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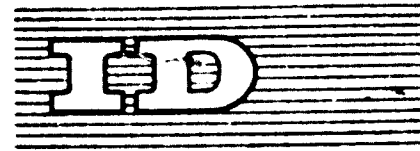
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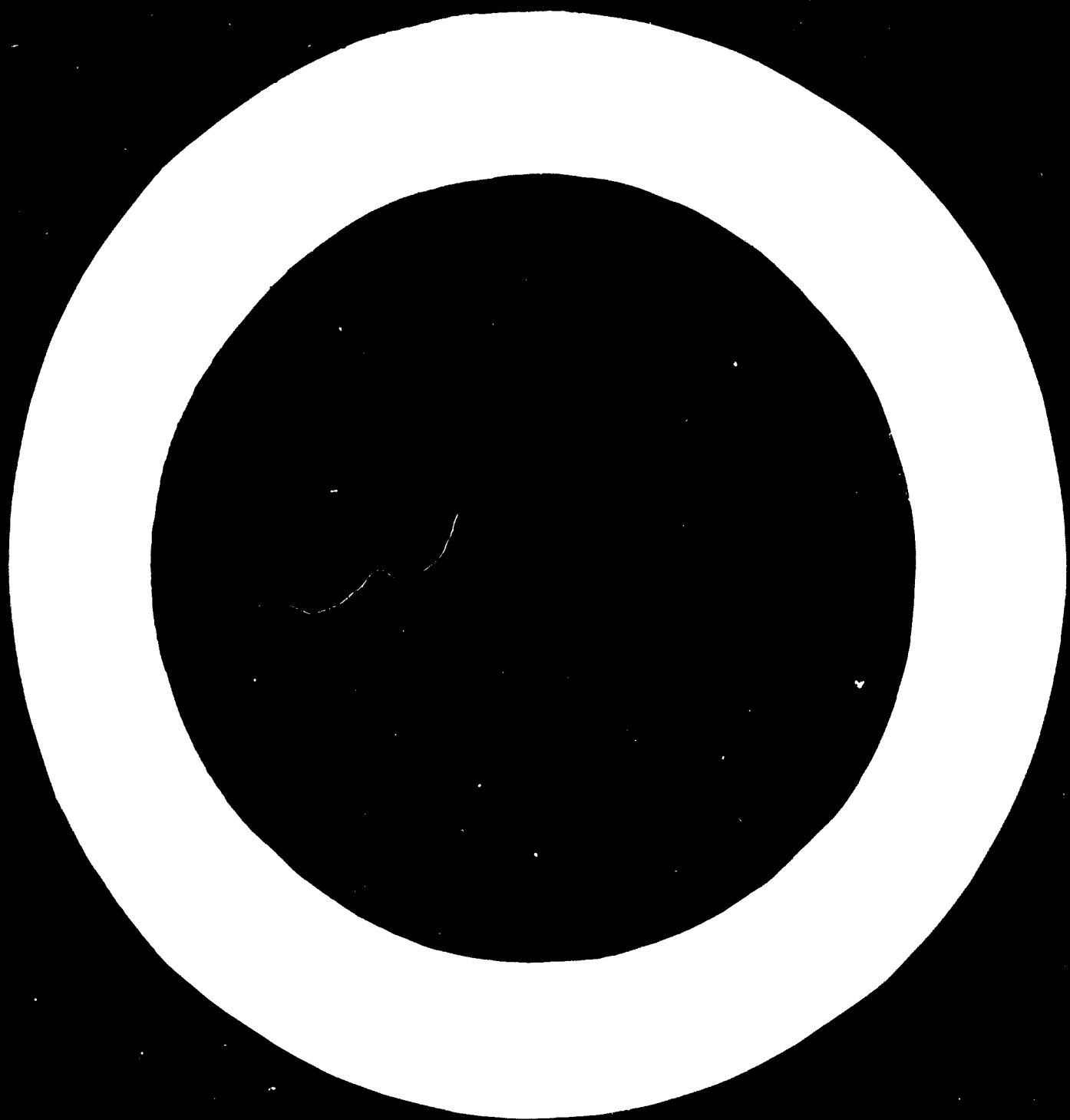
**INSTITUTIONS FOR PROVIDING TECHNICAL SERVICES
FOR SMALL INDUSTRY^{1/}**

