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PROBLEMS AND LIMITATIONS OF SMALL-SCALE INDUSTRY:  
THE GREEK EXPERIENCE

Submitted by the Government of Greece

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PROBLEMS AND LIMITATIONS OF SMALL-SCALE INDUSTRY:  
THE GREEK EXPERIENCE

1. Introduction

- a. Small-scale industry should first be properly defined, because it may mean different things to different people in different countries. The first thing one wants to be clear about is whether the reference is to small plants or to small industrial firms; small production units or small business units. If the problems under consideration is concentration of industrial power, then the unit of interest is the firm. But even a consideration of the size distribution of plants in a given industry could offer an approximate indication on the degree of firm concentration in that industry, since the maximum number of firms cannot be more than the number of plants. Moreover, the incidence of multiplant-firms, although not at all uncommon, does not explain, even in developed economies, industrial concentration.<sup>(1)</sup>
- b. The second thing one wants to be sure about is whether one uses a satisfactory measurement of plant size. Employment, although just one of the several measuring sticks used, is the most convenient single measurement, mainly because it is more readily available than other statistics, such as fixed capital or output, and it is often the only sta-

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1 Bain, Joe S., International Difference in Industrial Structure: Eight Nations in the 1950s, New Haven and London, Yale University Press (1966), p. 144.

tistic available over a period of time.

- c. Subsequently, one is concerned with the question of where to draw the line between 'small' and 'not small' industry. If one accepts the proposition that the average size of plants, in any country, depends to a significant degree on the size of the country's market and its degree of industrialization,<sup>(2)</sup> as being a reasonable explanation of plant size differentials among different countries, then one can proceed to cut off 'small' from 'not small' industry, in any particular country, without much reference to international comparisons, since what would be considered as small industry in the U.S.A. may be considered medium-sized, say, in France, and rather large in Greece. To some extent and for some purpose this simple view may be of great help. This view is helpful if, for instance, the purpose is to associate smallness with specific problems which only small businesses face in any industry and in all countries. On the other hand, if the purpose is to study the relationship between small-scale industrial production or enterprise and efficiency in different industries, then inter-country comparisons offer perhaps, the only possible workable frame of reference. Statistics on inter-country differentials in plant size distribution, by industry, can be of great help to the policy-makers and planners in the newly-industrializing countries. This is an area in which international bodies like UNIDO can make a contribution.
- d. The scope of this paper, which is concerned with small-scale industry in Greece, is perforce limited by the data available. No quantitative comparisons with other countries are attempted, and the quantitative evidence used, although sufficient to show the incidence of smallness as well as to highlight the role and problems of small-scale

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2 Ibid., p. 40.

industry in Greek manufacturing, is not adequate to give quantitative support to any preconceptions as to its relative efficiency.

- e. Regardless of such limitations, a discussion of the Greek experience, especially in view of Greece's entry into the E.E.C., we feel, should be of interest to many developing and newly-industrializing countries. By associating herself with the industrialized E.E.C., Greece has chosen to follow a path of economic development which will necessarily impose some major changes in the structure of her economy and in particular of her manufacturing sector. This newly-created situation has naturally affected, and is bound to affect even more deeply, the conditions that govern the life of Greece's small-scale industrial enterprise. And one of the characteristic features of Greek manufacturing, as shown below, is its 'small-scaleness'.
- f. The subject under consideration, we feel, is important to Greece and to all those countries that face or will be facing similar conditions. It is important to assess the role of small-scale industrial production and enterprise in the process of economic development and industrialization, to realize their limitations, and to analyze their problems, so that an appropriate development policy for small-scale industry may be evolved and integrated with an over-all industrialization policy. These issues are taken up in the following three sections. The first section deals with the incidence of small-scale production in Greek manufacturing; the second deals with the role of small-scale production and enterprise in industrial development, and the last section deals with the particular problems of small-scale industrial enterprise and with policy issues. But before proceeding with the analysis, it would be appropriate to say something about the data that have been made use of.

