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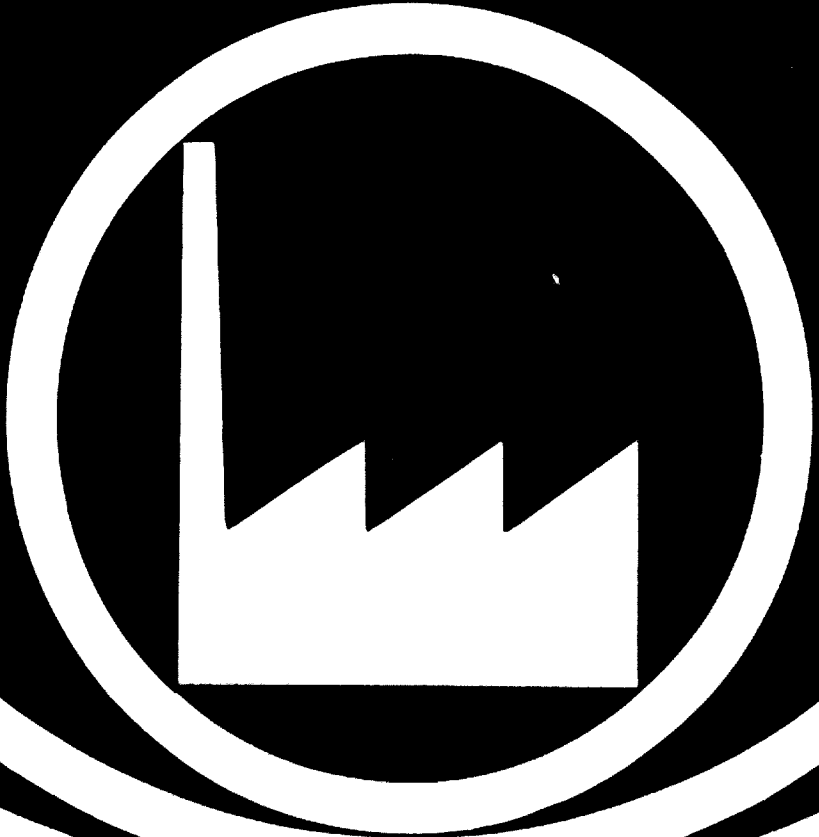
SMALL-SCALE INDUSTRIES IN ARAB COUNTRIES OF THE MIDDLE EAST



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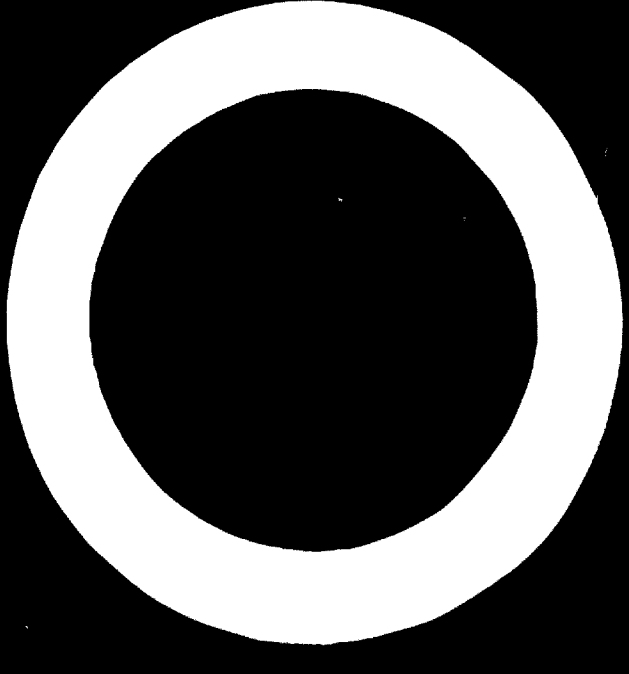

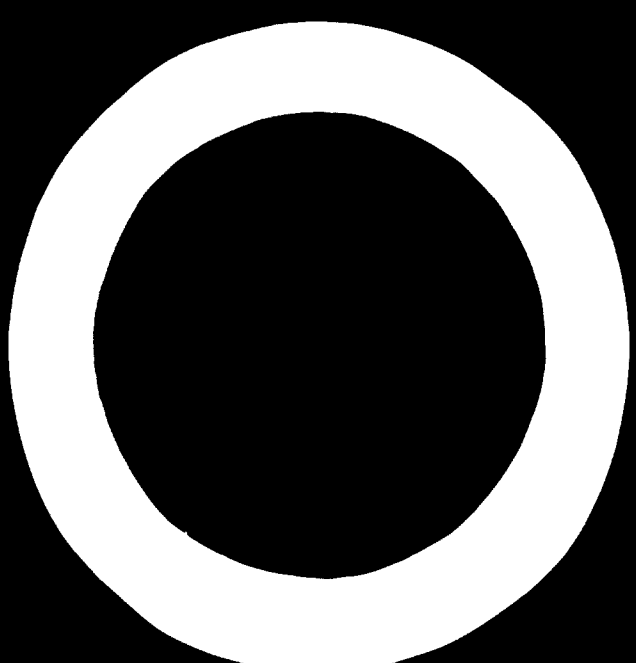

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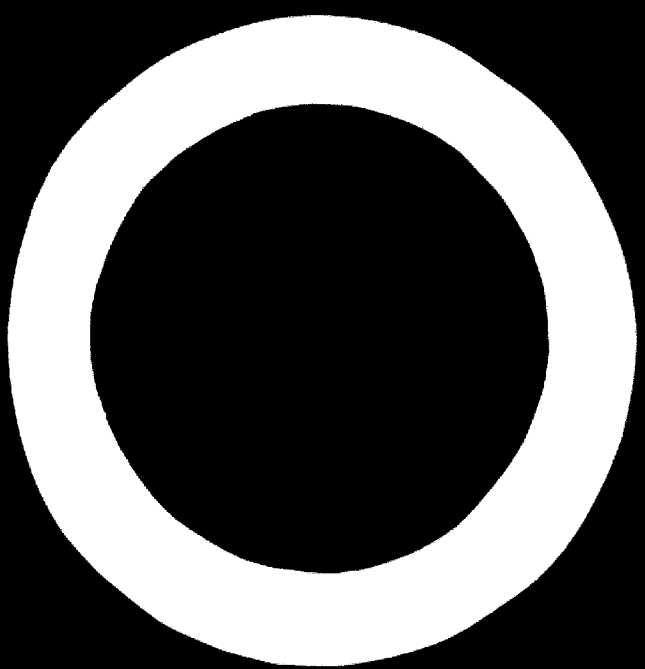

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
VIENNA

Small-Scale Industries in Arab Countries of the Middle East

Report of the Expert Group Meeting
held in Beirut, Lebanon, 11—15 November 1968
and selected papers presented to the meeting

UNITED NATIONS
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FOREWORD

THE PRESENT VOLUME is the second publication of the United Nations Industrial Development Organization (UNIDO) that deals with problems of development of small-scale industries in Arab countries of the Middle East.

The first publication, *Industrial Estates in Europe and the Middle East* (ID/4; United Nations publication, Sales No.: 68.II.B.11), includes the report of the United Nations Consultative Group on Industrial Estates and Industrial Areas in Arab Countries of the Middle East that met in Beirut, Lebanon, from 31 October to 5 November 1966, and several papers presented to that meeting. That Group included participants from Iraq, Jordan, Kuwait, Lebanon, Saudi Arabia and Syria. The report of the Consultative Group presents findings and recommendations on various aspects of the planning, construction, organization and management of industrial estates for small-scale industries in this group of countries. Since industrial estates are one among several means of promoting small-scale industries, and since industrial estates can only be effective if they are supported by complementary measures of assistance, their development was considered by the Consultative Group within the framework of general policies and programmes for the promotion of small-scale industry.

Two years later, in November 1968, in order to provide a more comprehensive set of recommendations on this subject, UNIDO joined the United Nations Economic and Social Office in Beirut (UNESOB) in convening an Expert Group Meeting of Small-Scale Industries in Arab Countries of the Middle East. The meeting was held in Beirut from 11 to 15 November 1968, and was attended by participants from Iraq, Jordan, Lebanon, Saudi Arabia and Syria. The report of the meeting and three of the documents presented are included in the present publication.

The report of the Group (Part I) presents findings and recommendations on policies and programmes for the development of small-scale industries, the transition from artisan activities to modern small-scale manufacturing, promotion of entrepreneurship, technical services for small-scale industries, financing of small-scale industry, and regional and international co-operation in the field under consideration. Annex 1 of the report is a paper on the establishment of a multinational centre for industrial development with a special department for small-scale industry.

Together, the report presented in Part I of this publication and the report of the 1966 meeting present a broad statement of issues and a comprehensive

set of recommendations for the promotion of small-scale industry on which government policies and programmes could be based. While both reports have been drawn up with a view to meeting needs and conditions in Arab countries of the Middle East, their conclusions appear to be applicable in other developing countries at similar levels of industrial development and with comparable resource endowments.

The paper on "Situation, problems and prospects of small-scale industries in six Arab countries of the Middle East", prepared by E. Asfour, contains a statistical survey of small-scale industries, an analysis of their problems, an account of government policies and incentives, and an outline for a programme of promotion and assistance.

The paper entitled "A comparative analysis of small-scale industries in Arab countries of the Middle East and in other selected countries", prepared by UNIDO, complements the preceding one in providing an analysis of the structure of small-scale industry in these and other countries, both developing and developed.

The paper on "The future of the traditional sector in an industrializing economy", also prepared by UNIDO; discusses the scope for artisan, handicraft and other traditional activities in a modernizing economy, with a view to providing some guidance for government policy and action within the framework of over-all industrialization programmes.

A number of the discussion papers presented to the meeting of the Expert Group have been published by UNIDO in *Technical Services for Small-Scale Industries* (Sales No.: 70.II.B.19).

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EXPLANATORY NOTES

Reference to dollars ($) is to United States dollars. One cent (¢) equals $0.01. Three dots (. . .) indicate that data are not available or are not separately reported. A dash (—) indicates that the amount is nil or negligible.

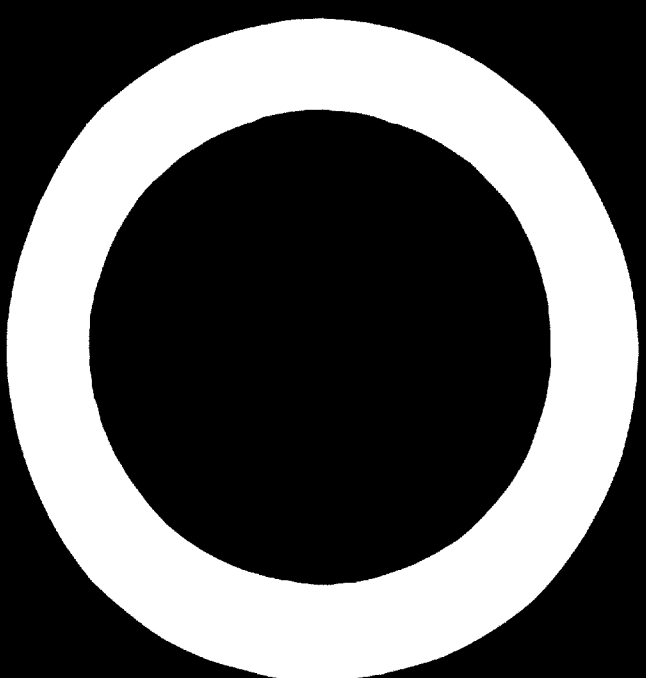
ABBREVIATIONS

United Nations

ECAFE	Economic Commission for Asia and the Far East
UNESOB	United Nations Economic and Social Office in Beirut
UNIDO	United Nations Industrial Development Organization
UNDP	United Nations Development Programme
UNDP/SF	United Nations Development Programme, Special Fund component
ILO	International Labour Organisation
FAO	Food and Agriculture Organization of the United Nations

Other

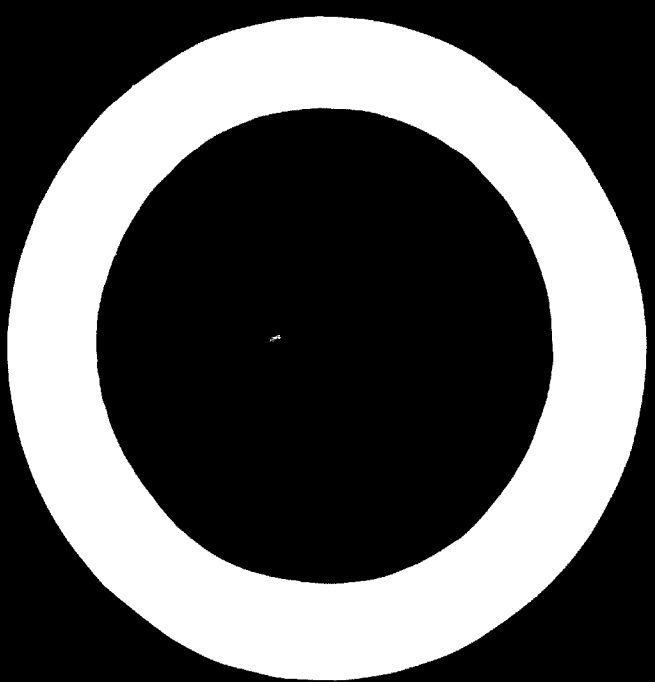
BCAIF	Agriculture, Industrial and Real Estate Credit Bank of Lebanon
GNP	gross national product
hp	horsepower
ISIC	International Standard Industrial Classification
kWh	kilowatt hour
LPG	liquefied petroleum gas
MW	megawatt
£E	Egyptian pound
PVC	polyvinyl chloride



PART I

Report of the Expert Group on the Development of Small-Scale Industries in Arab Countries of the Middle East

Beirut, Lebanon, 11—15 November 1968



INTRODUCTION

1. The Expert Group Meeting on the Development of Small-Scale Industries in Arab Countries of the Middle East was held in Beirut, Lebanon, from 11 to 15 November 1968. The meeting was sponsored jointly by the United Nations Industrial Development Organization (UNIDO) and the United Nations Economic and Social Office in Beirut (UNESOB).

