology of many different lines of business. That could result in opportunities for joint technology development between companies in the same line of business whose interests match or companies in different lines of business.

b. Technology Development Seminars

There is to be holding of INAPYMI-sponsored technology development seminars.

c. New Product and New Technology Fairs

There is to be holding of INAPYMI-sponsored new product fairs, new technology fairs, etc. for the purpose of presentation and spreading of technology and products.

2.3.1.5 Promotion of Joint Activities by Smaller Businesses

(1) Present Situation Regarding Joint Activities and Necessary Tasks to Improve It

1) Present Situation in Venezuela Regarding Cooperatives

There are presently about 1,300 cooperatives in Venezuela, based on the Special Law on Cooperatives enacted in 1975 and revised after revision of the constitution in 2000, cooperatives formed by individuals representing the second level. The National Cooperatives Superintendency promotes, controls and oversees cooperatives as an administrative agency under the MPC.

On the basis of the country's policy of decentralization the National Superintendency promotes regional and local development and regional and local formation of cooperatives together with regional and local governments. Its role is that of overseeing the process of running of existing cooperatives, more specifically auditing their accounting and finances and keeping an eye on their operations. As for financing of cooperatives, there is a loan system under the national Microfinancing Law that is implemented by FONDAFA and other entities.

Cooperatives set up under the Special Law on Cooperatives have corporate status, but just like small farmers, small businesses and others, they receive tax exemption

treatment. However, they have to draw up public reports on their activities for periodical auditing of their accounting. The following arguments concerning taxation of cooperatives are heard in connection with new legislation concerning cooperatives:

- a. Policy support of cooperatives is necessary for a certain period of their growth.
- b. It is necessary to consider application of a new tax system for them once their income becomes stable.
- c. Consideration should also be given to setting of a tax allocation framework within 3-4 years in the taxation process of the new law on cooperatives.

In other words, that suggests that the present tax exemption treatment is provisional, there being a possibility of application of a new tax system for cooperatives in the near future.

(2) Promotion of Joint and Cooperative Activities

1) Significance of Establishment of Joint and Cooperative Activities and the Kinds of Groups Involved

In principle cooperatives of smaller businesses are groups organized to compensate the weaknesses of smaller businesses with weak constitutions as businesses, promote modernization and rationalization of how they are run and strengthen their adaptability in economic society and that undertake joint activities in the spirit of mutual support and aid. That being the case, the appropriateness of how a cooperative is being run is evaluated in terms of the extent to which the operations of its members are rationalized and their economic situations are improved through the cooperative's operations and activities.

There are many different forms of joint, cooperative relationships between businesses depending on the purpose. In Japan's case the main forms of groups of smaller businesses are the following:

- Activity cooperatives: joint activity entities constituted by four or more operators
- Small activity cooperatives: small cooperatives with five or fewer employees
- Credit cooperatives: financing institutions for the purpose of providing loans and loan guarantees to their members
- Fire mutual aid associations: cooperatives specializing in fire mutual aid
- Federations of cooperatives: superstructural organizations enveloping the above-mentioned four kinds of cooperatives

- Business cooperatives: business entities constituted by individuals who are members of them
- Commercial and industrial cooperatives: cooperatives of those in the same line of business organized separately by line of business and area (Camara in the case of Venezuela)
- Federations of commercial and industrial cooperatives: superstructural organizations enveloping commercial and industrial cooperatives

2) Purposes and Operations of the Groups

In Venezuela the concept of cooperatives and policy measures for them are considered to be roughly the same thing, but cooperatives in Venezuela do not appear to be necessarily making the most of the benefits that such policy measures could bestow on them. Activity cooperatives are representative of cooperatives acting as economic activity groups, and they can accomplish rationalization of their members' businesses and improvement of their transactions through joint undertaking of activities such as the following:

- a. Implementation of joint economic activities such as joint production, joint processing, joint procurement, joint sales, joint transportation, joint storage, joint receiving of orders, joint research, etc.
- b. Joint undertakings such as establishment of welfare, recreational and other similar facilities for cooperative members, lending of business funds to cooperative members, guaranteeing business debts assumed by cooperative members and so on and so forth.

Besides the above, in mutual exchanges as businesses through their activities in the cooperative as an enterprise organization members are able to jointly enjoy all sorts of conveniences and benefit such as the following:

- a. Exchange and mutual use of technology
- b. Formation of clusters
- c. Exchange and sharing of information
- d. Enhancement of cooperative activities

In addition to the above, formation of groups for joint activities is also effective in terms of facilitating implementation of smaller businesses support policies and feedback concerning policy tasks and building of a system of cooperation between the public and private sectors.

3) Government Support Measures

The present system of government support measures for cooperatives is as follows:

a. Financing System

System of loans and loan guarantees for activities invested in by activity cooperatives.

b. Tax System

Tax exemption treatment concerning cooperative activities.

2.3.1.6 INAPYMI and implementation of SME policy

(1) SME policy and its implementation organization, and major issues

1) Current state

MPC is responsible for formulation and implementation of SME policy in the country. In practice, however, SME promotion policies and programs are developed and implemented by a variety of organizations – including state government and related organizations (under President Office), regional development corporations (under supervision of MPD), local offices of ministries and agencies, and local chambers of commerce and industry – in different ways. In 2000, MPC established its local organization, UEMPC, in an attempt to reinforce local industrialization policy.

Thus, SME policy formulation and implementation is not carried out under a centralized organization to deploy nationwide activities under the consistent policy. Instead, different ministries and organizations conduct their own activities according to different policy guidelines and using their own organizations, making SME policies and programs inefficient and inconsistent. It is therefore recommended to establish an organization that serves as a sole leading agency responsible for policy formulation and implementation.

In fact, the government proposes a basic scheme on SME promotion policy, together with the draft bill for SME promotion. The scheme consists of MPC's supervisory role in policy formulation and the establishment of an organization responsible for implementation of SME policy (INAPYMI).

2) Issues

Major issues related to implementation of SME policy in the country are summarized as follows.

- a. A variety of SME promotion programs are planned and implemented by various ministries, local governments, other government organizations, and private organizations, and they are therefore limited to specific areas and industries.
- b. Lack of integrated management of promotion programs creates disparity in program quality among regions and inefficient implementation.
- c. MPC's local offices (UEMPC) have started only recently and cannot take leadership in program implementation.

(2) Recommended organization and scope of activity for INAPYMI

In consideration of the present situation and the issues facing SME promotion policy, a general guideline for the organization of INAPYMI, including its expected roles and functions, is recommended as follows.

1) Expected roles and functions of INAPYMI

MPC plans to establish a department in charge of SME development that is responsible for policy formulation. It is therefore recommended to define the division of responsibilities for MPC and INAPYMI as follows.

- a. MPC's SME Department will be responsible for formulation of SME policy, the drafting of SME-related bills, preparation of a handbook for SME policy, public promotion and information dissemination on SME policy, promotion of linkage and coordination with related ministries and organizations, and guidance and support for INAPYMI in operation and management.
- b. INAPYMI will serve as an implementation body for SME policy and will be responsible for provision of support services for SMEs in a variety of fields, including management, technology, information service, and education and training.

2) Major support activities to be conducted by INAPYMI

As field support for SMEs, INAPYMI will primarily conduct activities in the following five areas:

- a. Management support (corporate diagnosis, consultation, etc.)
- b. Technical support (technical assistance, etc.)
- c. Information service (SME policies and programs, human resource (specialist) information, management resources)
- d. Education and training (entrepreneurs, consultants, SME managers, and SME policy makers)

- e. Incubation (business startups using the existing facilities under the leadership of INAPYMI, collaboration with universities, technoparks and university incubators)
- 3) INAPYMI's organization
- INAPYMI's organization will be established according to the following principles.
- a. It will have the headquarters and local organization (INAPYMI local support centers) to provide uniform support service throughout the country.
 - b. INAPYMI local support centers will have one-stop service type consultation desks and meet the daily needs of SMEs.
 - c. INAPYMI will establish collaborative relationships with other SME support organizations as shown in Figure 2.3.1 so as to use their resources and functions.
 - d. INAPYMI's function and organization will expand gradually in consideration of budget and human resource constraints.
 - e. The organization plan will be made by taking into account MPD's regional development plan, including development points and axes and infrastructure development.

(3) INAPYMI's organization

1) Functional relationship between MPC/INDC and other organizations

INAPYMI will be established as an organization under supervision of MPU's new department in charge of SME development. (See Figure 2.3.2.) Figure 2.3.1 shows the functional relationship between MPC/INAPYMI and other SME support organizations.

Basically, MPC will, as a policy maker, supervise operation and management of INAPYMI and provide support for its activities. In particular, MPC will promote and coordinate activities of MPC and its organizations, other related ministries and agencies, regional development organizations, and local governments in connection with implementation of INAPYMI's SME support functions, organization, and information gathering and dissemination capabilities.

It should be noted that MPC has internal functions and related organizations involved in SME promotion, including standardization of intellectual property rights (SAPI), development of industrial estates, export promotion, investment promotion, protective tariff, market development, and external treaties.

2) MPC's SME Development Department

MPC's SME Development Department will supervise INAPYMI and will be responsible for formulation of SME policy. It will also provide public support for INAPYMI and its activities. The department will consist of the following three divisions.

A. SME Policy Division

- Formulation of SME policy
- Dissemination of SME policy
- Related research and study
- Environmental management (pollution control)

B. SME Promotion Division

- Cooperation and coordination with MPC's related departments and other organizations
- Promotion of local SMEs
- International cooperation (technical assistance, etc.)

C. INAPYMI Supervision and Support Division

- Support related to operation and management
- Support related to financial assistance
- Support related to technical assistance
- Support related to information service
- Support related to human resource development
- Support related to market development
- Support related to management advisory function
- Support for promotion of joint operation and cluster formation
- Support for regional development
- Support for entrepreneur support
- Support for infrastructure development

3) INAPYMI's headquarters

INAPYMI's headquarters will consist of the following divisions that correspond to the key functions that INAPYMI will assume. Figure 2.3.2 shows the functional relationship among INAPYMI's headquarters, local support centers, and MPC.

- A. Business Management Division
 - Business control and general affairs
 - Financial management and accounting
 - Public relations

- B. Policy Planning and Development Division
 - Policy assistance
 - Organizational assistance
 - Subsidy management
 - Investment promotion
 - Legal consultation
 - Policy formulation

- C. Education and Training Division
 - Government officer training
 - Entrepreneur training
 - Manager training
 - Skills training

- D. Financial Assistance Division
 - Short- and long-term loan and credit
 - Venture capital promotion
 - Loan guarantee assistance
 - Taxation and incentive assistance

- E. Technical Support Division
 - Technology development
 - Promotion of commercialization
 - Technical consultation
 - Intellectual property and patent
 - Pollution control
 - Standardization and inspection

- F. Information Service Division
 - Information planning
 - Technical information service

- Market information service
- Database service
- Internet system management
- Q&A service
- IT promotion service

G. Market Development Service Division

- Market development service
- Domestic market development
- Export market development (Coordination Window for Export Promotion Activities by BANCOEX)

H. Management Advisory Service Division

- Management advisory service
- Management diagnosis service

I. Cluster Promotion Division

- Cluster promotion
- Promotion of cooperative activities
- Promotion of meetings and exchanges

J. Regional Development Division

- Local specialty development
- Research and study

K. Business Creation Division

- Incubation
- Entrepreneur support

L. Infrastructure Development Division

- Industrial utilities development
- Transportation infrastructure development
- Communication infrastructure development
- Pollution control facilities

4) INAPYMI local support centers

INAPYMI local service centers will deliver INAPYMI's support functions to SMEs. As discussed in 2.3.1.6-(2)-3), efficient and prompt service under the one-stop service concept is demanded. INAPYMI local support centers will consist of the following divisions according to the type of service to be provided.