g. The statistics consulted are those that resulted from the last Industrial Census, of the year 1963, and the Annual Industrial Surveys of the years 1963 and 1964. The Industrial Census shows number of establishment, employment, and H.P. installed, broken down by industry. The size distribution of establishments is given by employment and H.P. installed. The Annual Surveys, on the other hand, apart from number of establishments and employment, also show gross value of production and value added, with a partial analysis of these variables. Annual Surveys have however a basic limitation, which is of importance to the subject under consideration; namely that their size distribution is limited to a distinction between 'major' industry (establishments employing 10 persons and over) and 'minor' industry (establishments employing less than 10 persons). 'Minor' industry included, or rather is composed mainly of, small craft and cottage activities.<sup>(3)</sup> Certain other information of a qualitative or quantitative but of a piecemeal nature has been used whenever such information has been judged reasonably reliable.

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3 The available statistical evidence, as far as the subject under consideration is concerned, has at least two major shortcomings. First, instead of the firm or the plant, the unit of activity that both the Census and the Annual Surveys examine is the 'establishment'. Thus for the purpose of this paper the 'establishment' is used as a proxy for 'plant' with the hope that the incidence of multi-establishment plants is not too prevalent or at least not too different among the different plant size groups. The second shortcoming is of a more serious nature because it does not allow comparisons over time. The Industrial Census that had been taken five years prior to the last one was designed on a different base, and as a consequence the two post-war industrial censuses cannot be safely compared. On the other hand, the Annual Surveys began to cover systematically all industry, 'major' and 'minor' only from the year 1963 on. Therefore, no adequate time series of information on small-scale establishments are available.



2. The incidence of small scale production in Greek manufacturing

- a. An atomistic structure characterizes a large number of Greek manufacturing industries. According to the Industrial Census of 1963, the number of establishments that employed less than 10 persons constituted 95,2% of the total number of establishments in Greek manufacturing; so that 'major' industry, according to the definition of Greek industrial statistics, accounted only for 4,8% of the total number of establishments. In other words, a large part of Greek manufacturing is really of small craft or cottage nature. Moreover, of the total number of 'major' industrial establishments (less than six thousand establishments in 1963) 85% employed less than 50 persons. Thus, if in the case of Greece we take the employment of 50 persons as the dividing line between 'small' and 'not small' industrial establishment, then about 99% of the Greek industrial establishments are small. But even if we take into consideration the fact that we are working with establishments rather than plant statistics, and if we try to exclude all those plants that employ less than 50 persons but use 'considerable' mechanical moving power these conclusions will not change much.
- b. The relative position of small-scale establishments in Greek manufacturing is shown by the following figures: Of the total average annual employment in manufacturing in 1963, about 70% was reported in establishments employing less than 50 persons (50% in establishments employing less than 10 persons). Again, about 55% of the total H.P. installed in manufacturing in 1963, was reported in establishments employing less than 50 persons (37% in establishments employing less than 10 persons). Average H.P. installed per establishment was, 3.65 H.P. units for the establishments with less than 10 persons, 42.3 H.P. units for the establishments with 10 and over but less than 50 persons, and 585.4

H.P. units for establishments with 50 persons and over. As to the average H.P. installed per person employed, which may be considered as a very rough measurement of capital-labor ratios in 1963, it was 1.82 H.P. units for establishments with less than 10 persons, 2.23 H.P. units for establishments with 50 persons and over.

- c. The results of a cross-classification of establishments according to the size of employment and the installed H.P. supports, by and large, the choice of the '50 persons' mark as a dividing line between 'small' and 'not small' establishments. With respect to the distribution of small-scale production among the different manufacturing branches, it is observed that while small establishments are widely distributed they are dominant, in terms of their share in total employment, in at least half of the branches (major industry groups). As expected, small-scale plants and atomistic business structure are found in industries with traditional lines of products, or in industries with easy requirements of entry, and where there exist relatively simple technologies of production which can apparently 'compete' with more advanced technologies under certain market conditions, which, by and large, exist in most of the developing countries.
- d. The following table shows the major industry groups in which more than 70% of employment (average for total manufacturing) in 1963, was reported in establishments employing less than 50 persons. The same table also shows the relative importance of 'minor' industry (establishments employing less than 10 persons) in the same major industry groups. The ten major industry groups that reported more than 70% of their employment in small establishments (less than 50 persons) accounted for 77.4% of the total employment in establishments with less than 50 per-

sons in Greek manufacturing. Moreover, they accounted for 2.8% of the total employment in 'minor' industry. On the other hand, the wide distribution of small-scale production in Greek manufacturing is evidenced by the fact that only six out of the twenty major industry groups in 1963 reported more than 50% of their employment in establishments employing 50 persons and over. These were: metallurgy, tobacco, petroleum refining, chemicals, textiles and paper.

