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ACTIVITIES OF THE CHILEAN TECHNICAL CO-OPERATION SERVICE (SCT)  
IN THE FIELD OF SUBCONTRACTING<sup>1/</sup>

submitted by

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<sup>1/</sup> The views and opinions expressed in this paper are those of the author and do not necessarily reflect the views of the secretariat of UNIDO.



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## I. INTRODUCTION

The Technical Co-operation Service (SCT), which is a subsidiary of the Chilean Development Corporation (CORFO), is working out a subcontracting programme intended to increase the supply of and demand for parts, components, tools and services throughout the industrial sector by means of special complementary relationships with enterprises in general, whether they are large, medium-sized or small-scale, co-operatives, etc.

When it is remembered that subcontracting already exists in the country and that at the same time an effort is being made by some major industries to promote their own suppliers, it will be seen that it is essential to nationalize subcontracting, since this is one of the factors that will help to promote satisfactory industrial development in our country with regard to costs, quality and facility of operation. To achieve this objective it has been considered desirable to organize and open subcontracting exchanges similar to those existing in France, Belgium, Spain and other countries.

## II. WORK DONE

Since the establishment proper of this programme in June 1967, background research work has been done for the purpose of establishing a subcontracting exchange at Santiago, and at the same time specific subcontracting transactions have been concluded between contracting industries and subcontractors. This work has been carried on by three operational engineers, including the chief of the unit concerned.

The following are the basic stages in the process of bringing about subcontracting arrangements:

- (a) Receipt of the request for subcontracting, analysis of the work to be done, and supplementation of the background information with the relevant specifications.
- (b) Selection of possible subcontracting firms (in answer to orders) for the transaction in question, using the relevant records and taking into consideration also any specific information available on each firm. Later, confirmation by personal visit or telephone as to whether the firms have the necessary capacity and available time and are interested in participating in the work requested.

(c) Communication to the contracting enterprise (that wishing to place the order) of the results obtained so that this enterprise can take a decision regarding the firms proposed for the execution of the work. This stage includes the necessary contacts between the interested parties.

(d) Decision by the contracting enterprise with regard to the subcontracting transaction under consideration, leading to cancellation if there is no agreement between the parties or suitable action if the contracting enterprise has placed the order with one or more of the subcontracting firms suggested.

(e) In the event of a positive decision, follow-up activity on the process of manufacture, including any advice that it is considered desirable to give, directly or in co-ordination with other departments of the SCT, to the firm obtaining the work order, with the object of avoiding the occurrence of any problems.

(f) The case is considered closed when the work requested has been satisfactorily completed or if it is felt that follow-up activity need not be continued because the execution of the order does not present any difficulties.

From June 1967 to 31 December 1968, 124 subcontracting cases were considered in the manner described. These corresponded to requests from 47 different contracting enterprises, of which 32 were medium-sized and large-scale (68.1 per cent), and the possibility of taking on the work was given to 104 different subcontracting firms; of the latter 81 were small-scale enterprises (77.9 per cent).

Forty different work orders were granted to 29 enterprises among the subcontracting firms contacted, the value of such work totalling 1,889,548 escudos.

The following tables give data on the subcontracting work carried out in the period indicated above:

OPERATIONS ACCORDING TO THE BRANCH TO WHICH THE  
 CONTRACTING ENTERPRISE BELONGED

Branch	Initial percentage	Current percentage	TOTAL	%
Electronics industries	50,000	60	1,000	10.00
Textile industries	1,000	100,000	1,000	10.00
Industries not included in the above branches (automobiles, household articles, etc.)	244,511	17,021	611,350	30.35
TOTALS	1,219,470	669,678	1,889,148	
	% 94.96	% 35.44	100	100