2. The meeting was attended by eleven participants from five countries: Iraq, Jordan, Lebanon, Saudi Arabia and Syria; by staff members and consultants of UNIDO and UNESOB; and by representatives of the International Labour Organisation (ILO) and of the Food and Agriculture Organization of the United Nations (FAO). A list of participants is given in annex 3. Mr. Igor Krestovsky, Chief, Small-Scale Industry Section, UNIDO, and Mr. Tran-Le Quang, Regional Adviser in Industrial Development, UNESOB, served as Co-Directors of the meeting.

3. Mr. Ihsan Beydoun, Director-General, Ministry of National Economy, Government of Lebanon, delivered the inaugural address on behalf of the Minister of National Economy. He expressed his satisfaction that the meeting was being held in Beirut and extended a warm welcome to the participants. He felt that since the greatest part of the manufacturing sector in the region consisted of small-scale industries, the deliberations of the Expert Group would be of great value for the promotion of industrial development in the Middle East. He thanked UNIDO and UNESOB for organizing the meeting and extended his warmest wishes for its success.

4. Welcoming the participants, Mr. Jean-Pierre Martin, Director, UNESOB, pointed out that this was the second meeting on small-scale industry organized in Beirut for the same group of countries. The first meeting, held in 1966, dealt primarily with industrial areas and industrial estates for small-scale industries. The present meeting would consider problems of small-scale industries within a broader framework. It brought together senior government officials from a group of countries facing similar problems, United Nations experts on assignment in those countries, and staff members and consultants of UNIDO, UNESOB, ILO and FAO, all of whom were actively engaged in various aspects of the development of small-scale industry. He expressed the hope that the deliberations would lead to practical conclusions for the promotion of this important sector of the economies of the countries participating in the meeting.

5. The following message from Mr. I. H. Abdel-Rahman, Executive Director of UNIDO, was conveyed to the meeting:

> "I am very glad to extend my warmest welcome to participants attending this meeting of experts on the development of small-scale industries in Arab countries of the Middle East. The United Nations Industrial Development Organization has been closely co-operating with the United Nations Economic and Social Office in Beirut in assisting the countries of this region in their efforts to accelerate industrialization. The present meeting is a follow-up of the Consultative Group on Industrial Areas and Industrial Estates for the same group of countries which met in Beirut two years ago. I am happy that the agenda for the present meeting is broad-based and includes, besides a review of policies, programmes, institutions and facilities for the development of small-scale industries, measures for the promotion of entrepreneurship, provision of technical services and financing of small-scale industries, as well as regional and international co-operation in this field. Modern small-scale industries will have to play an increasingly important role in the economies of the countries of the region, not only for providing increasing employment at a higher level of income, but also for filling critical gaps in the industrial structure of these countries and for accelerating the rate of growth. I hope the conclusions of this meeting will be pragmatic and realistic and will lead to increased efforts—regional and international—for the development of small-scale industries in the region."

6. Mr. Krestovsky pointed out that the major theme of the meeting would be the promotion of small-scale industries through the establishment or strengthening of industrial extension services and of financing facilities. Having regard to the considerable role of the traditional sector—artisans and handicrafts—in the countries of the participants, the meeting would also consider the problems of this sector and the measures required for integrating it in a modernizing economy. It was expected that the meeting would provide expert knowledge of the conditions prevailing in the region and the needs of small-scale industries; this would make it possible to draw up conclusions on the measures required—at the national, regional and international levels—for the establishment of new small-scale industries and the modernization of existing ones in the countries of the participants. It was further expected that the conclusions of the meeting would provide authoritative guidance to the Governments of the countries of the participants as well as to United Nations technical assistance experts working in these countries. It was probable that these conclusions would be of more than regional significance and would be applicable in other countries at a similar level of development.

7. The provisional agenda was adopted. (See annex 4 of Part I.) A list of discussion papers, background papers and country papers presented to the meeting is given in annex 5 of Part I.

8. The report of the Expert Group was adopted on 15 November 1968. The closing addresses were delivered by Mr. Martin and Mr. Krestovsky.

POLICIES, PROGRAMMES, INSTITUTIONS AND FACILITIES IN THE COUNTRIES OF THE PARTICIPANTS

9. The debate of the Expert Group opened with a discussion of the definition of small-scale industry. There was agreement that small-scale industry should be distinguished from medium-sized and large-scale industry on the one hand, and from cottage industries and handicrafts on the other, because its problems are distinctive and call for special measures of promotion and assistance. Small-scale industry is characterized by shortage of capital, inadequate level of technological and managerial skills, frequent use of inefficient machinery, difficulties in marketing and distribution and other factors associated with small size, which explain the low level of productivity of its workers. The purpose of a definition of small-scale industry is to identify that part of the manufacturing sector that would be entitled to certain measures of promotion and assistance provided by the Government.

10. The Expert Group agreed that small-scale industry should be defined to include those industries using modern technology, but in which employment and investment in fixed capital are modest. The actual quantitative limits adopted to distinguish small-scale industry from handicrafts on the one hand and from medium-sized and large-scale industry on the other vary from country to country. These limits should be determined with a view to encouraging development and growth. The ceilings on employment and investment should not be too low in order to foster both industries using labour-intensive methods of production and industries using modern equipment and machinery.

11. In the countries of the participants, the small-scale industry sector coincides very largely, though not exactly, with the group of establishments employing more than 5 and fewer than 50 persons per establishment. More information must be collected on fixed capital invested in industry if a more exact statistical picture of the group is to be drawn.

12. A review of small-scale industries in these countries reveals that, compared with large industry, they show lower average wage and output levels per employee, lower average value added per employee, and less capital per worker. It also shows that small-scale industry is almost exclusively a private enterprise activity in most of the countries of the area. Small-scale establishments are owned mostly by individuals and partnerships, or, in the few cases where they are incorporated, they tend to be closely held by a few persons.

13. It was noted that small-scale industry shares with industry of all sizes such problems as narrowness and structural weakness of the market, insecurity of investment, low levels of management and labour skills, shortage and high cost of capital and generally high cost of production. However, small-scale enterprises suffer more acutely from these problems in most groups of industry, though not in all of them. They suffer particularly from the inadequacy of specialized management assistance and of supporting advisory and research services in such fields as economics, planning, accounting, marketing, technology and production methods. Sources of funds available to small-scale industries, whether

for capital investment or to supplement working capital, are far from adequate; commercial banks, development corporations, government or foreign investors tend to prefer to provide financing to large industry. The narrowness of the domestic market limits the possibilities of growth of both large and small industry, and the slow growth of large industry itself limits the extent of growth of ancillary small-scale industries that could supply large industry with component parts or with specialized products. Small-scale industries are less capable of independently overcoming weaknesses in the marketing structure or of making efficient use of marketing techniques or of specialized marketing services. These problems of small-scale industries are reflected, in the final analysis, in lower average output and lower average value added per employee.

14. The Expert Group emphasized that the Government has a primary role to play in drawing up plans and programmes for the development of small-scale industry. It noted that in the countries of the participants, the existing legislative framework within which industry is to be developed has no distinct provisions for the promotion of, or assistance to, small-scale industry. Similarly, economic development plans rarely concern themselves specifically with small-scale industries. On the other hand, the need for government assistance is more strongly felt in the small industry sector, which is both weaker than the large industry sector and is less capable of resolving its problems with its own limited resources. Government assistance is particularly needed at the early stages of industrial development and until small industries grow strong enough to help and support themselves.

15. It was noted that the promotion of small-scale industry in the Arab countries of the Middle East depends to a great extent on the achievement of an atmosphere of security and confidence in the private sector. Measures that help to increase the confidence of private entrepreneurs in the future growth of the economy and the security of investment are therefore essential to any promotion policy.

16. The Group recommended that each Government promote the establishment and expansion of small-scale industry by creating an appropriate agency, if need be within an industrial development authority of broader scope, and by co-ordinating the programmes and facilities offered by various specialized institutions which could contribute towards the development of small-scale industry. The industrial development authorities in the countries of the participants would seem to be natural candidates for undertaking certain tasks relating to small-scale industry development in such fields as planning and programming, carrying out economic studies; and co-ordinating, in conjunction with the planning authorities, the activities of the various specialized institutions dealing with specific aspects of industrial development, such as industrial credit institutions, urban planning and industrial estate authorities, industrial research institutes, industrial management training centres and vocational schools.

17. The Expert Group noted that while small-scale industry is subject to the general legislation and regulations affecting industry, in particular to tax and tariff legislation, it enjoys few of the specific measures of support from which large industries benefit, such as financial aid, tariff exemptions, concessionary conditions, preference in government purchases, help in obtaining land and in

undertaking feasibility studies, and provision of facilities for management training.

18. In no country in the region are special privileges given by law to small-scale industry in respect of income tax exemptions; on the contrary, various legislative provisions exclude many small-scale industries from tax benefits. Thus, in three countries of the region, very small establishments are not entitled to various tax exemptions, and in one of these three countries, income tax exemption is granted only to large industry. In addition, the criteria and conditions embodied in the laws and which are to be taken into account when various privileges are granted clearly favour industries that create considerable employment and/or introduce new products into the market, characteristics that are more likely to be associated with large rather than small industries. Furthermore, the entitlement to tax exemption generally requires the approval of the relevant industrial development authority and ministry and the presentation of well-prepared feasibility studies, but small-scale industries are generally less capable of satisfying these requirements.

19. The Expert Group, while emphasizing the primary responsibility of the Government to promote and assist small-scale industries, pointed out that government assistance should not preclude or hamper private initiative or self-help, two factors of considerable importance in countries having an active private sector. There was a brief discussion of the role that co-operatives can play in promoting and assisting small-scale industry. It was felt that the question deserves more serious examination, particularly in the light of the actual experience with the development of co-operatives in the countries of the region.

20. The Expert Group noted that, as compared with the more industrialized developing countries of Asia and Latin America, the industrial structure in the countries of the region is characterized by extremes of size—either very large or very small – and by the relative smallness of the modern small industry sector. This indicates the urgency of the need for support and assistance to small industries and the appropriateness of setting up distinct policies, programmes, institutions and facilities specially attuned to their needs.

21. It was felt, in particular, that industrial areas and industrial estates can play an important role in the promotion of and assistance to small industries. While urban planning has been undertaken and industrial zones have been set up in most countries of the region, only two countries have so far established or started to establish industrial areas and three other countries have studied the setting up of such areas but have not acted further.

22. The reduction of the burden of overhead costs is of particular importance for the development of small-scale industry. In this respect, industrial estates can supply inexpensive factory space, conveniently tied to the transport network, and cheap electricity, water, fuel and other facilities. Because industrial estates bring together small-scale industries on common sites, they permit the co-ordination or integration of various measures of support. Concentration in a given area can also lead to some economies of scale and some benefits of specialization to the industries themselves. Common service facilities become possible as well as inter-trading and co-operative organization of production and trade.

Industrial areas can also encourage industries of all types to locate their plants in the region and can stimulate the development of subcontracting relationships between large and small enterprises.

23. The Expert Group expressed its conviction that the rate of progress in industrial zoning in urban areas and in planning and setting up industrial estates and areas should be considerably accelerated if small industry development is to be given the encouragement it deserves.

THE FUTURE OF THE TRADITIONAL SECTOR IN A MODERNIZING ECONOMY

24. The Expert Group discussed the traditional sector in a modernizing economy under three main headings: definition of the traditional sector; the major problems faced by small enterprises in this sector; and government policy.