- e. The above description refers to the situation that prevailed in 1963. The question raised is whether this situation has changed since. One piece of helpful evidence concerns the number of establishments in the 'major industry' category which started operating in 1964 and 1965. About 8% of the new establishments in 'major' industry (with employment of 10 persons and over), reported employment of 50 per-

"Table 1"

Ranking of major industry groups with more than 70% of their total average annual employment in establishments with less than 50 persons

I.S.I.C. Code	Major Industry Group	% share of total employment in establishments	
		with less than 50 persons	with less than 10 persons
25	wood & cork	95.3	77.5
39	miscellaneous	92.5	74.2
24	footwear & apparel	92.3	79.6
26	furniture & fixtures	91.7	76.6
29	leather & fur	81.3	48.2
20	processed food	77.2	55.6
35	metal	74.8	58.9
33	non-metallic minerals	74.4	41.0
36	non-electric machinery	73.0	38.7
21	beverages	73.0	51.8
	<b>Total Manufacturing:</b>	<b>69.9</b>	<b>49.6</b>

Source: National Statistical Service of Greece, Industrial Census of 1963

sons and over, accounting for 47% of the total employment in the new establishments of the Major industry' category. This is contrasted to the situation prevailing in 1963, when 15% of the establishments in 'major' industry, accounting for approximately 60% of total employment in major industry, were in the '50 persons and over' size group. This may be used as partial evidence, on the one hand that the establishments which started operating in recent years are again predominantly of 'small' size (i.e., with an employment of less than 50 persons) and, on the other hand, that there is within 'major' industry a tendency towards more concentration of employment (and by extension, of production) in the larger establishments (50 persons and over). But to come to a conclusion with respect to recent changes in the pattern of size distribution of establishments in Greek manufacturing, one needs more evidence than is presented here. After all, it is only natural that new industrial plants should grow as they develop their potentialities over time, and there is no reason to expect that the 'larger' new plants would grow faster than the 'smaller' ones.

- f. Another piece of evidence as to recent developments in Greek manufacturing is provided by the licensing data of the Ministry of Industry, which report on the planned new establishments or expansions of industrial enterprises. The distinction made here, and which serves our purpose, is between those cases that require a prior approval (license) and those that are required to simply notify the Ministry of their intentions. This second category of case, although composed of 'small' enterprises, defined as such according to the industry in which they belong, does not include all the manufacturing enterprises that, in terms of their level of employment, could be defined here as 'small-scale'. Nevertheless these data show that the annual expansion of capacity is still and to a large extent carried out by small manufacturing firms. For instance in 1966, out of more than seven thousand cases

of intended establishments and expansions of enterprises in Greek manufacturing, 75% belonged to the category that requires 'no license'. These enterprises accounted for 55% of the total estimated installed H.P. and for 17% of the total estimated value of investment.

- g. The Annual Industrial Surveys, as mentioned above, distinguish between 'minor' and 'major' industry. The results show that during 1964, which had been a year with a relatively high industrial growth, 'minor' industry grew faster, in terms of employment and production, than 'major' industry. Moreover, this growth seems to have been accompanied an expansion of the average size of the establishments of 'minor' industry by an increase in the number of establishments of 'major' industry. The increase in the number of total establishments in Greek manufacturing, between 1963 and 1964, by 0.2%, was accounted almost entirely by the increase in the number of the establishments in 'major' industry, which increased by 3.3%. On the other hand, employment in 'minor' industry increased by 6.6%, as against 2.8% in 'major' industry, and 'minor' industry's share in total manufacturing value added increased from 28.3% in 1963 to 29.5% in 1964. As a consequence, average employment per establishment in 'minor' industry showed an increase of 6.6%, whereas it showed very little change in 'major' industry; and average value added per establishment showed a much faster growth in 'minor' industry than it did in 'major' industry. But, we repeat here, a rapid rate of growth of small-scale enterprises during periods of high industrial growth has been evidence in many countries at different times.
- h. The data that have been presented in this section provide, we feel, adequate evidence of the predominant position of small-scale production and enterprise in Greek manufacturing. One might also take some