Prepared for the Meeting

Presented by the International Labour Organisation

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INSTITUTIONS FOR PROVIDING TECHNICAL SERVICES

TO SMALL INDUSTRY

I. INTRODUCTION

1. As developing countries move from an agricultural and extractive economy to an economy based on industry and trade, the extent of success they achieve in any programme of economic and social development depends to a large extent on whether such programmes are supported by sound systems and structure of public administration adapted to the circumstances of each country. It may be said that the responsibility of government in economic and social development is by itself a novelty to these countries from the established activities of government in the more or less traditional ministries. But, in most of the developing countries, the shouldering of responsibility by the government for industrial development is by far an area of greatest novelty and newest emphasis and creates a type of strain and a challenge in government machinery, peculiar to itself. Within the sphere of industrial development, the small industries field has its special problems and challenges. In this paper, it is proposed to examine what these special problems of public administration are, covering the broad spectrum of policy formulation, planning, execution, control and review of programmes of development of small industries and relate them to the institutional and organisational needs for such programmes of development.

II. SMALL-SCALE INDUSTRIES

2. Before discussing these problems, it is necessary to define the sector of economic activity proposed to be dealt with in this paper. In accordance with common usage, for the purpose of this paper, small industries are industries consisting of small firms. These firms are establishments engaged in manufacturing (mechanical or chemical transformation, equipment installation, maintenance and repairs); electricity, gas, water and sanitary services (installation, operation, maintenance and repairs), and personal services, (such as laundry services, photographic services, etc.), other than domestic service. The problems discussed in this paper would almost equally apply to small firms in the mining, construction, and transportation industries as well.

3. A multiplicity of terms are found in common usage to denote such firms or industries - household industries, cottage industries, village or rural industries, light industries, small industries, etc. To cover the entire spectrum of size, terms such as small-scale, medium-scale and large-scale industries are often used. It is necessary to examine the criteria of smallness. In different countries and even in different contexts within a single country, different criteria

such as employment, investment of capital, value of output, capital-output ratio, extent of power used, the structure of management, etc., have been used, with arbitrary dividing lines in respect of each criteria for demarcating the various size groups.

4. For the purpose of this paper, since the problems of development are being discussed, it seems appropriate to define small industries as those which have special characteristics in respect of their development problems compared to large industries. Thus, different definitions and criteria may be used by different developmental institutions dealing with particular aspects of their development. In some cases these criteria may be used in combination. Thus, while dealing with the problem of entrepreneurship development, these firms may be identified as those which are generally single proprietorships or partnerships. In dealing with the problem of management development, these firms are those, which in their internal structure, have a significant lack of specialisation in the managerial functions. On the question of labour legislation for the development of appropriate working conditions, the identification may be in terms of employment only, or a combination of employment and power used. For the purpose of dealing with the financial and credit availability problems, these firms may be identified in terms of the amount of capital invested, or as those that do not have the facilities of normal commercial banks

■ A Factories Act or Industrial Relations Act, normally excludes from its scope, establishments having less than a given number of employees, on the understanding that the relations between employer and employees in such establishments are 'direct and face-to-face' and the normal type of industrial relations problem does not arise in these firms. Moreover, they generally use lower levels of technology, and therefore their problems of safety and accident prevention are less acute. This then becomes the dividing line for the particular purpose being discussed.

and organized securities markets are not easily available and they suffer from chronic problems of financing.* In respect of technology, the small firms may be identified as those generally using lower levels of technology and measured by such criteria as horsepower-employment ratio, or by capital-output ratio, or capital-employment ratio. In respect of the problem of markets, these firms in general may be identified by the fact that they serve mostly a local market and have a local source of supply for raw materials and generally have poor bargaining strength in respect of both buying and selling.

