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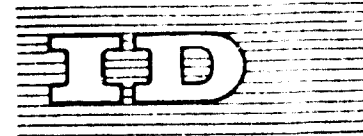
PROBLEMS AND POSSIBILITIES OF SMALL-SCALE INDUSTRY EXTENSION
AND DEVELOPMENT FINANCE WITH SPECIAL REFERENCE TO THE SITUATION
IN EAST AFRICA ^{1/}

by

Franz C. Helm
Industrial Economist

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PROBLEMS AND POSSIBILITIES OF SMALL-SCALE INDUSTRY EXTENSION AND
DEVELOPMENT IN AFRICA WITH SPECIAL REFERENCE TO THE SITUATION IN EAST AFRICA

Introduction

Terms of Reference

1. The author was requested on 15 August 1969 by the Small-scale Industry Section of the United Nations Industrial Development Organization (UNIDO), Vienna, Austria, to carry out a survey in the East African sub-region and subsequently to prepare a report on problems of establishing and strengthening industrial extension centres and financing facilities for small-scale industries with special reference to the measures required for linking technical assistance with financial measures. The paper is to be submitted to a Training Workshop on extension services for small-scale industries planned by UNIDO for this region in June 1970.
2. Under the terms of the contract the author had the opportunity to pay a short visit to each of the following five countries in the region: Ethiopia, Kenya, Malawi, Tanzania and Uganda, in order to study on the spot the respective development policies in connexion with small-scale industry promotion and the institutional arrangements established for their implementation as well as their planned future expansion.

Scope

3. In order to establish the general concept the paper outlines in its first part the approach to assistance in the small-scale industry field, the promotional measures to be applied and the possible difficulties to be encountered. Special reference is made to the aspects of development finance and integrated systems of promotion.
4. The second part gives an account of the actual situation in the countries visited regarding government policy towards small-scale industry development and of the existing extension service centres and financial institutions.

5. In a third part an attempt is made to analyse and evaluate this situation and to put forward some recommendations concerning the future development of assistance efforts.
6. Even though this paper in its second and third parts is concerned with the countries visited, it is thought that its findings and conclusions are fairly representative of the region as a whole.

General Background

7. In industrialized as well as in developing countries the small-scale industry sector represents an important part of the total industrial structure. The reason for its continuing importance must be seen in a whole complex of factors, among which the more important ones are:
 - (i) limitations in the demand structure of the market which make large-scale production not economically viable; these limitations may be due to a limited local demand for a product combined with the lack of an adequate outside supply;
 - (ii) production to order or in small quantities which limits the degree of mechanization of the production process;
 - (iii) limitations in the local supply of raw materials which, because of low transport value or perishability, must be processed on the spot.
 - (iv) the policy of some larger firms, especially in the assembly type production, to farm out the production of some components by subcontracting small-scale industries in order to transfer risks and lower the proportion of fixed costs in the end product and/or to use a certain specialized technical knowledge of the subcontractor;
 - (v) the sometimes more favourable cost structure of smaller enterprises, especially in respect of overheads but often also regarding labour costs ^{1/}, which may enable them to offer their products at low prices;

^{1/} Due to size as well as to location there can be a notable wage gap between large-scale and small-scale industries.

(vi) the often greater flexibility of the small industrial enterprise in its production planning which due to a usually lesser degree of mechanization and automatization makes it easier to adapt to sudden changes in the demand and thus react with greater speed to market chances;

(vii) the difficulties of transporting services over larger distances, which usually constitutes a limiting factor in the size of service industries.

Thus, small-scale industry is in many respects a complementary rather than a directly competing factor to other industrial sectors.

8. On the other hand, the reduced size of the small enterprise makes it to a much higher degree subject to failure than larger industries. The cause is usually the inherent weakness of management or the lack of sufficient technical knowledge on the production side. This factor is even more pronounced in developing countries where consequently the small-scale industry sector is greatly dependent on promotion and support for its development.

9. It is usually in the special interest of the governments in these countries to give this assistance. The formation of small-scale industries is not only necessary to achieve a balanced economic development but also often considered desirable for social reasons, as it can render a certain stabilizing effect by its influence on the distribution of income and on the creation of a middle-class. In addition, small-scale industry production frequently means import substitution and thus saving of foreign currency.

10. On the other hand, the urgency of development does not permit the waste of scarce resources on a trial and error basis. In addition, a high rate of failure in the small-scale industry sector is bound to have a negative effect on the promotion of entrepreneurship in the country as a whole.

I. THE APPROACH TO SMALL-SCALE INDUSTRY DEVELOPMENT

The Basic Framework of Assistance

11. Apart from the general economic situation of a country the development of small-scale industries depends to a large degree on the quality and quantity of promotional facilities available to stimulate its growth and augment its efficiency and productivity.
12. Generally facilities of this kind may be divided into two principal categories: extension services and financial support.
13. The former category comprises (a) consultancy and advisory services in all aspects of industrial engineering, business administration and marketing, (b) management training and, especially, the promotion of new or potential entrepreneurs, (c) research and investigation in economic and technical fields and the subsequent feedback of information to the industrialists of the sector, (d) technical services in the elaboration of designs, dies, tools, etc., and (e) commercial services in marketing and supply.
14. Financial support includes the provision of (a) working and fixed capital at terms and conditions favourable to the development of the sector and (b) credit substitutes reducing the required capital investment in small-scale production by making capital goods available on rental terms.
15. Some of these services are needed at nearly all stages of the development of an industrial enterprise. In the individual case, they can have two basic objectives:
 - (i) The encouragement and assistance to promoters in the formation of new industrial ventures or in the expansion of existing production units and the development of new products. Consequently this project-based assistance may include several or all of the following activities:

- At the planning or pre-investment stage, the formulation and screening of a project, sizing up its various aspects and evaluating its economic and technical feasibility with the focus on the adequacy of the proposed production process, the management potential of the promoter, the market situation and the over-all profitability.

As a first step it may also require the actual "selling" of the project to a potential promoter if the idea for the venture was developed and put forward by the promoting institution itself.

- During the implementation of a project, assistance in: raising the required capital; selecting machinery and equipment and, possibly, negotiating with the suppliers; planning the plant layout and supervising the construction of the plant and the installation of machinery, especially with a view to avoiding unnecessary delays in the realization of the project; carrying out trial runs; in-plant training of personnel; organization of the administrative process and establishing distribution channels; etc.

- At the post-investment or follow-up stage, the protection of the invested capital not only by the mere control of the proper utilization of borrowed funds and their subsequent recovery, but by actively supporting the management in achieving its entrepreneurial goals and, in particular, contributing to the solution of any problems arising from unforeseen changes in the data and assumptions on which the prior evaluation of the project was based.

In a few cases this type of assistance may even include the provision of a co-manager during the critical take-off phase.

(ii) The improvement of profitability and output of industrial production units already in operation. Services of this kind have usually a temporary and sporadic character though in some cases a more permanent relationship may be achieved, the extension service centre becoming a regular advisor to the management. The activities involved comprise generally two steps:

- a total or partial "diagnosis" of the firm's operations analysing their efficiency and viability, often including a prognosis of expected future development, and subsequent recommendations for the solution of any existing problems.

The initial analysis serves frequently as a convenient opening to gain access to the enterprise. As such it is a typical first step of promotional campaigns.

- assistance in the implementation of the suggested changes, as for instance, modernization, reorganization, etc.

16. An important problem in the implementation of small-scale industry assistance programmes is the development and application of techniques which are simple and quick to use without losing too much of their impact and effectiveness. Even though the process of technical assistance is basically the same as applied to larger industries, the particular situation of the small-scale sector makes it imperative to keep the actual costs of services as low as possible.

17. In addition to the direct assistance measures, there are a variety of preparatory and supplementary activities which may not always have an immediate effect on any specific project or enterprise but which provide the necessary basis for the other promotional measures:

- (i) research and investigation concerning the problems of the small-scale industry sector, especially the preparation of surveys, the collection and evaluation of statistical data and other information, the identification of development possibilities and the elaboration of industrial fact sheets and model schemes for potential investors;

(ii) the dissemination of information on questions of interest to promoters and small entrepreneurs, including the establishment of a reference library and a documentation centre from which specialized information can readily be made available;

(iii) training programs in the management of small industrial concerns aimed at actual entrepreneurs or at groups that might produce new entrepreneurial talent.

17. In the individual case, the type and the degree of assistance required depends very much on the background and experience of the entrepreneur and the type and volume of production carried out or proposed. It is, however, rare that the request for assistance is presented directly by the small industrialist. In most cases, he is not very conscious of his needs in this respect and thus the greater part of demand for assistance remains latent unless stimulated by an aggressive programme of promotion.