of the piecemeal evidence presented here as a slight indication that a change in the size distribution of establishments in Greece manufacturing is taking place. The presumption is that there is a slow trend towards a greater concentration of production and towards a growth of the average size of plants in Greek manufacturing.

3. The role of small-scale industry in industrial development

- a. One often meets the criticism that developing countries are preoccupied with large industrial projects and further that this preoccupation with a limited number of large projects often results in a neglect of the traditional areas of manufacturing activities, where small-scale industry is dominant. Apart from reasons of 'prestige', there are also good economic reasons explaining this attitude. On the one hand, industrial development means, among other things, entering into new lines of production, exploiting local natural resources, and creating import competing and new export industries. To develop new products the less developed countries borrow ready-made methods of production which have been advanced by industrialized countries, and which make liberal use of the factor 'capital'. On the other hand, the developing countries possess limited economic resources such as, savings, foreign exchange earning capacity, 'modern' entrepreneurship and management, etc. If they are devoting their available resources to a number of new large projects which may have an immediate economic impact, such as an increase of resources in short supply, and most probably an increase in the supply of foreign exchange, they are making perhaps the best use of their limited resources. Such an approach to industrial development, however has its shortcomings. One shortcoming is the risk involved in putting all one's eggs in a few baskets. Failure of one big project may momentarily set back the process of industrial development. Further, the postponement of needed improvements in the traditional industries, where the bulk of small-scale industry

usually concentrates, may result in a deterioration of the international competitive position of these industries. But there is yet another and a more general disadvantage in neglecting the areas where small - scale enterprise is dominant, which is missing a chance to have the existing large pool of small-business entrepreneurs-managers, as well as some traditional skills, play a positive role in industrial development.

- b. Constructive criticism as well as experience of developing countries in matters of industrialization have contributed we feel, in recent years, towards a re-appraisal of the role of small-scale industry in industrial development. It seems that there is an increasing awareness of the growth potential that exists within small-scale industry and a realization that this potential could be activated through the proper system of incentives and assistance. Providing a set of conditions conducive to the development of small business is, to-day, widely recognized as one of the functions of modern government, even in highly industrialized countries. Actually, in developed economies there exists a greater ability-economic resources and institutional organization which can be used effectively for this purpose, than is generally available in less developed economies. Thus, the newly-industrializing countries, in order to start providing direct assistance to their small-scale industrial enterprises, must first devise ways through which such assistance can become effective. The general-purpose institutions and agencies that exist at the pre-industrial or initial stage of development are often inadequate to cope with the needs of small-scale industry as well. The reasons for this are not difficult to see. First, the needs and even the very nature of organization of small enterprise (often of a small craft and cottage charac-

ter) are quite different from those of the large industrial firms. The basic differences between 'small' and 'not small' industrial enterprise have led some students of industrial organization to treat small industrial firms as a unique species of industrial organisation<sup>(4)</sup>. Secondly, small-scale industry in less developed economies usually tries to compete with medium-sized and large industry. But the general-purpose institutions and agencies that are supposed to help all industry, small and large, find it easier to devote their efforts to helping enterprises of a 'substantial' size. Moreover, in doing so they may even develop a bias against small enterprises which, after all, compete with their 'clients'. As a result of this attitude, an institutional barrier may be established which may prevent small-scale industry from developing its potentialities. Small-scale industry, to have a chance to develop its potentialities, must to a large extent be provided with institutions of its own.

- c. The role of small scale industry is sometimes described as that of a 'seedbed' of entrepreneurship.<sup>(5)</sup> If such an important role is attributed to small-scale industry, then this 'seedbed' must be given good care. But the role of small scale industry in industrial development must itself change as industrialization makes headway and passes from one stage of development to the next one. At the beginning of the industrialization process, small-scale industry, which may be by and large confined to a number of traditional industries, can play the role of a provider of necessities, the same way that the primary sector

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4 Penrose, Edith Tilton, The Theory of the Growth of the Firm, Basil Blackwell, Oxford (1959) p.19.