5. It may be seen that some of these differences are quantitative in nature and some are qualitative. It may also be seen that most of the differences between large and small firms, at or near the dividing lines that may be established, are differences of degree and not of kind. However, small industries are not different from large industries in all respects. There are a number of other characteristics which are common to large, medium and small industries. It has to be noted that the dividing line in respect of each of these criteria will differ from country to country and even industry to industry within a given country, depending on the socio-economic environment and the point at which the characteristics described above begin to be differentiated between large and small firms. This dividing line may also change over a period of time within a given country, as the socio-economic environment changes and industrialisation advances.

6. It is no doubt possible to have a single criterion definition of small enterprises in a country, which all development agencies of government use, provided such a criterion represents more or less the dividing line in respect of all other criteria. For example, it is possible that a definition of small industries with 50 or less employees per establishment, represents approximately the point where simultaneously differences arise in other criteria as well, i.e. entrepreneurship gets confined to mostly proprietorship and partnership, management structure lacks specialisation, financial problems are acute because of the non-approachability to organized securities and credit markets, general use of lower levels of technology, and the fact that the establishments

* An Industrial Development Bank may exclude from its scope, enterprises having a fixed capital of less than a specified amount. This dividing line establishes the need for separate consideration of the problems of credit for small industries outside the scope of the Bank's operation.

utilize and serve a local market. In such countries, statistics on small enterprises are easier to obtain and maintain up to date. On the other hand, where different agencies of government use different criteria and dividing lines, the central statistics should be geared to obtain data on all the criteria used, so that these agencies can obtain data on them and comparability between agencies serving different groups of establishments can be secured.

III. GENERAL PUBLIC ADMINISTRATION SET-UP

7. Before proceeding further, it is necessary to discuss the general problems and structure of public administration which exists in developing countries, within the framework of which the institutional and organizational needs of a small-industries development programme has to be fitted. It may be generally said that in the field of public administration, the principle characteristics which distinguish developing countries from the rest are :

- a. a general imbalance between aspirations and needs (both in terms of level and pace of development) on the one hand and administrative maturity and material facilities on the other,
- b. the smallness of the proportion of people available with the requisite educational preparation and administrative experience for the general expansion of governmental machinery, particularly in the sphere of industrial development,
- c. lack of a tradition of integrated functioning between the various authorities of government, which a development programme requires, with fears of incursion and overlapping of functions and authority, resulting in emphasis on vertical loyalties at the expense of horizontal contacts,
- d. lack of means of mass and group communications and contacts between the organs of government on the one hand and the public to be served on the other, coupled with lack of a tradition of working through cooperation with the people.

All these characteristics have a bearing on any programme of small industries development.

8. Beyond these general characteristics, there are several factors which determine the general set-up of public administration in a developing country. In the first place, the cultural traditions of a nation, together with its hopes and aspirations for the future, are expressed in such instruments as the national constitution, the economic development plans, the legal structure, etc., which in turn determine the dimensions and nature of governmental machinery and public institutions that it has or plans to have. The size of a country in terms of its resource endowments, area, population, etc; the state of development and the directions and pace of development foreseen or planned; the strategy of development, etc., have also their bearing on the characteristics of governmental machinery. Since all of these factors are not the same for different developing countries, it is evident that there would be considerable variety in the type and characteristics of governmental machinery needed for economic development in general and industrial development in particular. Within the framework of such variety as discussed above, it stands to reason that a programme of small industries development may require a variety of patterns of governmental machinery.

9. Some of the factors mentioned above, may be suitably illustrated in terms of their impact on administrative machinery particularly those required for industrial development. For example, a strategy of industrial development which relies more on the public sector, will require types of institutions which would be different to one which relies on the development of the private sector. The size of a country has a bearing on the question whether a single ministry of government will deal with the commerce and industry sectors together, or whether there would be specialised ministries or departments separately for internal commerce, foreign trade, large industries, small industries and mines. The size of a country has also a bearing on the need or otherwise of geographically decentralised regional or local offices of central developmental institutions or authorities. The constitution of a country and the division of subject competences between the centre and the states will determine whether these regional units will come under the administrative control of the centre or the states. The resource endowments may be such that a particular resource may require the attention of a separate ministry or authority. Petroleum is a case in point in a number of Arab countries. The stage of development of a country often determines the range of services needed to be promoted by the government. In a developed country, commercial banks

and the capital markets, together with private consultancy firms can serve the needs of industrial development, whereas in a developing country, most of these services may have to be provided by institutions set up or promoted by the government.

