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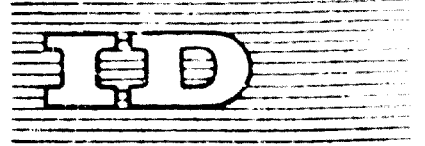
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D00723



United Nations Industrial Development Organization
Organisation for Economic Co-operation and Development -
Development Centre

Distr.
LIMITED

ID/WG.41/11
CD/PME(69)16
22 July 1969

UNIDC IN ENGLISH

Expert Group Meeting on the Role and Promotion
of Subcontracting in Industrial Development

Paris, France, 6 - 11 October 1969

UNIDC'S ACTIVITIES IN THE FIELD OF SUBCONTRACTING ^{1/}

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Introduction

The promotion of subcontracting between large industrial enterprises and medium or small enterprises for the manufacture of parts and components, or for processing or finishing operations - which is an important feature of a modern industrial economy - is one of the ways of accelerating the development and growth of modern small-scale industries and of strengthening the industrial structure in developing countries. For that reason activities in the field of subcontracting have been included in the work programme of the United Nations Industrial Development Organization (UNIDO).

These activities include the preparation of research studies, the organization of meetings and the provision of technical assistance to developing countries. Research studies are aimed at obtaining knowledge and information - based on the experience of both developed and developing countries - on the nature, extent and organization of subcontracting, and its advantages and limitations, with a view to evolving guidelines for promotion measures in developing countries. The purpose of the meetings is to pool and exchange experience and to encourage subcontracting through national and international action. Technical assistance is provided by UNIDO to some developing countries for promoting subcontracting arrangements, in particular through the establishment of subcontracting exchanges.

The purpose of the present paper is to provide a brief review of UNIDO's activities (and of its predecessors - the Division of Industrial Development of the United Nations Secretariat and the Centre for Industrial Development of the United Nations) in these three areas.

Research Studies

1. "Inter-relations between Large and Small Industrial Enterprises in Japan", by Toyoroku Ando, Consultant, Industrialization and Productivity Bulletin No. 2, United Nations Department of Economic and Social Affairs, New York, March 1959, 59.II.B.1.

A description and analysis of the relationships between the large and small industrial sectors in Japan, particularly under sub-contracting arrangements.

2. "The Dual Nature of Industrial Development in Japan", in Industrialization and Productivity Bulletin No. 3, United Nations Department of Economic and Social Affairs, New York, 64.II.B.6.

Problems of co-existence of highly capital-intensive large-scale industries and of labour-intensive, low-wage small-scale industries in Japan.

3. "Promotion of Small-scale Industries through Government Purchasing", by Kennard Weddell, Consultant, Industrialization and Productivity Bulletin No. 12, UNIDO, Vienna, July 1960, E.60.II.B.3.

This paper examines the role of government procurement programmes in stimulating the development of small-scale industries. Case studies of India and the United States provide information on the policies, programmes and methods followed in these countries. Small business subcontracting programmes are considered in this connexion.

4. "Study on Subcontracting in France and some West European Countries", by Robert Holtz, Consultant, 1966 (unpublished).

This study, commissioned by the United Nations Centre for Industrial Development, discusses technological, economic, psychological, social and legal aspects of subcontracting in France, with special reference to subcontracting exchanges and joint action among small enterprises. It considers similar experiences in Spain, Greece, Turkey and Southern Italy.

5. "The Subcontracting System in the United States of America with Particular Reference to the Role of Small-scale Industry, by H. Stuart Holden, Consultant, 1966 (unpublished).

This study, commissioned by the United Nations Centre for Industrial Development, provides information, analysis, comments and findings on subcontracting practices in the United States. It discusses the position of small-scale industry, the reasons for which large companies give out subcontracting orders, the procedures and practices used in subcontracting, the role of the United States Government, and small industry development and subcontracting in Puerto Rico.

6. "The Subcontracting System in Japan", by Saburo Okita, Consultant, 1966 (unpublished).

This study, commissioned by the United Nations Centre for Industrial Development, contains information and analysis on the definition, characteristics and development of subcontracting in Japan, the role of small business, the economic advantages and disadvantages of the system, recent developments, general regulations and measures for the protection and encouragement of subcontractors and some suggestions on the application of the system in developing countries.

7. "Development of the Subcontracting System in the Small-scale Sector in India", by J. N. Shrivastava and S.V.S. Sharma, Consultants, 1966 (unpublished).

