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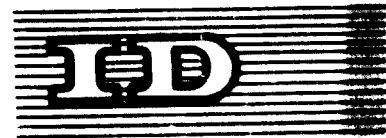
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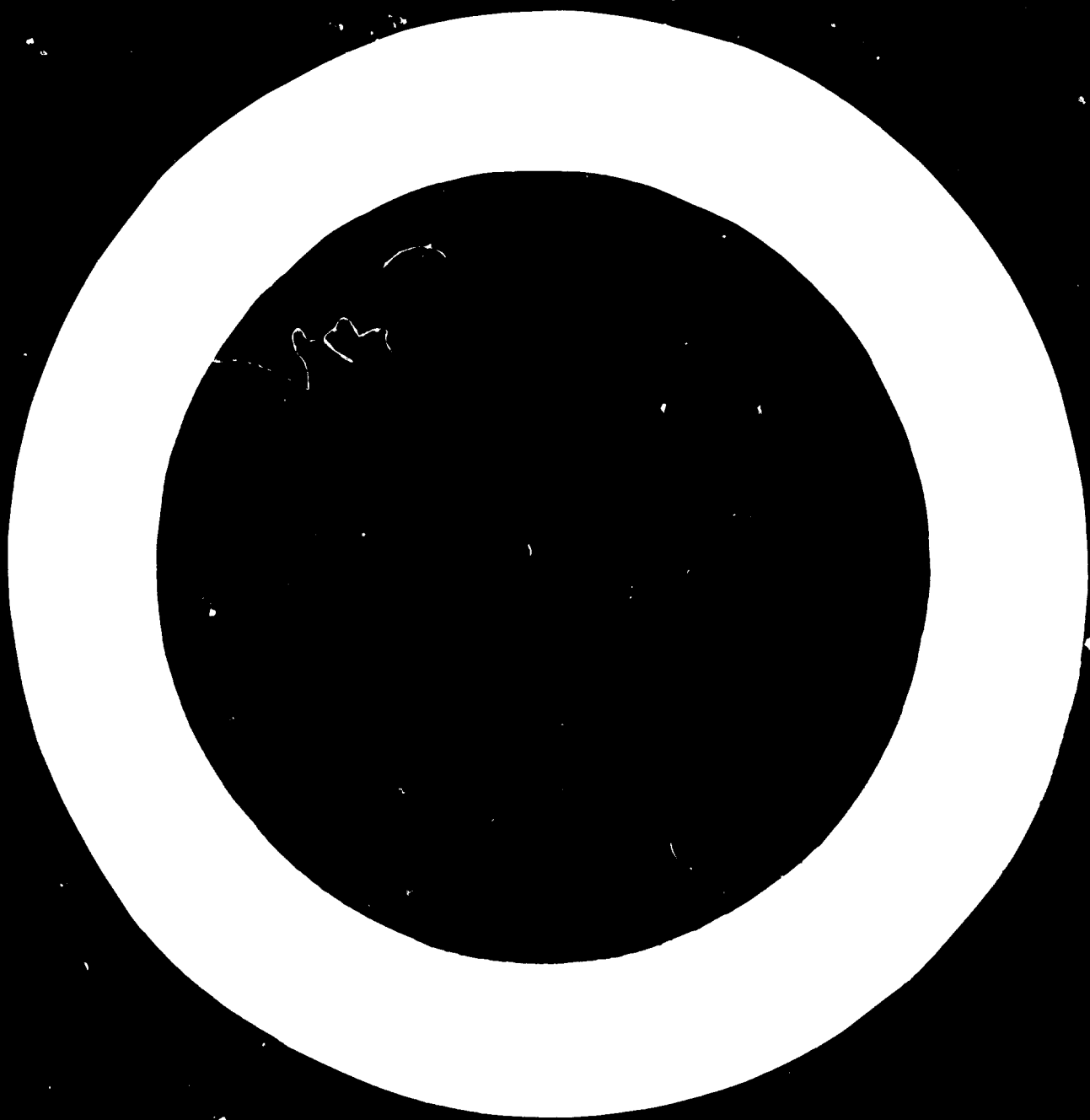
INTEGRATED PROGRAMME OF FINANCIAL ASSISTANCE
AND TECHNICAL ADVISORY SERVICES
TO SMALL BUSINESS ^{1/}