25. It was generally recognized that the traditional sector in the Arab countries of the Middle East is the dominant sector and accounts for an overwhelming majority of all manufacturing establishments. The Expert Group felt that this sector is as little known as it is important, and that clarification in concepts, statistics and other information is required. It was agreed, however, that most of the artisan and handicraft activities, cottage industries and rural industries belonging to the traditional sector can be identified by qualitative features such as predominant use of hand tools and importance of manual skills; organization and manpower centred on the family; and concentration in certain trades such as pottery and weaving; as well as by quantitative characteristics, such as low employment (usually ten, five or fewer employees per establishment) and small capital investment. A special characteristic of handicrafts is that production calls for artistic skills, and products have an aesthetic or decorative value.

26. Foremost among the problems relating to the traditional sector in the Arab countries of the Middle East is the inadequacy of information about industrial or semi-industrial activities in this sector. Several participants drew attention to the lack of knowledge about the major artisan and handicraft activities and conditions relating to their production and marketing. The Expert Group concluded that high priority should be given to a systematic programme of gathering information through detailed surveys on the major industrial activities in the traditional sector. Such a programme of improving knowledge about artisan and handicraft activities would help to identify those that merit special attention and would form the basis for corresponding policy measures.

27. In addition to the need for information, the Expert Group singled out three other problems facing activities in the traditional sector: financing; the limited size and the remoteness of existing and potential markets; and the poor quality of the products of this sector, which often cannot compete with products from more modern industries.

28. One issue of policy overshadowed all others in the discussions on this item; this was the need for a policy of selectivity in dealing with industrial activities

in the traditional sector. The Expert Group felt that it is necessary to study existing artisan and handicraft activities in order to identify those that should be strengthened; those that should be transformed into small industries, in the same or in different lines of business; those that should be preserved in a transitional period; and, finally, those that do not deserve any form of support. More than one speaker emphasized that a policy of selectivity can be meaningfully applied only if there is comprehensive and accurate information on the nature of activities in the traditional sector, and this is not the case at present. Accordingly, the Expert Group reiterated the need for carrying out, with international assistance if required, country surveys on the nature, extent and future of industrial and semi-industrial activities in the traditional sector.

29. The Expert Group cautioned against a policy of selectivity based only on economic considerations; several speakers emphasized the importance of social factors in this connexion. It was noted in particular that small agricultural processing plants, artisan undertakings and handicrafts are a source of considerable employment and that any programme relating to traditional activities should pay attention to this aspect. In many cases inefficient and obsolete traditional undertakings that are clearly not defensible on economic grounds should nevertheless be maintained, perhaps even subsidized, for various reasons, principally of a social nature. In many Arab countries of the Middle East, there is already considerable pressure of population on land; employment opportunities in rural areas are few; and the elimination of traditional activities could add to existing unemployment and under-employment, especially in the short run, before alternative employment in the modern sector has been provided. Moreover, employment in the modern industrial sector often requires elaborate preparation and retraining of workers; this has often proved to be very difficult.

30. The maintenance of even inefficient undertakings was considered also from a social point of view. Since migration from the farms to the cities has been very costly in social as well as economic terms, traditional activities that help to keep people in the villages should be given some priority. At the same time, the Expert Group was conscious that new, modern small industries offer possibilities of employment in rural areas, and that it is an error or an oversimplification to present employment and productivity as competing objectives in development. It pointed out that many new kinds of small industries can be developed or existing ones improved, e. g. food-processing and service industries, especially if effective co-operative societies can be formed for this purpose. Small rural industries processing agricultural commodities can often supersede existing cottage industries producing for immediate consumption at the family level. Service industries, too, which have the added advantage of utilizing the manual dexterity of traditional craftsmen and of maintaining traditional social values such as individuality and family ties, should be encouraged. Since these new agriculturally based industries and service industries in rural areas are labour-intensive, the danger of temporary unemployment or of migration to urban areas can be minimized.

31. There was some discussion on regional planning within a given country as a means of maximizing the effectiveness of government services aimed at

developing small-scale industries and upgrading artisan activities in rural areas. It was felt that the services for small industries and artisans provided by the relevant ministries of the Government should not extend directly to the village level; some intermediate level between the national and the village level is necessary. It was suggested that the government of the district, or *Mohafazat*, might undertake to organize in an integrated fashion the services necessary. The role that rural market towns or other medium-sized towns might play as "service centres" in which rural craftsmen from the traditional sector could be given special aid and encouragement was mentioned. One advantage of rural towns is that they have the necessary infrastructure that could be further developed and a dynamic environment in which craftsmen from the traditional sector not only are able to work more efficiently and productively but are also more likely to evolve into small-scale industrial operators. The question of the possible use of industrial areas and industrial estates for fostering artisan activities was raised but not fully discussed. The general conclusion appeared to be that estates may be used for small undertakings in rural areas provided the cost of such estates can be reduced.

32. One participant expressed the view that there is a basic distinction between traditional activities in the rural areas and traditional activities in urban centres and suggested that policies should vary accordingly. He felt, in particular, that traditional industrial activities in rural areas face less competition than those in urban areas; the risks of elimination are greater for those in the main towns, and the surveys and selective policies should be carried out principally in urban locations. At the same time, it was noted that the distinction between the urban and rural traditional sectors tends to be blurred by the vast migration taking place from rural to urban areas; industrial or semi-industrial acitivities in urban areas are very often an extension of similar activities in rural areas, and urban workers are usually recent rural migrants who carry over into the urban environment their traditional rural background, attitudes and predispositions. It was felt, therefore, that the rural/urban dichotomy in the Arab countries of the Middle East should not be overemphasized.

33. There was general agreement that measures aimed at restricting production in modern manufacturing industries or the imposition of special taxes on these industries in order to assist or subsidize artisan or handicraft activities are not justified, since these measures would penalize and perhaps hamper the development of the most dynamic factors of industrialization.

PROMOTION OF ENTREPRENEURSHIP

34. The Group noted that, in a broad sense, the promotion of entrepreneurship covers all activities tending to induce and facilitate the establishment of new manufacturing enterprises and the expansion of existing ones. For the purpose of the discussion, however, the Group considered the subject in a narrower sense of covering *(a)* the preparation and dissemination of pre-investment

surveys, studies and information to attract entrepreneurs towards industrial activities; and *(b)* the provision of assistance at the pre-investment stage, in setting up new enterprises or expanding and diversifying existing enterprises.

35. In spite of the shortage of entrepreneurship in the countries of the region, particularly in the field of small-scale industries, some new sources of entrepreneurship have been emerging in recent years. The traditional sources are still mainly either artisans or traders. The new sources are trainees from vocational schools; skilled workers from large enterprises, both public and private; immigrants with skills in particular trades; employees of small-scale industries; members of families with a tradition of entrepreneurship; and partners or employees from large-scale industries.

36. While the need for stimulation of new entrepreneurship was appreciated, the consensus was that, in view of the shortage of resources in the countries of the region, the main short-term objective should be to improve and modernize existing small enterprises and to transform the most suitable traditional artisan activities into modern establishments. However, in some cases it would be advantageous to stimulate entrepreneurship for the manufacture of new products involving new or sophisticated techniques. The establishment of new enterprises should be given high priority in relatively underdeveloped or depressed areas. In urban concentrations where small-scale industries exist, the improvement of these enterprises would by itself provide an incentive for the establishment of new ones.

37. It was recognized that, in the countries of the region, few pre-investment surveys and studies for the stimulation of entrepreneurship in small-scale industry have been carried out. The Group stressed the need for undertaking and publicizing such surveys and studies. These studies should be related to the objectives, priorities and requirements of the over-all industrial development plan of each country. The Group recommended that the following studies and surveys be carried out by appropriate institutions in the countries of the region:

(a) Market surveys providing existing and potential entrepreneurs with information on the outlets for given products. Such information is needed not only to improve distribution and to expand sales but also to assess the feasibility of potential industries. The surveys should include information on the size and location of markets and distribution centres, marketing channels, pricing policies and practices of wholesale and retail dealers and middlemen, distribution costs, characteristics of competing products, standardization and quality specifications, use of trade marks, packaging, publicity and advertising, and consumer acceptance of existing or new products. Such surveys should also provide information on the potential size of the market, the long-term effect of substitute products and the elasticity of demand.

(b) Area surveys of the industrial potential of a given area (country, region, province, district or town). A survey of this type should contain an orderly, systematic analysis of the resources and markets of the area and of the competitive advantages or disadvantages for each potential industry as related to alternative sources of supply. The preparation of an area survey involves four types of interconnected analyses: first, an analysis of existing and potential demand

for manufactured goods within and outside the area that might be met economically from industrial enterprises to be located in the area; second, an assessment of human and material resources that are available in the area or that could be imported from outside at reasonable cost and that are required for setting up manufacturing enterprises in specific industrial sectors; third, an appraisal of the existing and potential infrastructure of the area, that is, its economic overhead facilities and social services and the extent to which they could support industrial development; and finally, recommendations as to which industries are feasible and desirable in terms of the demand, the resources and the infrastructure of the area. The area survey should be carried out against the background of the development plans of the country or the area and should consider the implications for industrial development of projects in the fields of agriculture, natural resources, power, irrigation, transport and so on. A carefully prepared area survey should provide the basis for a phased programme of industrial development, pinpointing short-term and long-term industrial possibilities and the necessary measures of promotion and assistance.

(c) Industry feasibility studies concerned with the economic prospects of establishing and expanding a particular industry or manufacturing a specific product or group of products. Such studies should evaluate and measure all relevant factors such as imports, exports, domestic demand, competition, raw material availability, capital, labour skills and production processes. They should include recommendations on the number and size of enterprises to be encouraged and on their location, production, financing and marketing, investment required, cost of production and profitability, and policies and measures for the establishment or expansion of the industry. When an industry is not considered feasible, either in the short or in the long term, the study should analyse the reasons for such a conclusion and recommend either that the industry be discouraged or that measures be taken to improve its long-term prospects.

(d) Model schemes or industry fact sheets for industries offering, on the basis of area surveys or industry studies, good prospects of development. These are short pamphlets containing basic information for establishing and operating an industrial unit and manufacturing a product: size of plant, type of equipment, production processes, prospective markets, requirements in fixed and working capital, and estimates of income, expenditure and profitability.

38. It was agreed that such studies for small-scale industries should be carried out on a regular and continuing basis by a central organization, preferably an industrial development centre or an industrial extension agency. In carrying out such studies, the industrial development centre should maintain close co-operation and co-ordination with central planning agencies, where these exist. While the central planning agency would determine the role of small industry in over-all industrial development and the proportion of national resources to be allocated to it, the industrial development centre should be free to carry out studies and to determine priorities within the small-scale industry sector.

39. The Group strongly recommended that an industrial development centre or an industrial extension agency be given full autonomy in its financial and administrative operations. Although it will depend on public financing, it should

be able to function independently within the policy directives of the Government. Only under such circumstances can it play an active role and take the initiative in stimulating entrepreneurship. In this connexion, there was a consensus that a government department cannot function effectively as an industrial extension agency or an industrial development centre. There should, however, be effective co-ordination with the government agencies responsible for macro-planning and policy formulation. The implementation of promotional activities for small-scale industry should be left to the autonomous industrial development centre or to the industrial extension agency.

40. The methods and techniques of "intensive promotion campaigns" jointly undertaken by extension, financing and other public or private agencies in India were discussed. The Group recognized that this is a new technique of industrial extension, which, under certain circumstances, can accelerate and expand entrepreneurship. It was considered, however, that in general the countries of the participants do not have well-established technical counselling and financial assistance services for small-scale industries and therefore are unable as yet to undertake such campaigns. In the larger countries of the region, the organization of such campaigns can be considered for the promotion of small-scale industry in relatively underdeveloped areas.

41. Some of the participants expressed the view that intensive campaigns for modernizing existing small-scale industries would be worth while. Such campaigns could be organized for particular categories of small-scale industries. It was felt that United Nations technical assistance would be needed to organize and conduct them.

TECHNICAL SERVICES FOR SMALL-SCALE INDUSTRIES

INDUSTRIAL EXTENSION SERVICES

42. The Group recognized the need for, and importance of, integrated industrial extension services for small-scale industries that not only provide technical and managerial assistance but also facilitate the financing of small-scale industries, co-ordinate training and research activities, make modern technology accessible, promote the development of subcontracting arrangements with large industries, stimulate markets through government procurement programmes and other measures, promote the establishment of industrial estates and so on. However, in view of the limited resources of the countries represented at the meeting, it was felt that comprehensive industrial extension services could be established only over a period of time. The most pressing needs are for technical and managerial assistance, surveys and studies, financing linked to technical assistance and training of national extension personnel.

43. Institutions of broad scope for assistance to industry in general exist in practically all of the countries represented at the meeting. These institutions include industrial development centres, industrial research institutes, industrial

development banks and management development and productivity centres. Some of these institutions are beginning to assist small and medium-sized industries through technical and managerial counselling. The Group was of the view that, to begin with, the countries of the region should wherever possible set up separate departments within existing institutions for assisting small-scale industry. Some participants felt that an industrial development bank is not the most suitable agency for providing extension services to small-scale industry, although it should strengthen its pre-investment and follow-up services. They felt, however, that, when no other agencies exist, the industrial development bank should take the initiative in setting up industrial extension services. One participant preferred to see specialized institutions for research, financing, marketing, feasibility studies etc. set up along with a central co-ordinating and policy-making agency.