This study, commissioned by the United Nations Centre for Industrial Development, outlines the policies and programmes for the promotion of subcontracting in India, discusses the growth of subcontracting, the types of industries, the types of parts and components which may be produced under subcontracting, and offers conclusions for developing countries.

8. "Subcontracting - Its Role in Industrial Development", ID/WG.41/2 - CD/PNE(69)11, 1969.

This research study, prepared by UNIDO for the Expert Group Meeting on the Role and Promotion of Subcontracting in Industrial Development, is based both on the aforementioned country monographs (Nos. 4 to 7) and on the general knowledge and experience of the Secretariat of UNIDO in industrial development. The study endeavours to sort out and clarify some basic problems - the definition of subcontracting, its advantages and disadvantages, the conditions and methods for promoting it, the role of the government and of private groups in organizing and regulating it. Some conclusions on the role of subcontracting in the industrialization of the developing countries are tentatively put forward.

9. "Subcontracting - An Analysis of International Experience", ID/WG.41/3 - CD/PNE(69)12, 1969.

This study, also prepared for the Expert Group Meeting, is based on a questionnaire on subcontracting sent by the Secretariat of UNIDO at the end of 1963 to forty-two developing countries. The questionnaire generated a satisfactory response - twenty-six countries provided information and evaluations of their experience. In particular, the data provided by 111 contractors and subcontractors gave insights on practices of which little had been known hitherto.

10. "Types of Subcontracting - A Review of Experience in Some Western European Countries", ID/WG.41/4 - CD/PNE(69)9, 1969.

The study, presented by the Secretariat of UNIDO as one of the papers for the Expert Group Meeting, is based on information obtained on the subject from discussions held by the UNIDO Secretariat with large and small firms and persons engaged in subcontracting and its promotion in Austria, France, the Netherlands and the United Kingdom.

11. "The Subcontract Exchange", by E. Edwards, Consultant, ID/WG.41/5 - CD/PNE(69)11, 1969.

The UNIDO Secretariat commissioned this study in 1968. It deals with the practical problems of establishing and operating a subcontracting exchange.

12. "The Role of Industrial Extension Services in the Promotion of Subcontracting", ID/WG.41/6 - CD/PNE(69)14, 1969.

This paper focuses on the important role that should be played by industrial extension services in serving as clearing houses for bringing together demand and supply for subcontracting work and in modernizing and upgrading small-scale industries to enable them to work as subcontractors. ^{1/}

13. "Industrial Co-operation Between Developed and Developing Countries for Exports".

UNIDO has started investigating the problems of industrial co-operation between developed and developing countries with a view to promoting exports of manufactures from developing countries.

The project is included in UNIDO's work programme for 1969. Its implementation will take place in two stages. In the first stage, the project will focus on problems of subcontracting, specialization, joint ventures and other forms of industrial co-operation between countries with a centrally planned economy in Eastern Europe and developing countries. On the basis of commissioned studies, consultations with experts and case studies, UNIDO will prepare an introductory paper for an Expert Working Group meeting to be held in 1970.

^{1/} The Studies under paras. 5 to 12 above will be published in 1970 in a UNIDO publication which will also include the report of the Expert Group and certain papers submitted by the Development Centre of the Organisation for Economic Co-operation and Development.

The second stage of the project will be concerned with problems of industrial co-operation between developed market economy countries and developing countries. It will be carried out along lines similar to those of the first stage of the project.

14. The future work programme of UNIDO includes the preparation of studies on ancillary industrial estates and of country surveys on subcontracting possibilities. Emphasis will be on operational projects to assist subcontracting programmes in developing countries.

Meetings and Seminars

The subject of facilitation of subcontracting between large and small industries was one of those considered in the Interregional Symposium on Technical Services and Facilities for Small-Scale Industries, organized by UNIDO in co-operation with the Government of Denmark and held in Vedbaek, Denmark, from 26 June to 3 July 1967. ^{2/}

The Expert Group Meeting on the Role and Promotion of Subcontracting in Industrial Development, jointly organized by UNIDO and the Development Centre of OECD, and to be held in Paris from 6 to 11 October 1969, will be the first comprehensive meeting on the subject. UNIDO will co-operate with the Economic Commission for Asia and the Far East in a Seminar cum Study Tour on Complementary Development of Small-Scale and Large-Scale Industries, to be organized during 1970.

UNIDO will also organize during 1970 an Expert Group Meeting on Industrial Co-operation between Developed Centrally Planned Countries of Eastern Europe and the Developing Countries for Promoting Exports (see para. 13, above).

