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D01941

United Nations Industrial Development Organization



Distr.
LIMITED

ID/WG.70/3
22 October 1970

ORIGINAL: ENGLISH

Training Workshop for Managerial Staff
of Chambers of Industry in Africa
Addis Ababa, Ethiopia, 7 - 12 December 1970

PROBLEMS OF FINANCIAL MANAGEMENT OF ^{1/}
CHAMBERS OF INDUSTRY IN AFRICA

by

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Introduction: General Considerations

Management is an art. It reflects the personal attributes and behaviour of the manager as well as his technical qualifications. A successful manager is one who combines a balanced attitude, a reasonable insight and a clear vision. But he must also be conversant with the business he manages. His ability to deal successfully with his business problems is a function of these qualities.

In any search for treatment of the problems of financial management of chambers of industry in Africa, the key issue is that of selecting a suitable manager. He need not be a financial specialist. Indeed, most chambers would not be able to afford paying for the services of a financial specialist. The problems which the officer responsible for the financial management of the chamber of industry has to grapple with differ from those confronting the management of the industrial enterprises which the chamber is called upon to guide and serve.

The chamber of industry in the present African scene is a service institution whose finances are not entirely governed by professional considerations. They are greatly affected by political and economic factors of the environment. Hence, to identify problems of financial management and to treat them successfully must be based on a careful analysis of these factors. The task is essentially a field operation.

UNIDO Initiative

That is why the initiative of UNIDO in organising the first Training Workshop for Managerial Personnel of Chambers of Industry in Africa is both welcome and timely. For although there is widespread acceptance of the view that these chambers have an indispensable role to play in the industrialization of their respective countries, it is unwise to assume that the nature and scope of that role are well defined everywhere. Participants in the Workshop will no doubt be able to exchange their experiences and also to bring into the discussion concrete problems of management including financial management.

The Workshop should also help to remove much of the misconception that inhibits the healthy growth of these chambers and thus enable a working definition to be made of the role which these institutions would play in the present African scene. An African chamber of industry could and should become an effective instrument of mobilising the industrial community for the cause and achievement of a rapid and balanced industrial development. Perusal of the annotated agenda of the Workshop reveals at once the nature and scope of the services which chambers of industry and similar institutions may undertake on behalf of their members, or for their benefit, in specific activities related to the acceleration of industrial development. These services may have to be extended to the field of international technical co-operation, in which the efforts of the chamber of industry will be most valuable. But to carry out its functions, the chamber requires adequate financial resources in regular flow.

Adequacy of Financial Resources

How to raise the necessary funds is the basic problem of financial management. An active agency responding to an economic need usually stimulates the beneficiary to underwrite its cost. The practical validity of this claim is somewhat doubtful in regard to chambers of industry in African countries. It has to be tested in reference to the relevant environmental factors. It may be useful to digress and consider briefly those of environmental factors that are of general application.

CHAPTER I

Evolution of African Chambers

It is noteworthy that few chambers of industry in Africa exist as institutions separate from chambers of commerce. This alliance is quite significant, though it might not have been so when it started. It is recalled that industrial development in most African countries is of recent origin. The title of "Chamber of Commerce and Industry" was often used as a matter of emulating similar institutions in the metropolitan country. Now, the alliance may prove to be a compelling necessity in view of the fundamental inter-relationship of trade development and industrial promotion, lack of adequate resources of men and material, need of avoiding fragmentation of institutional structure, etc.

It is also to be noted that such industrial enterprises as were established prior to independence, were wholly or largely owned by foreign interests. They were mostly outposts, designed to exploit mineral resources or to undertake the processing of raw materials intended for exportation. In a few cases foreign enterprises were sufficiently numerous to warrant a separate chamber of industry or an industrial association.

In the new era of independence, most African states had to face the complex task of nation-building. They became committed to accelerated economic development for which they planned programmes of industrialization. In the meantime, little attention was paid to the potentials of chambers of industry or similar institutions. The apparent apathy had, however, gradually changed into acknowledgement of the role of these chambers in industrial development. And by the time UNIDO held the first International Industrial Symposium at Athens in 1967, the acknowledgement was almost universal. A special resolution of the Symposium drew attention to the indispensable role of the chamber of industry in industrial development and called upon UNIDO to offer them technical assistance.