44. Participants from countries in which the public sector and government ownership play an important role in industrial development, and some other participants, felt that licensing schemes could be applied for regulating and promoting the development of small-scale industry.

45. In view of the limited resources of the countries of the region, the financing of industrial extension services engaged the attention of the Group. It was felt that, while major support should come from Governments, consideration should also be given to contributions from private industry and to charging fees for services. In many cases, assistance from international agencies may be of critical importance in the early stages of establishment and operation.

46. Concern was expressed over the acute scarcity in the countries of the region of experienced national personnel qualified to man an industrial extension service. In addition to international assistance for training national personnel either on the job or abroad through fellowships, consideration should be given to setting up a regional training centre for extension officers or including such training as an important function of the multinational industrial development centre referred to later.

TECHNICAL COUNSELLING

47. Technical counselling covers advice and guidance on the selection and utilization of materials, machinery and equipment, on plant layout, production processes, production planning and control, maintenance, inventory control, cost reduction and general housekeeping. There was a consensus that among industrial extension activities, technical counselling to small-scale industries is of particular importance in the region. At present, whatever modest assistance is available is usually provided only passively and at the request of the entrepreneurs. Both personnel and funds are scarce. The Group felt strongly that industrial extension agencies or development centres should show leadership in organizing active extension services. Factories should be visited at the initiative of the centres, and diagnoses and solutions provided in the plant. To begin with, such activities might be carried out in selected industries or in selected locations

having a concentration of small-scale industries. Other methods of providing technical counselling include preparation and dissemination of technical bulletins written in Arabic and in simple terms, with diagrams and pictorial reproductions. The exhibition of feature films prepared from case studies of actual situations and the use of radio, television and audiovisual aids could be extremely useful.

48. Among other obstacles to the modernization of small-scale industries are the underutilization of equipment and the use of obsolete or unsuitable plant and machinery. This situation arises from improper planning of the enterprise, insufficient demand, improper choice or use of equipment, insufficiently skilled operatives etc. It is not always possible in the region to operate small-scale industries on a multiple-shift basis. The Group felt these problems could be solved by providing intensive technical counselling; giving training to operatives in the use of machines, if possible in large-scale industries; preparing market surveys and extending market-promotion assistance; and, in some countries, applying licensing restrictions more rationally.

49. As regards the use of second-hand machinery in small-scale industries in developing countries, some participants felt that this should not be encouraged because such equipment is inefficient and its use involves excessive maintenance, repair and operating costs. In a few countries of the region, industrial financing is not provided to enterprises for the purchase of second-hand machinery and equipment. However, another strong view expressed in the Group was that individual cases should be considered on their merits. Not all second-hand machinery is unusable, and some reconditioned, certified second-hand machinery can be put to good use. Indeed, the scale of production in certain types of small-scale industries, the size of the market for their products and the relative importance of the costs of capital and labour may be such that the use of second-hand machinery may bring definite advantages. If such machines are selected after proper investigation, their use will not in any way detract from the efficiency of small-scale enterprises.

50. The Group considered the question of securing the co-operation of manufacturers of imported machinery or their agents in providing after-sales services and the training of operatives in the use of machines. Although this is done to some extent when complete plants are imported for large-scale industries or for government-owned enterprises, such facilities are not available, as a rule, for small-scale enterprises. It was thought that while government authorities in the countries of the region should seek arrangements with manufacturers or importers of machinery to provide after-sales services and training of operatives, this may not always be possible.

51. In the countries of the region, various government agencies provide vocational and technical training, but there is insufficient co-operation between them and the agencies in charge of industrial development. The Group recommended that the industrial development centre or extension agency take the initiative in seeking the co-operation of training and educational institutions, not only to ensure the training of operatives and supervisors for small-scale industries, but also to utilize the specialized technological expertise in these institutions for providing counselling to small-scale enterprises.

MANAGEMENT, DEVELOPMENT TRAINING AND ASSISTANCE

52. While the basic functions of management are the same in large-scale and small-scale industries (decision-making on planning, organizing, co-ordinating and controlling of operations of the enterprise) there are important differences between the two groups in the manner in which these functions are carried out because of the lack of specialization and the concentration of managerial functions in the small enterprise. However, the small enterprise may have advantages over the large enterprise as regards greater flexibility in operations, the possibility of taking quick decisions and easier communications within the enterprise.

53. The Group agreed that training programmes for small-scale industries should be fitted into in-plant assistance programmes. Since it is difficult for small industrialists to attend formal training courses, such programmes should be related to the problems of an individual firm or of a group of firms. These problems should be identified through a diagnostic or in-plant study. Training in general management carried out in or near the location of the small enterprises should be most effective. The most urgent needs in the field of specialized training appear to be financial and cost accounting and improvement of productivity and marketing. The courses should be conducted in Arabic.

54. The Group noted that there is a shortage of extension personnel able to provide management training and assistance to small enterprises. Since small enterprises require persons who can provide management assistance in the plant and training, a particular kind of generalist with experience in both training and consultation is needed. As regards institutional arrangements, the Group was of the view that training can be provided by existing institutions, such as management development centres, industrial development centres or industrial promotion agencies of the Government. One participant suggested that in countries where private consultants are available, their services could be used on the basis of retainer fees. When a country establishes an industrial extension agency exclusively for small-scale industry, the improvement and training of management should form an integral part of its functions.

TRAINING OF FOREMEN AND WORKERS

55. The question of basic training of workers or foremen provided in vocational training centres and technical schools was beyond the scope of the meeting. The Group considered the subject from the narrower standpoint of upgrading the skills of operatives and supervisory personnel in small-scale enterprises. It noted that skilled workers for small-scale industries in the countries of the region come mainly from the traditional apprenticeship system and not from vocational schools. Graduates of vocational schools are readily absorbed by large industries and are able to obtain better wages in these industries than they would in small industries, which are therefore unable to compete for these graduates. Supervisors and foremen are mostly promoted from the ranks of skilled workers and do not come from outside institutions such as technical training schools.

Another problem in some countries of the region is the large number of expatriates working as skilled workers and foremen.

56. The Group recommended that wherever training institutions for the upgrading of skills of workers and foremen exist, special efforts should be made to provide training to operatives of small enterprises. Small enterprises should be given an incentive to send operatives and foremen for training. The minimum incentive should be for the Government to bear the expenses of training and pay the wages of the workers during the training period. The training of young engineers for short periods under fellowship programmes in foreign countries may increase the availability of suitable supervisory personnel for small-scale industries. Where industrial extension agencies exist, specialized short courses in various trades should be organized for skilled workers and foremen of small industries.

COMMON SERVICE FACILITIES

57. There was a consensus that common service facilities are a very useful promotional device in areas in which small-scale industries are concentrated. Common facilities provide certain types of machinery and equipment that a single enterprise cannot afford. They are aimed at improving production methods, productivity and product quality; encouraging product diversification or the manufacture of new products; and reducing costs of production. While certain common service facilities, such as a toolroom with a design and drawing office and heat-treatment equipment, are expensive, many other facilities, such as an electroplating shop or a workshop with a few special machines, are not. It was agreed that common service facilities should be set up only if there is sufficient demand, present or prospective, for their services and if they do not compete with commercial undertakings. The need for common service facilities should be thoroughly assessed through techno-economic surveys. There should be proper selection of machines and equipment in order to ensure a satisfactory rate of utilization.

58. While in most cases common service facilities should be established by a government or a semi-government agency, efforts should be made to encourage groups of small enterprises to set up such facilities by themselves, with financial assistance from a government agency or an industrial development bank. It was noted that in one country of the region such efforts are being made to set up a galvanizing shop; an electroplating shop; a calendering, sizing and finishing plant for textiles; and an aluminium-drawing unit. The Group recommended that even where the Government initially sets up common service facilities, the objective should be to turn them over in the course of time to a co-operative or an association of small enterprises or to a private enterprise.

59. Members of the Group expressed differing opinions on the desirability of charging fees for services rendered by a common service facility centre. While it was recognized that there is a tangible element in the services provided that can be related directly to the benefits derived by the small entrepreneur, it may

often be desirable to provide free or subsidized services to encourage the use of more advanced methods and improvement of product quality. Some participants argued that the facilities should be provided free, especially in relatively underdeveloped areas, as an incentive to industrialization. In general, it was felt that each country should decide for itself the best course of action, taking into consideration its needs, requirements and resources, but that eventually all services should be paid for at cost.

MARKETING AND EXPORT PROMOTION

60. The generally low quality of small industry products and the small size of the market for them enhance the importance of marketing assistance. The Group was of the opinion that marketing assistance, ranging from national market surveys and dissemination of information, publicity and advertisement, and improvement of design, quality and standards to regional marketing arrangements and export promotion, is indispensable if consumer preference for the imported product is to be overcome and new foreign outlets established.

61. Certain handicraft products have good aesthetic qualities but need improvement in design in order to capture the tourist and export markets. Certain semi-processed products based on agricultural resources are also of good quality, but export earnings could be increased through further processing, better packaging, more effective market promotion and other improvements. The training of personnel in the techniques of market surveying and advertising would be useful.

62. The Group recommended that a thorough study be made of measures to increase intra-regional trade of small industry products and to expand exports of these products from the region. Such measures would probably require a certain degree of regional co-operation. In this connexion some relaxation of the heavy protection now enjoyed by many industries in the countries of the region should be considered and more competition permitted as an incentive to improve product quality and reduce production costs.

63. Part of the discussion was concerned with the desirability of raising the rate of substitution of indigenous industrial products for imported articles. In this connexion it was pointed out that import substitution cannot replace export promotion, and that both of these objectives should be pursued concurrently.

64. The value of government purchasing schemes and other systems that give preference to the products of small-scale industries was discussed briefly. Some participants thought that such systems may raise difficulties if they are exclusively reserved for small-scale industries. A study of this device would, however, be useful.

FINANCING OF SMALL-SCALE INDUSTRIES

FINANCIAL ASSISTANCE AND TECHNICAL ASSISTANCE (SUPERVISED CREDIT)

65. The meeting expressed the conviction that, to be effective, financial assistance to small-scale industries should be closely linked to technical and managerial

assistance. Technical assistance should complement financial assistance at three main stages: *(a)* the pre-investment stage, when assistance is needed to evaluate the technical and commercial soundness of the project in order to determine the profit-earning potential of new industries; factors to be considered include location, market prospects, technical feasibility, commercial and economic viability, and competence and credit-worthiness of the promotors; such assistance would therefore be aimed at identifying the needs of the enterprise and formulating a credit application; *(b)* the implementation stage, when funds are used directly, for instance, for the purchase and installation of machinery; and *(c)* the follow-up stage, when assistance and counselling in the operation of the enterprise are needed.

66. It was felt that the best arrangement would be to achieve co-operation between separate institutions: the financial institutions on the one hand and industrial development centres on the other. In countries where technical personnel is scarce and no development centre exists, an industrial development bank could take the initiative in providing technical services until such a centre is created.

67. Where the establishment of two separate institutions is possible, maximum co-operation and co-ordination of their activities is indispensable. The financing agency needs the technical support of the industrial development centre, and the centre will not be able to stimulate entrepreneurship or modernize existing industries without the support of the financing agency. The implementation of suggestions made by technical experts as part of the extension service often leads to changes in production technology, layout, waste recovery, development of new products and reorganization of marketing techniques. These changes involve financial outlays on the part of the entrepreneur and thus require recourse to the financing agency.

68. The Group expressed the view that both institutions should be established as government agencies and that formal relationships, such as cross-representation at various committee levels, should be established between them. Both should be closely connected with the relevant technical ministries. It was stressed that an industrial development centre should extend its services to commercial as well as to industrial development banks, including assistance in the preparation of requests for commercial bank loans. The industrial extension centres should therefore be organized in such a way as to invite and enjoy the confidence of commercial banks. An important task of the centres is to set up an adequate accounting system in industrial enterprises in order to facilitate the evaluation of the credit-worthiness of small industrialists.

69. The Group discussed the hire-purchase system, its advantages and the obstacles to its establishment, its organization and the criteria for accepting or rejecting applications for the purchase of industrial machinery and equipment on this basis. It took note of the experience of India with this system and the favourable impact that it has had on the development of small industries, in particular on growth in employment, output, the mobilization of resources, and the development of ancillary and rural industries. Several participants felt that there is little need in their countries for a hire-purchase system such as the one that has been

applied in India. Such a system might, however, be applied on a limited scale when entrepreneurs have no access to other methods of financing. Some of these participants thought that a hire-purchase system may contradict the principle of promoting independent entrepreneurs and may make small industrialists wholly dependent on financing institutions. There was general agreement, however, that the hire-purchase system deserves a thorough study with a view to ascertaining its suitability for the Arab countries of the Middle East. Another question that deserves study is whether it is more economical to provide for the rental of machinery through extension agencies or as part of common service facilities.