A. Local Support Center Management Division

- Business management
- Accounting
- Public relations
- Local consultation

B. General Service Division (Consultation Desk)

- Business creation (entrepreneur support)
- Education and training
- Cluster promotion

C. Technical Service Division

- Technical support

D. Information Service Division

- Information service

E. Management Service Division

- Management advisory service
- Market development service
- Financial assistance

F. Regional Development Division

- Regional development
- Infrastructure development

5) Organization Formation Stages and Personnel Assignment Plans

The above-mentioned organization will be the INAPYMI's ultimate organization, it being considered that it would be difficult or even impossible for the MPC to secure the necessary budget and human resources for INAPYMI to have full-sized

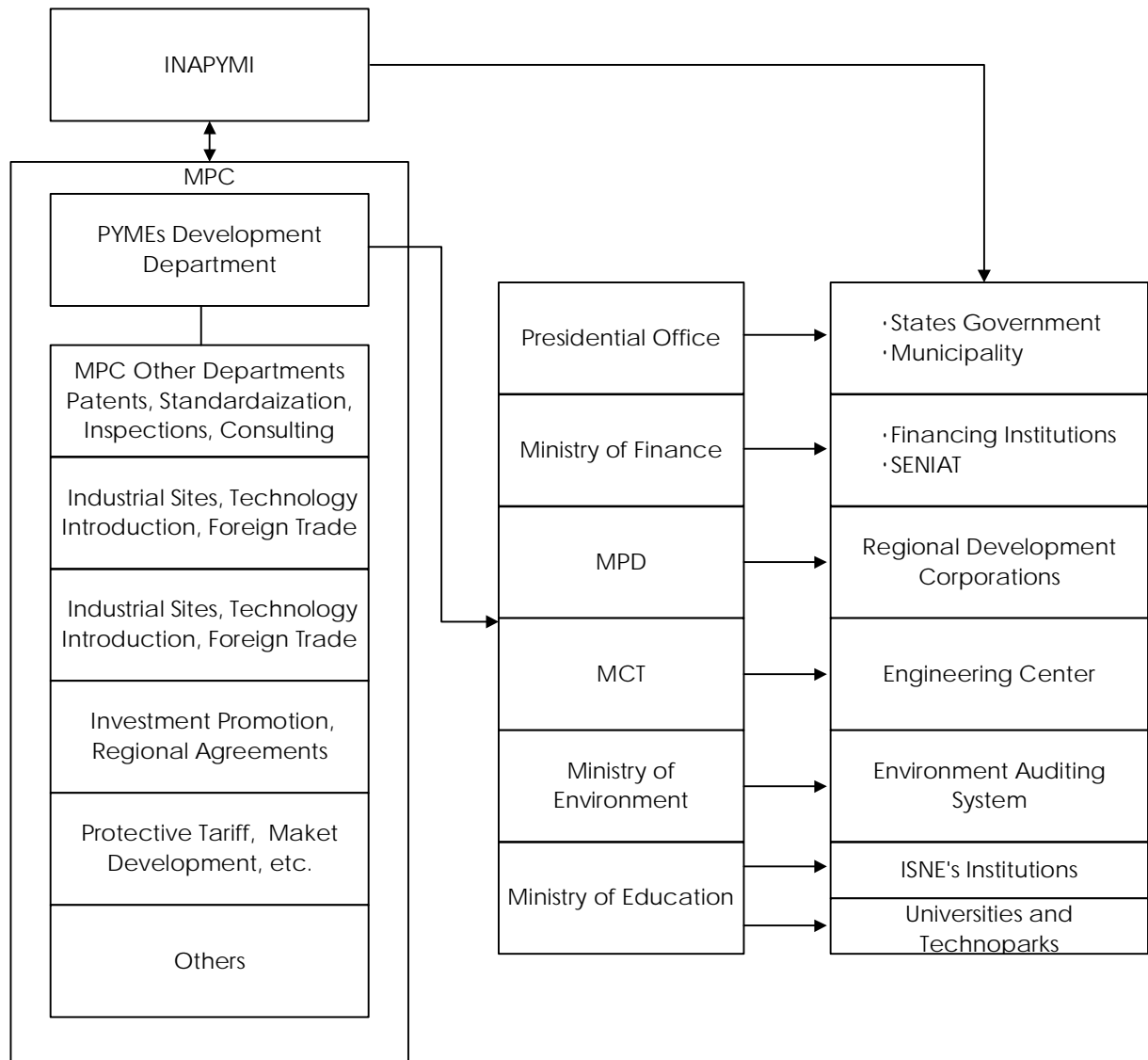
organization and personnel assignment when it is initially established. Therefore, the following alternative is proposed as a provisional measure at inauguration of INAPYMI on the basis of the assumptions of giving priority to functions with the greatest importance among all of the functions that INAPYMI is eventually to have and being able to obtain linkage with and cooperation from existing organization.

(4) Points to Be Borne in Mind in Building and Operating INAPYMI

In implementation of INAPYMI it will be necessary to bear in mind the following points in order for it to be able to attain the goals and results that it is intended to attain:

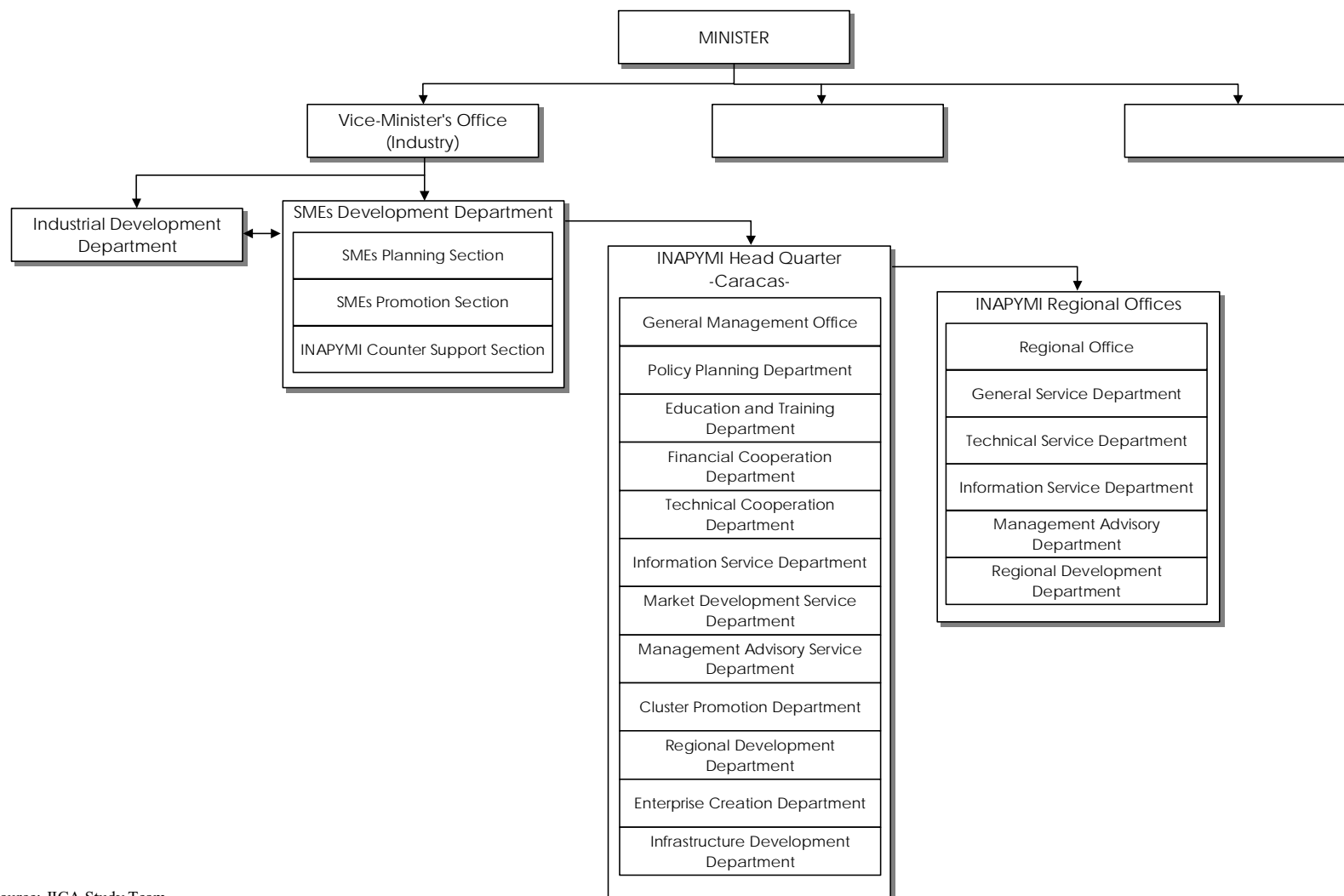
- a. Building support content, support methods and support systems geared to the needs of entrepreneurs and smaller businesses
- b. Strong leadership on the part of INAPYMI's top management
- c. Building of a posture and systems for sustained ongoing efforts
- d. Securing and training human resources with advanced knowledge
- e. Nationwide unfolding of activities on the basis of close linkage and cooperation with UEMPCs and regional and local governments (departments and municipalities)
- f. Strengthening of linkage and cooperation with existing support organizations and groups and universities
- g. Speedy and efficient performance of work and furnishing of customer-oriented services
- h. Building a support system in which the government acts as one through adjustment and coordination of functions with other ministries and agencies
- i. Obtaining of advanced knowledge and information from abroad
- j. Sharing of accumulated concrete successful experience and experience and know-how as organizations

FIGURE 2.3.1 COORDINATION STRUCTURES



Source: JICA Study Team

FIGURE 2.3.2 MPC ORGANIZATION PLAN FOR DEVELOPMENT OF SMALLER BUSINESSES



Source: JICA Study Team

2.3.1.7 Regional Smaller Business Development Strategy

(1) Present State of Regional Development Plans

The National Regional Economic Development Plan is now being formulated, mainly by the MPD, and although it has not yet been publicly announced, the gist of it is as follows:

1) Evaluation Criteria of Development Regions

The following five criteria are the standard criteria for diagnosis of development regions:

- a. Social criteria
- b. Economic criteria
- c. Institutional and policy criteria
- d. International criteria
- e. Territorial balance

2) 3-Axis Planning

Regional development planning is to be based on the following three major axes of development (see Figure 2.3.3):

a. Orinoco/Apure Axis Plan

This is a plan for development of the whole basin of the Orinoco River from the river mouth westward upstream all the way to Tachira via Apure, and it includes the departments of Tachira, Barinas, Apure, Portuguesa, Cojedes, Cuarico, Anzoategui, Monagas, Bolivar and Delta Amacuro. The development covers agriculture and livestock raising, forestry, heavy oil, fisheries, hydroelectric power, etc., and the following development corporations are involved:

- Corporacion Andina
- Corporacion Llanoa
- Corporacion Centrooccidental
- Corporacion Oriental
- Corporacion Guayana (CVG)

The main infrastructure serving as the axis of development is the Orinoco river waterway, the plans including construction of a new port at Cabruta downstream from Apure. Furthermore, the railroad plans call for a railroad extending southward from Puerto Cabello for connection with the river waterway at El Pinai on the upper reaches of the Orinoco and another one from El Baul for connection at Apure. The other main river ports are the existing ports of Ciudad Bolivar and Ciudad Guayana.

b. Occidental Axis Plan

This is the development plan for the northwest part of the national territory extending all the way to the border with Colombia and covers the departments of Zulia, Tachira, Merida and Trujillo. The product areas to be developed include oil, coal, hydroelectric power, phosphate ore, agriculture and livestock raising, forestry, agricultural and forestry product processing, tourism and cotton, and the following development corporations are involved:

- Corporacion Zuliana (CORPOZULIA)
- Corporacion Andina
- Corporacion Centrooccidental

The main infrastructure that will serve as the axis of such development is the Orinoco River waterway that provides access to the east coast of the national territory starting from El Pinai on the border with Colombia and the planned railroad linkage with Colombia's railroad system. The domestic railroad plans call for access to the Caribbean Sea from the interior of Colombia by linkage with Puerto Cabello via Barquisimeto on the basis of laying of 425 km of new line from El Pinai to Acarigua. Other infrastructure includes the ports of Maracaibo and Punto Fijo facing on the Caribbean.

c. Oriental Axis Plan

This development plan centers on the northeastern part of the national territory and covers the departments of Nueva Esparta, Sucre, Anzoategui, Monagas, Bolivar and Isla de Margarita. The products to be developed include oil, gas, aluminum, iron, phosphate ore, gold, diamonds, uranium, livestock raising, fisheries and forestry and forestry product industry, and the development corporations involved are the following:

- Corporacion Oriental
- Corporacion Guayana (CVG)

The main infrastructure serving as the axis of such development is the Orinoco River downstream basin river waterway and the roads that will make it possible to access the Caribbean at Barcelona on the northern coast in the department of Anzoategui, one starting from Ciudad Guayana and passing through Maturin and the other starting at Ciudad Bolivar and passing through El Tigre. Furthermore, there are also plans for road access to the interior of Brazil from Ciudad Guayana via Santa Elena de Jairen on the Brazilian border. In addition to that in the way of port

development there are plans for a deep-sea port at Poriamar in the department of Sucre, and plans for construction of a No. 2 bridge over the Orinoco at Ciudad Guayana will make it possible to link the road connection from Brazil to the Caribbean Sea.

3) Development Bases

As a means of vitalization of regional and local industry eight places with existing potential to become development bases have been designated as “special economic zones” (see Figure 2.3.4). The products with development potential of those special zones are respectively as follows:

- Zone I: Cacao, bananas, cassava, tourism
- Zone II: Agriculture, tourism
- Zone III: Environment (ecotourism), lumber, tourism, “name”(?), ocume(?), electric power
- Zone IV: Palm oil, bananas, cacao, livestock raising, access to Andes countries
- Zone V: Livestock raising, rice, tourism, environment (ecotourism base: birds)
- Zone VI: Agriculture (peanuts, etc.), lumber (reforestation wood)
- Zone VII: Irrigation agriculture, lumber (reforestation wood)
- Zone VIII: Tourism (22 islands), fisheries

(2) Regional Smaller Business Development Strategy

The following regional smaller business development strategy is proposed on the basis of the basic strategy guidelines based on national regional development plans.

1) Strategy of Placing Emphasis on Special Economic Zones

The success of regional economic development plans depends on the success of development of the “special economic zones” selected as development bases on the basis of existing potential. It is therefore considered best to adopt the strategy of placing emphasis for the time being on promotion of industry in those special economic zones and then to proceed with expansion and development to the strategic development axes on the basis of successful results obtained in those zones, and it is therefore proposed that regional development strategy in promotion of smaller businesses also be carried forward in harmony with such regional base strategy (special economic zone 3-axis plan) in overall planning.

2) Priority Setting Up of INAPYMI Support Centers

The first INAPYMI regional smaller business support centers are to be installed on a priority basis in the vicinity of the special economic zones for emphasis on support there. Furthermore, experts specializing in development technology for the particular primary products of the respective special economic zones and related industrial products are to be assigned to those respective zones

3) Emphasized Primary Product Production Fields in Regional Development Strategy

a. Agricultural product development and agriculture product processing industry

- Cereals (rice)
- Product crops (cacao, peanuts, etc.)
- Oils and fats industry
- Cotton and textile industry

b. Forestry product development and forestry product processing industry

- Lumber products
- Building materials and wooden-frame housing industry
- Other forestry products (palm oil, pine resin, etc.)

c. Fishery product development and processing industry

- Fisheries (coastal fisheries and fish farming)
- Fishery product processing industry

d. Livestock raising and dairy farming

- Meat industry
- Dairy products industry
- Leather and furs processing industry

e. Tourism industry

- Tourist services industry
- Ecotourism
- Light industries relating to tourism

f. Related industries

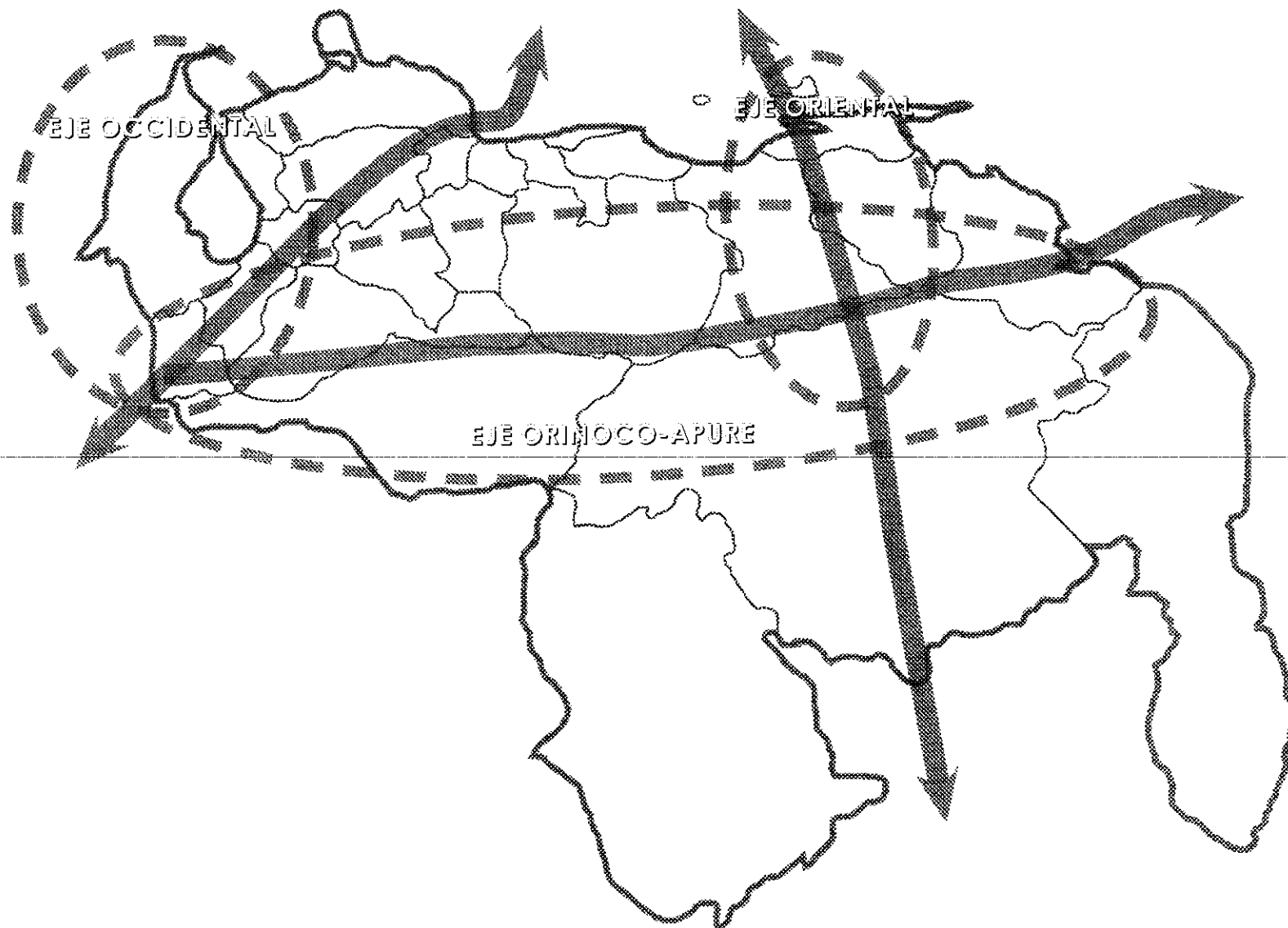
- Machinery industries relating to agriculture
- Machinery industries relating to forestry
- General leasing industry
- Afterharvesting
- Product packing, storage and transportation industries
- Others

4) Targeted Support Policy

Particular development goals will be designated in the special economic zones, and measures will be implemented to give special incentives for development of the designated primary products. Measures such as the following are proposed as main promotional policy:

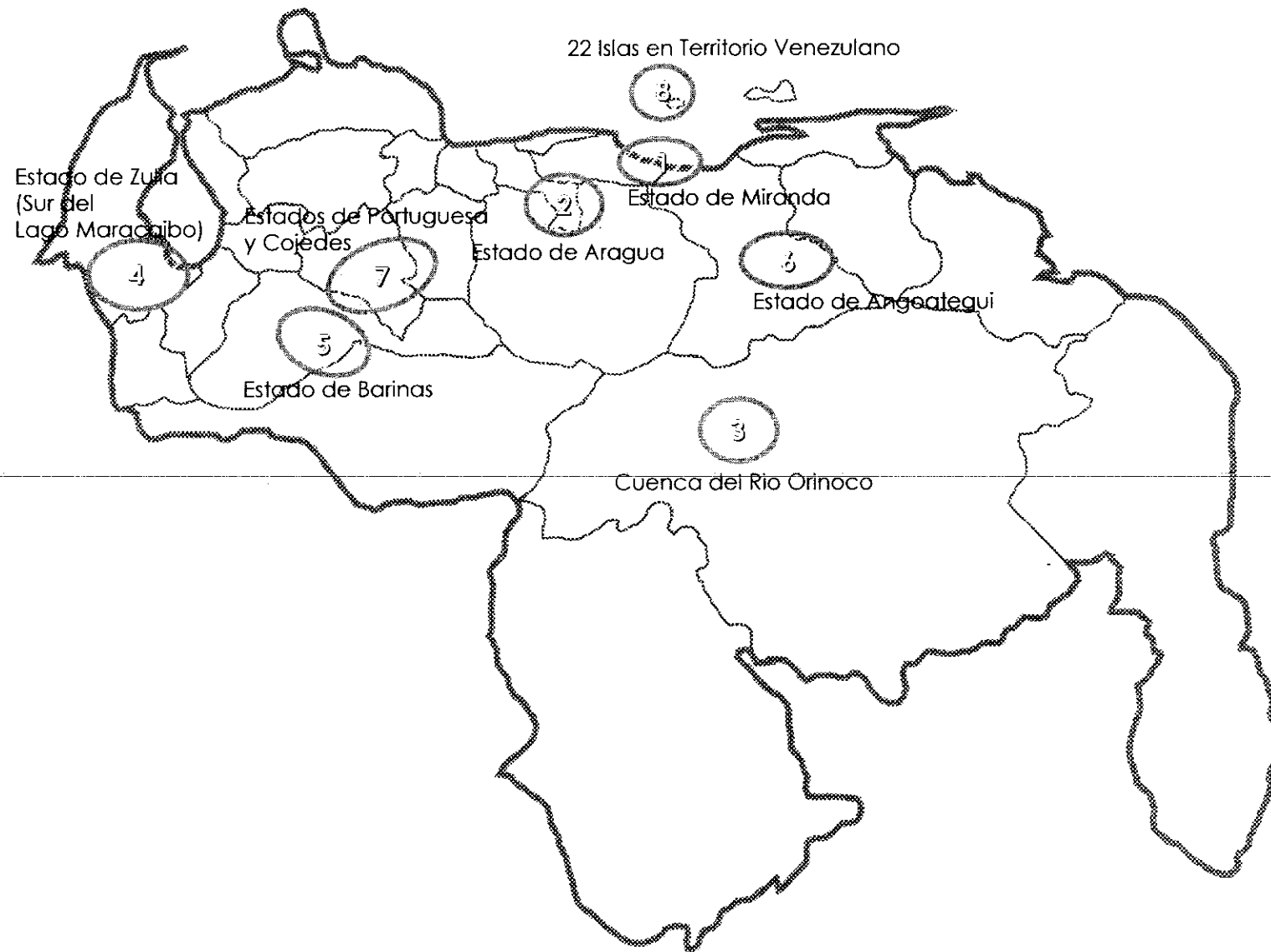
- a. Special loan system
 - Special long-term loans
 - Loan guarantee support
- b. Special tax system
 - Exemption from or reduction of corporate tax
 - Exemption from or reduction of regional and local taxes
 - Exemption from or reduction of VAT
- c. Technical support
 - Presentation of technology
 - Technical guidance
- d. Fostering of human resources
 - Grooming of entrepreneurs
 - Training of managers
 - Technical training
- e. Research and development support
 - Product development research (universities, TPs, public research institutes)
 - Testing and research at universities and TPs on a commission basis
- f. Startup support
 - Setting up of incubators
 - Startup guidance
- g. Market development support
 - Furnishing of market information
 - Market development research

FIGURE 2.3.3 3-AXIS DEVELOPMENT PLAN AND ACCESS TO THE OUTSIDE



Source: JICA Study Team

FIGURE 2.3.4 DISTRIBUTION OF SPECIAL ECONOMIC DEVELOPMENT ZONES



Source: JICA Study Team

2.3.1.8 Proposal for Trade and Investment Strategies

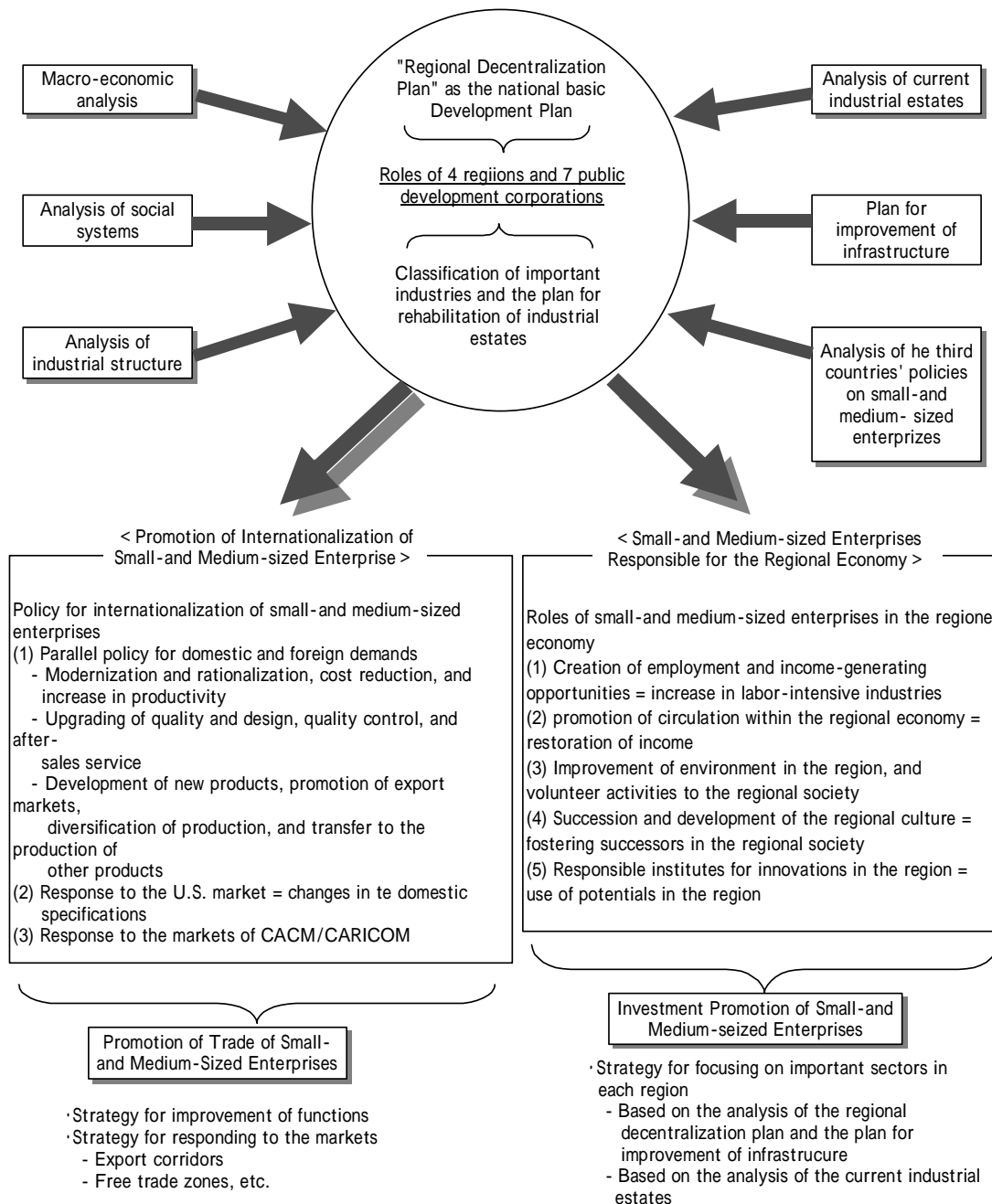
In considering a plan to promote small-and medium-sized enterprises, it is important to recognize the “regional decentralization plan” that is the basic national development strategy, review the concerned four regions for development and the role of seven public development corporations in charge of those regions, and consider the following six items as external factors.

- 1) Macro-economic analysis
- 2) Analysis of social systems
- 3) Analysis of industrial structure
- 4) Analysis of current industrial estates
- 5) Plan for the improvement of infrastructure
- 6) Analysis of policies for the promotion of small-and medium-sized enterprises in the third countries

Trade and investment in the plan for small-and medium-sized enterprises in Venezuela are proposed as follows, taking into account classification of important industries in each region in the process of regional decentralization and the plan for rehabilitation of industrial estates.

- Promotion of internationalization of small-and medium-sized enterprises
- Small- and medium-sized enterprises as responsible institutes for the regional economy

FIGURE 2.3 5 PROCESS OF ANALYZING TRADE AND INVESTMENT POLICIES CONCERNING SMALL-AND MEDIUM-SIZED INDUSTRIES



Source: JICA Study Team

(1) Trade; promotion of internationalization of small-and medium-sized enterprises

1) Parallel policies for domestic and foreign demands

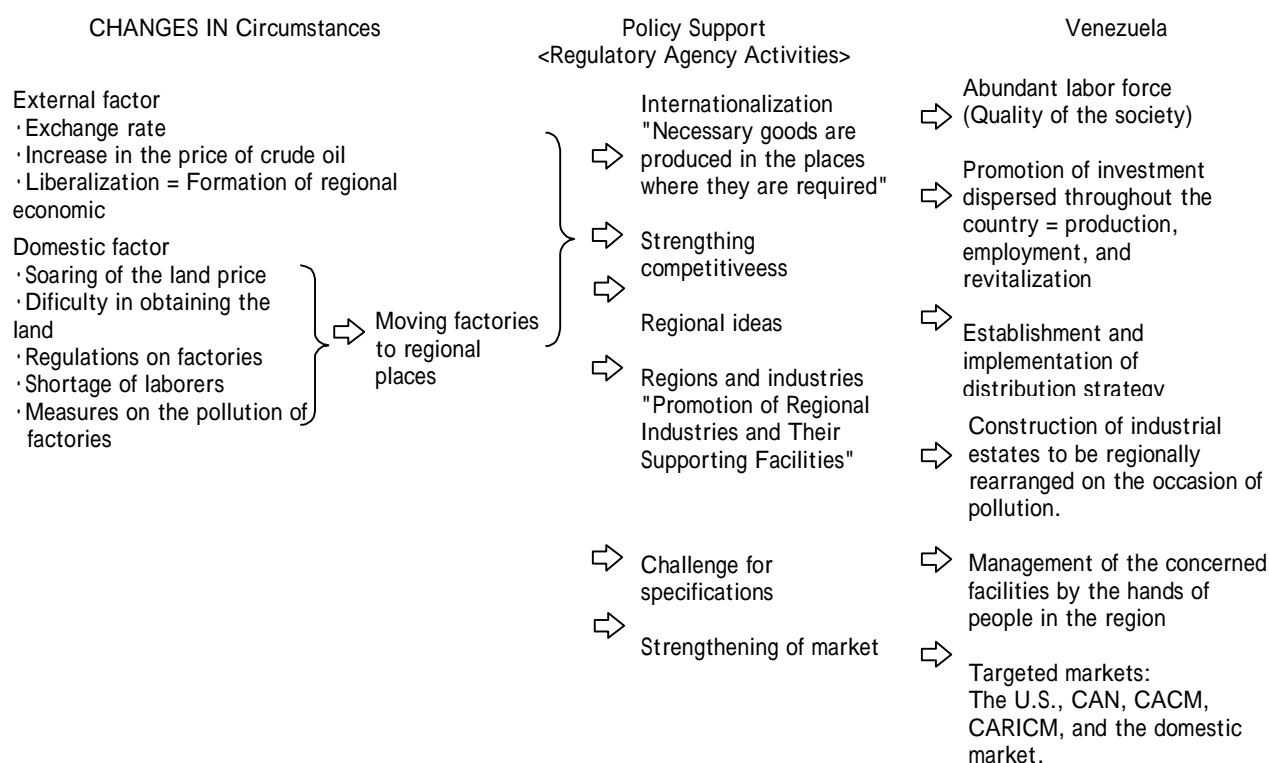
In Venezuela, both domestic and foreign markets have to be developed in a short term. The country has to cope with the rapid expansion of market liberalization. Measures for it are as follows.