IV. MINISTRY WITH PRIMARY RESPONSIBILITY FOR SMALL INDUSTRY

10. Small industries development programmes have been taken up in different countries at the instance of different ministries of government and have been designed to serve different primary objectives. They are variously designed to serve the primary objectives of rural or agricultural development, community development, social or cultural development, tribal development, co-operatives development, employment creation, small-savings mobilisation, or industrial development. These objectives originate from the areas of primary concern of the ministry taking the initiative and responsibility for a programme on small industries. Each one of these arrangements has its pros and cons. A small industries development programme originating in a ministry concerned with agricultural or rural development will obviously have a bias towards industrial activities which will support or supplement agricultural development programmes or supplement employment opportunities in rural areas. In such cases, small industries development opportunities in urban areas tend to be neglected unless responsibility is given to another authority for this development. The same applies to programmes of small industries development originating in a ministry or government authority dealing with community development serving the rural areas. However, one of the reasons in such an arrangement is that one can benefit of the inter-disciplinary team provided such a team has a small industries component, and there is adequate technical back-stopping from central institutions to facilitate the effectiveness of this component.

11. A small industries development programme originating in a ministry having responsibility for social and cultural development, often tends to have a bias towards the preservation of cultural traditions and skills through the development of traditional handicraft (or art) products and/or the promotion of craft-work among women, both in modern and traditional handwork, with the objective of social uplift among women. In such programmes, normally the development of the technologically more advanced sector of small industries finds no place and responsibility for this sector may have to be given to another government

authority. The same comment applies to small industries programmes sponsored by an authority having responsibility for development of tribal areas. Such programmes have a mixture of tribal crafts development, as well as rural industries development, in as far as such small rural industries are of economic importance to the tribal areas.

12. A small industries development programme sponsored and nurtured by a ministry or government authority responsible for co-operative development, will obviously have a strong bias towards making the cooperative form of enterprise provide the answer to the problem of small industries development. Organisation of co-operatives is essentially aimed at promotion of group effort to the advantage of the economies of scale, where such economies of scale are important. But not all problems of small industries relate to economies of scale and therefore a sponsorship of a ministry dealing with co-operatives only would leave untouched quite a number of problem areas relating to small industries development unless strong links with other authorities dealing with these matters are developed.

13. An employment creation objective, or small-savings mobilisation objective, may have the sponsorship of a ministry dealing with employment, or a ministry dealing with savings and investment. The latter arrangement is rather rare, though it is not unusual to find small industries programmes sponsored by a ministry responsible for co-operative banks, which basically have this objective of small savings and investment. A programme which has a bias towards employment creation may lead (though not necessarily) to provide small industries at very low levels of technology which may not make them viable ventures and ultimately lead to the need for strong protective, subsidising and supporting measures. Whether the employment creation objective is a primary or a secondary over-riding consideration depends on a number of factors, including the rate of growth of the population and the labour force, the rate of capital formation, etc. It is not unusual for this factor to be considered at the stage when the overall economic development plan is being prepared, which determines the parameters of action, and the employment creation aspects are then taken care of by each programme ministry for their own sectors of responsibility.

14. Finally, a small industries development programme may be sponsored by a ministry or authority having responsibility for the whole of the manufacturing sector. Such an arrangement is most likely to lead to the development of programmes for both small and large industries, based on an integrated approach. However, in such an arrangement the small industries sector may be neglected, depending on the extent to which there are special sections or units within the ministry looking after small industries development, and the extent to which any overall plan of industrialisation has taken account of this sector for purposes of resource allocation. This neglect may often arise in developing countries because of the prestigious attention that modern large-scale industries development often enjoys.

15. One of the considerations which needs to be taken into account in determining the ministry to be given primary responsibility for small industries development is the subjects of competence that the personnel of a ministry generally have. If overall responsibility for policy, and for the development of central institutions for small industries is given to a ministry which does not have, nor intends to have over a period of time, the type of competence in subjects which would enable it to deal with the technological, economic and social issues in all their variety, nor be able to supervise and support the work of small-industries central organisations and institutions reporting to it, then a small industries development programme is most likely to suffer from lack of top level understanding and support and lead to frustration in the executing agencies.