5 Stanford Research Institute-International Industrial Development Center, Small Industry Development Organisations, The Free Press, Glencoe, Illinois (1959) p.v.



is expected to contribute to industrial development. At this initial stage of industrialization small-scale industry may operate and even grow in industries where the optimum scale of production and operation is quite large. This could be especially true if the economy is growing at a high rate, because large industry cannot possibly take advantage of all new opportunities that are thus generated. Thus, small-scale industry may increase its share in total manufacturing production, despite existing cost differentials between small and large enterprises in the same industry. When the economy is growing and domestic production is protected, questions of optimality and relative efficiency are usually postponed. They have not yet become a matter of life or death for the relatively inefficient firms.

- d. Experience in Greece supports the above statement. For instance, during 1964, a year of relatively high industrial growth, 'minor' industry has grown, in terms of production and employment, much faster than did 'major' industry. 'Minor' industry in that year contributed 36% of the incremental value added and 74% of the new jobs in manufacturing. Moreover, it achieved these results with the minimum of investment. Only 20.7% of the gross fixed investment in manufacturing in 1964 was contributed by 'minor' industry. Thus, small-scale industry has shown that it can expand its production, at short notice, and with little capital. Yet this expansion of small-scale industry is not explained on grounds of relative efficiency.
- e. As industrialization proceeds, effective competition between 'small' and 'large' industry is expected to increase, especially if the rate of economic growth slows down. Efficiency problems become then of primary importance, and although small-scale production in many industries

may not necessarily be inefficient, existing small enterprises, by and large, will find it necessary to 'modernize' in order to survive. This stage of development is a critical period for small-scale industry. But if domestic industry is still protected against foreign competition the effects of domestic competition alone may be slow in reaching the strongholds of the traditional industries. Meanwhile, new small industrial enterprises, organized on a 'modern' basis, may at this stage, spring up in newly-created industries, as part of large industrial complexes. Thus, a complementary relationship between large and small enterprises may now begin to appear.

- f. Industrialization in developing economies is, as a rule, domestic-market oriented and its main driving force is import substitution.<sup>(6)</sup> But the potentialities of the domestic market, especially of small countries, are not without limits, and for further industrial development, developing countries must after a point start promoting their exports. This means readiness to meet international competition, both at home and abroad, because an export-oriented development policy, to be rational, must affect the hitherto prevailing conditions of production; it means less protection and more efficiency through specialization of production. Some developing countries may choose to face international competition even before their domestic markets act as a constraint to further rapid industrialization. Actually, a gradual relaxation of tariffs and of other import restrictions, could prove more beneficial to industrial development in the long run than measures which introduce sudden changes in the general orientation of economic development. However, the adjustment, that the economy is required to make at this stage

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6 Chenery, Hollis B., Patterns of Industrial Growth, American Economic Review, 51, 624-654 (September, 1960).

of development, whether gradual or sudden, may be painful. Small-scale industry in particular is now required to face both foreign competition and competition from 'large domestic industry. Large industry will be less inclined now to let small industry be.

- g. Greece, by associating herself with the industrial countries of the E.E.C., has chosen to pursue her further economic development under conditions of increasing foreign competition. Under these conditions Greek industrial enterprises must, perforce, turn increasingly their attention to matters of efficiency. Both industry and the Government of Greece are aware of the newly-created problems. With respect to small-scale industry, there is an increasing realization of its weaknesses and awareness that it cannot overcome them without adequate assistance from without.