^{2/} Report of the Interregional Symposium on Technical Services and Facilities for Small-scale Industries, Vedbaek, Denmark, 26 June to 3 July 1967, UNIDO, Document ID/CONF.2/19/Rev.1, August 1968. The report and selected papers submitted to the Symposium will be published by UNIDO in 1970 under the title Technical Services for Small-scale Industries.

Technical Co-operation

United Nations technical co-operation activities include provision of assistance to developing countries under four types of programmes. Projects financed by the United Nations Development Programme (Special Fund component) include provision of experts, award of fellowships for the national counterparts and supply of some equipment for demonstration, testing, quality control, etc., over a period of 1 to 3 years. Projects financed under the Regular Programme of Technical Assistance or under the UNDP (Technical Assistance component) include the provision of experts and/or award of fellowships for specific projects of shorter duration. Projects financed under the Special Industrial Services Programme are concerned with the provision of experts or the award of fellowships for short durations for emergency operations of a "trouble-shooting" nature, which might either solve immediate problems or generate technical assistance or Special Fund projects of longer duration.

Thus far, technical assistance operations provided exclusively for promoting subcontracting programmes have been few. However, some of the established UNDP (Special Fund component) projects in the field of small-scale industry or the establishment of industrial estates have been aimed, among other things, at stimulating the complementary development of large and small industries. As a matter of policy, provision has been made, whenever possible, in industrial estate projects, for the development of an industrial area for large-scale and medium-sized industries adjoining an industrial estate for small-scale industries. This serves not only town planning objectives, but also the development of inter-industry relations, including subcontracting between large and small industries. Further, the job descriptions of certain international experts (industrial economists or industrial engineers or industrial advisers) involved in policies, programmes and general promotion measures, or in the preparation of feasibility studies, have included surveys of subcontracting opportunities for small industries, or assistance in

promoting such subcontracting through encouragement of specialization, improvement of production processes and management techniques (cost accounting, marketing, quality control, inventory control, etc.)

There are two projects currently under execution under the programme of Special Industrial Services relating specifically to the establishment of subcontracting exchanges. One of these projects, in a developing country of Europe, calls for the services of a team of experts - a planner and a technician - to set up a subcontracting exchange in each of two important cities, under the auspices of the local Chamber of Commerce and Industry. The operation, of a total duration of nine weeks, is phased into two visits. During the first visit the team will prepare a plan of organization and development of each exchange, advise on administrative and operational requirements and estimate investment and operational costs and charges for the services. The second visit, which will take place five or six months after the establishment of the exchanges, will provide guidance to the national managers and technicians in the operation of the projects.

The second project, in a large Asian country, calls for the services of one expert only - a technician - since consultations on the general planning and organization of subcontracting exchanges were already held at an earlier date with an expert provided under a bilateral technical co-operation programme. The purpose of the mission is to set up, in a four-month period, two exchanges in two major cities. The expert's terms of reference are to prepare a plan of organization, development and financing of the two exchanges, determine personnel and equipment requirements, the modus operandi of the exchanges and estimate costs and charges. He will also train national counterparts for each exchange, who will take over its establishment and operation, and who will, if need be, set up exchanges in other towns. A second visit is not scheduled since a whole

network of industrial extension centres exists in the country, with competent technicians able to manage the facilities, once these are established.

In both operations, a prior obligation agreed upon by each Government was that preliminary surveys of suitable small-scale industries, listing their equipment, capacity, specialization etc. would be undertaken before the arrival of the experts, to facilitate their task. In the short period of the missions, the experts would not be expected to carry out such surveys, nor to draw up lists of parts, components or operations lending themselves to subcontracting. These tasks were to be undertaken - and later on continued - by national personnel, but the registration and classification problems involved, and the methods of operation of the exchanges were to be solved and determined with the assistance of the experts.

Job descriptions for these expert assignments are included in Annexes I and II.

While future projects for technical co-operation in the field of subcontracting will be guided by the conclusions of the Expert Group Meeting on the Role and Promotion of Subcontracting in Industrial Development, it is envisaged that such projects would include assistance to developing countries in conducting surveys of subcontracting possibilities, in organizational and operational arrangements for establishing subcontracting exchanges or registers in existing industrial extension services or industrial associations, in provision of direct technical or managerial assistance to subcontractors, and in training of nationals, in particular of industrial extension officers, through award of United Nations fellowships for undertaking study tours of subcontracting exchanges in developed countries.