The Legal Status

This change of attitude is likely to affect the legal status of the African chamber of industry, that is to say, whether it is to be finally incorporated as a voluntary association under common-law or as a statutory body with well-defined responsibilities and functions. The type of legal status affects both the role and the finances of the chamber.

As a voluntary association, the chamber of industry must depend almost entirely on the voluntary contribution of its members. Its very existence presumes a degree of industrial development in which independent industrialists control a substantial proportion of industrial production. In other words, there is a fairly active private sector to support such an association. It is true that under whatever title they emerged, the African chambers of industry were mostly the heritage of the pre-independence era. They have become closely associated with the promotion and protection of private enterprise. This link is also reinforced in another way.

Since members of the chamber of industry are employers of labour, their organisations are treated as autonomous employers' organizations coming within the purview of the international labour conventions concerning freedom of association.

Be that as it may, the economic and political climate in Africa hardly favours the rapid growth of chambers of industry under a voluntary incorporation system. The public sector in most African countries represents a preponderant, or at least a substantial, segment of the industrial activity. Its active participation in a privately managed chamber is a remote possibility. Nor is it reasonable to expect such a chamber to play the role to which reference was made in earlier paragraphs.

Furthermore, the government may wish to entrust the chamber of industry with specific tasks such as administration of certain services or undertakings of a public utility nature. It could hardly do so if the chamber were a private body.

In the circumstances, it would appear that the rise of the chamber of industry to the position of an influential national institution under the status of a voluntary association is very limited indeed. It will have neither its own potential nor the legal and administrative facilities which only the government may offer to a public body.

CHAPTER II

Scope and Problems of Financial Management

The scope of financial management of a chamber of industry must correspond to the services it undertakes. Participants in the Workshop will have ample opportunity to appreciate the dimensions of the field operation of the chamber of industry when they discuss the different services which it can perform. By the same token, they will also appreciate the need for sound financial administration and control. The attendant problems are commonplace enough, but their treatment requires careful handling if the chamber is to become an effective and efficacious national institution.

Manifestly, financial management must deal with the cost estimates of the services it performs, and the wherewithal of covering this cost. The two exercises involve many problems. Those connected with income raising are normally the more crucial. It is perhaps more appropriate to consider them first.

Broadly speaking, the sources of income of a chamber of industry are not uniform in each case. They vary from country to country. A brief analysis of each source will bring out the relevant problems which financial management will face.

1. Annual Subscription

This is the most usual method of raising funds by the chamber. Although a flat rate is not unknown, it is usual to assess members' fees on the basis of their importance, using for this purpose the criterion of sales or production capacity. This applies to both the voluntary and the statutory type of chamber. It should be noted, however, that in the case of voluntary incorporation, certain problems are likely to arise. By definition, membership is voluntary. Hence, adherence must depend on the appreciation by individual members of the advantages which each will obtain. Without inculcating a strong sense of common interest, or without a powerful influence of a tradition for institution-building, it may be very difficult to persuade the new class of entrepreneurs in Africa to join an expensive chamber of industry. If they are persuaded at all, their contribution may fall very short of its financial requirements.

If the chamber is a statutory body, its membership is usually mandatory. Assessment of members' subscriptions is enforceable by law. There is at least one instance of statutory incorporation where the annual fee provision is replaced by a special tax on industrial and commercial profits. This procedure may be expedient during the early years of independence because it obviates difficulties of "enrolment" of members, assessment and collection of fees. But it has a great disadvantage in as much as it reduces the sense of involvement or of belonging, which individual membership fosters.

2. Donations

It is customary, in the articles of association of the voluntary chamber or the charter of the statutory one, to provide for the receipt of donations from members, subject to the approval of the board of the chamber or its general assembly. This could prove a very important source of finance, especially where there is disparity in the importance of members or their ability to contribute.

3. Special Levy

The use of special levy is not an uncommon practice. It is deemed effective, and convenient too, in cases of initiating collective actions of a non-recurrent nature. For instance, a special levy or collection could be used for the purpose of organising missions abroad, holding a conference or a technical meeting, receiving foreign missions, subscribing to a national cause, etc.