OPERATIONS ACCORDING TO THE BRANCH TO WHICH THE  
SUBCONTRACTING ENTERPRISE BELONGED

Manufacturing branch	Initial requests E <sup>0</sup>	Recurrent requests E <sup>0</sup>	TOTAL E <sup>0</sup>	%
Wood products	337,500	571,878	909,378	48.13
Work using various machine tools	127,446	12,894	445,450	23.63
Metal punching and stamping	249,915	12,990	262,805	13.91
Dies and mechanical devices	59,845	47,650	107,495	5.69
Springs, etc.	70,320	15,900	85,220	4.54
Leather goods	59,800	-	59,800	3.15
Miscellaneous (forging, electrodeposition, plastics, foundries, etc.)	13,344	2,566	17,710	0.94
TOTALS	E <sup>0</sup> 1,219,870	601,878	1,821,548	100

It is possible that the amounts indicated for recurrent requests may have been appreciably greater than those found on verification, but in fact what was of primary interest in this work was not the value of the transactions in escudos but the establishment of initial contacts between the contractors and possible suppliers, subsequent operations being the responsibility of those directly concerned.



### III. SUBCONTRACTING EXCHANGE

On the basis of the information gathered during the phase indicated above and the experience obtained in handling the various cases studied, a project was worked out for the organization and opening of a subcontracting exchange.

This project, which has now been completed, was worked out by the SCT with the collaboration of ILO experts under an agreement between the ILO and the Chilean Government, and was revised by Mr. Jacques Leonard, a French ILO expert, during a stay of about twenty days in our country in March 1961.

The following basic principles were followed in the establishment of this subcontracting exchange:

It is a private and autonomous body, with its own statutes and regulations; it will be managed and directed by a Board consisting of industrialists elected by the general meeting of members.

It is a non-profit body.

Its activities are exclusively limited to rendering a service, so that it does not hamper free competition.

It is a purely technical body that does not intervene in any way in commercial matters or act as an intermediary.

It does not draw a commission from the contractor or from the sub-contractor.

### IV. CHARACTERISTICS OF CHILEAN INDUSTRIAL ASSOCIATIONS

Attention may be drawn to some characteristics of the Chilean industrial associations that are relevant to the possibility of their participation in the subcontracting exchange.

In the first place there is no single association including all the enterprises in Santiago or throughout the country, but there are many such associations incorporating enterprises at various levels and in various branches of manufacturing.

Secondly, each one has a marked individualistic character, which clearly militates against joint action with regard to problems of a general nature.

Finally, almost every one of them has a great interest in the establishment of a subcontracting exchange for its members.

#### V. OPENING A SUBCONTRACTING EXCHANGE

Taking into consideration the basic principles of the subcontracting exchange and the observations in the above section, the SCT has analysed the situation and arrived at the following conclusions:

- (a) The exchange should be jointly sponsored by all the industrial associations so as to ensure a common approach.
- (b) The associations should be sponsors only and thus should withdraw from posts on the Board after the establishment of the exchange.
- (c) The SCT should support the associations in the initial stage, facilitating financing, and providing a temporary manager and the necessary staff for the exchange. It should also give any assistance called for to enable industrialists duly to meet the requirements of the exchange.
- (d) In view of the existence of various associations in the area (Santiago), four of these have been selected to begin the implementation of the project, the others to be included when and as considered convenient.

Accordingly, on 28 April 1969 an organizing committee was set up, consisting of two representatives of each of the associations and of the SCT, with the object of opening the Santiago de Chile Subcontracting Exchange.

This committee consists of the following associations:

The Corporation of Proprietors of Medium-sized and Small-scale Metallurgical Industries = CORMETAL

The Chilean Association of Medium-sized and Small-scale Industry = AMPICH

The Association of Proprietors of Medium-sized and Small-scale Industrial Enterprises and Artisans of Quinta Normal = ASIQUINTA

The Association of Proprietors of Automobile Workshops = AITA

The activities of the Exchange began with a promotion campaign among contracting enterprises (mainly large-scale and medium-sized enterprises) and with visits to subcontracting enterprises to verify their qualifications for joining the Exchange.

It is estimated that at the end of September 1969 the Exchange will have enough members (about forty) to hold a general meeting and elect the Board of Directors, so that it will be able to begin providing the services for which it was established.

The following items are appended to give more of an idea of this project:

Final draft of the statute of the Exchange

Provisional financing

Application for membership

Forms for obtaining data from enterprises

Forms for subcontracting procedure.



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