18. The design of an effective assistance programme will require the prior estimation of this demand on a countrywide basis, surveying the actual development of small-scale industry and its future growth prospects. For this purpose a mere quantitative assessment will not suffice. The focus of such a survey has to be equally on the evaluation of qualitative aspects such as productivity, product quality standards, capital structure, etc., of enterprises in this sector.

19. Whatever type of assistance is given to the small-scale industry sector in developing countries, they all have as a common feature the need for substantial subsidies from government sources.

20. The individual promoter or firm, especially in the initial stage, will rarely be able to absorb the full costs of service rendered. If services are not provided altogether free - a policy that easily invites abuse of service facilities - the extension centres work normally on a nominal fee basis or they cover only direct costs like per diem and travel expenses of the advisory staff. In some instances, especially where established industrial enterprises are concerned, a policy of charging

"what the traffic will bear" with fees ranging between a nominal amount and the full normal consultancy rates, has brought good results though it may sometimes create the tendency to concentrate only on more lucrative assignments as a negative side effect.

22. The dependency on government subsidies has limited the institutional organization of assistance efforts to three main forms:

- (i) a specialized department within the national or regional government;
- (ii) a semi-autonomous, parastatal institution functioning under the control of a development bank or the ministry in charge of industrial development;
- (iii) a fully autonomous institute equipped with its own budget and responsible to a board of directors jointly delegated or elected from government, industry and related sectors.

23. The form to be chosen depends on the degree to which the government wants to maintain a direct influence over the development of the small-scale industry sector. The practical advantages, however, are on the side of a more autonomous organization which permits a less bureaucratic and more businesslike approach to assistance. In addition, institutions of this kind are usually able to attract better staff not being tied to the restricting factor of government wage scales.

24. Regarding the scope of its work, the promotional institution may either be specialized exclusively in the small-scale industry field, include other sectors in its assistance like retailing, handicraft and similar forms of small enterprises, or be part of a general industrial development organization. As the supporting services required are largely the same the latter is often the more economical solution.

Some Aspects of Development Finance

25. Promotional measures in the field of small-scale industry finance have assumed special importance in developing countries since the possibilities for the small entrepreneur of using two of the more basic methods of financing, i.e. self-financing and institutional credit, are rather restricted.

26. On the average, the capital owned in this sector is minimal whilst low profit margins prevent the accumulation of any substantial reserves. Thus, the small industrialist has usually very little to fall back on and is largely dependent on external sources of credit to finance any modernization or expansion of his production facilities or to cover any emergencies.

27. Commercial banks, however, are inclined to be wary of loan requests from small-scale industrial enterprises. Investments of this type are usually considered to be high risks. In this respect, the inherent weakness of this sector, i.e. inexperienced management and deficient capital structure, proves to be a rather decisive and impeding factor. In addition, in banking, administrative cost per monetary unit invested tend to rise nearly proportionally to the decrease of the loan total. Consequently banks have a natural preference for larger investments within the limits of a reasonable credit mix. This policy will be even more pronounced in countries where capital is in short supply, thus providing few incentives for banks to look for additional investment possibilities in less attractive fields.

28. But even in the case that a bank should be willing to consider the individual application the entrepreneur still may fail to get the loan approved due to his inability to obtain and prepare the data normally required for the processing of the loan by the lending institutions.

29. Apart from the difficulties in securing institutional credit, the short-term and usually self-liquidating nature of most commercial loans, their relatively high rate of interest and their high requirements for first-class collateral security which may go up to 20% per cent of the value of the advance, make them largely inadequate as an instrument of promotion.

30. The remaining sources of credit, i.e. friends, relatives, private money-lenders and trade credits extended by suppliers are either insufficient or prohibitive by the terms imposed.
31. In order to fill the gap created by this unsatisfactory access of the small industrialist to credit facilities other ways and means have to be found to channel sufficient and timely finance to promoters and entrepreneurs in the small-scale industry sector. The usual approach is the creation of a specialized finance institute or of a corresponding section in a development bank or corporation. This institution is then provided with budget allocations to be used in form of a revolving fund for small-scale industry loans; additionally, it may be entitled to borrow on the capital market. As an alternative or a supplement, the government can establish a system of incentives to encourage other finance institutes to become active in this sphere.
32. The principal need for financial assistance exists usually in the field of medium-term loans (1 to 3 years) or corresponding hire-purchase schemes^{2/}, as well as short-term lending facilities to bridge temporary gaps in the working capital. To a great part these funds will have to have the character of soft loan schemes combining a low rate of interest with long maturity and a minimum of collateral requirements, as well as a low proportion of expected margin or earnest money, i. e. own capital contribution of the borrowing entrepreneur. Some schemes for project-based finance and hire-purchase go as low as requiring only a minimum participation of 10 to 20 per cent.
33. A special promotional effect can be expected from schemes providing equity finance or corresponding substitutes, i.e. long-term loans with low or no collateral security requirements and a period of grace over several years before repayment starts. This measure which has found fairly widespread application in large-scale industry finance will usually remain limited to selected pilot projects in the small-scale sector due

^{2/} For the purchase of machinery and equipment the entrepreneur is usually expected to contribute 20 to 25 per cent earnest money and the item purchased remains collateral security until full payment is effected. The period of repayment fluctuates according to the type of equipment from 18 months to 7 years.

to the fact that the principal sources for equity finance are not easily approached on this matter:

(i) the promoters, because the importance of the individual small-scale industry project for the development of the country is much more difficult to establish than in the large-scale sector;

(ii) foreign investors, because of the obvious risks involved and the high costs of control compared to the investment total.

34. As a supplementary measure, leasing schemes can be used to substitute direct credit. These schemes are usually confined to the renting of workshop space, though in some cases they have been extended to cover also machinery and equipment. As long as the leasing is limited to standard units which are easily convertible or universally applicable, the risk remains comparatively low. It means, however, a considerable long-term capital investment on the side of the promoting institution.

The Integration of Assistance Efforts

35. In order to achieve a maximum impact from promotional measures it should be a predominant concern in the design of any programme aimed at small-scale industry development to find ways and means to assure a high degree of integration between technical and financial assistance.

36. The importance of this mutual reinforcement becomes evident in the interdependence of both measures, for instance:

- the realization of projects for new industries and for expansion depends on the availability of capital resources;
- many technical recommendations concerning, for example, the modernization of the production process, the general increase of productivity, the improvement of product quality, the establishment of new distribution systems, etc. will remain largely academic if not backed by financial support, as they nearly invariably require

additional capital investment in the affected area. These financial implications usually form an integral part of the analysis carried out by an extension service centre;

- similarly, development credit, especially in the small-scale industry sector, is bound to carry an disproportionately high risk unless accompanied and supplemented by technical assistance in all its phases; such assistance would limit the actual risk by improving the prior analysis of loan applications, by obtaining data from the enterprise and by facilitating supervision once the loan has been granted. The experience in many countries has shown that especially soft loans without this technical assistance and supervision tend to have a negative effect, promoting waste rather than development.

37. There are two alternatives to implement integration of promotional measures:

(i) by institutional unification centralizing finance and extension functions in one small-scale industry development organization, as for example in banks that have built up their own extension service, especially if this service is not only confined to clients;

(ii) by establishing a link-up system which provides for the collaboration of finance institutes with extension service centres under a formal agreement and along determined lines; for instance, lending institutions may lower their security requirements for loans approved and supervised by extension service centres, or the granting of soft loans may be tied to the endorsement of an extension institution.

38. In most cases the complete centralization of promotional measures would require setting up a new institute or expanding considerably existing facilities, an expensive step which furthermore could frequently entail duplication of functions of other institutes which due to their wider scope of work or differing concept would not fit into this new structure. It is, for instance, often economically and organizationally difficult to incorporate a technical assistance section of any size in a banking institution.

39. A link-up system making full use of the given institutional arrangement by co-ordinating their efforts is generally a more practical and economical approach. Furthermore, it is generally not desirable to divorce small-scale industry extension centres completely from institutes working in other industrial fields since complementarity is favoured by a close relationship between these sectors.

40. A problem that may arise in the implementation of a link-up system is that the institutions required to collaborate can differ considerably in background, organization, aims and strategy, all obstacles rendering more difficult the co-ordination of efforts. On occasion, there may also be a certain amount of professional jealousy to overcome. Problems of this kind are already apparent where two institutions depend upon different government departments, but become even more pronounced in the case of institutions which due to their private or autonomous status are withdrawn from direct government influence. In these instances the proper strategy and the right incentives have to be found to achieve the necessary collaboration.

41. A valuable basis for the integration of assistance to small-scale industries is provided by those programmes which from the outset include complementary financial and extension measures, for example:

- supervised credit schemes in which collateral security is substituted by intensive technical assistance;
- hire-purchase schemes that include provision of extension services;
- new entrepreneurship schemes aimed at setting up potential small industrialists in business by far-reaching financial support and technical supervision;
- industrial estate and workshop schemes in which permanent assistance in technical and financial fields are further supplemented by a system of leasing and by common services in certain spheres.