4. Service Charges

In some cases, chambers of industry may be authorised to perform services to the benefit or on behalf of, their members. These services may entail out-of-pocket expenses or the engagement of consultants. The beneficiary is required to pay the cost. This source is not likely to be very important.

5. Management of Enterprises

It is not unknown in African countries that the government entrusts the chamber of commerce and industry with the promotion and management of public utility undertakings. It may even be permitted to set up commercial and industrial enterprises. Although the chamber is a non-profit-making body, its activities in this field may produce substantial financial surplus each year, enabling it to perform other free services or costly functions.

It will be readily acknowledged that the incursion of the chamber of commerce and industry into the field of promoting and managing commercial and industrial enterprises, which may be defended as a temporary expedient or as a guide and encouragement to entrepreneurs during the early stages of economic development,

is hardly consistent with the role of the chamber as a service institution for industrial development. This incursion should be discouraged. At any rate, it will raise the usual financial problems facing commercial and industrial enterprises, a situation with which the chamber is not qualified to deal. Indeed, the efforts of resolving these problems may well undermine the performance of other functions by the chamber.

6. Government Subsidy

The reasons for the expectation that the growth of chambers of industry will be conditioned by their legal status as statutory bodies, are also valid in respect of the willingness of governments to subsidise these chambers. The services of the chambers may become so multifarious and their frequency so difficult to anticipate that the usual cost estimation fails to provide for emergency financial calls. Or the regular sources of finance may be temporarily or permanently inadequate. The Treasury must step in to cover the deficit. After all, the chamber is performing a national service. It has the right to expect state aid.

7. International Financial Aid

Reference was made in an earlier section to the resolution of the Athens Symposium concerning the aid that may be offered by UNIDO to chambers of industry so as to enable them to play their indispensable role in the industrial development of their respective countries. The aid envisaged in this resolution is technical assistance. It involves no direct financial contribution.

Now mention has been made, in the Provisional Annotated Agenda of the Workshop, of the possibility of obtaining direct financial assistance from international or regional kindred associations. On the face of it, the possibility seems to be rather remote. The first difficulty is to find the kindred association that has the fund. Then the government attitude of the country of the would-be recipient chamber may cause very delicate political considerations to supervene.

What seems to be a more practical approach to secure financial assistance from international and regional associations and organizations, is to evolve a co-operative system for sub-contracting the preparation of studies or the performance of services relating to approved projects of technical co-operation. In playing the role of a promoter of industrial development, the chamber of industry acquires the experience and competence to undertake technical studies and services required for the preparation and implementation of technical co-operation projects. The executing agencies could, with great advantage, make use of this possibility. At least it is a possibility worth exploring.

Estimates of Expenditure

The services which the chamber of industry can be made to perform are varied and often highly technical. It may not be possible for the chamber to engage full-time workers to perform all the technical services. Neither the financial nor the human resources available, nor even the required frequency of performance, will ensure the full employment of full-time technicians.

Accordingly, the chamber must rely on outside collaborators or professional consultants possessing special expertise. They have to be paid fees, whose prior estimation presents a very difficult problem.

On the other hand, the chamber may have, among its members and office holders, highly qualified individuals. They can be relied on to serve on technical committees or to undertake personal assignments. This possibility, though it offers no complete substitute for the consultants, may well reduce the need for the latter.

Finally, the overall problem of financial management is, of course, to present a budget embodying the expenditure it estimates for the performance of the services and the revenue it expects with proposals for stimulating such revenue.