4. Measures to meet the growing problems of small-scale industry

- a. The necessity to improve efficiency of production and operation of small manufacturing enterprises in Greece comes not only from the changing conditions in the product-markets, as stated above, but from the changing conditions in the factor-markets as well. The E.E.C. is not just a customs union but it provides for a complete integration of the economies of its member-countries. This, among other things, means that there will be a free movement of all transferable factors of production across the frontiers of the member-countries. Even before the establishment of a free movement of labor between Greece and the countries of the E.E.C., Greece has been experiencing a high emigration of workers towards the higher-wage countries of the E.E.C. This phenomenon, together with the relatively high rate of economic growth that Greece has

been experiencing in recent years, have radically changed the conditions prevailing in the Greek labor market, and especially with regard to certain skills, a fact of immediate consequence to the traditional craft and cottage industries. And the question is whether small-scale industry can meet the constantly rising wages. The evidence that exists, and unfortunately statistical evidence as to productivity and wage differentials by size of industrial plants is scanty, shows that average productivity in 'minor' industry is very low. The Annual Industrial Surveys show that average value added per person employed in 'minor' industry was 21 thousand drachmae<sup>(7)</sup> in 1963 and 23.5 thousand drachmae in 1964, as against 64.8 thousand and 70.7 thousand drachmae, respectively for 1963 and 1964, in 'major' industry. On the other hand, average remuneration per paid (by wage or salary) person in 'minor' industry was a little more than half the level of the corresponding remuneration in 'major' industry -- 17 thousand drachmae in 'minor' industry, as against 28.5 thousand drachmae in 'major' industry, in 1964. More importantly, its rate of increase between 1963 and 1964 in 'minor' industry (5.5%), was half the corresponding rate in 'major' industry (11.3%). Although there is a difference in the composition of the labor force between 'minor' and 'major' industry -- for one thing 60% of the persons employed in 'minor' industry are self-employed or unpaid family members, as against 4% in 'major' industry -- nevertheless, the differentials in the rates of increase, in this case, are sufficiently large to be meaningful. Lower productivity and remunerations in 'minor' industry, consistently in all manufacturing branches, are, although not without qualifications, a strong indication that 'minor'

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7 Official exchange rate: 30 drachmae to the \$.

industry is in general less efficient than 'major' industry.

- b. The next question is whether, and to what extent, the entrepreneurs of small-scale enterprises are aware of the situation they are in. From what various spokesmen of small-scale industry, and especially of the traditional artisan trades, have been saying in recent years, one can only judge that there is sufficient awareness of the seriousness of the situation. But awareness of a situation does not also mean ability to cope with the situation. And inability to cope with the new situation is evidenced by the fact that most small-industry associations are pressing the government for action on their behalf. Some of the measures they suggest are of a protective nature and, as such, can only perpetuate inefficiency or at best postpone effective action. But most of the suggestions are of a constructive nature and are immediately connected with the problems of small-scale industry. Some of these problems are of a technical-organizational nature, others are of a financial nature and the rest can be labelled as problems of a general environmental nature.
- c. The average entrepreneur-manager of small industrial enterprises usually devotes most of his efforts to everyday matters. He cannot afford to devote much time to planning major changes. Besides, he does not usually possess the financial means to carry out major alterations, involving methods of production, products, or the over-all system of operation. A large firm, even if it does not possess a planning staff of its own, can hire the services of experts to do a feasibility study on its behalf, and which can subsequently be presented to a bank for a loan. A great number of small industrial enterprises in Greece, even if they could somehow manage to produce a feasible plan of ex-

pansion or renovation, may not get a term loan from a commercial bank, simply because they do not possess sufficient assets to mortgage or place as collateral. The building they occupy may be rented and the mechanical equipment they use may already be worn out. Besides, commercial banks, may shy away from industries with an atomistic structure and a high annual rate of firm turnover, an attitude which may affect even those firms that can show a good record of performance.

- d. As a consequence, there has been a growing realization in Greece that new institutional arrangements are needed to cope with the two major areas in which small-scale industry requires assistance; namely, the technological and the financial areas. In the technological area it has been decided to set up a new Small Industries Development Service, which will be financed partly by the Greek Government partly by the United Nations and which will be organized and administered by I.L.O. Although its various functions have not yet been spelled out in detail, it is understood that its main duty will be to extend technical advice and assistance, free of charge or at a nominal fee, to all small industrial enterprises that seek such advice or assistance. The creation of this new agency will prompt the re-examination of the functions of some of the existing agencies, public or private, which have as their mission the promotion of industrial development, with a view to better coordinating their activities.
- e. A recent development in the area of finance has been the setting up of a special credit system for handicraft industry. The main features of this system are that loans to handicraft industries can be extended by the commercial banks from a special fund, under the Government's guarantee, and at lower interest rates than those effective for industry in general. Loans can be extended to finance plant construction, pur-