by

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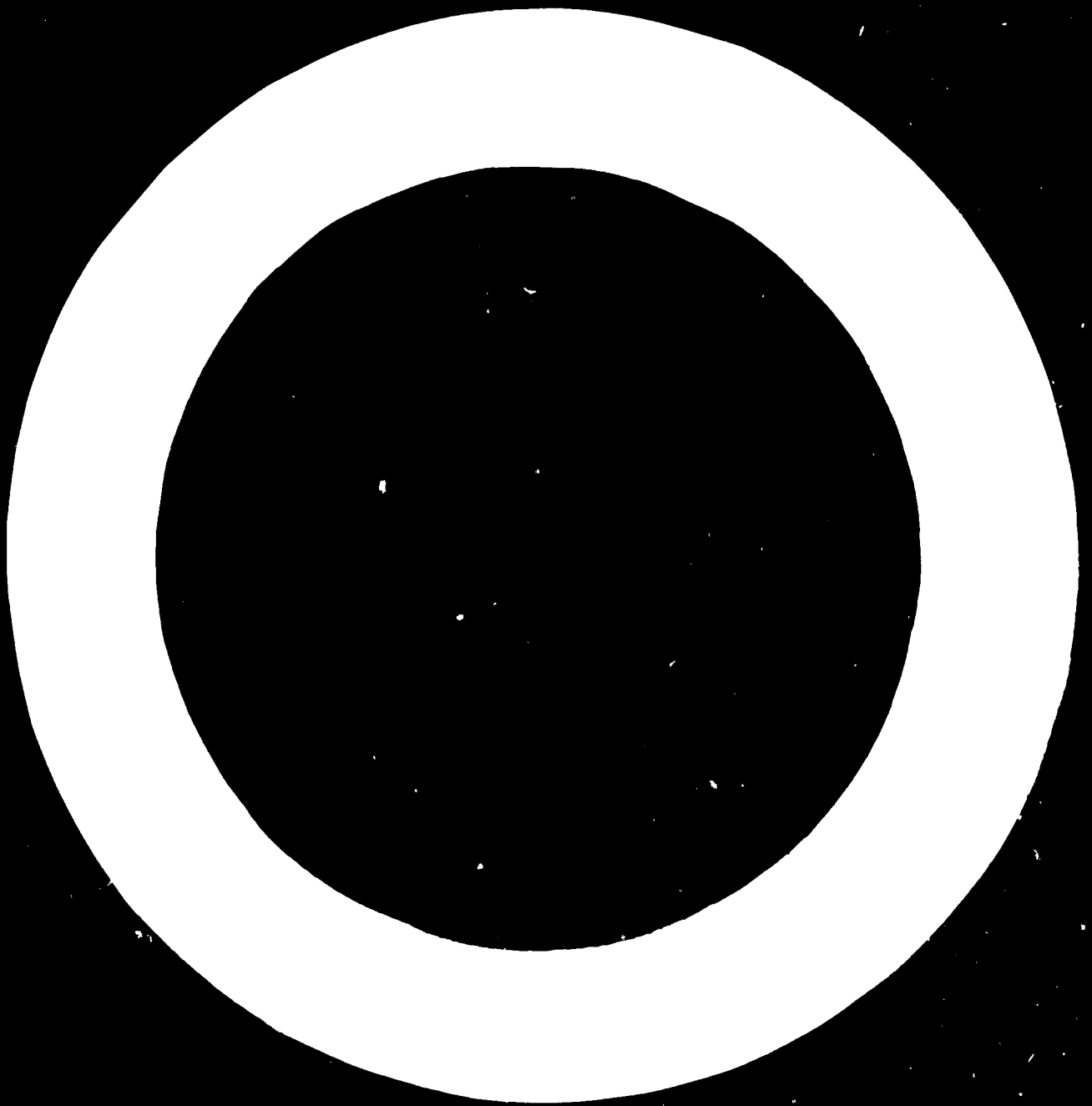
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INTRODUCTION

This paper is based upon experience gained during several years whilst serving as an advisor in four developing countries.