PUBLIC FINANCING INSTITUTIONS AND METHODS

70. Public financing of industry includes indirect and direct financing. Indirect financing includes such measures as tax exemptions on income and retained profits, export subsidies and other types of incentives. Direct financing includes government participation in equity capital and lending by specialized financing agencies. Government participation in the equity capital of a variety of industrial enterprises is prevalent in Iraq, Jordan, Kuwait, Saudi Arabia and Syria. Lebanon is the only Arab country of the region where industrial ventures are undertaken completely by the private sector. Direct public lending is carried out mainly through industrial development banks. Such banks exist in Iraq, Jordan and Syria. Kuwait and Lebanon have developed financing institutions that are not purely industrial banks but provide credit to all economic sectors. The industrial development banks of Iraq and Syria and the Credit Bank of Kuwait are fully government-owned, while the Industrial Development Bank of Jordan and the Agricultural, Industrial and Real Estate Credit Bank of Lebanon (BCAIF) are mixed enterprises. The nominal capital of most of these banks ranges between the equivalent of $8.4 million and $28 million. The Credit Bank of Kuwait has a capital of $56 million.

71. The organization, operation and range of services performed by these financing institutions differ from country to country. Some of these banks have equity capital in several industrial enterprises and undertake or participate in the preparation of economic and feasibility studies and assist in the establishment of new industries. However, the public financing institutions usually lack sufficient technical personnel, and, largely because of this, their operations have resulted in a high rate of default. This fact was clearly indicated by the performance of the predecessor of the Industrial Development Bank of Jordan, the Industrial Development Fund, whose services were terminated in 1965 because it had exhausted its credit resources. The Group noted that in some countries, little attention has been paid to the financing of working capital, and this has resulted in a number of failures.

COMMERCIAL AND CO-OPERATIVE FINANCING

72. Although the impact of the public financing institutions on the process of industrial development in the above-mentioned countries has been considerable, it is nevertheless true that the greater portion of industrial credit is supplied, in all of these countries except Iraq, by the commercial banks rather than by these agencies. In all countries except Iraq, the volume of commercial bank credit in 1964 was six to eight times higher than that provided by public institutions. In terms of total credit, the proportion of industrial credit provided by the commercial banks ranged from 6 to 12 per cent, while the percentage of industrial credit to total credit provided by public institutions ranged from 1.3 to 2.0 per cent in Jordan, Kuwait and Lebanon, though it reached 9.3 per cent in Iraq.

73. Most commercial bank credit is short-term, usually for less than one year, but because the short-term credit revolves and is subject to continuous renewals, it is in fact given on a medium- or long-term basis. The cost of financing credit of this type is normally higher than of long-term credit, a fact that emphasizes the need to strengthen the public institutions as suppliers of medium- and long-term credit. The Group recognized the importance of commercial banks as suppliers of short-term credit for working capital. Commercial banks are also capable of making long-term loans, as indicated by the structural and institutional changes that have taken place in commercial banking, for example, resort to central banks and deposit composition. Commercial banks are especially important in developing countries because these countries lack capital markets. Whenever necessary, subsidiary banks could be established by commercial banks for the issuance of long-term loans, should the existing regulations controlling commercial banks prove to be too strict and could not allow for a certain degree of liberalization. Alternatively, commercial banks might be required to lend up to a certain limit in long-term loans. What is needed is a commercial banking system that can adapt its operations to new conditions.

74. The ability to extend credit depends on the availability of public and private savings. Private savings should be encouraged in any event, and for this purpose a number of government measures should be taken. These should include *(a)* the promotion of saving habits through educational campaigns and incentives; *(b)* improvement of banking facilities especially in the rural areas; *(c)* adaptation of the rate of interest to actual needs; and *(d)* encouragement of other methods and institutions such as postal savings, savings and loan associations, insurance plans, social security and provident fund schemes. It is important to encourage and invite the private sector to divert savings to industrial development banks through deposits. Since these banks specialize in the financing of industries, such savings would be wholly used for this particular purpose.

75. On the question of savings and the payment of interest, note was taken that the moral implications of interest payments and life insurance plans have raised difficulties and objections in a few countries of the region.

76. The Group noted that in many countries of the world, including several developing countries, central banking instruments, especially those related to

rediscounting facilities and multiple reserve requirements, are widely used to influence the lending policies of commercial banks. These instruments are frequently adapted to promote industrialization. In many countries of the Middle East, orthodox banking practices by most commercial banks result in a high liquidity ratio that makes it unnecessary for commercial banks to resort to central banks for rediscounting purposes. Furthermore, the absence of inadequate operation of reserve requirements restricts the ability of the central banking system to influence the lending policies of commercial banks. The Group recommended that, wherever necessary, legislation to enable the central banks to play a more significant role in influencing the credit policies of the commercial banks should be considered.

77. Some participants suggested that central banks could assist indirectly, either by making funds available to industrial development banks and/or to commercial banks or by devising other policies aimed at raising the level of lending, for example, the introduction of guarantee or insurance schemes for industrial loans. Others expressed the view that central banks should not intervene in industrial financing, which should be undertaken only by industrial development banks. What is actually needed, this group of participants argued, is the establishment of industrial banks in countries where they do not exist, and the strengthening of such institutions in other countries.

78. With respect to co-operative industrial financing, it was recognized that the region has had little experience in this field and that the question requires an independent study. Some participants thought that there is little need for co-operative financing, since industrial development banks have been satisfying the credit needs of industry.

REGIONAL AND INTERNATIONAL CO-OPERATION

REGIONAL CO-OPERATION

79. The discussion of regional co-operation centred on two main issues: the implications of the proposed Arab Common Market for the development of small-scale industries in the countries of the participants; and the need for the establishment of a multinational centre for industrial development, including the development of small-scale industries.

80. There was agreement that the provisions of the Arab Common Market would and should apply to industry irrespective of size. The Group was not in favour of restricting the application of trade liberalization to the larger industries and considered that the progress achieved by setting up a common market should not be reversed by increasing or reintroducing customs duties and quantitative protective measures in favour of small-scale industries.

81. Some participants felt that the reduction of tariffs and removal of quantitative restrictions among countries belonging to the Arab Common Market would stimulate healthy competition among industrial producers. This might

benefit primarily the strongest elements in the industrial structure, that is, the large-scale and medium-sized industries that would be able to benefit from the economies resulting from an expansion of the market. But it might expose many marginal producers, especially among small-scale industries, to considerable pressures or hardships in competing in both the domestic and foreign markets.

82. In the view of the Group, the only means of strengthening the position of small-scale industries within the framework of the Arab Common Market would be to provide these industries with the measures of assistance and the services referred to in the present report. These measures would strengthen the competitive position of small-scale industries in both domestic and foreign markets, since such measures would raise productivity, improve product quality and reduce production costs.

83. There was general agreement that it would be very useful to establish a multinational industrial development centre for the Arab countries of the Middle East. The Expert Group noted that a centre for industrial studies for the four countries of the Maghreb has been set up with assistance from the United Nations Development Programme/Special Fund (UNDP/SF), and that a centre for industrial development is being established by the League of Arab States. It was felt that there would be great merit in establishing for the Arab countries of the Middle East a centre comparable to that established by and for the Maghreb countries; this centre would give special attention to small-scale industries in view of the importance of such industries in the area under consideration. Such a centre, like the one in the Maghreb, would not only supplement the work of other centres in the area but would also assist them. Reference was made in this connexion to the compatibility of the National Centre for Industrial Studies of Tunisia with the Maghreb Centre, of which Tunisia is a member.

84. The compatibility of regional or subregional centres with national promotion institutions can be ensured by their respective terms of reference. The Expert Group was in agreement with the functions in the fields of technical co-operation, training, economic research, dissemination of information and co-ordination envisaged in the document that formed the basis for the discussion on this point, which is reproduced in appendix I to this report.

85. Some participants supported the establishment of the proposed centre as a new institution. It was observed, however, that transforming an existing national centre that already enjoys a measure of support from the United Nations into a multinational centre would make it possible not only to achieve economies in financing and personnel but also to have the multinational centre become operational within a short period. Some participants suggested, in this connexion, that consideration be given to expanding the Development Centre of Jordan into a multinational centre.

86. There was general agreement that a multinational centre should pay special attention to the specific problems of small-scale industry and, to this end, should include a special department with appropriate financial and staff resources.

87. It was also suggested that UNESOB, UNIDO and ILO might formulate the project jointly in the form of a draft request for assistance from UNDP/SF.

This draft might prompt several Governments to take joint action to set up the proposed multinational centre and to seek assistance from UNDP to that end. In this connexion, the secretariat of the Expert Group noted that a project of this type should be sponsored by at least four Governments.

UNITED NATIONS TECHNICAL CO-OPERATION

88. The Expert Group concluded its work with a brief review of issues in the field of technical co-operation. It noted that countries of the region have made few requests for technical assistance in the various fields of small-scale industry development and recommended that Governments make increasing use of the expert services and fellowships that the United Nations provides, upon request, under its various programmes.

89. The Group took note of the difficulties in recruiting qualified experts in the promotion of small-scale industry and the establishment of industrial estates. It agreed that in the long run the developing countries themselves would become a major source of expertise, and hope was expressed that eventually experts from the countries of the region would participate in technical co-operation projects. It was suggested that expanding the system of associate experts might increase the supply and the qualifications of technical advisers. A serious problem arises from the shortage and sometimes the absence of national counterparts. The Group recommended that Governments make the utmost efforts to provide technicians capable, after training by United Nations experts, of taking over the functions of the United Nations experts after their departure.

ANNEX 1

FOSTERING THE DEVELOPMENT OF SMALL-SCALE INDUSTRIES THROUGH A MULTINATIONAL CENTRE FOR INDUSTRIAL DEVELOPMENT

The manufacturing sector and small-scale industry in the developing countries of the Middle East

The manufacturing sector as a whole still contributes only modestly to the national income of the developing countries of the Middle East. Income arising from the manufacturing industry sector of some Middle Eastern countries does not, on the average, exceed 14.3 per cent of the gross domestic product, while the corresponding figures for other developed and developing countries in this region are estimated to range between 20 and 40 per cent. The still limited size of the industrial sector becomes obvious when it is observed that the percentage of the active labour force engaged in industry in most countries of the Middle East remains low, varying between 5 and 8 per cent.

In the developing countries of the Middle East, as elsewhere in the developing world, importance is being attached to problems of industrial development within the framework of development strategies. Industrial development is regarded as the most dynamic factor in economic growth. It is expected to make a major contribution to economic diversification and is considered a particularly effective means of acquiring modern technology in conjunction with the development of new resources. In recent years Governments have become acutely aware that industry not only exerts a direct influence on the level of income and an indirect influence on the levels of economic activity in other sectors, but also affects deeply the social and cultural life of society, causing a break with traditional methods of production and modes of living.

It is characteristic of the early stage of industrial development in the countries in question that, within the manufacturing sector itself, small-scale industries are of great importance. Table 1 below shows that manufacturing establishments employing fewer than 50 persons are important in terms of both the number of establishments and the number of persons employed and in terms of their contribution to wages, output and value added. It is safe to assume that, to a large extent, industrial development is contingent upon the sound growth of these industries.

TABLE 1. MAIN INDICATORS OF MANUFACTURING INDUSTRIES EMPLOYING FEWER THAN 50 PERSONS IN SIX COUNTRIES OF THE MIDDLE EAST

(percentage)

	Iraq (1963)	*Jordan (1965)*	*Kuwait (1965)*	*Lebanon (1964)*	*Saudi Arabia (1963–1965)*	*Syria (1960–1963)*
Number of establishments .	98.7	99.3	97.8	97.9	99.6	99.7
Number of persons employed	49.4	80.3	54.3	65.7	84.2	. . .
Wages paid	30.6	60.2	. . .	40.2	. . .	. . .
Value of output	39.5	55.9	. . .	41.7	. . .	. . .
Value added	. . .	54.0	. . .	43.4	. . .	. . .

Chronology of related institutional developments

The growing awareness in the Middle East of the importance of industrial development and, in particular, of the role that small-scale industries can play in it has prompted initiatives aimed at improving the institutional framework for such development. At the national level, an Industry Institute has been in existence for fifteen years in Lebanon that provides advisory services in industrial research and development on a consultancy basis at the request of Governments or private enterprises, both in Lebanon and abroad. In 1965, the Government of Saudi Arabia established in Riyadh an Industrial Studies and Development Centre, and in 1967, the Government of Jordan established in Amman a Centre for Industrial Development. These two centres have begun to function with the support of UNDP, which is providing $634,500 for the centre in Riyadh, out of a total project cost of $2,634,500, over a period of three years, and $1,153,000 for the centre in Amman over a period of five years.