chase of machinery and circulating capital needs, as well as the carrying out of feasibility studies with the purpose of promoting mergers and associations. This measure has been the most important one taken so far in favor of handicraft industries, and in essence, in favor of small-scale industry. Small manufacturing firms can now get their development plans financed, to a large extent, through long-term bank loans. It is now necessary that the Small Industries Development Service be set up as soon as possible, so that small manufacturing firms may receive assistance in developing rational plans and make good use of borrowed funds.

- f. When technical and financial assistance to the average small manufacturing firm becomes effective, then the different other privileges that have been granted to handicraft industry, gradually, will have to be removed. These privileges to handicraft industry are in the form of exemptions from all or part of the turnover tax, from the social security employers' contributions, etc. Again, bookkeeping regulations for small firms are less stringent, and on the whole, small-scale industry is less regulated and controlled by the government. All these privileges, or indirect subsidies to handicraft industry, give a cost advantage, to small manufacturing firms, which advantage, depending on the manufacturing activity in which small-scale industry operates, could amount to 10%, or even more, of total unit costs. The removal of these privileges to handicraft industry is justified, not only on grounds of 'fairness' to 'large' industry, but even more importantly, because they act as a disincentive to the normal growth and development of small enterprises. As long as they enjoy the privileges of 'smallness' they may not expand, or if need be, they will set up another independent small enterprise.

- g. Notwithstanding the necessity to provide small-scale industry with its own institutional arrangements, the development of small-scale industry should become part of the over-all industrial development effort. The incentives and disincentives which direct the allocation of economic resources to the desired areas of activity should not make any sharp distinctions between 'small' and 'large' productive units. A small-scale industry policy should assist small firms to overcome their problems and weaknesses, but otherwise should leave them open to competition with the larger industry. The government of developing countries can assist small-scale industry by taking certain general measures that cannot be interpreted as granting privileges to small industry. General measures in favor of industry are normally more helpful to the small and medium-sized industrial firms than they are to large ones. A large industrial firm would normally take care of the details of planning and carrying out of a new installation by itself; it will choose a suitable location and it will develop, if need be, the necessary infrastructure and the ancillary facilities that suit its purpose; it will train or retrain its workers; etc. Such activities are beyond the grasp of small and medium-sized industrial firms.
- h. In the case of Greece the newly-created dynamic market conditions require direct government action in the areas referred to above. First, there is a need for an expansion of the industrial workers' technical training and retraining programs that are sponsored by the government. The development of a rational long-run system of technical training of industrial workers is not an easy task when the future industrial skill requirements are uncertain. International agencies, such as the I.L.O., should be prepared to provide assistance to developing