The objective of this paper is to stimulate thought upon how best a Programme of Financial Assistance and Management Advice, hereafter referred to as The Programme, can be made to be of even greater benefit to the small business sector and through it to the economy of its country.

It is stressed, at the commencement of this paper, that The Programme considered herein forms an integral part of a Total Programme for the Development of the Small Business Sector. Therefore, it is subject to the total objectives of such overall programme. However, this paper comprises only of those matters which have a direct bearing upon The Programme of Financial Assistance and Technical Advisory Services.

In order to establish the *raison d'être* for such Programmes, first we must consider four questions and suggest answers thereto.

Consider first WHY such a Programme is necessary? It is submitted that its necessity arises from available resources not being utilised in a country because they are undeveloped -- both human and material resources.

WHERE is it common to find such under utilisation of resources? -- In developing countries around the world.

WHO are the persons and organisations primarily concerned with such Programmes? -- It is usual, because of the potential benefits it offers the economy of a country, for the government to appoint a specialist agency to administer the Programme. The other principal party being the Small Business sector who receive the assistance provided through the Programme. If such assistance is employed effectively by these two parties then the small businessman, reaps the resultant benefits through profits and a developing business while the government obtains a stronger economy, which in time ought to improve the day-to-day living conditions in the country.

WHEN to introduce and develop such a Programme is dependant largely upon a country's economy and the stage of its development, together with the availability of its undeveloped resources.

The relevant background thus has been defined for the purpose of this paper, which is structured upon the following lines.

The Programme Objectives are considered first in the body of the paper.

The 'HOW' of the Programme is stated in the section entitled 'Basic Essentials of and Necessary Preliminaries to Financial Assistance Programmes'.

The 'WHAT' of the Programme is defined in the sections entitled 'Basic Ingredients of The Programme' and 'Range of Industries Assisted'.

The remaining section considers the principal problem areas, including basic limitations and local constraints placed upon a Programme.

I. PROGRAMME OBJECTIVES

The principal objectives of a total Programme for the development of the Small Business Sector would include the desire to —

develop LOCAL skills and industries;
increase EMPLOYMENT potential;
engender SELF-SUFFICIENCY;
strengthen the ECONOMY, which would emanate principally from —

additional employment, reducing Social Benefit support
increasing money in circulation and
trade, as well as the
citizens' morale;

utilisation of local raw materials, reducing Imports;
increasing Exports.

Forming an integral and important part of such Total Programme would be the Programme of Financial Assistance and Management Advice — as previously mentioned for the purposes of this paper termed The Programme.

The major parts of The Programme usually would include the provision to the Small Business Sector of —

loans on soft-term basis;
technical advice upon Record Keeping, Financial Management
and Controls, as well as upon Marketing, Production and
other management methods;
subsidized rents of government Factory Shells;
tax free holidays;
exemption from import duties;
subsidized cost of employee training;
and so on.

For the purpose of this paper, we are concerned primarily with the first two types of assistance — the provision of loans and of technical advisory services.

Usually it has been found necessary for adequate provisions to be made within The Programme for the additional training of its field officers and other officials working upon The Programme. The reason for such a requirement is the inexperience usually found among the academically and professionally qualified local staff. Hard work in time will solve this weakness. In the meantime, it is essential in order to assist the gaining by them of relevant experience that local staff are guided to develop and to use appropriate routines and controls concerning their main duties within The Programme, which would include —

investigation and appraisal of loan applications;
internal administration and control of loan facilities;
provision of effective and integrated technical advisory
services.

Experience has shown that the successful operation of such a policy offers many potential advantages to the two major parties associated with The Programme, as well as to the Country, including those which —

A.. principally benefit the Government Operating Agency through —

REDUCING — RISKS of lending;
loan ARRARS;
ADMINISTRATIVE UNIT COST
of providing loans;

INCREASING — EFFICIENCY of controlling loans;
RATE of repayment;
SUPPLY of funds available for further loans;
RESPECT and CREDIBILITY from general public
as well as from Small Business Sector;

B. principally benefit the Small Business Sector through —

REDUCING — RISK of losing business momentum;
TIME-LAG of processing loan application;
INAPPROPRIATE loan funding;

INCREASING — AVAILABILITY of additional resources when
required;
EFFECTIVENESS of Technical Advisory Services;
MORALE of Small Business Sector;

C. principally benefit the Country through —

INCREASING — EFFECTIVENESS of total programme to assist
DEVELOPMENT of Small Business Sector and
through it STRENGTHEN the economy of the
country.