16. While, on balance, advantages do seem to lie in having small industries development responsibility with a ministry dealing with industrial development as a whole, the other alternatives discussed above need not be precluded as good possibilities, provided, that the shortcomings discussed above are adequately taken care of, or it is proposed to give a heavy bias to a particular sector of small industries such as rural industries or industrial cooperatives. An arrangement in which a single ministry takes the overall responsibility for policy on small industries development and establishes central institutions for servicing the small industries programmes of other ministries, such as agriculture, rural, community, tribal or co-operatives development, may provide an answer to the problem of multiple sponsoring ministries for different sub-sectors of a small industries development programme.

V. RANGE OF TECHNICAL SERVICES NEEDED

17. Broadly, the technical services needed for small industries development can be divided into (a) regulatory measures and (b) promotional measures. The regulatory measures are necessary to ensure that the development does not take place in undesirable directions. The promotional measures are needed to catalyse a faster rate of growth. The regulatory measures may relate to :

- a. Labour Conditions : minimum standards of safety, health, remuneration, social security, etc.,
- b. Industrial Location and Zoning : in respect of noise, smoke, cleanliness, housing standards, waste disposal, etc.
- c. Trade Marks and Patents.
- d. Export and Import Control.
- e. Licensing and Registration.

18. The promotional measures needed are very varied. The measures which help in the promotional efforts may be divided into two basic groups. The first group comprises of the economic and social infrastructure development which are common requirements for the development of all sectors of the economy, i.e. general education, health and medical facilities, transport, communications, power generation and distribution, banking facilities, etc. The second group consists of those promotional measures which are specially required for small industries such as :

- a. Training Facilities,
- b. Facilities for Research, Extension and Consultancy on technology, organisation, management, products, markets, etc.,
- c. Credit Facilities,
- d. Cooperatives Development,
- e. Industrial Estates Development,
- f. Market Promotion, etc., etc..

19. . While it is obvious that a government authority having responsibility for small industries development does not take responsibility for the development of general economic and social infra-structure listed in the preceding paragraph, (though it may suggest orientation of some of these programmes to benefit small industries) the question does arise as to whether some of the regulatory measures listed above could be assigned to a developmental authority, along with responsibility for promotional measures. It is the general experience that authorities charged with regulatory measures have to work within the bounds of laws and regulations with little flexibility, in order to implement the letter and spirit of the regulations. But, authorities charged with promotional measures have to work with a constant eye on innovation, change and progress. Personnel dealing with these two spheres of government activities develop over time, attitudes which are often poles apart and therefore it is generally found necessary to keep the regulatory authorities of government separate from those charged with development and promotion. Therefore promotional authorities are generally required to develop and implement promotional measures by taking into account the contents of regulatory measures and be subject to the scrutiny of regulatory authorities. When such measures are considered to have a depressing effect on development, which may happen due to regulatory and promotional measures not having been considered in relation to each other, or due to socio-economic environment changing through time, then the question of changing the contents of regulatory measures are taken up by the promotional authority at the appropriate policy level for amendment.

20. One of the characteristics of the small industries sector is that few regulatory measures are normally applied to a large portion of this sector, particularly to the very small firms. Sometimes, this is taken to mean that very low labour conditions can be permitted. Thus industrial plans develop along with their malpractices not permitted in the large industries sector. This exclusion from regulatory measures is not meant to enable such firms to develop and function in a manner contrary to the basic objectives of these regulations, but arises largely because of the administrative and financial difficulties and cost of applying and ensuring compliance with some of these measures in view of the large number of firms involved, and their physical dispersal. It is because of this reason that responsibility for some of these regulatory measures pass on to promotional agencies and authorities to be implemented not as regulatory measures but

through incentives and promotional means. For example, minimum standards of working conditions are achieved through extension, consultancy and training assistance. Increased earnings are promoted through advice on improving performance of the enterprise. Industrial location and zoning problems solved through development of industrial estates. Registration and licensing for purposes of collection of statistics are achieved by offering them facilities of representation in collective bodies and associations and access to government supply contracts, etc. Personnel engaged in small industries promotion measures have therefore to understand the contents of regulatory measures applying to the industrial sector generally and promote them in the small industries sector even though some of these may not apply in the letter of the law to small industries.