- Full implementation of modernization and rationalization of production facilities
- Efforts for cost reduction and increase in productivity
- Upgrading of quality and design
- Full implementation of quality control
- Strengthening of non-price competition including after-sales service
- Diversification of production
- Transfer to production of other products
- Expansion of the market to super markets and large discount shops

As a result,

- Creation of labor and income-generating opportunities. Most of small-and medium-sized enterprises are labor-intensive and thus, create a lot of labor opportunities.
- Promotion of circulation within the regional economy. While income earned by small-and medium sized enterprises is small, their economic circulation in the region is strong. Therefore, in the long-term, their circulation is much stronger than that of large enterprises.
- Improvement of environment in the region, and volunteer activities for the regional society. Small-and medium-sized enterprises improve the environment of the region and support the region as a whole, acting closely cooperating with the region as a member of the regional society.
- Succession and development of the regional culture. Small-and medium-sized enterprises provide people, goods and money for the succession and development of the regional culture. The management's various technologies are succeeded by the employees and they are fostered as the successors socially.
- Small-and medium-sized enterprises create new businesses and new products, making the best use of potentials in the region as responsible institutes for regional innovations, and function as motive power for regional promotion.

FIGURE 2.3.6 PRIVATE ENTERPRISES'S EFFORTS IN RESPONSE TO CHANGES IN CIRCUMSTANCES IN THE MARKET ANDECONOMY, AND THE GOVERNMENT'S SUPPORT



Source: JICA Study Team

(2) Promotion of trade by small-and medium-sized enterprises(as responsible institutes for the regional economy)

1) Strategies for important sectors by regions

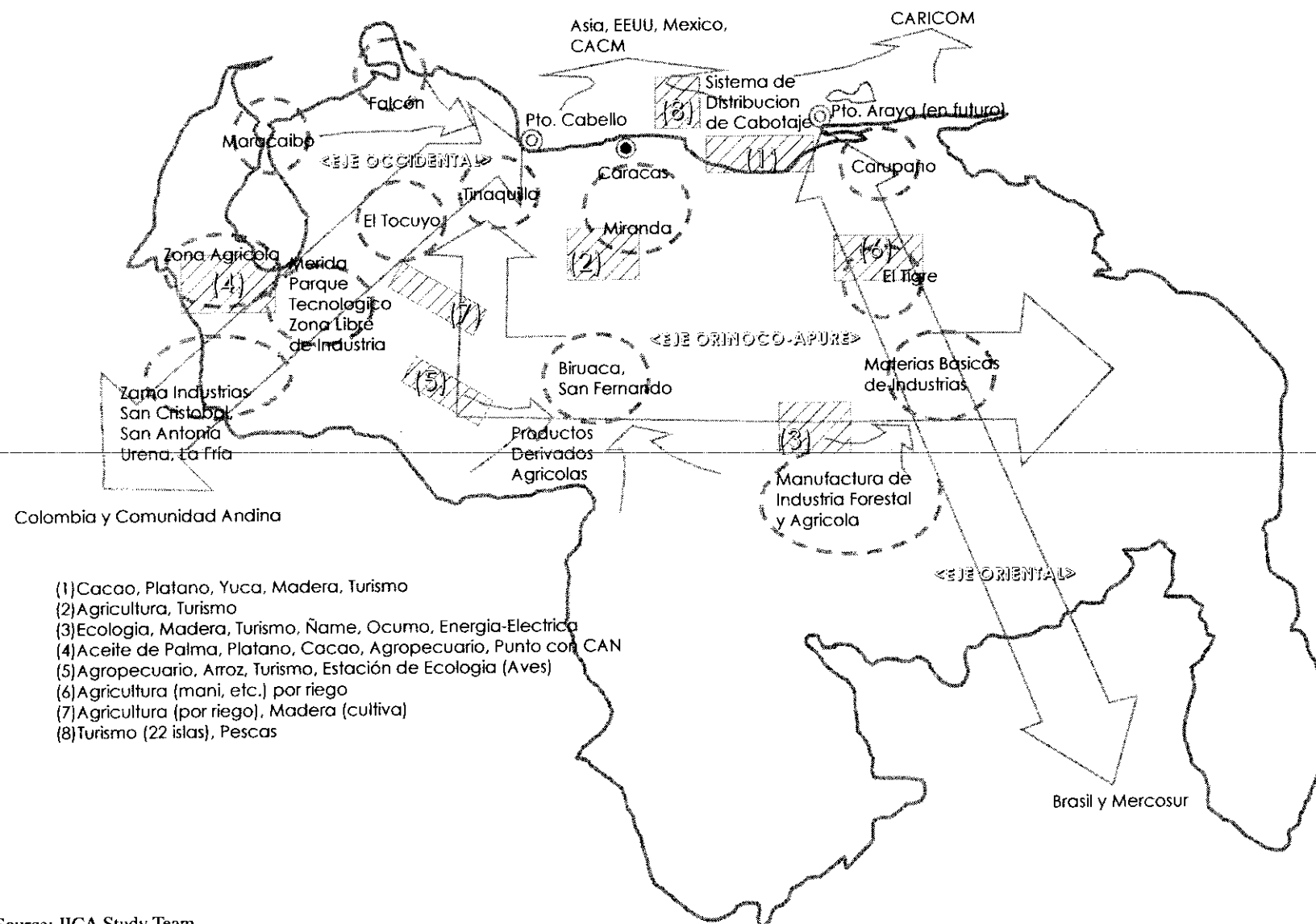
A) Strategic products in each region are specified in order to be reflected in the export corridor plan after analyzing the regional decentralization plan and the plan for improvement of infrastructure, and criteria for the selection of projects and priority sectors for investment are decided. The following are development motif and specific products in those regions where production points, strategic points for regional development, and other potentials exist.

B) Analysis of the current industrial estates (rehabilitation projects were initiated by the government) has also resulted in the following motif for products and development to be specified in existing production points, regional development points, and other potential districts.

- El Tigre Industrial Estate
 - Waste disposal environmental project
 - Agriculture and livestock products processing project
 - (including the required support for a irrigation project)
 - Forestry and other relevant development project
 - Project on the first and second subcontracting metal and
 - machinery processing in relation to oil and gas
- Carupano Industrial Estate (Designation of it as a free zone is under consideration)
 - Food processing project
 - Fishery processing project
 - Woodworking processing project
 - Aluminum processing project
 - Tourism development project
- El Tocuyo Industrial Estate(Regional development and export orientation)
 - Agricultural development project
 - Agricultural processing project
 - Project for supporting Barquisimeto Industrial Estate
 - Distribution and transit service project
- Tinaquillo Industrial Estate (Support for industrial districts in the northwest and strengthening of INCE)
 - Quality control project for the U.S. market
- Mérida
 - Corporación Parque Tecnológico de Mérida (CPTM)
 - Intention for venture capital (Realization and outcome for ZOLCCYT)
 - Zona Libre Cultural, Científica y Tecnológica de Estado Mérida (ZOLCCYT)
 - Improvement of conditions for attracting high technology industries
- Apure: As a key point for the Orinoco-Apure Plan in Apure State
 - San Fernando-Biruaca
 - Cotton processing project
 - Forestry industry development project
 - Agriculture and livestock products processing project
- Táchira: As a gateway for the western hub including the CAN market on the Andes side
 - San Antonio

- Upgrading (rearrangement of industrial estates) of the processing of leathers (bags, shoes, etc)
- Urena
 - Producing high quality furniture, textile and automobile parts (cost reduction based on the best use of human resources and the steady supply of industrial facilities)
- San Cristobal
 - Service with the function of the hub as a center for commercial and industrial distributions (Covering San Antonio/ Ureña/La Fría as middle points between CAN and Central America/the Caribbean Sea or Northern America)
- Falcón: With a theme of redevelopment of the market of the Caribbean Sea and Central America
- Coro
 - Fishery processing project
 - Rearrangement of Pto.Cabello Hub and development of the Asian market utilizing Panama Hub as an airport infrastructure project by the use of topographical and meteorological merits
- Punto Fijo (Zona Franca Industrial, Comercial y de Servicios de Paraguaná, C.A.)
 - Revitalization of the whole function of industrial estate based on the possibility of selection of export markets after surveying the causes of deterioration in its function

FIGURE 2.3.7 EXPORT CORRIDOR & INDUSTRIAL PARK



(3) Strategy for the Improvement of Circumstances of Trade and Investment by Small- and Medium- sized Enterprises

1) Highlight of crucial issues

The survey has been carried out three times in more than 30 places in 15 states, interviewing with the concerned people in the local governments, industrial estates, industrial districts, chambers of commerce, and enterprises as well as incubators. Crucial issues which have been clarified from this survey are described below.

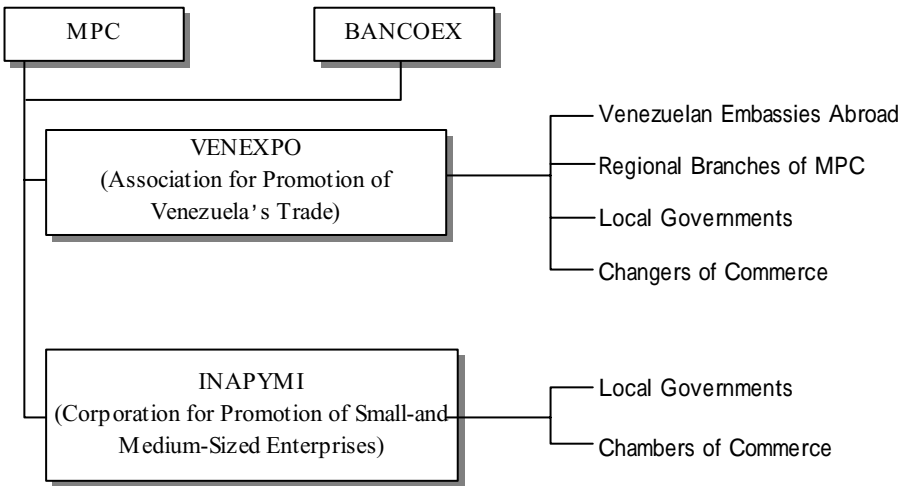
- a) Relationships between the concerned public development corporations (local development corporations) and the local governments are not clear.
- b) A service industry has been rapidly increasing due to changes in the industrial structure. As clearly shown in the recent survey of Andes Development Corporation (CAF), nearly 93% of small-, medium-and large-sized enterprises belong to the service industry.
- c) Surveys on domestic markets in Venezuela and foreign markets are lacking. Particularly, providing market information to small-and medium-enterprise is urgently needed.
- d) Supply of industrial facilities (water, electricity, gas, sewage, water treatment, etc.) are not enough. In those enterprises which maintain these facilities by their own efforts, the costs are reflected in the prices.
- e) Communications among sectors in economic activities do not function well. Particularly, small-sized enterprises lack in such information as what are produced in which regions in the country and what are forwarded to which market.
- f) Information exchange and networking between the central government and the local governments are urgently required.
- g) Necessity of establishing a distribution system. In order to respond to forthcoming regional development, and construction of export corridors and hubs, it is necessary to construct a “Cabotaje” system to gain access to domestic distribution centers and systems, as well as foreign markets.
- h) Necessity of exchange of information of foreign trade, market, technologies, etc. among small- and medium- sized enterprises.