II. BASIC ESSENTIALS OF AND NECESSARY PRELIMINARIES TO FINANCIAL ASSISTANCE PROGRAMMES

The two types of requirements — basic essentials and necessary preliminaries — are considered together in the section because in practice they are linked extremely closely.

The basic essentials needed to assist towards a successful financial assistance programme fall into two categories concerning —

1. material resources;
2. administrative procedures and documentation.

The Material Resources necessary to be available include —

1. adequate funds to commence the loan programme and to enable it to develop;
2. qualified and experienced personnel to administer the loan programme efficiently and to provide appropriate technical advisory services;
3. full backing from Top Management and from Government.

The Administrative Procedures and Documentation which are necessary would include those appropriate to control —

1. loan application, investigation, appraisal and sanction;
2. establishment of loan, including the completion of legal formalities and the provision of adequate security;
3. loan repayment and arrears;
4. provision of Technical Advisory Services to clientele;
 - A. on creation of loans;
 - B. regular audit visits;
 - C. upon request;
 - D. ad hoc;
5. effort by personnel in departments connected with Small Business Development to perform their duties in above subsections —
 - A. 1, 2 and 3 (internal)
 - B. 4 (external)

in order to achieve optimum effectiveness of The Programme;

6. regular preparation for submission to Top Management, of appropriate reports, statistics and interpretation thereof upon —
 - A. loans;
 - B. advisory service effort.

The necessary preliminaries include the basic essentials enumerated in this section.

In addition, they would include such obvious, but unfortunately not always developed matters as —

1. agreed programme objectives, clearly quantified and related to a time-scale;
2. establishment of appropriate department(s) to provide and administer The Programme, in such a manner that they are encouraged to develop upon lines most beneficial to —
 - A. its clientele, the Small Business Sector;
— through the type and extent of the services provided;
 - B. its owners, the Government perhaps in conjunction with local large industrialists;
— through an adequate return from their investment, which may 'only' be a greatly strengthened economy;
 - C. its staff; — through job satisfaction, service to the community and the receipt of appropriate rewards;
3. establish through —
 - A. Job Description - appropriate JOBS;
 - B. Job Specification - TYPE of personnel required;
 - C. Job Evaluation - a realistic SALARY STRUCTURE including JOB GRADES;
4. develop from 3 above —
 - A. detailed Departmental Organisation Structure;
 - B. inclusion of A above in Total Organisation Structure of Government Agency;
 - C. departmental Budget(s), in relation to 1 above - quantified objectives;
5. agreed and printed documentation for procedures and controls —
 - A. accounting — internal;
 - B. accounting — external for clientele;
 - C. administrative;
 - D. legal formalities of loan security;
6. availability of very experienced and appropriately qualified advisers to —
 - A. assist with embryo phase of development;
 - B. train local counterpart qualified personnel to assume duties and responsibilities for operating The Programme;
7. agreed Loan Criteria — minimum and maximum;
8. agreed pre-loan requirements and conditions.

Experience has shown the essential needs for such matters to be 'in-being' BEFORE the commencement of The Programme. Once The Programme has commenced, the deluge of enquiries and applications for assistance usually do not allow time for establishing such essentials. Furthermore, the existence of them assists greatly in making The Programme efficient, as well as effective, through the provision of appropriate assistance when required by the Small Business Sector.

The basic weakness of funding Working Capital, both the security thereon and the difficulty of ensuring such funds are utilised effectively and not used just as a 'stop-gap' or dissipated often has been overcome by the use of discounting sales invoices, a method known in some countries as Sales Factoring.

Such a method provides a regular inflow of working capital without the business having to wait for settlement from its debtors. In addition to an overall Deed, promissory notes usually are given for the invoice percentage amount funded and the respective sales invoices would be assigned to the lender. To make the arrangement even more secure the borrower would have to use certain facilities of a reputable joint stock bank, where the borrower was a customer.