The often high additional costs of such programmes can be justified in the sense that they provide a promotional instrument of considerable effectiveness for the development of small-scale industry in developing countries.

42. In a wider sense, the effort to integrate assistance to small-scale industries cannot be confined only to the aspects of finance and direct extension services but should extend also to related fields such as research, vocational training, etc. In general, the extension service centre will have to act as a liaison office in this respect formulating the specific needs of the small-scale sector and trying to gain the participation of the respective institutions in the solution of these problems.

II. SMALL-SCALE INDUSTRY PROMOTION IN EAST AFRICA

Definition of small-scale industry

43. In order to formulate a strategy for small-scale industry development drawing up boundaries with other industrial sectors it is necessary to define the types of enterprises that would fall under this category.

44. There is no definition of general acceptance in East Africa. The resolution passed by the ninth Session of the Economic Commission for Africa (ECA) to adopt an upper limit in capital investment of US Dollars 50,000 as a definition of small-scale industries in Africa has so far remained without tangible effect on the national planning level or the computation of the relevant statistics.

45. Current definitions of the term "small-scale industry" used in East African countries use both capital investment and employed labour as criteria ^{3/}; for instance:

- in Kenya, a maximum of 20 employees and a capital investment not exceeding EAShs. 400,000 (about US Dollars 57,000);
- in Malawi, a maximum of 20 employees (tentative definition);
- in Tanzania, between 10 and 70 employees and a maximum capital investment of EAShs. 600,000 (about US Dollars 85,000);
- in Uganda, a capital investment not exceeding EAShs. 700,000 (about US Dollars 100,000).

In the context of these definitions the term "industry" is usually applied in a fairly wide sense, i.e. not only restricted to manufacturing enterprises but including more often than not service industries and artisan type production.

46. Equal flexibility has been adopted by most development institutions. The tendency is to remain open in this direction in order not to exclude th

^{3/} A recent ECA publication "Small-scale Industries in Africa" (Addis Ababa January 1969) attempts to give an additional criteria in terms of capital investment per worker. It suggests that for conditions in Africa an investment of US Dollars 1,000 per worker would define the upper limit of the small-scale industry level.

micro-industrialist who may have the potential to rise, with the help of adequate assistance, to a higher level.

47. In any case, current definitions cannot and should not be considered to be static. With increasing industrial growth and structural changes, periodic reassessments will be inevitable. In this sense, a definition of the small-scale industry sector has to be a guideline of temporary importance rather than an attempt at dogmatic classification.

The Development of Small-scale Industries in the Region

48. Industrialization is a fairly recent feature in the development of East Africa which has gained a certain impetus only within the last decade. Lack of adequate statistical information makes it difficult to quantify the part which the small-scale industry sector has taken in this development. In a regional survey of the sector ^{4/} the Economic Commission for Africa has estimated that about 90 per cent of all manufacturing enterprises are in the small-scale industry category though they probably account for only about 30 per cent of the total employment in industry and for about 25 to 30 per cent of the respective gross output. This situation corresponds in general terms to the pyramidal structure of the industrial sector found in more or less all countries outside the centrally planned economies.

49. A predominant feature in all East African countries with the possible exception of Ethiopia ^{5/} is the nearly total absence of the indigenous entrepreneur. Industry and trade are largely dominated by immigrants. This situation is principally due to the following factors:

- (i) During the colonial administration the equality of chances between the indigenous population and immigrants was not always assured.
- (ii) Lacking industrial tradition and technical training the indigenous entrepreneur was ill-equipped to compete with the greater business acumen and technical competence of the immigrants.

^{4/} ECA Publication E/CN.14/INR/99, October 1965

^{5/} The situation there is slightly different as a sizable proportion of the small enterprise sector, an estimated 60 to 70 per cent of the total number of firms, is in the hands of indigenous businessmen.

- (iii) In the traditionally agrarian society of East Africa industrial activities had and will have a comparatively low social status a situation that is perhaps reflected in the fact that the ownership of farm land is still considered as a prime investment, an emotional attitude that is not motivated by the economic returns to be expected.
- (iv) Until very recently there has been no real African middle-class which in other countries has usually been the main source for potential small industrialists.
- (v) The accelerated Africanisation of the civil service and larger industrial and commercial firms after the East African territories gained independence has constituted a considerable drain on potential entrepreneurial talent.
- (vi) Potential investors are frequently more attracted by competing investment possibilities, especially of real estate but to a degree also by retailing, which promise a swifter return and usually involves less risks.

50. In recent years it has therefore been a pressing preoccupation of East African governments to increase the participation of the indigenous element in the economy.

51. As a result there has already been in some countries a certain penetration into the service industries, especially transport, and in the agro-industrial sector where, however, backed up by various circumstances the entrepreneurial function is mainly assumed by co-operative societies or unions.

52. The sources for entrepreneurial talent are still scanty in East African countries, though it has been found that the following groups are a potential reservoir:

- (i) artisans and craftsmen whose workshops and productions could be converted into an industrial manufacturing process or who have the potential to enter into service or construction industries;
- (ii) small traders intending to produce certain articles themselves;
- (iii) the newly emerging middle-class with a certain saving capacity, i.e. higher civil servants, members of the profession, landlords

- successful farmers etc. willing to enter into a partnership in the small-scale industry sector;
- (iv) technicians, former students of vocational training institute or trainees of larger firms wanting to start on their own.

These groups are, however, small, and qualified and imaginative entrepreneurship is still extremely rare.

53. It is also notable that, so far, women have not assumed the same importance in small enterprise development as for instance in several West African countries. The few success stories seem to be rather the exception than the rule.

Government Policy towards Small-scale Industry

54. In East African countries, government policy towards small-scale industry development, so far as it is set out in the respective development plans, has undergone a significant change during the past few years. With the beginning of the new planning period - e.g. Ethiopia 1968/69, Kenya 1969/70, Tanzania 1969 - notable emphasis has been put on this particular sector of industrial development. In some cases, it has been the first real encouragement given to the sector; in others, it has meant a significant increase of previous efforts in this direction.

55. There seems to be a general consensus of opinion as to the importance of the small-scale industry sector and the need for government assistance in its development. ^{6/} The actual measures, proposed or taken, vary, however, from a token support to fairly detailed programmes for promotion and assistance. The efforts in this direction have obviously to compete with a number of other development tasks and consequently small-scale industry development has not received an equally high rank on the priority list of the countries concerned, especially since in some cases a series of failures - usually in soft loan schemes - has produced a certain diffident caution among government

^{6/} See, for instance, Afro-Asian Economic Review, No. 114/Vol XI, March 1969, p. 16, in its report on the Afro-Asian Conference on Small-scale Industries.

officials towards this sector. Another influential factor is, of course, the widely differing degree to which resources are available for development projects.

56. Some points from the development plans of the five East African countries visited may serve as an illustration to the current trends in government policy in this respect.

57. The Ugandan Government mentions in its Third Development Plan for the first time a whole package of measures for the promotion of small-scale industry development during the next five years:

- (i) A revision of the current investment law, further incentives such as tax relief, tariff protection, etc., and preference in Government procurement are intended to improve the general basis for development and, it is hoped, to equalize opportunities in comparison with larger firms.
- (ii) Loans from budget allocations are to be made available to small manufacturing enterprises through the normal banking system.
- (iii) General services to be provided to the industrial sector as such will be extended increasingly to smaller enterprises, too. Among these are:
 - a hire-purchase scheme for equipment and machinery and loans for operating capital of a total of Ugh. \$25 million; there is, however, no indication about the amount of this destined to the small-scale sector;
 - a leasing scheme for the provision of building sites and workshop space in the region of Ugh. \$10 million;
 - techno-economic services, management training and other industrial extension services;

- a special scheme (Eth. 3 4 million) to create supporting services - demonstration centres, design centres and marketing facilities - for handicraft and cottage industry.

The focal point in these development efforts will be especially the agro-industrial sector.

58. The proposed strengthening of the Small-scale Industry Division in the Ministry of Commerce, Industry and Tourism is expected to facilitate the promotion and implementation of these measures and to secure the collaboration of the existing industrial development organizations in this process. It is further planned to undertake a detailed survey of small-scale industries in the country to get more exact data for further planning.

59. More so than perhaps in any other East African country, attention is given to the small-scale industry sector of Kenya. As industrial activity is planned mainly for the private sector this policy is considered to be the most promising method of establishing African participation in the industrial development of the country. For this purpose the Government is prepared to provide means of promotion and protection in the widest sense. As there are already a number of institutions, either fully or partly involved in small-scale industry development, Government policy is mainly directed at intensifying present efforts and increasing their effectiveness.

60. As a new feature, the Ministry of Commerce and Industry is considering the establishment of an industrial extension service within the Ministry whose officers would be especially concerned with assistance to the small-scale sector.