2) Strategy for the Improvement of Functions

With regard to the promotion of trade and investment, since the market strategy in trade is required (surveys on the markets and distribution systems become necessary), an “Association for Promotion of Venezuela’s Trade (VENEXPO)” headed by MPC and BANCOEX has to be established to respond to economic and trade liberalization by

both the government and the private sector. As regards investment promotion, it is necessary to formulate the strategy focusing on the strengthening of newly-established INAPYMI’s services for small-and medium-sized enterprises.

FIGURE 2.3.8 STRATEGY FOR THE IMPROVEMENT OF FUNCTIONS OF TRADE AND INVESTMENT BY SMALL-AND MEDIUM-SIZED ENTERPRISES



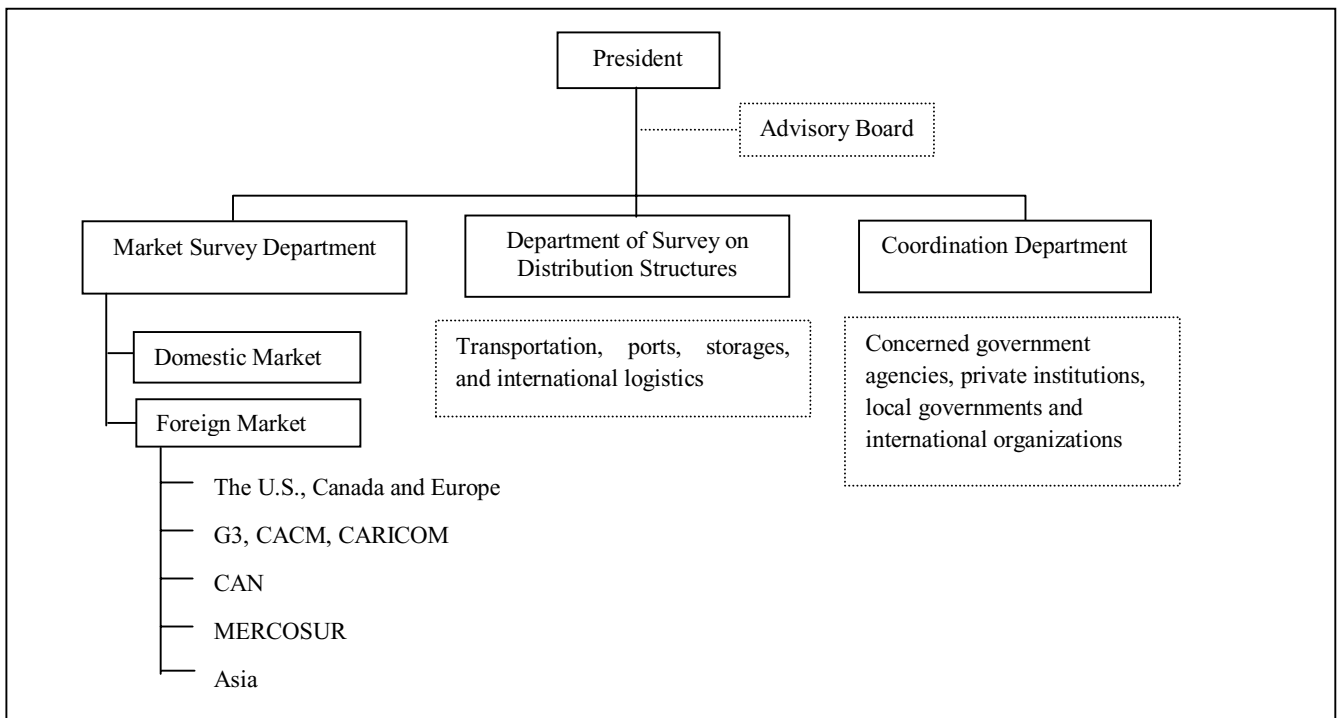
Source: JICA Study Team

3) Plan for the Establishment of VENEXPO and Its Organization and Function

a. Organization and Function

First of all, VENEXPO as an government agency focuses on providing small-and medium-sized enterprises with enough information and endeavors to enhance the concept of internationalization. Major activities at the initial stage are “market survey,” “survey on structures of distribution,” and “coordination activities.” Excellent staff from MPC, MPD, BANCOEX, and Regional Development Planning Department of Vice President Office will be recruited. Figure 2.3.9 illustrates the organization of VENEXPO.

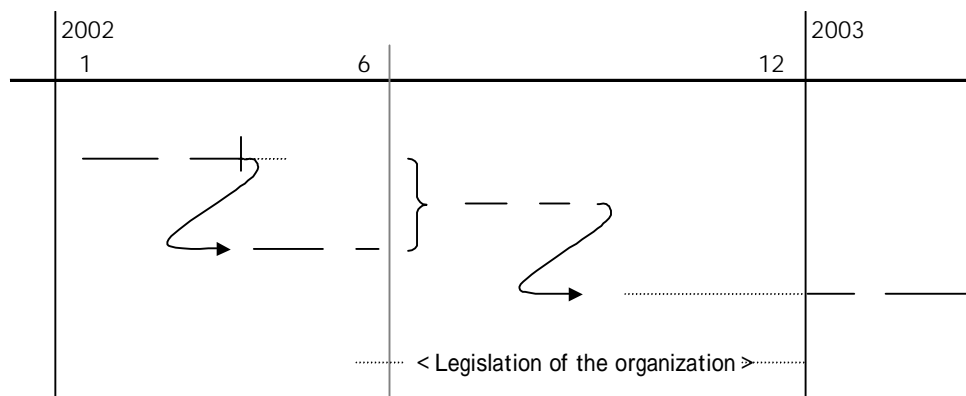
FIGURE 2.3.9 ORGANIZATION CHART FOR VENEXPO



Source: JICA Study Team

b. Plan for the Establishment of VENEXPO

- A. Preparation for the establishment of organization and function; establishment of a preparation committee in MPC
- B. Recruitment of the staff
- C. Formulation of action plan(A/P)
- D. Starting detailed survey activities based on A/P



4) Development of the trade support system

In light of the fact that the establishment of VENEXPO will take some more time, the trade support system to meet immediate demand should be based on the ongoing efforts made at BANCOEX.

At present, BANCOEX has the functions responsible for market study and trade promotion, as mandated by the decrees related to the operation and management of the organization. In particular, BANCOEX is required to provide the following services.

- Información Comercial (trade information)
- Identificacións de Oportunidades de Negocios (Identification of business opportunities)
- Inteligencia de Mercados (Market information)
- Estudios de Mercado vinculados con los sectores-productos objetos de la promoción (Market study by field/product)
- Programas Sectoriales de Asistencia Técnica (Sectoral technical assistance program)
- Programa de Asistencia Técnica Empresarial (Asesorías Individuales) (Technical assistance program – consultation for individual enterprises)
- Programas de Capacitación (Training programs)

In addition, BANCOEX conducts the exchange of personnel with various Japanese government organizations, including JETRO.

To develop the trade support system, particularly to meet the needs for “SMEs and MEs” in local communities and to improve quality of export promotion service, it is recommended to reinforce BANCOEX’s support functions on the basis of its trade promotion strategy. In particular, the above functions will become critical when non-traditional export products are developed by SMEs as a result of promotion policies and programs their commercial production capabilities are established. Then, INAPYMI’s headquarters – Export Promotion Unit of Market Development Department – will serve as a contact point for local deployment of the export promotion functions. It is logical to establish VENEXPO by capitalizing on these functions and resources.

The most critical element of the trade support functions is an effective combination of “market study” and “logistics.” As new value added products are expected to be

developed and commercialized in rural regions as a result of the decentralization policy, logistics will be a primary function to support the product development process and will constitute the prerequisite to market study. Effective support in these areas will enable small- and medium-sized, local manufacturers to accurately understand availability of raw materials, their costs and market opportunity, and to provide products and services in response to the market conditions.

2.3.2 Principal Systems

2.3.2.1 Information System

(1) Importance of Establishing an Information System

Establishing an information system presents various facets of importance in implementing governmental policies for promoting SMEs in Venezuela. Firstly, in order for the Venezuelan government to carry out its basic economic development program (“Economic Decentralization Strategy”), constructing an information system along with the development of infrastructures will be of vital importance. Where essential information for successful business activities is over-concentrated in the central region, SMEs with limited capacities to collect information need to locate in the central district in order to operate their businesses advantageously. Building an information system to mitigate the disadvantages of local enterprises and smooth out distinct economic disparity between the central and local regions will work as an incentive for local SMEs to take root in their respective regions thereby promoting regional development.

In addition, the information system will provide effective tools for the administrators in implementing the SME promotion programs, as it will perform important function for the central government in conveying its policies, processing applications for permits and licenses, implementing assistance programs, understanding the needs of business entities, etc.

Moreover, disseminating information technology among SMEs is essential to enhancing their R & D capabilities and competitiveness. Thus, establishment of the information system and diffusion of information technology will facilitate the growth of SMEs and the cultivation of their potentials. During the interviews described under Section 2.1.2, many interviewees from local SMEs were lamenting for a lack of information from the central district and concerned about falling behind in competition technically and financially. Such disparity in the availability of information between the central and local regions could lead to disparity in technical capabilities, including those in information technology, and over-concentration of business entities in the central area.

(2) Conditions for Setting Up SMEs Information Network

The SMEs information network plan was drafted on the following premises:

- a . The SMEs information network will be built as part of the administrative measures to support INAPYMI activities (thus it is named “INAPYMI Information Network”).
- b . Computer terminals of the INAPYMI Information Network will be set up in the INAPYMI Regional Information Departments within the INAPYMI Regional Support Centers to allow SME staff to search and obtain information via the computers.

Locations of INAPYMI Regional Support Centers

- A . Capital of each region
- B . Specially designated industrial zones and strategic development zones
- C . Counseling desks of Regional Information Centers and One-Stop Service Counters will be linked to the information network.