A suitable method of Sales Discounting can provide effective security upon Working Capital loans within The Programme.

C. Technical Advisory Services

It is essential for the overall success and effectiveness of The Programme that it be a balanced one. This necessity can be achieved through providing the small business sector with loan funds in conjunction with an appropriate service of technical advice. Such service must be competent, in at least the managerial disciplines and techniques listed in this section, to give sound advice when called upon, to —

- (i) specific small businesses, in many diverse trades and industries;
- (ii) small-scale industries upon matters affecting the whole industry;
- (iii) originators of new projects.

The breadth of technical advice ideally ought to be similar to general management consultancy, though not in such depth as is necessary in consultancy services and it ought to include at least the following basic work spheres —

- (i) **Engineering**, including — factory/shop lay-outs; appropriateness of plant, machinery and equipment/its optimum utilisation and so on;
work measurement and method study;
incentive bonus schemes;
production control;
stock control and recording;
and so on.

- (ii) Management
 - (a) Financial — books of account;
cost data and control;
budgets and budgetary control;
operating statements;
control indicators;
and so on.
 - (b) Administrative — organisation and methods;
procedures and documentation;
and so on.
- (iii) Marketing including — market potential and competition;
sales demand, including seasonal
variances;
sales mix and its direct affect upon
purchasing, production, cost and
profits;
selling methods;
and so on.
- (iv) Training, specifically general advice upon the necessity, appropriateness and potential benefits of training —
 - on job;
 - in classroom;

and where to obtain such training and the detailed advice thereon.

To provide an effective service requires a close working arrangement between the Government Agency personnel and the Government Management Training Centre, both these parties being in a position to assist each other, for the benefit of small businessmen.

Advice given ought to be confirmed in writing to the client, either in a letter or when more appropriate, it ought to form the basis of a report.

The basic objectives of providing such a technical advisory service would include the desire to assist small businesses to solve their specific problem areas and to eradicate any bottlenecks, in order to assist the development of the small business sector. Furthermore, when this type of advice is available in the same programme as the availability of loan facilities, such linking is beneficial both to the borrower and to the lender, in assisting the effective utilisation of the loan and also, reducing the risk of non-repayment.

It is usual for advice to be initiated from certain events, including —

- (i) application for loan;
- (ii) creation of loan;
- (iii) specific request from small business proprietor;
- (iv) specific request from the top management of the Government Agency, sometimes resulting from a request or enquiry emanating from a Government Ministry;
- (v) regular audit visits as per a planned programme.

A planned programme of visits to small business clientele is an essential means of control for the Government Agency. Such visits provide the opportunity of auditing the progress and the current position of the business, thus giving the opportunity to offer advice upon current problems and also, acting as an 'early warning system' of potential future problems. Audit visits therefore can assist both small business and the safeguarding of public funds on loan.

IV. RANGE OF INDUSTRIES ASSISTED

It would be usual to find The Programme assisting small businesses which are in the types of industry which would be based upon —

A. Crafts, including —

carpentry;
dressmaking;
metal work;
printing;
and so on.

B. providing Services through —

retail shops;
oatering establishments;
garages;
hotels and guest houses;
and so on.

C. Local Crafts and Cottage Industries, These often include inherent skills applied to local raw materials and might comprise the manufacture to a national or regional style of —

sandal;
cloth;
statues;
pictures — bastiste, wooden, painted etc.;
woven and plaited work — table mats, bowls, hats
etc.;
and so on.

In addition, emphasis often would be imposed upon the development of labour intensive industries, as a Government policy, to reduce local unemployment and to give skills to more people. Thus, in section 'A' Crafts, emphasis would be placed upon at least developing the manufacture of —

furniture;
various types of garments;

as well as developing the skilled sub-contractor section of the building industry. Most countries have natural points of interest to visitors, if only the climate and therefore, another area for special government development, primarily to increase employment opportunities and to earn foreign currency, is the tourist industry. Thus in Section 'B' Services, assistance would be encouraged in at least the Hotel and Guest House industry and perhaps also, in the creation of additional suitable oatering establishments.