61. In comparison with other East African countries, the industrial sector of Malawi is still relatively small. All the more, Government policy is therefore directed to the active encouragement of investments in industry though primarily aimed at attracting the larger, foreign investor.

A catalogue of tax privileges, tariff protection, etc., favours the establishment of new industries and fully serviced sites at the Blantyre industrial area provide a suitable location. A similar industrial area comprising 60 acres is planned to be set up shortly in Lilongwe.

62. There are, however, few specific measures to promote small-scale industry. The previous Development Plan limited its scope in this respect to allocations to a small business loan fund. The current Development Plan for the planning period 1966-1970 covers only the public sector, so that the future policy towards the small-scale industry sector still has to be defined. The limited resources available for industrial development make it rather unlikely, though, that additional services to the sector will be established within the immediate future.

63. The situation in Tanzania in these respects essentially different from that in its neighbouring countries. The declared policy of the Government in accordance of the "Ujamaa Declaration" is the public ownership of the basic production facilities. Accordingly, the Second Development Plan foresees a considerable increase of the public sector of the economy, especially by a growing involvement of parastatal organizations in industrial production. The private sector is to assume here and here a supplementary role: investments in the latter sector are expected to decrease in proportion to the public sector. The long-term effects of this policy on the development of small-scale industries cannot yet be conclusively established. The importance of the small-scale industry sector has, however, been specifically emphasized by the President of the Republic in his introductory speech to the new five-Year-Plan. At present, the Government still anticipates about 27 percent of all industrial investments to be forthcoming from private enterprises and the majority of these to be in the small-scale industry sector.

64. The development plan specifically points out the various possibilities still existing for private small enterprise, especially in the line of food products, wood products, etc. But also in these cases preference will be given to the group approach rather than to individual initiative. It remains unclear to what degree small industrialists outside the approved schemes will be able to benefit from Government industrial service facilities.

65. In Uganda the Second Development Plan (1966-1971), now entering into its final phase, anticipated an important role for small-scale industries and, consequently, under the auspices of this plan a number of measures, mainly in the field of soft credit and of training and extension services, were implemented in recent years.

66. The working party charged with the preparation of the Third Development Plan is about to convene. It is expected that small-scale industry will remain an important sector of development and that the supporting measures will undergo a further intensification.

Small-Scale Industry Development Institutes in East Africa

67. Since the mid-sixties most East African Governments have taken active steps in the promotion of small-scale industry, especially in support of indigenous entrepreneurship in this sector. The institutional arrangements existing to this end in East African countries vary in several respects. Not only are there differences in scope and approach but also in the financial resources and technical expertise available to them. The executive agency is either a government department or a parastatal organization, with the occasional participation of private institutions.

68. Typical for the region are the following institutes:

- advisory centres;
- training institutes;
- finance corporations or loan boards;
- industrial study and research centres;
- and, to a lesser degree, common service centres, industrial workshop and estates.

Not all of these institutions are exclusively limited to assistance in the small-scale industry sector but they are usually part of a general industrial development organization or a small enterprise service institute.

69. A comprehensive list of the institutions operating in the countries visited and their respective activities is given in the following paragraphs:

ETHIOPIA

Centre for Ethiopian Management (CEM)

70. The Centre, a UNDP/ILO project, was set up in 1967/68 with the purpose of promoting industrial development in Ethiopia by training executives of public and private firms in the different aspects of management and to provide

direct technical assistance on plant level.

71. Within the CEM a special department, the Management and Entrepreneurship Training and Advisory Project (METAP), has been created to assist the small enterprise sector. As a basis for its operations the department has promoted the formation of an Ethiopian Association of Small Entrepreneurs which meanwhile counts with a membership of 40 industrialists.

72. According to Government plans the CEM is expected to take an even larger part in small-scale industry development in the future. An additional department, the Centre for Industrial Services, is to be established for this purpose. The function of the new centre will be to provide extension services to small-scale industries, to operate demonstration workshops and to set up and maintain certain central facilities like accounting service, common workshops, central purchasing, etc.

Addis Ababa Chamber of Commerce

73. On some occasions, the Chamber has arranged evening classes in book-keeping and management for small entrepreneurs.

Imperial Technical Agency

74. The Technical Agency is a research and study organization which is mainly engaged in preparing industrial surveys and feasibility studies. Among the projects prepared there are several which could be implemented on the small-scale industry level.

K E N Y A

Industrial and Commercial Development Corporation (ICDC)

75. The ICDC is one of the oldest organizations in East Africa concerned with the promotion of small-scale enterprise development, dating back to 1954. It is, however, only since 1962 that assistance has been channelled particularly to the indigenous entrepreneur.

76. The main function of the ICDC is the provision of credit facilities to small enterprises, though lately it has also taken up participation in larger ventures. The conditions of credit are: a rate of interest of $8\frac{1}{2}$ percent

per annum, a period of repayment of up to 10 years, against 125 percent security. Apart from presenting a feasible project the client should be able to make a minimum turnover of EAShs. 10,000 per annum to be acceptable. Special conditions are extended to participants in the industrial estate schemes (see paras. 75-84).

77. The amount of loans sanctioned to small enterprises has grown significantly during the last decade from a mere EAShs. 160,700 during the financial year 1961/62 to EAShs. 2,276,000 in 1967/68. The sources of finance have been government funds, bi-lateral aid, a Kenya banking consortium, the East African Development Bank and the World Bank.

78. In addition to credit facilities, the ICDC intends to provide a management consultancy service to its clients. A nucleus staff has already been recruited for this task and has taken up work recently. Though service will be available to all clients it will be particularly concerned with the industrial estate and, at a later stage, it is planned to use it especially to implement supervised credit schemes.

Kenya Industrial Estate Ltd.

79. A subsidiary of the ICDC of special importance to the promotion of small-scale industry development is the Kenya Industrial Estate Company. The first suggestion for this project was made in a report by a United Nations mission to Kenya in 1965. After concluding the preliminary studies in 1967, work was started with bilateral assistance on the first phase of the industrial estate consisting of 25 workshop units. In 1968 the construction stage was completed and soon after the first small industrialists started production on the site. Meanwhile all 25 units have been allocated and 13 firms are in production, several others are only awaiting the arrival of equipment and machinery to follow suit. Recently, discussions have been taken up concerning the realization of the second phase of the project which would add another 25 units to the estate during 1970.

80. During the various stages of development of the industrial estate the Company has counted with UNIDO and bilateral assistance.

81. Whilst there were considerable difficulties at the beginning of the project in getting suitable participants of the scheme, the idea seems to have

caught on now and there is no shortage of applicants. The criteria applied in the selection of participants are:

- (i) a professional background with either technical or commercial skills;
- (ii) an economically and technically feasible production programme;
- (iii) a certain participation of the applicant in the risk capital; originally 75 percent of the capital investment had to be provided by the promoter, meanwhile it is considered sufficient if he can put up the required working capital, as the former terms were found to be too restrictive with regard to African applicants. The risk capital can now be financed up to 100 percent by the ICDC.

82. The industrial estate provides the entrepreneur with workshop space on a serviced site and some common services consisting mainly in a central tool room for tool- and die-making as well as for repair and maintenance work on machinery used in the participating firms. Efforts are also made to assist the participants in the field of management, especially in marketing and accountancy, though services in this field are still rudimentary. Once the ICDC disposes of a larger extension staff it is to be expected that more attention will be given to this particular aspect. Meanwhile the MTAC (see para. 85) has made its management consultancy services in some cases available to firms in the industrial estate.

83. For his participation in the industrial estate scheme the entrepreneur has to pay a fixed cost rent for his workshop space, which, however, is subsidized to the extent of overhead expenses of the estate and central services.

84. In 1970/71 the Kenya Industrial Estate Ltd. intends to set up similar estate projects in other parts of the country; at present, sites in Nakuru and Kisumu are under active consideration.

Management Training and Advisory Centre (MTAC)

85. The MTAC, a UNDP/ICDC project, was established in 1966. Its main activity has been in the training field. It offers a variety of courses on management

in its different aspects and levels. In addition, it provides clients with a wide range of consultancy services - profitability audit, loan appraisal, personnel appraisal, etc. - as well as an information service. The fees charged are moderate ^{1/} but even so they probably restrict the small industrialists from making full use of ETAC's facilities.

86. On the whole, the ETAC is an institute which in its functions and approach is more geared to the larger industrial firms. As a side line, however, it has been involved in small enterprise development and there especially in the retail and wholesale field. In addition, courses such as "How to Start and Manage a Small Manufacturing Business", "Accounting for New African Businessmen", etc., were held for interested small industrialists. These courses included a preliminary diagnosis of the participant's firm.

Industrial Study Centre

87. The Kenya Government intends, with UNIDO assistance, to establish an industrial study centre in Kenya in 1970. The small-scale industry sector may well feature prominently in this project.