At the multinational level, the Conference on Industrial Development in the Arab States, held in Kuwait from 1 to 10 March 1966 and attended by thirteen Arab countries and various Arab and international organizations, adopted, *inter alia*, Recommendation No. 60 aimed at the establishment of a centre for industrial development.[1] The final report of the Kuwait Conference also emphasized co-operation among the Arab States in the field of industrial development and suggested broad guidelines for the activities of the proposed centre, especially in the area of collective research on problems of industrial production, organization, integration and marketing. Similar recommendations were adopted by the International Symposium on Industrial Development, which was held in Athens in December 1967.[2]

A Consultative Group Meeting on Industrial Estates and Industrial Areas, held in Beirut from 31 October to 5 November 1966, referred to the above-mentioned recommendation of the Kuwait Conference and emphasized the advantages that might be derived from setting up a multinational centre for industrial development, with special reference to small-scale industries.[3]

[1] Recommendation No. 60, para. 123, in United Nations (1967) *Report of the Symposium on Industrial Development in Arab Countries*, ID/CONF. 2/R. R. H states: "The Conference recommends to Arab States the establishment of a Centre for Industrial Development, with a view to accelerating industrialization, developing industry and co-ordinating effort in this field. The functions of this centre will be to:

(a) Undertake and support studies and research pertaining to the position and development of industrialization in the Arab States;

(b) Offer advisory services and technical aid to the Arab States in the field of industrial development and industrial planning, and in the general support of industrialization;

(c) Co-ordinate efforts in the field of industrial development in the Arab States by way of exchanging information and experience and by standardizing industrial classification and terminology;

(d) Establish, co-ordinate and help execute research and training programmes on an Arab regional basis.

The Conference also recommends to the United Nations and its specialized agencies, particularly the Centre for Industrial Development (now the United Nations Industrial Development Organization) and the regional organizations, to co-operate with the Arab States and assist in the creation and operation of this centre, taking into consideration the regional centres already existing in the Arab States or proposed for establishment in the future."

[2] United Nations Industrial Development Organization (1969) *Report of the International Symposium on Industrial Development*, held in Athens 1967, recommendations contained in Part Five, entitled "Final action of the plenary" (Sales No.: 69.II.B.7).

[3] United Nations Industrial Development Organization (1968) *Industrial Estates in Europe and the Middle East* (Sales No.: 68.II.B.11) p. 62.

In May 1968, The Economic Council of the League of Arab States decided that a Centre for Industrial Development should be established under its auspices. The main features of this centre, which were drafted by the Arab League Secretariat and approved by the Arab Economic Council, are summarized in appendix 2. These are set against the corresponding provisions of the plan of operations of a similar venture undertaken co-operatively by four Arab countries of the Maghreb (Algeria, Libya, Morocco and Tunisia) with assistance from UNDP in the amount of some $1.5 million, out of a total project cost of approximately $2.5 million over a period of five years of operation.

Fostering the development of small-scale industries through a multinational centre for industrial development

Any centre for industrial development in the Middle East should devote a great deal of attention to the growth of small-scale industries. Indeed, the question may be raised whether it is preferable to have a centre for industrial development devoted to the promotion of large-scale industry, with a special division or department concerned with small-scale industry, or the reverse, when the setting up of two separate institutions whose activities would have to be closely co-ordinated does not seem to be justified. In any case, the multinational approach has the merit of permitting not only the pooling of scarce financial resources and expertise but also the provision of guidance and assistance to national centres or authorities concerned with industrial development at the policy level or at the plant level. Furthermore, a multinational centre conceivably can be established by enlarging the sponsorship and scope of operations of a national centre instead of being created *ex nihilo*.

The functions of a multinational centre for industrial development, including that of small-scale industry, can be conceived as follows:

Technical co-operation. Upon request of the participating countries, the centre might be expected to provide advisory services at the national, subnational or sectoral level, concentrating on:

(a) Stimulation of entrepreneurship and assistance to prospective entrepreneurs at the pre-investment stage;
(b) Formulation and implementation of schemes for financing the procurement of machinery, of systems of credit, insurance and guarantee and other financial incentives;
(c) Provision of fiscal and tariff incentives, concessions on freight and utility rates, preferential allocation of scarce raw materials and the like;
(d) Organization of extension services for technical, managerial and marketing assistance;
(e) Planning, construction and operation of industrial estates and common service facilities;
(f) Conducting technical research aimed at improving the products of small-scale industries, and provision of assistance to these industries in applying standardization and technical specifications;
(g) Organization and operation of training facilities for managers, foremen and workers;
(h) Promotion of subcontracting relationships between small and large industries;
(i) Formulation and implementation of government procurement schemes;

(j) Conducting export market research;
(k) Development of procedures, systems and organizations for the formulation, execution, supervision and follow-up of programmes and projects;
(l) Preparation of comparative studies;
(m) Formulation and implementation of co-ordination policies.

Training. Training for managers, foremen and workers must be provided at the plant or national level. A multinational centre, however, could train government officials and officers of industrial development corporations and industrial banks, extension centres, industrial estate authorities and other senior personnel dealing with the formulation, execution, supervision and follow-up of policies, programmes and major projects. This training could take several forms: *(a)* in-service training under the supervision of the centre; *(b)* training at the centre or at another institution co-operating with the centre; and *(c)* study tours and training at industrial extension agencies and industrial estates within or without the region.

Economic research. With special reference to small-scale industries, a multinational centre should undertake action-oriented research on the needs for, and conditions of, industrial sub-sector development, especially on the prospects for developing small-scale industries in each industrial sub-sector. This would include surveys to be undertaken by the centre in co-operation with the countries concerned, with a view to assisting in the preparation, at a later stage, of detailed project feasibility and pre-investment studies by national agencies. In the initial stage of the operation of the centre, economic research might usefully concentrate on the analysis and diagnosis of selected industrial sectors or problems in the countries concerned. The aim should be to formulate sectoral development strategies within the industrial development programmes of these countries and to define the policies and measures best suited to their circumstances, such as the creation of industrial estates, the establishment of training centres and other facilities for the benefit of small-scale industries. Subsequently, the centre might undertake studies on the co-ordination or harmonization of national industrial development programmes, possibly sub-sector by sub-sector, with a view to promoting multinational co-operation for overcoming the narrowness of national markets.

Dissemination of information. Research studies of general interest prepared by the centre might usefully be distributed internationally. The centre might also collect information on economic, technical, legal and other aspects of industrial development and make it available to interested parties through bulletins, newsletters or other means as part of its technical co-operation activities. The centre might also encourage the exchange of experience between units and persons, especially public administrators and directors of the financial, developmental or technical assistance institutions concerned, through the holding of seminars and meetings on specific topics such as industrial financing, technical advisory services, regional programming, marketing and taxation.

Co-ordination. A multinational centre should act as a clearing-house and liaison agent promoting the establishment of relations among industrial development institutions within and without the region for the purpose of co-ordinating studies and research, thereby fostering the effective utilization of available resources and helping to minimize duplication of effort and initiative.

To carry out these functions, the centre might be composed of the following four units:

(a) A technical co-operation unit responsible for co-ordinating all activities related to the provision of technical assistance to the participating countries.

This unit should include expert and counterpart personnel who are specialists in the organization of industrial extension services, the formulation and execution of marketing and credit programmes, and the establishment of industrial estates where industrialists may enjoy various incentives. This unit should also be responsible for co-ordinating substantive services provided by the economic research unit or the training unit. In the first few years of operation, however, the staff of the centre should not include specialists in distinct technological fields. Technological advisers serving in the participating countries under various technical assistance schemes could be called upon to tackle specific technological problems. The centre would assist countries in identifying those sectors in which technical advice and technical know-how are needed and in formulating specific requests for corresponding advisory services provided under existing programmes of technical co-operation;

(b) A training unit responsible for all training programmes, including the preparation of training material;

(c) An economic research unit responsible for carrying out the research needed to support the provision of advisory services, for collecting and analysing industrial statistics and other basic data of regional interest indispensable to national authorities for preparing feasibility studies of specific projects. Such data may include prices of plants and machinery, prices and types of raw materials or semi-finished inputs and identify possible markets for the export of end products;

(d) An information unit responsible for: preparing and distributing publications, studies, digests and other material that might be of value to small-scale industrialists; and operating a question-and-answer service related to technological, managerial and commercial queries from participating countries of the region.

ANNEX 2

MAIN FEATURES OF THE CENTRE FOR INDUSTRIAL STUDIES FOR THE MAGHREB ASSISTED BY THE UNITED NATIONS DEVELOPMENT PROGRAMME/SPECIAL FUND AND OF THE CENTRE FOR INDUSTRIAL DEVELOPMENT BEING ESTABLISHED BY THE LEAGUE OF ARAB STATES

Centre for Industrial Studies for the Maghreb

A. *Number of countries served:* 4

B. *Financing:*

	Dollars
1. UNDP allocation	
Total for 5 years	1,454,900
Average per year	290,980
2. Allocation by the participating Governments	
Total for 5 years	1,040,000
Average per year	208,000
3. Cost of project	
Total for 5 years	2,494,900
Average per year	498,980

C. *Terms of reference:*

1. Provide advisory services to Governments and industries;
2. Train government officials at the expense of Governments;
3. Prepare general industrialization surveys and specific feasibility studies, including market and location surveys, as well as studies on the integration of national industries and on comparative manufacturing and import costs;
4. Study standardization and quality control problems;
5. Disseminate information and data obtained in the course of the work of the centre as well as relevant international studies and publications;
6. Co-operate with the ministries of the Maghreb countries and with national agencies concerned with industrial development;
7. Other features:
   (a) Co-ordinate the centre's activities in the field of industrial development with those undertaken by the United Nations Economic Commission for Africa;
   (b) Establish a system of periodic consultations with the ministries and agencies of the countries of the Maghreb with the aim of exchanging views regarding their respective work programmes.
8. Status of the centre: The centre is an autonomous body.

D. *Technical and administrative organization:*

1. UNDP contribution (5-year period)

	Man-months
(a) International experts	
Industrial economist (project manager)	60
Market survey and marketing expert	60
Industrial engineer	60
Industrial standardization engineer	48
Information and documentation specialist	48
Short-term consultants specialized in industrial fields	216
Total	492
(b) Fellowships in industrial engineering, mechanical engineering, industrial economics and market research	120
	Thousand dollars
(c) Equipment (library and technical materials etc.)	50
(d) Subcontracts	150

2. Allocations from the participating Governments (5-year period)

	Man-months
(a) Counterpart personnel	
Director of centre	60
Industrial economists and engineers	360
Technical documentation specialist	60
Total	480
(b) Administrative staff (administrators, accountants, clerks, secretaries, drivers, messengers and translators)	
Total	1,500

Centre for Industrial Development of the League of Arab States

A. *Number of countries served:* 13

B. *Financing:*

1. Total allocations by the participating Governments per year plus — $92,000 + £E40,000
2. Fixed assets in the form of buildings, land and furniture to be contributed to the centre by the Government of the host country.

C. *Terms of reference:*

1. Study existing or proposed plans and programmes of economic development in general and industrial development in particular with a view to co-ordinating these plans;

2. Provide advisory services and technical assistance to participating Governments in the field of industrial development to promote the co-ordination and growth of industry on the basis of existing plans;
3. Assist the participating Governments, individually or collectively, in drawing up a framework to be used as a means to guide them when they prepare their industrial plans;
4. Standardize planning definitions, terminology and statistics;
5. Standardize the bases for the study of industrial development projects in the participating countries and lay down the bases for determining priorities for the various projects in each country;
6. Standardize national accounts and industrial cost accounting methods and prepare standard forms to guide participating countries;
7. Provide guidelines for setting up industries in locations most beneficial from the point of view of common interest, taking into consideration the interest of each Government, on the basis of studies pertaining to the co-ordination of industries in the participating countries;
8. Study combined projects (between two or more participating countries) and provide guidelines for financing and executing these projects and for marketing their products;
9. Study industrial development problems in the participating countries in general and the problems of financing and marketing in particular and provide guidelines for solving these problems;
10. Study standardization of products and co-ordination with organizations in this field;
11. Assist participating Governments in the technical and economic evaluation of existing or proposed industrial projects;
12. Create means of exchanging information on planning, statistics and scientific research among the participating Governments;
13. Collect and disseminate scientific information on economic and industrial planning and statistics with a view to feeding the planning machinery in the participating countries;
14. Publish scientific documents containing the results of research and studies undertaken by experts in industrial development, planning and statistics in the participating countries;
15. Co-operate with industrial research centres in the participating countries and with other regional or international research centres working in the field of industrial development;
16. Organize scientific conferences on various aspects of industrial development in co-operation with planning experts of the participating countries;
17. Co-operate with training institutions in the participating countries and various international organizations and agencies in drawing up training programmes to serve the objectives of industrial development and suggest the establishment of new training institutions;
18. Facilitate the exchange of experts in the field of industrial development, planning and statistics among specialized agencies in the participating countries.