Likewise small businessmen covered in Section 'C', Local Crafts and Cottage Industries, especially would be encouraged for similar reasons.

The other major area of small-scale industries, where special encouragement often would be given with its development, would be the creation of manufacturing and processing units to produce 'large demand' products which previously have had to be imported. Usually, this type of industry includes the production of —

diverse types of foodstuffs;
cosmetics;
hardware;
and so on.

Small businesses are organised in most of the various usual structures including —

sole trader;
partnership (unlimited and sometimes limited);
limited liability company (private);
co-operatives.

It would be essential for the Technical Advisory Service to be competent to give sound and appropriate technical advice to these many and diverse types of industries, in order that The Programme be effective and of benefit to the Small Business Sector.

Furthermore, it would be necessary for loan applications from any part of the Small Business Sector to be processed competently by the specialist personnel of the Government Agency Loan Department, through an appropriate procedure of investigation, appraisal and recommendation thereon.

V. MAJOR PROBLEM AREAS OF ADMINISTERING PROGRAMME

The major problem areas, which would include the basic limitations and local constraints placed upon the introduction and the fulfilment of a Programme, are of two principle types —

- A. human factors;
- B. material resources.

A. Human Factors.

The passing of sufficient time, if utilised effectively, will solve this type of basic limitation. However, it is natural for local constraints to be placed upon a Programme from the conditions which often exist in developing countries. Such basic limitations often include at least the following weaknesses —

- (i) level of scholastic education and achievement;
- (ii) supply of sufficient technical skills;
- (iii) insufficient training facilities;
- (iv) limited experience of supervision and management;
- (v) insufficient experience in the subject and techniques of the major discipline studied for a qualification;
- (vi) natural ability to apply academic knowledge to practical situations;
- (vii) lack of empathy.

It will be noted that the prime weakness is created from the lack of various types of experience. For the small businessman, experience ideally married to a natural flair for entrepreneurship is an essential ingredient of success. Therefore, a basic function of a Programme is to assist in filling the 'experience gap' with an effective and appropriate Technical Advisory Service. However, several of the listed weaknesses sometimes are common to the technical advisors of the Government Agency, usually (iv) - (vii) inclusive.

To assist these advisors to provide appropriate advice to the small businessman, who often have to act as his businesses salesman, raw material buyer, production manager (perhaps including design and set-up of tools), accountant, et al, the advisor must gain experience of so acting, as quickly as possible. To assist The Programme with this important aspect for its development, it is usual for international experts to be requested to develop the experience of such personnel.

B. Material Resources.

The types of material resource which would have an adverse effect upon a Programme include --

- (i) inadequate funds, both to provide and to generate sufficient loans, as well as the extent of technical advisory services and also, to establish the necessary administrative department(s) in the Government Agency executing The Programme;
- (ii) limited supply of local raw materials;
- (iii) restricted area(s) for industrial expansion;
- (iv) lack of adequate utility services, including the supply of water and electricity.

Certain types of material resource which are in short supply, can be increased through the availability of additional funds -- either provided by Government or an international aid agency -- being spent upon capital improvements. The remaining types, which cannot be solved with the provision of further money, might act as a constraint upon a Programme.

It would be usual when planning the overall objectives of The Programme to consider the presence of any such limiting factors and then, to develop an optimum plan which would be affected least by them.

The type of limitations which can be termed 'Human Factors' usually form the major problem areas. Furthermore, they impose the strongest constraint(s) upon a Programme. Limitations caused by 'Material Resources' usually can be overcome with additional money. However, solving the various problems present in both these basic types, would be subject to the pressures of 'Time'.