Kenya Industrial Training Institute (KITI)

88. The Institute was started with bilateral assistance in Nakuru in 1964. Though basically a vocational training institute, providing nine-monthly courses in six different trades, the training is so designed as to prepare the student also for the possibility of setting up his own business. Up to 1969 nearly 200 students had passed through one of these courses.

89. All the courses include a certain element of management training and a follow-up service can be made available to students wanting to start off on their own. The student can suggest a project which is then appraised by KITI's staff. If the project appears to be feasible and the student can raise at least EShs. 2,000 towards its realization the Institute will try to arrange for a loan through the Industrial and Commercial Development Corporation. It will

^{1/} An initial diagnosis - up to one consultant/week (40 working hours) - is free of charge and above that time EShs. 15 per hour. The fee for consulting on any specific assignment is EShs. 25 per hour.

further assist the student in setting up shop and provides management and technical assistance in regular follow-up visits. All these services are free of charge.

Partnership for Productivity Programme (PIP)

90. The PIP - a Gucker-sponsored organization - is planning to establish a small-scale industry advisory centre staffed by 5 international experts as a pilot project in Eastern Kapang. By financing small entrepreneurs and assisting them in solving their management and production problems the foundation hopes to stimulate industrial development in this rural area. The project is expected to become operational in 1970/71.

M A L A W I

Business Loan Board

91. The Business Loan Board is so far the only institution in Malawi giving assistance to small entrepreneurs. It has been set up by the Government especially to promote African businessmen by providing them with easy credit facilities. For this purpose the Government had made provisions for the allocation of Malawi pounds 150,000 under the Second Development Plan and foreseen a further pounds 98,214 for the following planning period.

92. Applications for loans have to be directed to the local District Commissioner who then forwards them together with his appraisal of the applicants credit-worthiness to the Loan Board for approval. The maximum amount for an individual loan is pounds 1,000. The Board itself can sanction up to pounds 250 on its own responsibility, any loan request exceeding this amount needs the consent of the Minister of Trade and Industry. The average amount granted has been around pounds 200.

93. The conditions of the loan are quite favourable. A period of repayment of up to 10 years may be granted. The rate of interest is a promotional 5 percent per annum. The Board also pursues a flexible policy as far as collateral security is concerned.

94. The Business Loan Board, however, is lacking appropriate machinery to carry out a proper screening of loan applicants as well as to provide supervision

of any kind. The follow-up is practically left to the respective District Commissioner, an administrative officer, whose actions in this respect can obviously be only of a very general nature. It is largely due to this situation that the board suffers considerably from loan default, at present, at a rate of more than 50 percent.

T A N Z A N I A

National Small Industries Corporation (NSIC)

95. The National Small Industries Corporation is a subsidiary of the National Development Corporation (NDC) - a holding corporation for all Government participation in industry and other development projects, and the Workers' Development Corporation (WDC) - the investment corporation of the Tanzania trade union movement (MUTA), the latter participating with a minority shareholding of 20 percent.

96. The approach to small-scale industry development is a combination of training, technical assistance on plant level and finance. In accordance with Government policy the recipient is preferably an organized group rather than an individual entrepreneur.

97. The NSIC is at present engaged in the following projects:

(i) Industrial Workshops

98. The industrial workshops are basically a version of the industrial estate scheme adapted to the particular requirements of artisans and manufacturers on the lowest scale, i.e. micro-industrialists. The NSIC type of workshop scheme provides the following services to participants:

- workshop space on a yearly lease basis at a subsidized monthly rent (EASHs. 30 per standard unit of 10 x 12 feet);
- in-plant training and assistance to improve production techniques and increase product quality;
- advances for the purchase of raw materials and for the payment of wages against firm orders received;
- assistance in obtaining machinery under hire-purchase agreements or on medium-term loans;
- a common central machine shop to carry out preliminary processing of raw-material;

- marketing facilities in form of a common show-room for all products manufactured in the scheme and a central sales organization the use of which is, however, optional;
- assistance in maintenance and repair of machinery.

99. The first of these workshops was established in Dar-es-Salaam in 1968. Though originally conceived by the NSI and the City Council as a means of moving small industrial units and craftsmen from the congested inner city to a common workshop area in the outskirts of the town, it has meanwhile outgrown that scope and assumed sizable proportions. It consists, at present, of 139 units each occupied by a group of three or four, thus bringing the total employment up to around 400. The majority of the participants are engaged in woodwork and metalwork. During 1969 the total turnover of the workshop scheme reached EAShs. 1.2 million.

100. Though it may be premature to draw final conclusions after only one and a half years of existence, at present the project seems to make good progress and has created employment beyond original expectations. It is notable that some participants are already showing signs of outgrowing the present workshop set-up.

101. Based on the encouraging experience with its first industrial workshop the NSIC plans to establish similar, though smaller projects in various up-country regions. During the plan-period 1969-1973 a total of 10 are to be started, two of them by late 1969 or early 1970.

(ii) Industrial Estates

102. During 1970/71 the NSIC also intends to commence work on two industrial estate projects intended for enterprises which would not fit in with the present pattern of industrial workshops:

- The first industrial estate project is planned for Dar-es-Salaam and foresees in its initial phase 20 units. The participants will be recruited to a great part from potential entrepreneurs or groups of the industrial workshop scheme. The project is still at the preliminary planning stage.

- The second industrial estate is planned in connexion with a steel mill complex to be built on the coast near Tanga. The participants in this scheme will be mainly engaged in processing the products of a wire-drawing factory which is to be part of the industrial complex.

103. Apart from providing common facilities on workshop or estate basis, the NSIC also intends to promote certain selected industries by direct financial participation, i.e. equity financing. Canneries and a bicycle spokes factory are some of the projects under consideration.

National Bank of Commerce

104. The National Bank of Commerce has recently started a hire-purchase scheme for the particular benefit of the small indigenous entrepreneur. At a rate of interest of 8 percent per annum it finances up to 40 percent of the cost of machinery and equipment over a period of 18 months.

105. Against a suitable collateral or an NDC (see para. 95) guarantee the small industrialist can also obtain medium-term loans - up to 13 years including a possible three years grace - at a rate of 7 percent per annum to finance feasible projects up to 50 percent of the actual capital required.

Industrial Studies and Development Centre (Indecentre)

106. The Indecentre, a UNSEF/UNIDO project, works in close collaboration with the National Development Corporation and has as its main function the preparation of industrial surveys and pre-investment studies. To a limited degree it also carries out consultancy work in connexion with the implementation of proposed projects.

107. As a general centre of investigation it is not particularly concerned with the small-scale industry sector and accordingly only a small percentage, less than 10 percent, of its proposed projects have been on the small-scale level.

Other Institutes

108. Other industrial development institutes existing in Tanzania such as the National Institute for Productivity, the Cottage Industry Training Centre, the

College of Business Education, etc., are only marginally involved with small-scale industry development.

U G A E D A

Uganda Development Corporation (UDC) - Small-scale Industry Section

109. In recognition of the importance of small-scale industry development the UDC has created a specialized section dealing with the provision of credit facilities to this sector.

110. The conditions of credit from this source are: a rate of interest of 8 percent per annum and a period of repayment of up to ten years including six months grace. The guide line for security to be raised by the applicant is a 100 percent collateral. The individual loan can total up to EAShs. 300,000.

111. The applicant for the loan should be a full-time businessman with adequate technical skills. He should present a feasible project and put up at least 25 percent of the initial capital investment.

112. As in the case of the Malawi Business Loan Board (see para. 91), the UDC Small-scale Industry Section lacks sufficient staff to carry out a really thorough project appraisal and to provide an appropriate supervisory service, accordingly the loan default rate is similarly high.

Development Loan Fund (DLF)

113. The DLF is a revolving fund established by the Uganda Government and bilateral aid to finance smaller development projects. Among other purposes the funds are available for small-scale industry development. The DLF is, at present, administered by the Uganda Commercial Bank and the loans are sanctioned by a special DLF control board.

114. The loans are given mainly as personal credit, though whenever possible an instrument of charge has to be provided by the applicant. The terms are: a rate of interest of 6 to 8 percent per annum and a maximum period of repayment of 7 years in which a period of grace may be included. On the average the amount of the individual loan advanced has been EAShs. 20,000. So far, about EAShs. 1,3 million, corresponding to 10 percent of all loans granted from the fund, have been sanctioned for small-scale industry projects.

115. Again, the loan default rate is uncommonly high, an estimated 30 percent, mainly on account of a lack of sufficient supervision of the utilization of funds. Neither the administering bank nor the DLF Board is equipped to carry out in each case the necessary screening and follow-up, though in individual cases the Bank has been able to use the services of the MTAC (see below) in this respect.

Management Training and Advisory Centre (MTAC)

116. In contrast to similar ILO projects in other East African countries, the Uganda MTAC is principally concerned with the promotion and development of the small entrepreneur through training and consultancy services. A special emphasis is put on Africanization of the small enterprise sector.