(3) Main Contents and Function of the INAPYMI Information Network

A . Database

Database comprised of the following information will be established:

- a . INE Statistics
 - Production statistics
 - Trade statistics
 - Demographics
 - Macroeconomic indices
 - Other (to be expanded according to the needs of users)
- b . List of Registered Consultants

List of MPC-registered consultants (fields of specialty, brief personal histories, etc.)
- c . Application forms for governmental licenses/permits and instruction manuals (See the “One Stop Service System” section.)
- d . Company Directory

Directory of Major Venezuelan Enterprises (company names by business type, addresses, URLs)
- e . Applicable laws and policies and explanation thereof

B . MPC Home Page

- a . Policies on SMEs
- b . Laws and regulations concerning SMEs
- c . Information concerning SMEs
- d . Financial information

Information about public financial institutions (BCV, FONCREI, BANDES, SOGAMPI, BANCOEX, etc.)

e. Schedule of events

- Technical seminars and forums
- International/domestic trade shows
- Exchange meetings (interdisciplinary, technical exchanges, etc.)
- Match-making of venture businesses
- Venture Fair

C. Business Information

a. Product information

- Introduction of new products (domestic, foreign)

b. Market information

- Status of materials markets
- Market trend of light industry products
- Information on import/export products

c. Technical information

- Introduction of new technology
- Introduction of technology developed by public institutions

d. Patent information

- Information on patent applications

e. Introduction of potential business partners

- Introduction of foreign J/V partners

D. Overseas Information (links)

a. Overviews by country

b. Tariff rates by country

c. Standards and trade policies by country

d. WTO Report

e. International statistics

E. Venture Capital Information (FONCREI - WEBSITE)

Information on FONCREI - Venture Capital

a. Management policies

b. Investment policies

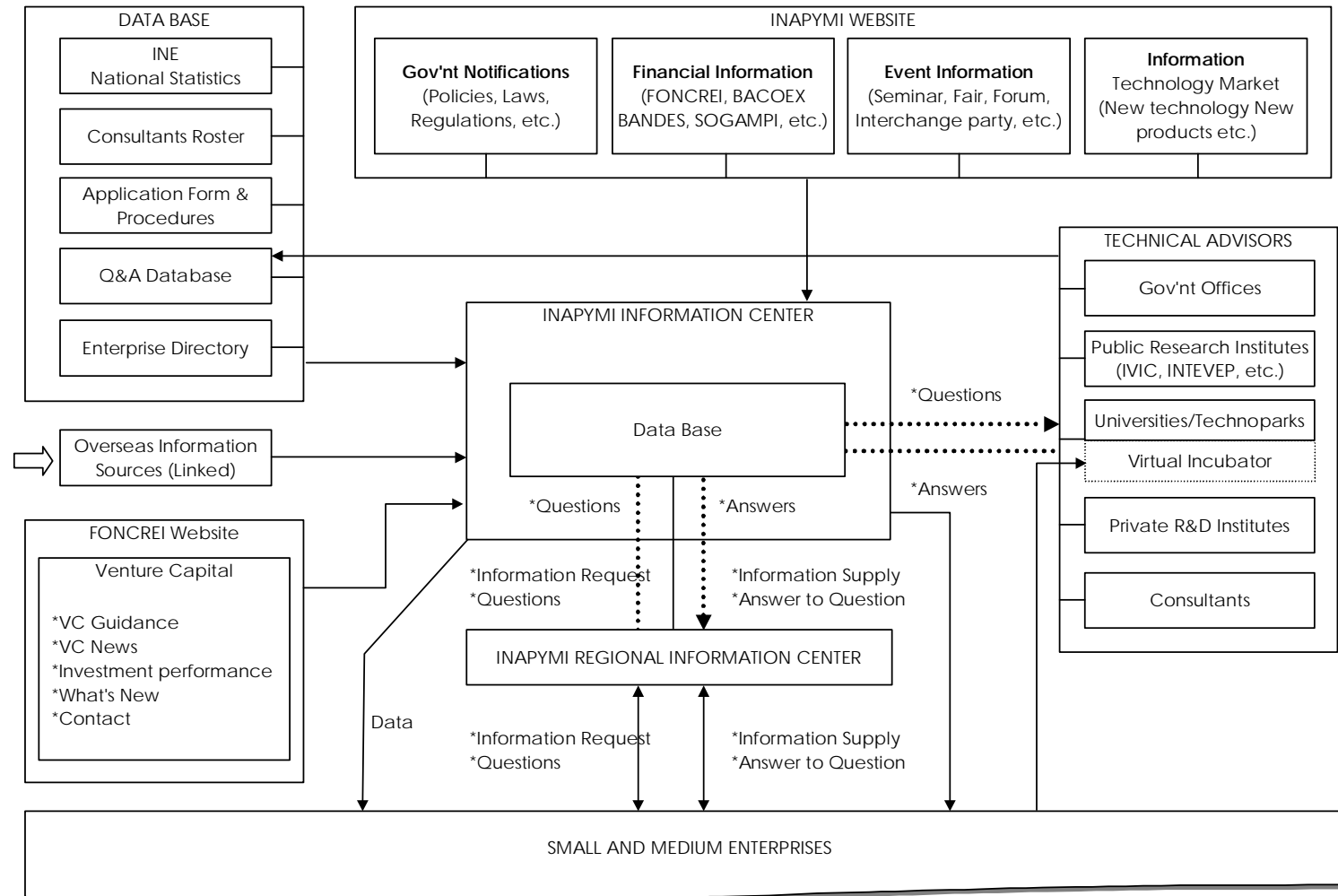
c. Investment procedures

- d. Company profiles
- e. Introduction of professional staff
- f. Venture Capital News
- g. Introduction of companies looking for investors
- h. What's New?
- i. Hiring information
- j. Contact venture capital

F. Q&A Online Dialogue

A network of institutions and specialists offering technical support for SMEs in a variety of specialized fields will be established to answer questions sent by SME staff from the INAPYMI Regional Support Centers. Data of frequently asked questions and answers will be compiled as a database at the INAPYMI Information Center Headquarters, which will be accessed and utilized from the counseling service desk in each region (See Figure 2.3.10.)

FIGURE 2.3.10 INAPYMI SMES INFORMATION NETWORK (PRELIMINARY PLAN)



2.3.2.2 One-Stop Service System

(1) Purpose of One-Stop Service System

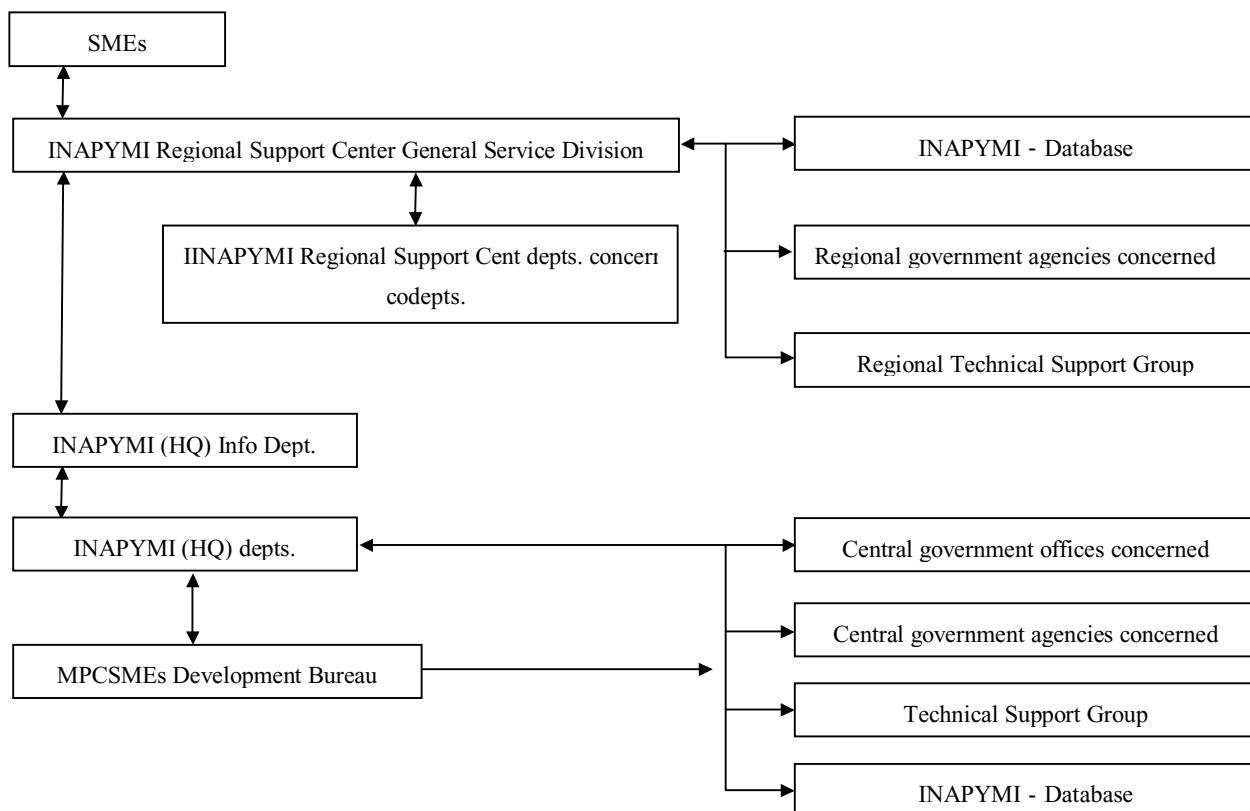
The purpose of adopting a one-stop-type service system is to simplify the complicated administrative procedures, about which many local SMEs are eagerly requesting improvement, by utilizing INAPYMI's new administrative service capabilities. The most important function of the One-Stop Service System is to consolidate the local branches of different central agencies into one place by setting up a service counter in each district so that submission of applications for permits and licenses to and reception of notification from different authorities can be done in one location. The system will also allow SMEs to obtain at their respective local branches information and services that have been available only at the central government, agencies, institutions, groups, and other organizations.

(2) One-Stop Service Counters

Counters of the One-Stop Service System will be set up at the General Affairs Service Divisions of INAPYMI Regional Support Centers.

(3) Function of One-Stop Service System

Upon receiving inquiries from local SMEs, the system will search appropriate authorizing agencies or specialists to answer the inquiries, process applications for permits/licenses, and respond to requests for specific information. The system will be so designed as to become a part of the cyber government in the future. Illustrated as following is the mechanism of the One-Stop Service System.



(4) Contents of One-Stop Services

1) Governmental Permits and Licenses

Among the services offered by the General Affairs Service Division of INAPYMI Regional Support Center, acceptance and processing of applications for governmental permits and licenses, as well as judicial affairs, will be handled at the One-Stop Service Counters. Listed below are merely examples of such affairs and may not correspond to actual procedures in Venezuela.

A. Permits and Licenses

(i) Incorporation Procedures

- a. Application for and permitting of land acquisition
- b. Registration of land
- c. Submission/registration of corporate registration applications
- d. Tax registration
- e. Obtaining of business license
- f. Submission/approval of environmental impact study report
- g. Application for water/gas emission permit
- h. Submission/approval of electric power/water supply service application

- i. Submission/approval of water intake permit application
- j. Employer registration
- k. Social security registration
- l. Submission/approval of incentive program application
- m. Submission/approval of institutional financing application
- n. Submission/approval of credit guarantee application
- o. Submission/approval of industrial waste disposal application
- p. Disaster prevention facility permit
- q. Other permits and licenses

With regard to applications for local permits, licenses, and registrations, it will be desirable that officers of relevant local government agencies will be dispatched to their respective One-Stop Service counters to process such applications.

(ii) Other Business Licenses and Permits

- a. Import license
- b. Export license
- c. Drawback application
- d. Other tax deduction application
- e. Intellectual property rights application
- f. Applications for other incentive programs

B. General Consultation

(i) Legal Consultation

- a. Tax consultation
- b. Consultation related to employment law
- c. Social welfare program
- d. Accounting laws
- e. Commercial dispute/arbitration
- f. Asset appraisal
- g. Reorganization/dissolution of company
- h. Listing of company stocks on the market
- i. Labor dispute

(ii) Other Consultation

- a. Incentive programs and how to apply

- b . Preparation of governmental application forms and procedures
- c . Preparation of loan application forms and procedures
- d . Corporate registration procedures and legal requirements
- e . Other

2.3.2.3 SME Diagnosis

(1) Present Status

In Venezuela, existing diagnostic checkups and consultation services for SMEs include PAIPYMI Program (has been implemented by MPC since 1997), CONIINDUSTRIA, FIM, and PTG (Enterprise Management Reform) Program by Carabobo Regional Economic Development Bureau (SEEDEC). However, all of these programs are targeted at specific regions or enterprises but not available nationwide. The PATYMI program that was initiated by MPC in 1997 is currently being suspended because of various problems.