Summary and Conclusions

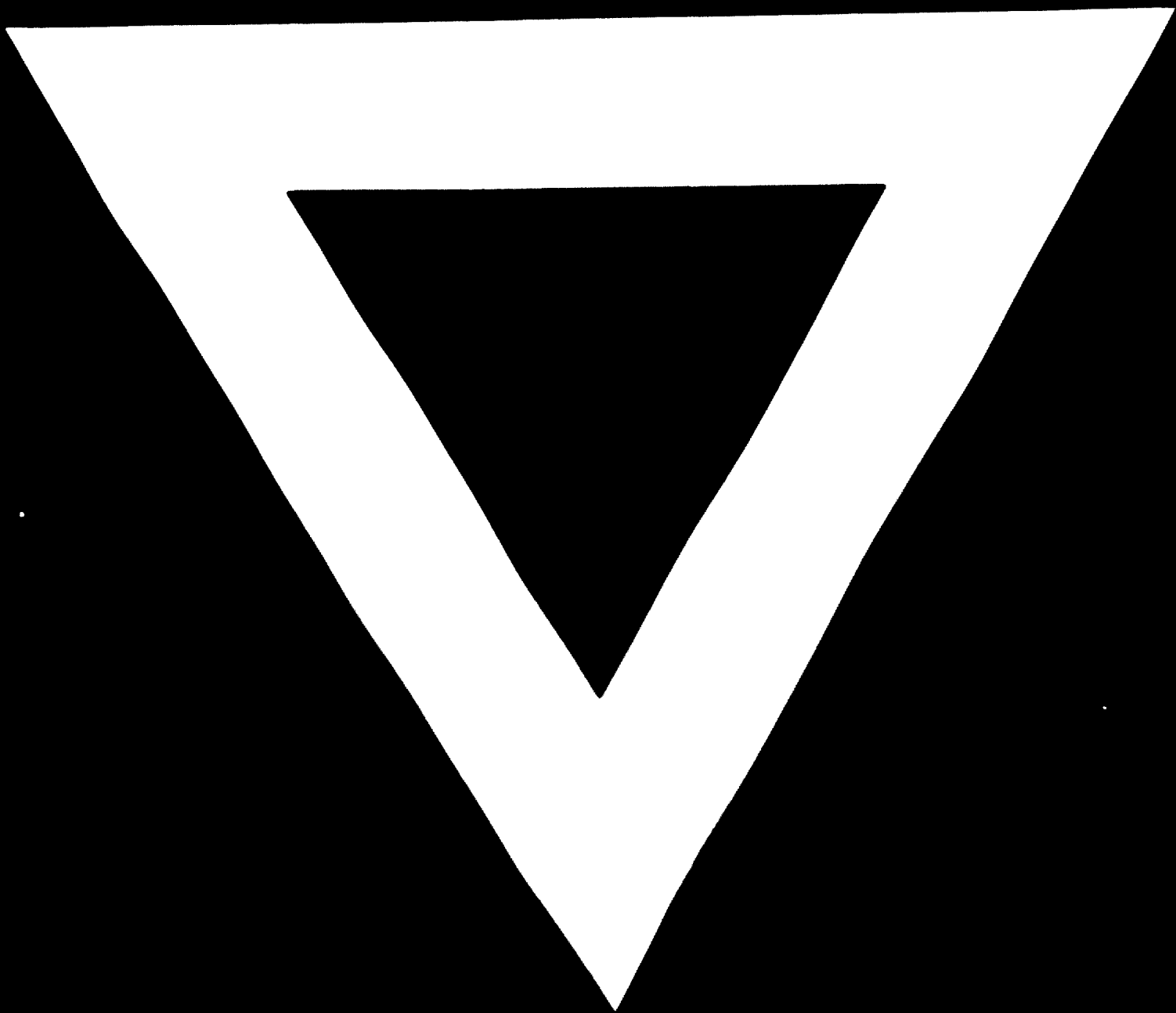
These are the principal problems peculiar to the financial management of the chambers of industry and similar institutions in the African region. Questions pertaining to the observance of financial rules and regulations including internal control and outside audit, have not been considered in this discussion paper. They do not raise special problems.

To recapitulate, it is recalled that treatment of the special problems of financial management of chambers of industry and similar institutions must be related to politico-economic factors of the environment. There are encouraging signs of widespread acknowledgement of the indispensable role of these institutions in the industrial development of their respective countries - and possibly as means of fostering regional and international co-operation. It appears that statutory incorporation will be the normal type of development.

The business of financial management is determined by the scope and contents of the tasks entrusted to the chamber as a service institution. Seven principal sources of finance have been analysed, but the proper assessment of any one of them can only be made according to the circumstances of individual cases. Otherwise one risks unrealistic conclusions.

Special attention is, however, invited to the suggestion that direct financial aid may be forthcoming from regional and international kindred associations. It has been submitted that this suggestion may raise political issues and create nationalist opposition. An alternative suggestion has been made. It aims at evolving a co-operative system for sub-contracting for the preparation of studies and the performance of services relating to approved technical co-operation projects.





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