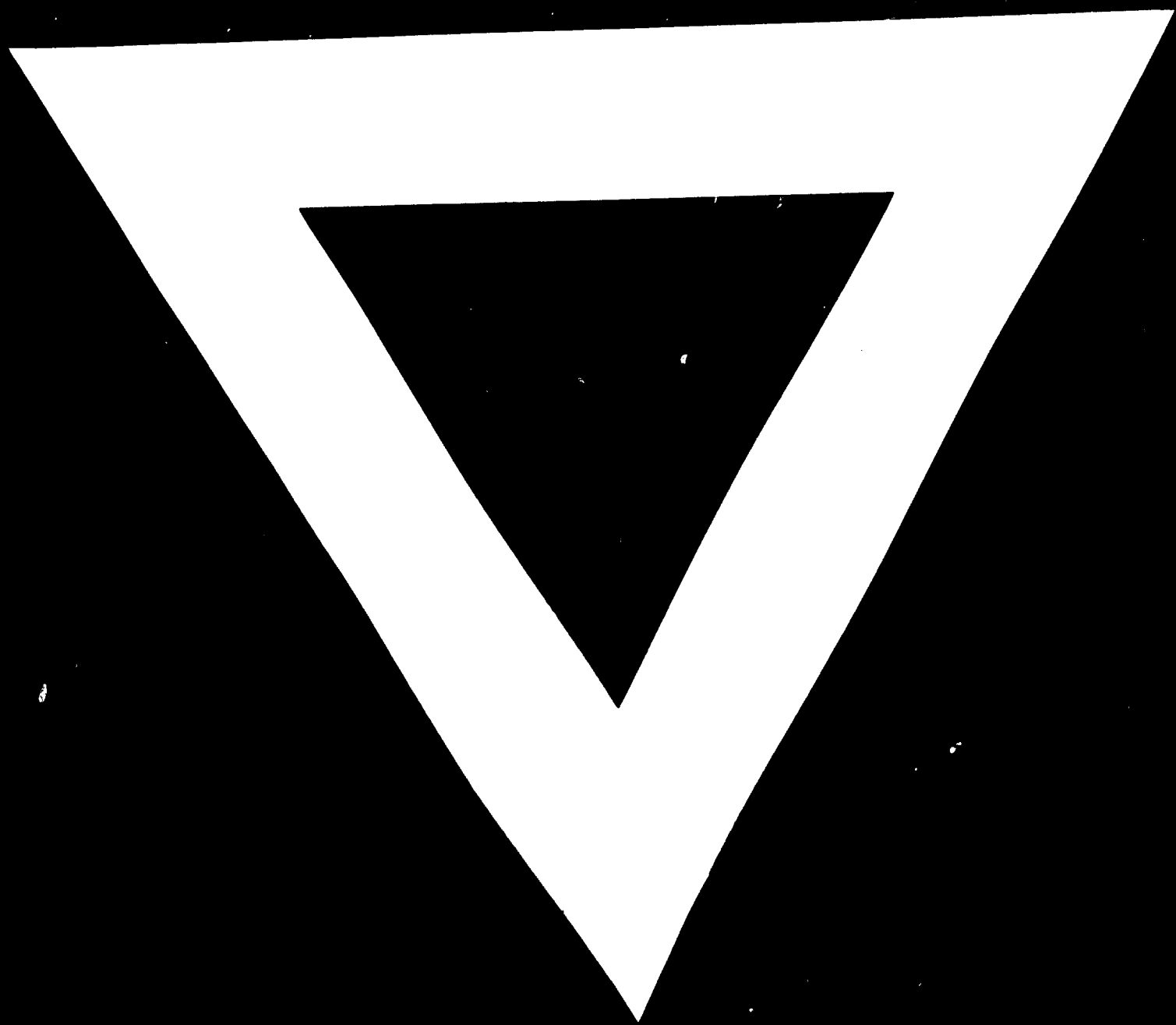
VI. CONCLUDING REMARKS

Programmes aimed at the overall development and expansion of the Small Business Sector offer great potential benefits to the community through the resulting strengthened economy of the country. An essential and integral part of such a comprehensive programme has formed the basis of this paper — Financial Assistance and Management Advice.

The provision of such assistance in conjunction with an effective welding of twin desires — the small businessman's, to advance in order to achieve 'self-sufficiency' with that of the personnel of the Government Agency, to assist and to serve the Small Business Sector — would result in the full achievement and the satisfaction of both parties, which would be to the overall benefit of their country and of their fellow citizens.

The presentation of this paper will include a consideration of each of its main sections, in relation to specific experiences of developing an Integrated Programme of Financial Assistance and Technical Advisory Services.





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