21. Functions of planning and functions of review and evaluation of plan implementation, are essential to any development programme. There are various levels at which these responsibilities are vested and this depends on the type and system of planning activity existing in the country. Planning determines the growth targets to be achieved, which in turn determine the range and quantum of technical services that will be needed. Evaluation has therefore to be concerned with the effectiveness of the technical services in relation to the targets actually achieved. It is therefore relevant that responsibility for setting the targets and for evaluating the results achieved are established at levels higher than the implementation level, but closely involved with that level.

VI. THE ORGANISATION OF TECHNICAL SERVICES

22. One of the main characteristics of the small industries sector is that it comprises a large number of small entrepreneurs. Whereas, in the case of large scale industries and also in agriculture, the development strategy may involve direct investment, ownership and management of productive facilities by the government, all possible measures for catalysing the private large scale industrial sector if there is to be any, in the case of small industries, the main instruments for achieving and harnessing the growth are indirect ones related to stimulation of the private sector. The growth is thus induced through incentives provided by selecting the most appropriate range of services and facilities for this sector. It is in this context that the institutions for providing these services can be examined.

23. While stating the general approach to small industries development, two exceptions of government ownership may be discussed. There might be instances where a government may establish, own and manage certain productive facilities which are small, because of the smallness of the market and the sensitivity of the product in terms of its importance to the national economy. The development problems of such small units are largely different from those discussed in this paper, though at the enterprise level some of their problems do have similarities with other small industries. Secondly, there may also be instances where a government may set up and operate certain productive facilities, or purchase or sales facilities, as centralised services to groups of small industries, instead of stimulating their establishment in the co-operatives or private sectors. Such a direct investment by government is more by way of providing a technical service rather than implementation of a general policy of socialisation of production facilities.

24. When a decision is taken to give attention to the small industries sector, the first question on institutional arrangements for setting up an executive agency is whether this work shall be assigned to an existing institution or agency or shall a new one be established. In general, a larger and effective agency working in a closely related field, often has the spare resources and accumulated experience to accept and conduct a new assignment with ease, and can make the internal structural changes necessary for taking up a new area of responsibility. On the other hand, there is a possibility that an older organisation may have its hands full, or its working methods have stagnated, or that its preoccupation with its present range of functions would result in the new function being given secondary priority. Therefore, when there are no institutions or organisations working in a closely related field, or when the latter conditions mentioned above apply, the urgency of the need may dictate the establishment of a new organisation for the purpose. This choice will be more costly, but in the larger sense, the additional cost may represent true economy. At a later stage, when the drive for a new organisation arising out of the novelty of the activity, levels off, and the activity in question gets accepted as a necessary one requiring equal priority, the question of consolidation of new and old units can be considered on merits.

25. A small industries development programme requires a wide range of services, and the question of assigning responsibility to an existing institution or agency or creating a new one, need not cover all these services in one bunch but they may be considered independently in relation to the services provided by the relevant existing agencies. For example, questions of providing credit to small industries may be considered in terms of the capacity of an Industrial Development Bank to take on this additional responsibility. In some cases two institutions may be considered as alternative possibilities, such as an Industrial Development Bank and a Cooperative Central Bank for serving the credit needs of a small industries development programme. The decision often lies in deciding which of the developmental agencies have demonstrated capacity for continued administrative innovation, growth and effective performance, and the answer may lie in the calibre of leadership enjoyed by the two organisations. Similarly, the questions of research, vocational training, techno-economic and market development studies, development of entrepreneurship, development of management and supervisory personnel, development of cooperatives, etc. etc. may be considered in terms of the capacity of existing institutions working on research, training, industrial development, management training, cooperatives development, respectively. The size and other characteristics of a country (see pages 12-14) may determine the need for combining work on small industries with other areas. For example, if a country is small and its resources limited, a single industrial development agency may be entrusted responsibility for providing certain range of services to both large and small industries.