117. Using demonstration workshops in Kampala and a mobile unit in other areas the institute aims at increasing the technical skills of established small entrepreneurs. This part of training is supplemented by courses in management specifically adapted to suit the requirements of the small enterprise. By the application of modern methods of communication, i.e. the mass media radio and television, MTAC has tried to reach as wide a circle of entrepreneurs as possible.

118. At present, the institute is doing pioneer work in the application of motivation achievement techniques, a method of training which may play a significant part in stimulating and developing indigenous entrepreneurship in Africa.

119. Efforts have also been made to promote subcontracting and group-action. For instance, a group of 17 metal-workers has contracted the supply of metal window frames to a construction firm. The substantial savings made by the group in the common purchase of raw materials are put into a common fund which is to form the nucleus of the capital required to set up a well-equipped central workshop for the members of the group.

120. Since the institute became operational in 1965 it has reached more than 400 entrepreneurs and it is estimated that it has stimulated, directly or indirectly, investments in the region of US Dollars 3 million.

Centre of Industrial Development (CID)

121. The Centre, a UNSE/UNIDO project, has only been started fairly recently

and is not yet fully operational. Next to carrying out industrial surveys and studies, the centre is to focus its attention particularly on the small-scale industry sector. The first major step in this direction will be the development and management of an industrial estate in the outskirts of Kampala. It is expected that negotiations about the allocation of a suitable site will be concluded shortly and construction work to begin within 1970.

Uganda Chamber of Commerce

122. As an experiment the Chamber of Commerce is organizing at present a sponsorship programme in which indigenous businessmen can receive assistance from sponsorship groups of established firms. The assistance can take the form of a capital participation, credit facilities and/or management advice.

123. Even though the programme in its first phase is designed to help particularly the African wholesaler and retailer there is a possibility of extending it at a later stage to include small industrialists, possibly by the promotion of subcontracting.

Supra-national Institutions

124. East African Development Bank. The aim of the East African Development Bank is to promote and finance development projects in the countries of the East African Community. Though the bank cannot participate directly in small-scale industry projects - as it will not handle projects with a capital investment of less than E.A.Shs. 1 million - there is the possibility for development finance agencies working in this field of obtaining finance for supervised credit schemes and similar programmes.

125. East African Industrial Research Organization. The Research Institute is maintained by the East African Community and has the function of material testing and the development of adequate production techniques for the processing of local raw materials. Small-scale industry extension institutions might use the services of this organization to assist them in solving specific technical problems.

Other Related Institutes

126. In addition to the institutes mentioned in the previous paragraphs, there

are a number of other institutions and organizations in East African countries working in adjoining or related fields:

(i) Vocational Training Institutes

127. In most East African countries there are various commercial and vocational training institutes, e.g. polytechnics, trade schools, business colleges, etc. They are usually not directly concerned with small-scale industry promotion, but as a potential source of future entrepreneurs they are largely responsible for the quality of entrepreneurship to be available. So far, however, only slight emphasis has been given to this particular aspect in their respective training programmes. Similarly, there are usually no provisions made in assisting former students in the formation of their own enterprise.

(ii) Research Institutes

128. On the University level there are several institutes that have taken an interest in the small-scale industry sector - for instance, the Institute for Development Studies of the University College, Nairobi, the Research Bureau of the University in Dar-es-Salaam and the Department of Economics of the University of Addis Ababa have all undertaken partial studies in this field.

(iii) Industrial Finance Agencies

129. Next to the development finance institutions listed in the previous paragraphs, there are several others which due to their approach and/or statutes have been excluded from any significant involvement in financing small-scale industry projects. Into this category fall especially:

- the respective Development Corporations through which most East African Governments promote and, to an extent, control investments in medium- and large-scale industries and other development projects, though in some cases, e.g. the NDC with the NSIC in Tanzania and the UDC with its corresponding small-scale industry section, have made provisions for small-scale industry finance;
- the Development and Finance Corporations or Investment Corporations in which government, bilateral aid, and in some cases private sources collaborate to promote and

assist in particular foreign investment. The lower limit imposed on acceptable projects varies from about US Dollars 60,000 to US Dollars 110,000 in which the corporation may normally participate up to 50 percent. The minimal investment level is accordingly out of reach of the average small-scale industry project;

- the Industrial Promotion Service (IPS), an investment group sponsored by the Israeli Community, which operates in most East African countries, is similarly oriented almost exclusively to the participation in larger industrial ventures.

III. CONCLUSIONS AND RECOMMENDATIONS

General Observations

130. The basic lack of relevant data makes it almost impossible to specify in detail the latent demand, in quantity as well as in quality, actually existing in East African countries for small-scale industry extension services and development finance. It would require a thorough survey of the sector to obtain exact information of this nature. On the basis of samples available, it is, however, fairly safe to assume that the present facilities are not sufficient to meet in many cases even the open demand, though the actual extent of coverage differs considerably from country to country.

131. Regarding the performance of the respective government departments and development institutes involved in small-scale industry promotion, there seems to be frequently a prevailing attitude of passivity and a lack of real initiative. The mere provision of services is, however, seldom sufficient to achieve the desired development effect. The idea of technical assistance must be "sold" to the potential client and the service brought to him. Examples of this type of intensive campaigning are still comparatively rare.

132. In some cases, there is a certain danger of dispersal of efforts. This becomes evident not only in the institutional arrangement which often lacks an adequate co-ordination between the various programmes and institutions, but also in the approach of the individual institute on account of becoming involved in too many projects at the same time. Though it may be debatable if limited resources should be applied extensively by trying to reach the greatest possible number of prospective clients or rather by giving intensive guidance to a carefully selected group of projects, it is obvious that much of the impetus of assistance and training is lost in the former case. Consequently, the best results have usually been achieved by applying the latter strategy. In the interest of such an intensified programme the government would have to identify priority areas which in order to make them "serviceable", i.e. to enable regular

visits from extension personnel to clients, would have to be limited in their geographical extension and otherwise easily accessible.

133. The majority of the inducements and incentives given by governments to industry seem to favour more the larger industrial concerns. Proposal should be made as to the ways and means by which the small-scale industry sector could benefit to a significant extent at present from these measures.

134. In order to enable the government to substantiate policy decisions and strategy in respect of the small-scale industry sector, the more comprehensive collection of data is a definite and urgent requirement. Surveys of this kind have already been planned in some of the countries concerned. A prerequisite for accurate statistical coverage will be a more exact definition of the term "small-scale industry" in the context of national planning and development.

Training and Advisory Services

135. The best coverage in services to small-scale industries is probably provided in the training field in East Africa, especially those cases where an attempt has been made to reach a widespread audience by the use of mass media.

136. Training seems to have had best results where a systematic pattern has been established to facilitate a close interrelationship between training and subsequent consultancy services.

137. In view of the future needs for more small industrialists in economic development of East African countries, more emphasis is still needed on training aimed at the promotion of new entrepreneurial talent. Though it is often difficult to develop entrepreneurial spirit by a training programme, modern methods - for example, motivation achievement techniques - have shown some surprisingly good results.

138. In this connexion, it might be useful if greater consideration of the entrepreneurial aspect could be given in vocational training programmes and even in basic education, thus increasing the potential for future entrepreneurs.

139. Regarding advisory services, it seems that the most pressing need for assistance exists in the field of production technique, product design, quality control and marketing.

140. The penetration of the local market is a major difficulty for the indigenous entrepreneur. Frequently, there is a pronounced market resistance regarding locally manufactured goods due to:

- the poor quality of the products compared to imported articles of the same type, a problem which is in a way typical for newly emerging industries;
- a basic conscious, or subconscious, preference of the consumer for foreign brands.

141. The upsurge of nationalism in some of these countries has helped to create a slightly better image for local products, but it will still require an integrated programme of improvements in techniques and quality of small-scale industry production, backed by intensive marketing efforts, to make the local producer really competitive.

142. In East Africa services of this kind are in very short supply. Product design and research into adequate production techniques in particular, are almost non-existent on the small-scale industry level. In this context, it will be interesting to assess the possibilities of applying intermediate technology techniques on small-scale production level in East Africa. A project of the ILO in conjunction with the Intermediate Technology Development Group Ltd. of Great Britain planned to be carried out in Tanzania, is expected to provide some preliminary information on the actual saving of investment capital, its labour intensity, its effect on production costs and its impact on the human factor.

143. Regarding the marketing problem of the indigenous producer, it remains to be investigated to what degree a closer collaboration with the newly-formed, parastatal National Trading Corporations might serve as an instrument of sales promotion.

144. On the whole, extension services still seems to concentrate too much on the pre-investment phase and too little on implementation and follow-up of recommendations. In order to provide in this respect a more intensive

assistance, it might be considered to provide in selected cases direct management assistance on the plant level by using the various volunteer programmes operating in East Africa.