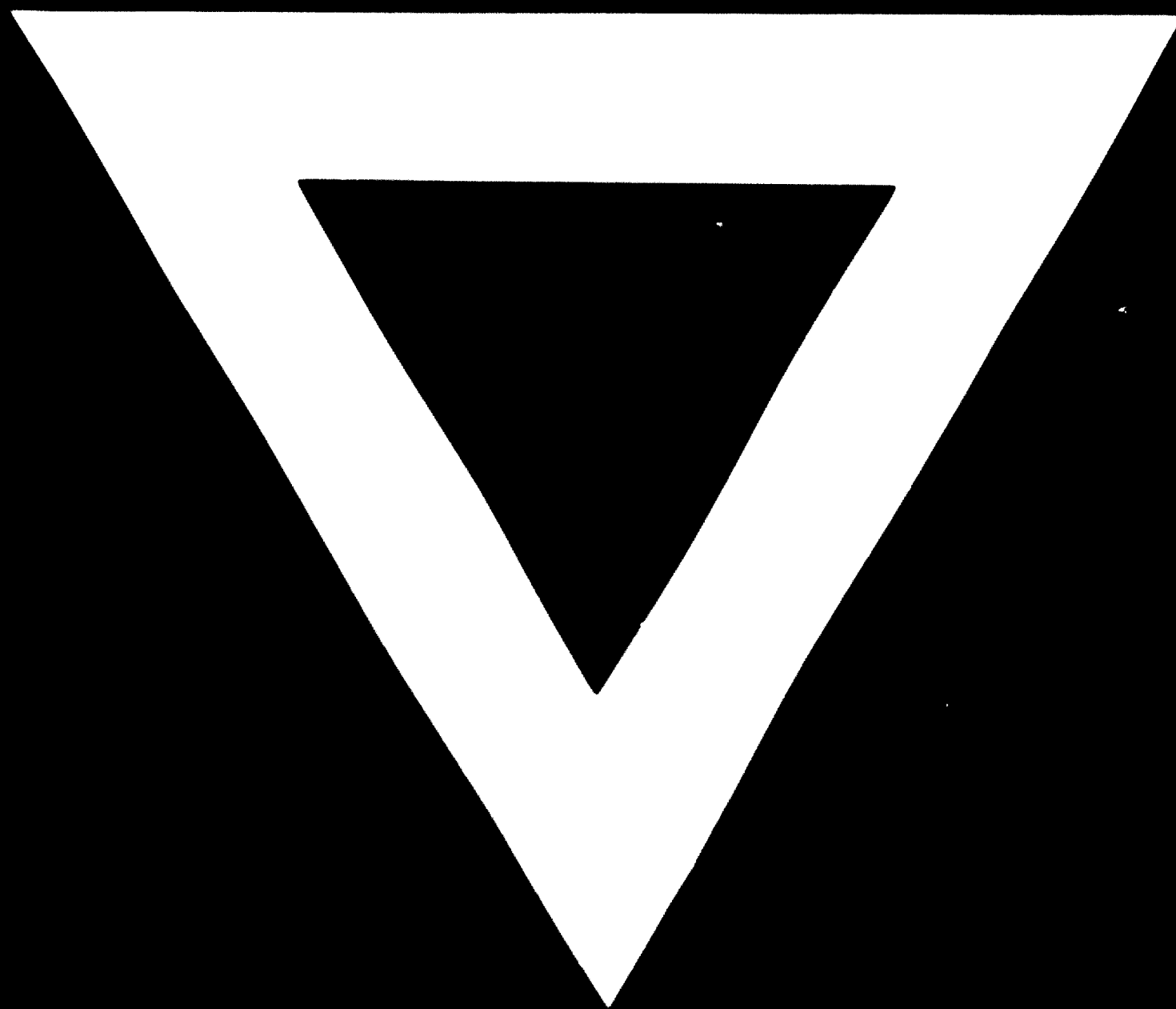
countries in this area.

- i. Secondly, another important area of public action concerns the organization of suitable industrial locations. Setting up industrial estates is actually a method to provide small and medium-sized industrial establishments with the necessary infrastructure and social overhead services in an economical way. A program of establishing industrial estates in a number of urban centers of Greece is in progress. The overwhelming importance of small-scale industry in several branches of Greek manufacturing, and the pressing necessity to 'modernize' and 'rationalize' industrial production in these branches, suggest the creation of some single-trade industrial estates, apart from the general-purpose ones. Single-trade industrial estates could be used as a means of 'rationalizing' the production of several of the traditional industries. Proximity, coupled with the right policy, should create the usual economies of agglomeration, encourage associations and mergers between small and medium-sized enterprises, as well as promote standardization of production, sub-contracting, and exports. Progress in these fields by small-scale industry can only be slow if its present spatial distribution continues to exist.
- j. What has been said above by no means exhausts the analysis of the particular problems that small-scale industry faces in a changing environment, nor does it exhaust all the suggestions as to the ways and means by which these problems can best be met. But what has been said here, we feel, has sufficiently highlighted the main areas which demand the increasing attention both of students of industrial organization and development, as well as of the national and international industrial development agencies. Moreover, we feel that the role of small-scale

industry in industrial development, as a topic of universal interest, should become the subject of further serious examination, before developing countries could turn their attention to devising long-run policies to assist their small-scale industrial enterprise.

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