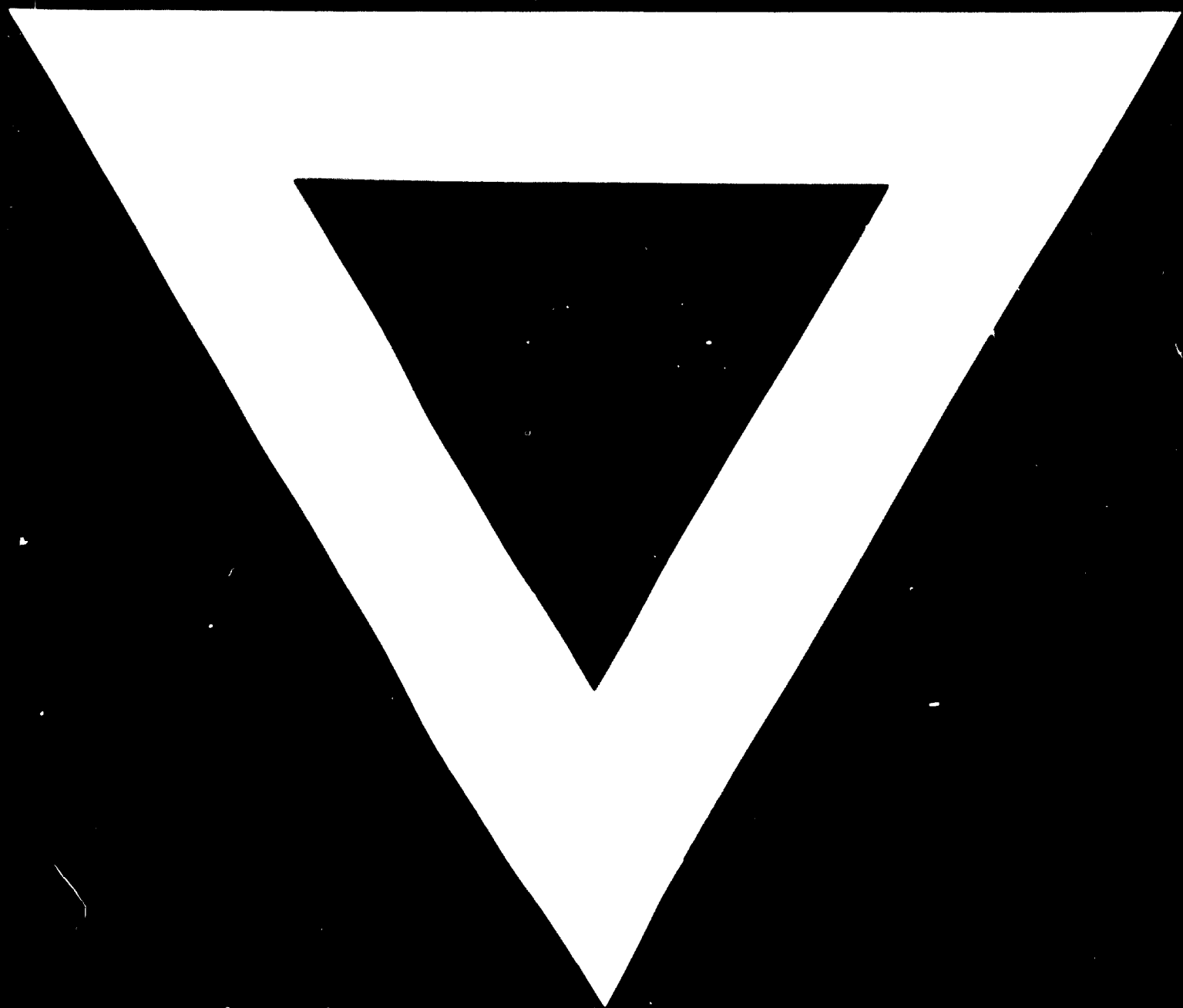
26. If after examining the alternatives of assigning responsibility in different technical services to existing institutions, and the appropriateness of such scattering of responsibility in terms of the development goals to be achieved, it is found that there is a large leftover group of services, then the question of the type of institution needed for this range of services must be considered. On the other hand, irrespective of the possibility of allocation of responsibility for certain services to other agencies, it may be found necessary to keep a large amount of responsibility to a single new institution or agency to give a public as well as concrete expression to the concept of a single integrated development sector. The other alternative would be to give to a new agency responsibility in respect of all the services needed for small industries and leave it to the agency to develop relationships with other agencies and work with them to the