D. *Technical and administrative organization:*

	Man-months per year
1. *Professional staff*	
(a) Director General	12
(b) Directors for	
Economic and planning affairs	12
Engineering affairs	12
Administrative and financial affairs	12
(c) Specialized staff for	
Economics	12
Engineering	12
Administration and finance	12
Total	84
2. *Non-professional staff* for accounting, library, clerical work etc.	132
3. *Specialized experts*	To be determined on the basis of an allocation of $12,850 (£E5,600) per year

ANNEX 3

LIST OF PARTICIPANTS

Iraq

A. K. HILMI
Director General, Industrial Planning and Development, Ministry of Industry

Abbas Abdul MAJID
Director, Technical Department, Industrial Bank

Egerton PAUL
Industrial Economist, Consultant

Jordan

Ghalib ARAFAT
Director, Jordan Centre for Industrial Development

Faik DAHER
Director, Industrial Department, Ministry of National Economy

O. REISCHER
Project Manager, Jordan Centre for Industrial Development, Consultant

Lebanon

Fouad Abi SALEH
Director, Department of Industry, Ministry of National Economy

Emond ASFOUR
Director, Bureau of Industrial Development, Ministry of National Economy

Imad NAWAN
Department of Industry, Ministry of National Economy

Munira ATYAH
Administrative Assistant, Association of Lebanese Industrialists

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Mahmoud A. TAIBA
Director General, Industrial Studies and Development Centre

Abdelsalam A. OSMAN
Project Manager, Industrial Studies and Development Centre, Consultant

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Nazih RASLAN
Director of Planning Section, Ministry of Petroleum, Electricity and Industrial Project Execution

Adib ZAIM
Director of Study Section, Ministry of Petroleum, Electricity and Industrial Project Execution

Mazen ALWANI
Director, Directorate of Industrial Statistics, Central Statistical Office

United Nations

United Nations Industrial Development Organization

Igor KRESTOVSKY
Chief, Small-Scale Industry Section

S. NANJUNDAN
Industrial Development Officer, Small-Scale Industry Section

United Nations Economic and Social Office in Beirut

Jean-Pierre MARTIN
Director

Quang TRAN-LE
Regional Adviser in Industrial Development

B. A. HANNUSH
Chief of Economic Section

V. J. RAM
Chief of Social Section

R. KAMINKER
Chief of Administration and General Services

S. FICOWSKI
Economic Affairs Officer

S. JOWHARI
Economic Affairs Officer

United Nations Development Programme

Hashem JAWAD
Resident Representative in Beirut

Rateb NAHAS
Office of the Resident Representative in Damascus

United Nations Information Centre

B. GÉRIN
Officer-in-charge

International Labour Organisation

P. K. DAS
Regional Adviser in Small Enterprise Development, ILO Beirut Office

Food and Agriculture Organization of the United Nations

J. B. POLIAKOFF
Regional Food Technologist, FAO Regional Office for the Near East, Cairo

ANNEX 4

AGENDA

1. *Opening addresses*
2. *Adoption of the agenda*
3. *Review of policies, programmes, institutions and facilities, including industrial estates, for the development of small-scale industries in the countries of the participants*
4. *The future of the traditional sector in a modernizing economy*
5. *Promotion of entrepreneurship*
   - *(a)* Preparation of area, industry and market surveys and "model schemes"
   - *(b)* Measures of assistance at the pre-investment stage
   - *(c)* Intensive promotion campaigns
6. *Technical services for small-scale industries*
   - *(a)* Industrial extension services
     - Technical counselling
     - Management development, training and assistance
   - *(b)* Training of foremen and workers
   - *(c)* Common service facilities
   - *(d)* Marketing, including export promotion
7. *Financing of small-scale industry*
   - *(a)* Financial assistance and technical assistance (supervised credit)
   - *(b)* Public financing: institutions and methods
   - *(c)* Commercial and co-operative financing
8. *Regional and international co-operation for the development of small-scale industry*
   - *(a)* Regional co-operation
   - *(b)* United Nations technical co-operation

ANNEX 5

LIST OF DOCUMENTS[1]

Discussion papers

ID/WG.17/1	Provisional agenda.
ID/WG.17/1/Add.1	Annotated provisional agenda and proposed questions for discussion.
ID/WG.17/1/Add.2/Rev.1	Schedule of meetings.
ID/WG.17/2	Situation, problems and prospects of small-scale industries in selected countries of the Middle East, by E. Asfour.
ID/WG.17/3	A comparative analysis of small-scale industries in Arab countries of the Middle East and in selected other countries, by the United Nations Industrial Development Organization.
ID/WG.17/4	The future of rural industries in a modernizing economy, by the Food and Agriculture Organization of the United Nations.
ID/WG.17/5	The future of the traditional sector in an industrializing economy, by the United Nations Industrial Development Organization and United Nations Economic and Social Office in Beirut.
ID/WG.17/6	A summary list of technical services and facilities for small-scale industries and related institutions, by the United Nations Industrial Development Organization.
ID/WG.17/7	The role of industrial extension services in small industry development programmes, by the United Nations Industrial Development Organization.
ID/WG.17/8	Sponsorship, organization and financing of technical services and facilities in the light of Indian experience, by P. C. Alexander.
ID/WG.17/9 and Corr.1	Operational problems of small industry service institutes in the light of the Indian experience, by G. Sain.
ID/WG.17/10	Stimulation of entrepreneurship and assistance to small industrialists at the pre-investment stage, by the United Nations Industrial Development Organization.
ID/WG.17/11	Industrial extension services for small-scale industries, by P. C. Alexander.
ID/WG.17/12	Services and facilities for small-scale industries in industrial estates, by A. D. Bohra.
ID/WG.17/13	Public policies for modernizing traditional village industries in developing economies, by the United Nations Industrial Development Organization and United Nations Economic and Social Office in Beirut.

[1] Documents listed are available for limited distribution only, except for those bearing a United Nations Sales Number.

ID/WG.17/14 Extension service and development finance for small industry; an international comparative analysis, excerpts from a paper by M. C. Shetty.

ID/WG.17/15 Hire-purchase loans for the mechanization of small-scale industries; the experience of India, excerpts from papers by K. L. Nanjappa and by the International Perspective Planning Team of the Ford Foundation.

ID/WG.17/16 Fostering the development of small-scale industries through a multinational centre for industrial development, by the United Nations Industrial Development Organization and United Nations Economic and Social Office in Beirut.

ID/WG.17/17 Small-scale industry and the Arab Common Market, by Y. Siouffi.

ID/WG.17/18 Institutions for providing technical services for small industry, by the International Labour Organisation.

Country papers

ID/WG.17/CP 1/Rev.1 Promotion of entrepreneurship in Iraq; small-scale industries, by E. C. S. Paul.

ID/WG.17/CP 2 Small-scale industries in Iraq, by A. Abdul Majid.

ID/WG.17/CP 3 Promotion of industrial development and entrepreneurship in Jordan, 1967 – 1968, by O. R. Reischer.

ID/WG.17/CP 4 Situation of industry as a whole and of small-scale industry in particular, in Jordan, by F. Daher Khatib.

ID/WG.17/CP 5 Small-scale industry in Saudi Arabia, by M. Taiba.

ID/WG.17/CP 6 Small industries in Kuwait and their growth-effect on the national economy.

ID/WG.17/CP 7 Industrial areas and small industries in the State of Kuwait.

Background papers

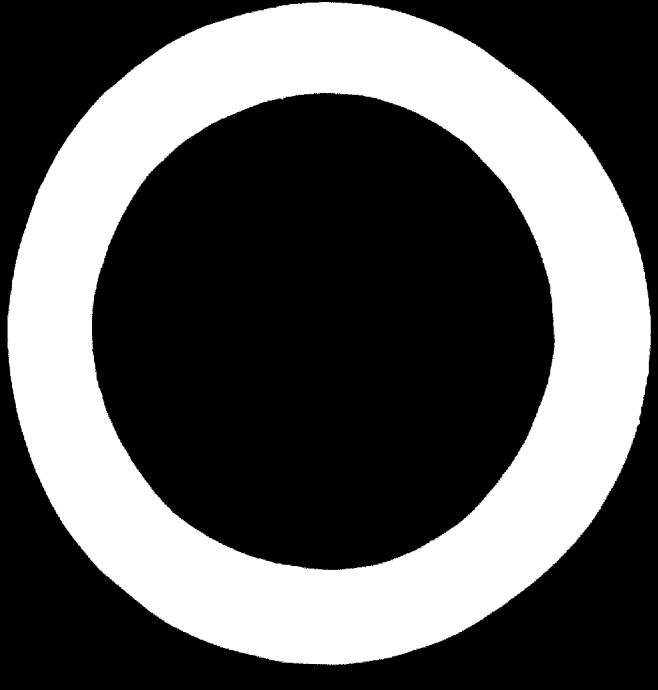
ID/WG.17/BP 1 Policies and programmes for the development of small-scale industries, by the United Nations Industrial Development Organization.

ID/WG.17/BP 2 *Technical co-operation for the development of small-scale industries*, by the Centre for Industrial Development. United Nations publication, Sales No.: 67.II.B.3.

ID/WG.17/BP 3 Problems in the application of technical assistance to small-scale industries in developing countries, by A. Neilson.

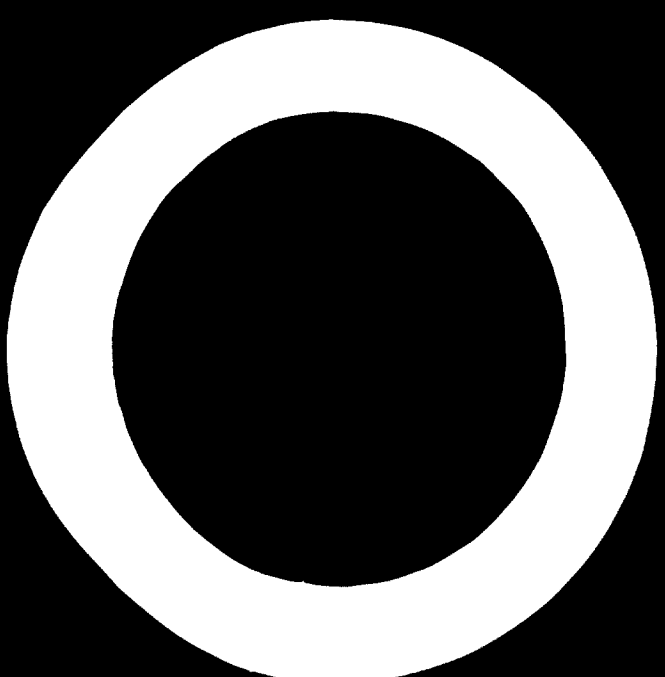
ID/WG.17/BP 4 Conditions for setting up and operating technical services for small-scale industries on a regional or a subregional basis, in the light of the experience of ICAITI, by M. Noriega Morales and S. Wittkowsky.

ID/WG.17/BP 5	United Nations activities relating to technical services and facilities for small-scale industries, by the United Nations Industrial Development Organization.
ID/WG.17/BP 6	*Technical Services for Small-Scale Industries*, by the United Nations Industrial Development Organization. United Nations publication, Sales No : 70.II.B.19.
ID/WG.17/BP 7	*Industrial Estates in Europe and the Middle East*, by the United Nations Industrial Development Organization. United Nations publication, Sales No.: 68.II.B.11.
ID/WG.17/BP 8	Some social aspects of industrialization in selected countries of the Middle East, by the United Nations Economic and Social Office in Beirut.



Part II

Selected papers presented to the meeting



1. SITUATION, PROBLEMS AND PROSPECTS OF SMALL-SCALE INDUSTRIES IN SIX ARAB COUNTRIES OF THE MIDDLE EAST[1]

Scope, definitions and approach

This paper aims at presenting a picture of the conditions and characteristics of small-scale manufacturing industries, of their major problems and of the prospects for their development in six Arab countries of the Middle East: Iraq, Jordan, Kuwait, Lebanon, Saudi Arabia and Syria. Whenever possible, the data for all of these countries have been collected so as to offer a quantitative picture for the region as a whole. However, the absence of data for some countries has often made it necessary to limit the quantitative analysis to a few countries.

The definition of small-scale industry presents a number of problems, some of which are crucial to the manner in which the subject is to be treated. Small-scale industries (i.e. establishments rather than plants) are distinguished here from large industries on the one hand and from cottage industries and handicrafts on the other not only because they account for a substantial part of industrial employment and output, but also because they seem to have distinctive problems such as shortage of capital, inadequate levels of technological and managerial skills, the use of inefficient machinery and weakness of marketing and distribution methods, which can be attributed to the smallness of their size and of their scale of operation and which therefore invite special promotional measures and assistance.[2] They may also have a special role to play in the development of industry, particularly in developing economies. In addition to serving as "breeding ground" for developing the skills of industrial workers, managers and entrepreneurs, they can, for example, contribute to greater diversity of production and to greater specialization in the typically small markets, and can serve as a means of creating additional income and employment in rural and other less advanced areas. When the dividing line between small-scale and other industries is drawn, the common problems and distinctive role of small-scale industries must be taken as guiding principles.

[1] Paper presented to the Expert Group Meeting by Edmond Asfour, Director, Bureau of Industrial Development, Ministry of National Economy, Government of Lebanon, Beirut.