145. As a point of strategy, it would be desirable for extension service institutes to plan in the long run for partial, financial self-sufficiency by introducing a fee system, as already done by some centres. Though obviously much of the promotional activities will have to be provided free of charge, the clientele should get accustomed to paying for any regular service. The guideline for assessing fees would, of course, have to be adjusted to the actual possibilities of the small entrepreneur and thus, more often than not, remain nominal.

Financial Support

146. In spite of various efforts in this direction, the lack of sufficient and adequate finance remains a bottle-neck for small-scale industry development in East Africa. The capital resources of the indigenous businessman are usually limited and, following the usual pattern of developing countries, his access to credit facilities within the normal banking system remain restricted or difficult.

147. In commercial banking there is little evidence of a liberalization of terms or a change of attitude towards financing small industrial ventures ^{8/}. Past experience with the repayment of loans by some indigenous businessmen added to the inherent high risk of unsupervised credit to small enterprises has led to a widespread loss of confidence, even though the cause for the high rate of loan default may have been, in many cases, the unsuitable conditions under which a loan was granted and the often complete absence of supervision.

148. There are at present no statistics available revealing the financial structure of the average small-scale industrial concern but in view of the

8/ Typical conditions of commercial loans are: a rate of interest between 8 and 10 per cent, a cover rate of 150 to 200 per cent for collateral security requirements, and a generally short period of repayment. There is, however, the custom of nearly automatic renewal of credit facilities in the case of "safe" clients, and in exceptional cases a loan might be extended up to ten years.

generally low percentage of commercial loans going to this sector ^{2/}, it can be assumed that institutional credit features not very significantly in it.

149. The establishment of specialized schemes or institutions in some East African countries in order to finance industrial development has helped to a certain degree to overcome some of these obstacles but as yet their terms and their modus operandi do not always correspond to the actual exigencies of the small-scale industry sector. None of these institutions is, so far, equipped with an entirely satisfying follow-up system and, even though the terms granted may be more liberal than in commercial banking, collateral security still remains a predominant consideration in their lending policy. The prevailing rate of interest does not differ significantly from prime rates charged commercial banking institutions. Rates that could be considered a promotional incentive are rare.

150. In addition, the administrative procedure established for obtaining loans is often lengthy and complicated, thus making it difficult for the small industrialist to cover his more immediate credit needs from his source.

151. In order to improve the financial facilities for the small-scale industry sector the following measures might be considered:

- (i) A change in the lending policy of the specialized finance agencies towards more adequate terms, in particular the lowering of security requirements whilst, at the same time, adopting a more thorough screening method and stepping up supervision. In this context, there is a distinct need for supervised credit schemes, especially in combination with hire-purchase facilities.

For this purpose, an increase of soft loan funds and a system of government guarantees for approved loans would be desirable in most East African countries, provided that a system could be worked out that assures the collaboration of the respective extension service centres in these programmes.

^{2/} The estimation of this percentage made by some bankers varied between 0.5 and 3 per cent of the loan total. Taking into account the differing definitions of small-scale industry used, the actual percentage is probably even lower.

- (ii) A study of the possibilities of providing in selected cases equity finance or long-term loans ^{10/} also outside industrial estate schemes.
- (iii) Inducements to commercial banks to supplement government efforts in small-scale industry finance by adjusting their terms of lending to the needs of this sector. Such an involvement of commercial banking would be desirable not only because it would increase the volume of credit available to the sector, but also because it would allow the small industrialist to avail himself in some respects of the wide commercial knowledge and experience of banking institutions. The measures applied to this effect should aim at lowering the actual credit risk and/or at increasing the gross profit margin for the lending institute to allow for higher administrative costs and risk cover. In the individual case, this may be achieved by:
- government guarantees for loans from commercial banking institutions;
 - encouragement of this type of guarantee to be given by mutual guarantee associations, local government, etc., by establishing a central guarantee fund that would allow partial retrocession of risks;
 - formal agreements between extension service centres and commercial banks regarding technical assistance and supervision for approved loans;
 - channelling of government funds through commercial banks at preferential rates of interest;
 - granting favourable terms for the rediscount of bills from the small-scale industry sector with central banking institutions;

^{10/} Preferably without collateral security requirements and with a five or seven years period of grace.

- special consideration of the loans to the small-scale industry sector in the determination of the minimum reserves;
- allowing to commercial banks an extra percentage above the current market rate in form of direct government subsidies.

(iv) a liberalization of the lending policy of the various Development and Finance Corporations and the Industrial Promotion Service that would at least allow part of their funds to be invested in small-scale industry development, especially in terms of ancillary industries to their larger projects.

152. A further step to overcome the shortage of credit would be the establishment of leasing schemes also outside the present industrial estate and workshop concept. In the larger industry sector, this type of leasing is already applied in some cases, e.g. the IFS (see para.129) operates a scheme along these lines through its subsidiary, the Diamond Jubilee Investment Trust. A similar project, but directed more towards the retailing sector, has recently been inaugurated in Kenya by the ICDC Property Company, a subsidiary of the Industrial and Commercial Development Corporation. The creation of a leasing system for the small-scale industry sector requires, of course, the provision of substantial, long-term funds by finance institutions or the government.

The Problem of Integration

153. Though many of the small-scale industry development institutions working in East Africa, especially those established with the assistance of the United Nations Technical Agencies ^{11/}, have adopted an integrated approach in the sense that they combine several supporting measures, the important link-up with finance institutions is still missing. Collaboration in this respect is mainly confined to chance cases rather than to a systematic, coordinated effort.

154. Institutional integration is limited to a few examples, such as the NSIC in Tanzania (see para. 95) and the ICDC in Kenya (see para.75), both of which are still in the initial stage of developing this concept.

^{11/} In this case, the United Nations Industrial Development Organization (UNIDO) and the International Labour Organisation (ILO).

155. The futility of the single factor approach is still very much in evidence through the experience of the Malawi Business Loan Board, the Uganda Development Loan Fund and similar loan schemes. It can be assumed that the disproportionately high losses in these programmes were caused to a great part by the lack of facilities and personnel to apply basic standards of screening and, especially, to provide the necessary supervision and technical assistance to clients.

156. This lack of an appropriate system to carry out supervised credit programmes and to provide appropriate projects has, in some cases, had the result that funds made available under foreign aid agreements for small-scale industry development have remained unused.

157. A further effect of the lack of co-ordination has been that in several instances parallel organizations have been created which differ only insignificantly in their functions, thus giving grounds for overlapping and even competition, a duplication of effort which a developing country can ill afford.

158. The establishment of an integrated system of assistance requires in most East African countries not so much the creation of new institutions but rather the **adaptation**, and in a few cases the expansion, of existing facilities to the necessities of a co-ordinated collaboration. It is one of the tasks of the responsible government department to establish a policy that facilitates and promotes such a move.

159. A suitable first step will often be the promotion of common campaigns between financial agencies and extension centres over a limited period of time and for a definite geographical area and/or industrial branch. The experience thus gained may subsequently form a basis for future collaboration and open the way for a more permanent arrangement.

Specific Problems in Five Countries

160. Ethiopia: The fact that Ethiopia is very much at the beginning of creating an assistance programme for the small-scale industry sector makes it necessary to establish the framework that will allow the implementation of the promotional measures proposed in the new development plan.
161. Both the Small-scale Industry Division (SCID) in the Ministry of Commerce, Industry and Tourism as well as the Centre for Ethiopian Management are intended to take an important part in this. In order to avoid duplication in this respect, it should be the concern of the government to come to a clear division of functions between these two institutions. Considering that the CEM has already been active in business counselling and has various facilities and supporting services at its disposal, which would have to be newly established in the SCID, it appears to be more practical and effective to concentrate all direct extension functions aimed at the small-scale industry sector in this institute by strengthening the extension staff of the IETAP section. Little would be achieved by establishing a parallel organization in the Ministry which, furthermore, would have to start practically from nothing.
162. The task of the SCID should be the detailed formulation of a development policy and strategy for the sector and subsequently the promotion, coordination and supervision of its implementation. In the individual case, it might also act as intermediary between the industrial enterprise and CEM.
163. To supplement the services of the CEM it might have a positive effect if more use could be made of the services offered by the Imperial Technical Agency, especially for project identification and formulation.
164. There is further a pressing need to match the efforts in the field of extension services by appropriate measures in the financial sphere. In this respect, an early launching of the hire-purchase programme under

consideration by the Ethiopian Development Bank would be a desirable first step. An involvement of the EDB in the planning and execution of this scheme would be an important step in assuring a certain measure of integration in the assistance to the small-scale industry sector.

165. A necessary future step will be the creation of a specialized finance agency to administer the credit needs of the small entrepreneur.