extent necessary and possible. This arrangement can work without resulting in too much duplication of existing services if the leadership of the new agency can develop confidence in sister agencies of its intention to work with them without usurping or duplicating their functions. By regulating the budget for the new agency, this objective can possibly be achieved without tying down the agency with too narrow a responsibility area in its charter. One of the advantages of a single institution or agency being made responsible for the widest range of services, is that small entrepreneurs are less confused as to where to go, and thus the effectiveness of the agency increases.

27. There can be various organisational devices used for an agency entrusted with providing technical services to the small industries sector. It may take the form of a bureau, department, division, branch or section in the national or a commission, corporation, company, organisation, institution or centre, on the other hand. The former group of units are of the normal government department type (often called departmental organisation) and therefore in their working methods and systems follow those established for the traditional departments of government. The latter group of organisational devices are of the autonomous or semi-autonomous type and have a greater degree of independence and flexibility in operating practices, particularly those relating to budgeting, accounting, staffing, and so on in business, but are subject to certain central controls and assessments. Almost all credit institutions in industry such as Industrial or Co-operative Development Banks and institutions of the autonomous type or the commercial and risk-taking nature of their operations are not conducive to departmental working. However, where credit to small industries has in its terms certain features which amount to a degree of subsidy, it is not unusual to have a departmental type of organisation operating under a law relating to State Aided Industries. Where government agencies for small industries development, undertake direct commercial operations as a service to small industries, such as centralised buying, operating a marketing organisation, or running a processing unit, the institutions of the autonomous type are more adaptable for such activities. For surveys, training and consultancy activities, both the departmental and autonomous forms are used, but the latter has the advantage of having a governing or consultative body which may bring in representation from various interested parties both within the government and from outside it (including chambers and federations of industries, chambers, etc) and professional associations of engineers, trainers, etc) for the benefit of the agencies' work.

20. Development of new small industries and modernisation of existing ones involves simultaneous attention to the manpower, technological, commercial, organisational and social aspects of these industries. Any government agency or agencies entrusted with responsibility for these aspects should not only have the means to communicate with the individuals and groups it serves but the ability to obtain their cooperation, so that both the giver and the receiver are interested in what the other side has to offer. Therefore in terms of its internal organisation it must have the means, either through decentralised units or through contacts or arrangements with such units of related agencies, to keep close to the problem where it exists. Ideally, its organisation must be simple and efficient, so that it is understood, in terms of its functioning, by the people being served. Finally in terms of its own working methods and systems, it has to adopt those which enables it to function efficiently, taking into consideration the fact that, it is also an agency or institution which functions within the general shortcomings of administrative experience and maturity existing in a developing country. Moreover, not only has its own methods and systems to be efficient and simple, but it has to promote such systems in sub-units (co-operatives, associations and bodies) set up for serving the needs of small industry. For example, if it is to operate marketing arrangements for handicrafts, the question which often arises is whether it should handle the products of craftsmen on an individual and individual basis, to be sold either through a market place, or whether these should be handled on an outright purchase basis. Quite often such arrangements have gone into the former type of arrangement for avoiding the responsibility of business risks without realising the capital intensive nature of accounting and administrative work that it involves. On the other hand the latter type of arrangement can be undertaken only when a well defined system of standardisation of products, quality inspection, costing and pricing system has been established, which enables it to simplify the administrative and accounting work. Thus, the type of organisation and the methods and procedures used by it must not only be understood by the people being served, but should be efficient enough for people to want its services, and use its methods as a model for adoption. This requires, considerable administrative planning, and training of its personnel, particularly in types of activities in which little past experience or tradition exists. This comment particularly applies to extension systems and methods suited for small industries development, to business practices most suitable for small industries, and to methods of communicating and obtaining cooperation.





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