Annex I

SPECIAL INDUSTRIAL SERVICES

Establishment of Subcontracting Exchanges

JOB DESCRIPTION - 1

POST TITLE Expert on subcontracting exchanges (planning and organization)

DURATION Initial visit of six weeks followed by further visit of three weeks five or six months later

DATE REQUIRED As soon as possible

DUTIES In co-operation with a technical expert in the operation of subcontracting exchanges, the expert will advise the Government and the Chamber of Commerce and Industry on the establishment of subcontracting exchanges in two major cities of the country. In particular, he will:

- prepare a plan of organization and development of each exchange, including collection of information on types of product, machinery and equipment, specializations etc., of small-scale industries in each area, and on the methods and procedures for bringing together demand and supply under subcontracting arrangements;
- advise on the administrative and operational requirements of each exchange including staff, equipment, supplies and furnishings;
- estimate investment and operational costs and charges for the services.

QUALIFICATIONS High-level expert in the planning and organization of subcontracting exchanges and programmes of development of small-scale industries.

**BACKGROUND
INFORMATION**

With a view to encouraging the establishment of complementary and mutually-supporting relationships between large-scale and small-scale industries, the Government intends to develop a network of subcontracting exchanges in the country. The first exchanges will be set up in two major cities. Preliminary operations, in particular surveys of small-scale industries in the two areas, have been carried out. The organization and establishment of the two exchanges are hampered by lack of technical expertise and assistance is requested from the United Nations, under its Programme of Special Industrial Services, to permit the implementation of the project. The operation, to be carried out by a team of two experts, is phased in two stages, the first to plan the project and the second to provide guidance to the national managers and technicians in the early operation of the project.

SPECIAL INDUSTRIAL SERVICES

Establishment of Subcontracting Exchanges

JOB DESCRIPTION - 2

POST TITLE	Expert on subcontracting exchanges (technician)
DURATION	Initial visit of six weeks followed by a further visit of three weeks five or six months later
DATE REQUIRED	As soon as possible
DUTIES	In co-operation with an organizer of subcontracting exchanges, the expert will advise the Government and the Chamber of Commerce and Industry on the establishment of subcontracting exchanges in two major cities of the country. In particular he will assist in preparing a plan of organization and development of each exchange, defining the administrative and operational requirements and estimating costs and charges.

QUALIFICATIONS

Technician (engineer or administrator) familiar with the operation of subcontracting exchanges.

**BACKGROUND
INFORMATION**

With a view to encouraging the establishment of complementary and mutually-supporting relationships between large-scale and small-scale industries, the Government intends to develop a network of subcontracting exchanges in the country. The first exchanges will be set up in two major cities. Preliminary operations, in particular surveys of small-scale industries in the two areas, have been carried out. The organization and establishment of the two exchanges are hampered by lack of technical expertise and assistance is requested from the United Nations, under its Programme of Special Industrial Services, to permit the implementation of the project. The operation, to be carried out by a team of two experts, is phased in two stages, the first to plan the project and the second to provide guidance to the national managers and technicians in the early operation of the project.

Annex II

SPECIAL INDUSTRIAL SERVICES

Establishment of Subcontracting Exchanges

JOB DESCRIPTION

POST TITLE	Expert on subcontracting exchanges (technician)
DURATION	Four months
DATE REQUIRED	As soon as possible
DUTIES	<p>The expert will advise the Government on the establishment of subcontracting exchanges in two major cities of the country.</p> <p>In the course of his visit, he will prepare a plan of organization, development and financing for each exchange, determine personnel and equipment requirements, the modus operandi of the exchanges, in particular the methods for collecting and classifying data and the servicing techniques, and estimate costs and charges. He will also train national counterparts for each exchange, who will take over its establishment and operation.</p>
QUALIFICATIONS	Engineer, economist or administrator familiar with the technical problems of establishing and operating a subcontracting exchange.
BACKGROUND INFORMATION	<p>The promotion of ancillary relationships between small-scale and large-scale enterprises (subcontracting is one of the major programmes of small industry development carried out in the country. The Government has listed a number of industrial branches in which provision of parts, components, sub-assemblies and store items by small industries to large firms is to be encouraged. Ancillary small industries may have a higher investment in fixed capital than other small-scale industries and may still be entitled to supply of machinery on hire-purchase, special credit facilities, technical assistance, accommodation in industrial estates, etc. Ancillary industry officers attached to the industrial extension centres visit both large and small factories and try to bring about sub-</p>





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