166. In addition, a promotional effect could be expected from the simplification of the present rather complicated and time-consuming administrative process, especially in government departments. Such a measure would allow the entrepreneur to make better and fuller use of certain promotional facilities. This may be important especially in the context of obtaining the preferred status which under the revised investment law would be also available to small industrialists.

167. Kenya: In Kenya, the main concern has to be the better co-ordination of the multiple institutions involved in small-scale industry development. At present, there is a certain amount of overlapping and duplication of functions but no real system of inter-institutional collaboration.

168. The co-ordination of efforts will become especially important in planning a strategy for the participation of the various institutes in the task of rural industrialization, an objective to which the new development plan has attached a high priority. It might be the function of the newly planned industrial study section in the Ministry of Commerce and Industry to prepare the basis for a coordinated programme in this respect.

169. With regard to the establishment of an industrial extension service in the Ministry, care should be taken not to create a parallel organization to existing services. The main task of its officers would probably be to identify development possibilities in up-country areas and, subsequently, to establish the contact to extension centres and finance institutions in order to channel assistance to potential local promoters.

170. As a further step towards integration, it may be useful to study to what degree the Kenya National Trading Corporation (KNTC) could be used or adapted to serve as a marketing instrument for the production of indigenous small industrialists.

171. To overcome the present shortage of adequate training courses for small industrialists the KNTC may have to increase its activities in this sector.

172. In the Kenya Industrial Training Institute, there is considerable scope for improving the follow-up services to the training courses. The present tendency of losing contact with the greater part of the former participants of courses must be considered as an undesirable loss of possible entrepreneurial talent, especially when taking into account the comparatively high training costs. A consequent and permanent programme, possibly along the lines of a technician-entrepreneur scheme, set up in the future in collaboration with the ICDC to promote selected students may prove to be a possible solution to this particular problem.

173. Malawi: In view of the fact that budgetary reasons and the order of priorities for development at present prevent any significant increase of activities in the field of small-scale industry promotion in Malawi, the course of suggested action is limited to two aspects:

- (i) the establishment of a first basis for extension services. To avoid the expense of setting up a new institution this might be achieved by including a small-scale industry expert into the planned economic studies section of the Malawi Development Corporation (MDC). The tasks of the expert would be:
 - to advise the Government, especially the Industrial Commissioner on matters of policy and appropriate action towards the small-scale industry sector; and
 - to propose, screen and/or evaluate small-scale industry projects and assist in their implementation.

(ii) the reorganization of the Business Loan Board that would ensure a more selective approach in granting loans and a better supervision in their recovery. A practical solution which, in the short run, would provide the best access - especially if combined with the step suggested above - would be the amalgamation of the Board with the KDC. Subsequently, a determination of priority areas easily accessible to the banking staff could afford, at least, a rudimentary supervision. In this connexion, the possibility could be studied of using the rural development project starting in the northern region of Malawi under a bilateral assistance scheme as a kind of liaison institution in the identification and promotion of small agro-industrial projects in the area.

174. A further step could be the incorporation of a few, selected African entrepreneurs into the Blantyre industrial area under a pilot scheme of intensive technical and financial aid. Considering the limitations of direct government assistance in this respect, special emphasis would have to be put on rallying support from private sources for the realization of such a project, possibly in form of a sponsorship programme. A similar possibility would be to create a small industrial workshop scheme along these lines.

175. Tanzania: In Tanzania, the programme of small-scale industry development based on industrial workshops and estates, will be fairly complete when the up-country projects are being implemented. Missing in the present set-up, however, are:

(i) Adequate management training programmes for small industrialists, apart from any in-plant training that the ESIC might provide in its schemes. Both the National Institute of Productivity (NIP) and the Business Training College would be qualified to develop courses of this type.

(ii) Assistance programmes for the independent entrepreneur or promoter. In this respect, it would be desirable if a clear policy were established regarding those indigenous small industrialists who for some reasons do not fit into any of the

present NSIC schemes but whose production aims are within the sector allocated in the development plan to the private enterprise. It would be convenient if the NSIC could widen the scope of its activities to include consultancy services of this kind. A closer relationship between NSIC and INDENTRE might provide a basis for assistance in the individual case. For this purpose, however, the INDENTRE would have to enter far more into the small-scale industry field and furthermore put more emphasis on services in the post-investment phase. In this context, it would also be desirable if the INDENTRE were involved in the planning of the industrial estate schemes at an early stage.

176. Uganda: In Uganda, a principal problem is the lack of an adequate section in the Ministry of Commerce and Industry to promote and back up the implementation of small-scale industry development programmes and to co-ordinate the work of the established training and advisory institutes.

177. The basic similarity in some of the objectives of the two extension service centres, the Management Training and Advisory Centre and the Centre of Industrial Development, calls for a clear definition of the borderline between their activities and for a planned collaboration.

178. Both credit programmes aimed at small-scale industry development, the Development Loan Fund and the corresponding section of the Uganda Development Corporation, would benefit from a closer link-up with the ETAC or CID strengthening the present sporadic collaboration by an established procedure of mutual consultation.

179. Maximum encouragement should be given to the plan of the Uganda Development and Finance Corporation to enter actively into small-scale industry financing. It would be useful if one of the extension centres would work out a supervised credit scheme which could be implemented on a trial basis with the assistance of this finance agency. Such a step might well set an example for other East African countries and result in the participation of similar finance agencies in the development of the small-scale industry sector.

Mobilization of Additional Support

180. In addition to direct assistance extended by government and development institutes, increased attention should be given to the mobilization of support to the small indigenous entrepreneur from the larger industrial firms, a source which so far has remained largely untapped. The approach could take two forms:

(i) The promotion of subcontracting.

The promotion of subcontracting has usually lent strong impetus to the development of small-scale industries. As yet, it has not reached any significant proportions in the East African countries. It must be expected that the generally low standards of quality and responsibility, particularly in respect of prompt delivery, customary in the sector will also hamper any widespread use of this form of production organization in the future, unless considerable technical as well as financial and management assistance is granted by the contracting firms. This help will, in most cases, only be forthcoming if in return the government is prepared to offer substantial inducements. Due to its importance for the development of small industries the possibility of subcontracting also deserves more consideration in the respective governments planning of new industries. For the countries of the East African Community, this problem will assume considerable proportions if the planned motor-vehicle assembly plant becomes reality.

(ii) Sponsorship Programmes.

Apart from subcontracting schemes, larger industrial and possibly commercial firms could be approached to participate with financial and technical assistance in small-scale industry development on the basis of a voluntary sponsorship programme. Expatriate firms in particular may prove willing to contribute in this form to the development of the country if the project has the necessary government support. A programme of this type could be carried out either on an individual,

firm-to-firm basis or by the creation of an investment trust fund from contributions of the larger industrial concerns and administered by a loan board supported by the expertise of a group of volunteers from these firms.

Collective Action

181. Though sometimes over-rated, collective action is a possible way of introducing a certain degree of self-help into the sector of small-scale industry development. As in many parts of Africa the co-operative idea is already firmly entrenched in other sectors of the economy, there might even be less resistance to projects of this nature than in other regions. It will be one of the functions of an extension service centre to promote such co-operative schemes, as it is unlikely that the initiative in this respect will come from the small-scale industry sector itself. Potential scope for collective action exists especially in the field of raw material purchase, central accounting services and mutual guarantee associations.

Training of Extension Personnel

182. Whatever approach is chosen in technical assistance to small-scale industries, its success will depend, in the long run, on the quality of the extension personnel.

183. The substantial increase of extension services to small-scale industries expected within the course of the next decade in East Africa will find as one of its main obstacles the lack of suitably qualified staff unless more attention is paid to the training of local personnel. Present efforts in this field are mainly confined to the training of counterparts in projects sponsored by the United Nations Technical Agencies, or bilateral technical assistance. It is unlikely that the future demand for extension personnel can be sufficiently covered from this source without the help of a supplementary training programme.

184. In the immediate future the staff requirements of the individual countries concerned will probably be too small to warrant the setting up of a separate training programme of this type on the national level. It may

be indicated to look for a suitable arrangement on the regional level, possibly in collaboration with one of the more experienced small-scale industry service institutes already existing in East Africa.

Regional Collaboration

185. There is also a case for closer collaboration of the various institutes engaged in small-scale industry extension work on a supra-national level, especially between the countries forming the East African Community. Though there is little scope for a centralized advisory and training centre, in view of the facilities already provided or planned on the national level, and also considering the actual geographical extension of the area, it could be of value to create a common institution to carry out certain supplementary functions, for example:

- (i) to establish a central documentation centre and reference library to improve the flow of information and to avoid duplication of studies and of research work;
- (ii) to enable the better use of specialized expertise, especially in the technological fields, available on national level in the neighbouring countries;
- (iii) to advise the respective governments and developing institutes on the co-ordination of the small-scale industry sector in respect of regional planning efforts;
- (iv) to centralize training of extension personnel as proposed in the previous paragraph.





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