(2) Problems

Problems in SME diagnosis and consultation services in Venezuela include the following:

- 1) Quality and contents of SME diagnoses run by consultants are inconsistent.
- 2) Consultant training programs have not been fully developed.
- 3) PAIPYMI program conducted by MPC in particular had the following problems:
 - a. MPC/sectors and their local counterparts were both in charge of the implementation of the program. This created confusion as to which organization was responsible for which task, unnecessarily complicating and duplicating the procedures and leading to delay in executing the PAIPYMI program.
 - b. MPC/sectors and their local counterparts were selecting consultants and enterprises for the PAIPYM program. This created a feeling among SMEs that the program was forced top-down by the central authority without respecting SMEs' independent decision making processes.
 - c. Selection of consultants through tendering was a major cause for delay in implementing the PAIPYMI program. Tendering would only complicate the clerical procedures and is not suitable for SME diagnosis, which most often needs to be done in a timely manner.
 - d. Consultant training and consultation services were done concurrently, which caused further delay in the PAIPYMI program.

(3) Recommendation

To improve SME diagnosis and consultation services in Venezuela, the following measures are recommended:

- 1) As part of SME promotion policies of the Venezuelan government, INAPYMI should take the lead in establishing the SME diagnosis system.
- 2) To assure the quality of SME diagnosis, a national-level consultant accreditation system should be introduced. More specifically, INAPYMI will conduct a state examination and grant the national consultant license to those who passed the examination and hire them preferentially.

In Japan, the SME Diagnostician System was established to provide consulting services of consistent quality in a timely manner for SMEs facing certain managerial challenges. The Minister of Economy, Trade, and Industry grants a national license to those who have passed a national examination or completed a 1-year course at the training institutes of Japan SME Corporation for their special skills. Specialty fields of Japanese SME diagnosticians are listed below for reference:

- a. Economics/economic policies
- b. Finance/accounting
- c. Corporate management theory
- d. Operation management
- e. Management laws and regulations
- f. Development of new business
- g. Management information system
- h. SME management
- i. SME policies
- j. Guidance skills

INAPYMI should take the lead in fostering consultants and educating/training entrepreneurs, SME operators, and personnel engaged in SME policy programs. In a short term, INAPYMI can modify and utilize existing programs while working with other agencies. MPC's SME policy makers and other outside lecturers will be employed to teach certain subjects. Eventually, INAPYMI will establish an independent training/education system to foster consultants, entrepreneurs, SME operators, and SME policy executors.

2.3.2.4 Consultant Accreditation System

(1) Present Status

1) Consultant Training Programs

A. FIM PRODUCTIVIDAD

In Venezuela, FIM PRODUCTIVIDAD (NGO) has been offering business consultation services since the early 1980s. This organization has a long-term relationship with Japan Productivity Organization and has been dispatching trainees to Japan on an on-going basis. It has been making concentrated efforts on fostering consultants and produced 200 to 300 consultants in the past 15 years. Its basic training course covers theoretical education, practical training at actual business sites, and learning of diagnostic criteria and standard. Its standard has undergone numerous revisions since 1981, and CONINPYME is currently using the FIM diagnostic standard.

B. CONINDUSTRIA

Under the SME Consultant Training Project (supported by IDB) that started in 1999 as a CONINPYME program, CONINDUSTRIA has fostered 190 consultants. FIM, Metropolitan University, and Spanish (Basque) aid organization were contracted to carry out the actual training programs. Two courses are available under this project as outlined below:

Regular program	:	Training period	:	6-month course
		No. of trainees	:	20
Intensive seminar	:	Training period	:	2 – 3 days
		No. of trainees	:	35 – 50

C. INSE

Enterprise Adviser Program was inaugurated in 1993 and has since fostered 93 advisers. This program aims to improve the productivity and stability of SMEs by presenting improvement plans to SMEs as the final result based on the diagnosis done by the advisers fostered under the program. It is up to each SME whether or not to implement the recommended plan. The program, which was developed by expanding the quality/productivity improvement concept of ISO-9000, offers consultation services at an exceptionally low rate of US\$9.00/hr (whereas the going rate is at least US\$25.00/hr) to SMEs that cannot afford to hire consultants on their own. These consultation services use the “Competency Based Economic by Formation of Entrepreneur” method of GTZ of Germany.

D . Other Programs

In addition to the above, FUNDES and IESA are conducting specialist training courses, which, however, are for training entrepreneurs, proprietors, and managers, but not for fostering consultants.

2) Types of Consultant and Qualification

Traditionally, most Venezuelan consultants were trained at FIM, whereas today, registered consultants under the CONINPYME program of CONINDUSTRIA are regarded more as standard consultants.

Consultants registered with CONINDUSTRIA are classified as follows:

Types of Consultant

Integrated Consultant (provides consulting services in all fields)

Specialized Consultant (provides consulting services in specific fields)

Types of Consultant by Qualification

Junior Consultant 50 or lower

Standard Consultant 51 – 60

Senior Consultant 61 or higher

Consultants registered with roster are classified according to category, qualification, special skill, general management, experience, academic background, presentation at conferences, regional specialty, etc.

(2) Problems

1) Absence of Unified Qualification Standard

The most common problem in Venezuelan consultant system is the uneven quality of consultants due to the absence of public qualification standard. While consultants who have completed CONINDUSTRIA's CONINPYME program can be expected to render services above a certain level, many are self-appointed consultants relying solely on experiences and reputation. Since consultant fees are by no means negligible for SMEs, whether or not to hire a consultant, whose advice is questionable in terms of reliability and value, is not an easy decision to make.

2) Obscure Classification of Consultants

Although CONINDUSTRIA has divided consultants into several classes, fields of expertise of each class are not clearly defined. Division of work and specialization between the technical advisors trained at INSE and the specialized consultants of CONINDUSTRIA are also unclear. Scales of enterprises subject to consultation services need to be identified as well.

3) Expensive Consultant Fees

Considering the status of the labor market in Venezuela, the going rate of consultant fees is exceptionally high. The current rate (US\$25/hr. to Bs25,000/hr.) is almost comparable to that in Japan and not affordable for average SMEs. In order to disseminate consultation services to upgrade Venezuelan SMEs, the rate should be lowered to an affordable level.

4) Absence of Skill Update System

In ever-progressing industrial society, consultants must keep pace with advancing technology by constantly learning and evaluating the latest techniques so that they can give proper, up-to-date guidance to enterprises. To ensure this, consultants' skills need to be reevaluated and updated periodically.

(3) Necessity for Establishing the Accreditation System

Technical support is one of the most important aspects of SME promotion. SME consultants are technical advisors who are in the position to provide actual support with reliable skills and knowledge in specialized technical fields. Therefore, the consistency of consultants' faculty should be assured by a certain accreditation system like those for doctors, lawyers, and certified public accountants.

Currently, there is no consultant accreditation system in Venezuela, and private-sector NGOs have been training most of the consultants for many years. Under the new administration, however, as SME promotion becomes one of the most important objectives of Venezuelan government's economic development policies, the need for SME consultants is growing rapidly. Within the administration, government officials are discussing how to foster more consultants and improve/stabilize their skill/knowledge levels in order to effectively carry out the technical support programs as part of SME promotion policies.

Under such circumstances, establishment of a national accreditation system of consultants is essential for securing a sufficient number of consultants of reliable quality so that they can be mobilized to support the SME promotion policies on a long-term basis.

(4) Proposed Plan for Consultant Accreditation System

1) Classification

A . Temporary Measure

As described earlier, CONINDUSTRIA divides consultants into Integrated Consultants (all fields) and Specialized Consultants (specialized fields), which are further classified by qualification into three levels: Junior, Standard, and Senior Consultants. As a temporary measure under the new system, existing consultants will be used as before in SME programs. Integrated Consultants will be renamed General Consultants, and Special Consultants will be called Technical Consultants. However, within two years after the inauguration of the new system, all consultants need to take a national examination for qualification.

B . Classification under the New System

I . General Consultants

- a . Accreditation criteria of junior-level consultants
- b . Consultants for all sectors

II . SME Management Consultant

- a . Accreditation criteria of professional consultants
- b . B-1 : Consultants for manufacturing sector
B-2 : Consultants for service/distribution sectors

III . Technical Consultants

- a . Accreditation criteria of professional engineers
- b . Consultants by industrial sector
(Examples in Japan: machinery, shipbuilding, electric, electronics, chemistry, textile, resource engineering, construction, waterworks, health engineering, agriculture, forestry, fishery, industrial engineering, information engineering, applied science, bioengineering, environment)

2) Outline of Accreditation System

A. Method of Accreditation

- a. Qualifications: None required (except for technical consultant examination, which requires candidates to have a bachelor's or higher degree of engineering and seven or more years of experience in business).
- b. Document examination (accounts for 10% – 20%)
- c. Written examination (accounts for 50% – 70%)
- d. Practical test (accounts for 10% – 15%, not applicable to technical consultants)
- e. Oral examination (accounts for 10% – 15%)

B. Renewal of License

General consultant	: renewed once in every five years
SME management consultant	: renewed once in every three years
Technical consultant	: renewed once in every three years

C. Examinations for Qualifying Consultants

a. Prerequisite

Those who successfully completed the “SME Consultant General Education Course*” in college are exempted from the first-round examination.

*Note: SME Consultant General Education Course will be newly established in certain colleges, and students who passed the examination on completion of the course will be issued of a certificate of completion.

b. First-Round Examination

- Basic knowledge (SME promotion programs in Venezuela, code of ethics for consultants, comprehensive diagnosis, guidance method, etc.)
- Accreditation of General Consultants will be done based on the result of this first-round examination only.

c. Second-Round Examination (Not necessary for general consultants)

- Written test
 - Training
 - Interview
 - License renewal examination (written and oral examinations)
 - SME management consultant (once in every 3 years)
 - Technical consultant (once in every 3 years)
- (Reference: Outline of Second-Round Test for SME Management Consultant)

Subjects of Examinations/Tests

- Related laws (commercial, civil, corporation, and other laws)
- Business strategy
- Personnel/education
- Information system
- Research/development/commercialization of product
- Production
- Technology
- Marketing
- Finance
- Physical distribution

Faculties to be Evaluated

- Ability to assess the status of SME
- Ability to evaluate the management (plan) of SME
- Ability to evaluate the business strategy of SME
- Ability to evaluate the human resource management of SME
- Ability to evaluate the legal and financial affairs of SME
- Ability to evaluate the marketing activities of SME
- Ability to assess the adoption of information technology at SME

Practical Test

Experienced accredited SME management consultants will be selected as instructors to teach a group of seven to eight candidates each at actual job sites to evaluate their skills. Practical training will be done at two enterprises spending five days at each location._

Oral Examination

- Career record and personal history written on a resume will be verified in an interview.
- Presentation skills and other aptitude for business consultant will be examined.

3) Registration System

- Registration form (to be prepared in MPC format)
- Registration counter (MPC)
- Database (INAPYMI Database)
- Things to note when using the system