[2] See United Nations Industrial Development Organization, "Policies and Programmes for the Development of Small-Scale Industry", *Industrialization and Productivity Bulletin No. 14* (Sales No.: 69.II.B.12).

Size, whether measured in terms of the number of persons employed per establishment, by the value of capital equipment or output, or by any other such measure, is a relative matter. By the standards of advanced industrial economies, manufacturing industry in the six Arab countries of the Middle East, with the exception of a small number of establishments, is virtually all small-scale industry, and nearly all of it can be more correctly described as handicrafts, although some of these handicraft establishments may be assisted by mechanical power. By the standards of the Middle Eastern countries, any industrial establishment that uses modern technology and equipment and that employs 50 or more persons is usually regarded as large. The number of such establishments is, however, very small, and they could be called medium-sized or large-scale establishments without strongly violating international comparisons. These establishments are generally also the most capital-intensive, but available data do not allow the use of capital intensity as a criterion of size.

To distinguish between small-scale manufacturing industries and handicrafts in the six countries is more complicated because the available data do not offer an acceptable common criterion. Some countries, such as Iraq and Jordan, reserve the title of "small industry" for establishments that employ fewer than 10 persons, although this group of establishments includes all handicrafts as well as some establishments that use mechanical power. Lebanon does not include in its industrial survey establishments employing 5 persons or fewer. On the other hand, there are some establishments in the region that employ more than 5 or 10 persons but are not modern in any sense and use no mechanical power at all, an example being the well-established, traditional soap industry in Jordan. Thus, the use of modern technology, including mechanization, as a criterion for distinguishing small-scale manufacturing industry from handicrafts, although conceptually desirable, must be abandoned in practice.

The above considerations and the limitations imposed by the quantitative data have led to the definition of small-scale manufacturing industry in the six countries as that group of manufacturing establishments (divisions 20 to 39 of the International Standard Industrial Classification) that employ from 5 to 49 persons each. The analysis concentrates, however, on the group of establishments that employ from 10 to 49 persons each. Nearly all such establishments use modern technology in their operation and are therefore distinguishable from handicrafts and cottage industries. The exclusion from much of the following analysis of the group of very small manufacturing establishments employing 5 to 9 persons is dictated more by the availability of data on this group than by considerations of definition. Consequently, unless specifically indicated, the following analysis, when small-scale industry is mentioned, refers to the group of establishments that employ from 10 to 49 persons. Much of the qualitative analysis related to this group applies equally to the smallest establishments that employ 5 to 9 persons.

CHARACTERISTICS OF SMALL-SCALE INDUSTRIES

The industrial sector in the six countries represents a relatively small part of total economic activity. It is most developed in absolute terms and as a pro-

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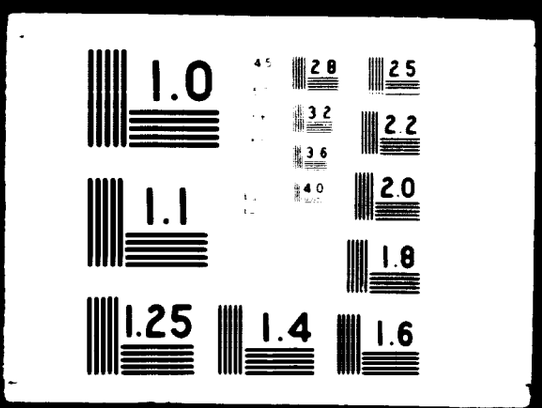

portion of the national product in Iraq, Lebanon and Syria, where the contribution of manufacturing industry to the gross national product (GNP) in recent years (1963 or 1964) represented about 11, 13 and 12 per cent, respectively. It is least developed in Kuwait and Saudi Arabia, whose economies are dominated by oil production and government activity; it is estimated that income from the manufacturing sector in Kuwait did not exceed 3 per cent of the GNP in 1965 and was probably even less in Saudi Arabia. In Jordan, where the growth of manufacturing industry is also of recent origin, its contribution to the GNP in 1965 was less than 8 per cent.

Within the manufacturing industry, a common size pattern can be detected for all the six Arab countries of the Middle East. The great majority of manufacturing establishments, about 84 per cent in Lebanon and 98 per cent in Saudi Arabia, employ fewer than 10 persons. The highest incidence of small manufacturing establishments that employ from 10 to 49 persons is found in Lebanon (14.3 per cent of the total number) and in Kuwait (10.3 per cent). Saudi Arabia has the lowest incidence (1.8 per cent of the total number of establishments), followed by Syria (2.8 per cent), Iraq (3.9 per cent) and Jordan (6.2 per cent). On the other hand, medium-sized and large-scale establishments, i.e. those employing 50 or more persons, account for a maximum of 2.1 per cent of the total number of manufacturing establishments in Lebanon, and for only 0.3 per cent in Syria.

However, the size of the labour force in the various size groups shows a different and somewhat irregular pattern. The few medium-sized and large manufacturing establishments, particularly in Iraq, Kuwait and Lebanon, employ a substantial part of the total labour force engaged in the manufacturing industry (51, 46 and 34 per cent, respectively). Small-scale industry, on the other hand, is most developed in Jordan, Kuwait and Lebanon. Handicrafts, together with the smallest manufacturing establishments employing fewer than 10 persons, predominate in Saudi Arabia, Syria and Jordan and account for more than one third of the industrial labour force in the other three countries. The number of establishments and number of persons employed classified by size of establishment in the countries under consideration are given in table 1.

The emerging size pattern of employment in the manufacturing industry in the countries reveals that medium-sized and large-scale industries (even apart from the oil refineries and the other manufacturing industries of foreign oil companies in the oil-producing countries, i.e. Iraq, Kuwait and Saudi Arabia) account for a relatively large share of the total manufacturing industry and modern small-scale industries account for a correspondingly small share. This small share is not the result of the stagnation of small-scale manufacturing industry, but rather of the much faster rate at which medium-sized and large-scale industries have grown in the last ten to fifteen years. Large, modern establishments have been set up, generally under monopolistic or concessionary conditions and often with direct government support, to meet the rising domestic demand for certain commodities such as refined petroleum products, cigarettes and cement. Their establishment in an industrial sector that is small from the viewpoint of the economy as a whole thus gave them a dominant position.

TABLE 1. MANUFACTURING ESTABLISHMENTS IN SIX ARAB COUNTRIES OF THE MIDDLE EAST, CLASSIFIED BY SIZE—NUMBER OF ESTABLISHMENTS AND NUMBER OF PERSONS EMPLOYED

Size of enterprise (number of employees)	*Iraq 1964*	*Jordan 1965*	*Kuwait 1965*	*Lebanon 1964*	*Saudi Arabia 1963–1965*	*Syria 1960*
			Number of establishments			
1—4	19,862[a]	5,250	1,662	4,755[e]	7,509[f]	23,522
5—9		924	393	1,078		2,181
10—49	825	410	242[c]	880	140[g]	699
50 or more	270	46	52[d]	141	30[g]	89
Total	20,957	6,630	2,349	6,854	7,679[h]	26,491
			Number of persons employed			
1—4	40,193[a]	19,623	3,817	17,004[e]	15,414[f]	...
5—9			2,470	7,250		...
10—49	14,103	6,966[b]	4,691[c]	16,506	2,700[g]	...
50 or more	55,557	6,543[b]	9,221[d]	21,228	3,400[g]	...
Total	109,853	33,132	20,199	61,988	21,514[h]	103,025[i]

Sources: Iraq, Central Bureau of Statistics, *Monthly Industrial Survey 1964; Results of the Industrial Census of Establishments employing fewer than 10 persons for June and December 1963* (in Arabic); Jordan, Department of Statistics, *National Accounts 1959–1965*, pp. 63–68; *Industrial Survey for 1965* (in Arabic); Kuwait, Central Department of Statistics, *General Census of Establishments for the year 1965* (in Arabic); *Statistical Yearbook, 1965* (in Arabic); Lebanon, Central Department of Statistics, *Recensement de l'industrie au Liban, résultats pour 1964;* Ministry of National Economy, unpublished data; Syria, Ministry of Planning, unpublished data; Saudi Arabia, Central Department of Statistics, *Statistical Yearbook 1385 AH, 1965 AD*, pp. 199–206; Department of Industry and Electricity, *Industrial Statistical Tables*, 1385 AH (in Arabic).

a Data on establishments employing 1 to 9 persons are derived from the census figures for December 1963 and converted to annual rate where relevant. Data on other establishments are derived from the *Monthly Industrial Survey, 1964* by excluding from the totals figures related to quarrying, mining, water and electricity establishments.

b Partly estimated.

c Including one government industry appearing in the 1963 census.

d Including 23 government industries appearing in the 1963 census.

e Residual, after deducting census figure of establishments that employ 5 or more persons from estimate of total number of establishments.

f Residual, after deducting estimate of establishments that employed 10 or more persons in 1965 from the total census figure in 1963.

g Approximate figures for private establishments.

h Census of 1963 (1382/83 AH); excluding government establishments in cities.

i Figure refers to 1963.

The important position of medium-sized and large establishments is even more pronounced in terms of output and of wages paid and of value added. They accounted for 40 to 69 per cent of the totals for the manufacturing industry as a whole in those countries (Iraq, Jordan, Lebanon) for which data are available (see table 2).

Compared with labour in medium-sized and large manufacturing establishments, labour in small-scale industry in the six countries is generally less productive. Thus, average output per person and average value added are lower in small-scale industry (and much lower in very small industries and handicrafts) than in medium-sized and large industry in the countries for which data are available (see table 3). Similarly, the average wage paid per worker is lower in small-scale industry. The differences between the two sectors are widest in

TABLE 2. OUTPUT, VALUE ADDED AND WAGES PAID IN MANUFACTURING ESTABLISHMENTS IN SIX ARAB COUNTRIES OF THE MIDDLE EAST, CLASSIFIED BY SIZE

(thousands of national currency[a] and percentages)

Size of enterprise (number of employees)	*Iraq 1964*		*Jordan 1965*		*Kuwait 1965*		*Lebanon 1964*		*Saudi Arabia 1963–1965*		*Syria 1963*	
	ID	*%*	*JD*	*%*	*KD*	*%*	*LL*	*%*	*SR*	*%*	*SL*	*%*
						Value of output						
1—4	37,953[b]	24.6	10,397	29.8	...	...	...	...	...	...	...	...
5—9					...	...	77,334	9.0	...	...	...	...
10—49	22,960	14.9	9,123[c]	26.1	...	...	283,659	32.9	...	...	...	...
50 or more	93,338	60.5	15,423[b]	44.1	...	...	501,495	58.1	...	...	...	...
Total	154,251	100.0	34,943	100.0	...	...	862,488[d]	100.0	...	...	724,486	100.0
						Value added						
1—4	...	...	4,783	34.9	...	...	...	...	...	...	...	...
5—9	...	...			...	...	28,846	9.2	...	...	...	...
10—49	...	...	2,585[c]	18.8	...	...	106,599	34.1	...	...	...	...
50 or more	...	...	6,354[c]	46.3	...	...	176,882	56.6	...	...	...	...
Total	...	...	13,722	100.0	...	...	312,327[d]	100.0	...	...	395,893	100.0
						Wages paid						
1—4	2,907[b]	14.7	1,375	34.3	...	...	...	...	...	...	...	...
5—9					...	...	11,191	9.5	...	...	...	...
10—49	3,196	16.2	1,037[c]	25.9	...	...	36,283	30.7	...	...	...	...
50 or more	13,681	69.1	1,601[c]	39.9	...	...	70,711	59.8	...	...	...	...
Total	19,784	100.0	4,013	100.0	...	...	118,185[d]	100.0	...	...	133,500	100.0

Sources: See table 1.

Note: Percentages may not add to 100 because of rounding.

a One Iraqi dinar (ID) = $2.80; One Jordanian dinar (JD) = $2.80; One Kuwaiti dinar (KD) = $2.80; One Lebanese pound (LL) = $0.32 approx.; One Syrian pound (SL) = = $0.24 approx.

b Data on establishments employing 1 to 9 persons are derived from the census figures for December 1963 and converted to annual rate where relevant. Data on other establishments are derived from the *Monthly Industrial Survey, 1964* by excluding from the totals figures related to quarrying, mining, water and electricity establishments.

c Partly estimated.

d Excluding establishments employing 1 to 4 persons.

TABLE 3. AVERAGE OUTPUT, VALUE ADDED AND WAGES PER EMPLOYEE IN MANUFACTURING ESTABLISHMENTS, CLASSIFIED BY SIZE
(units of local currency)[a]

Size of enterprise (number of employees)	*Iraq 1964 (ID)*	*Jordan 1965 (JD)*	*Lebanon 1964 (LL)*
		Output	
1—9	944	530	10,667[b]
10—49	1,628	1,310	17,185
50 or more	1,680	2,357	23,624
Average	1,405	1,054	19,173[b]
		Value added	
1—9	...	244	3,929[b]
10—49	...	371	6,458
50 or more	...	971	8,332
Average	507	414	6,943[b]
		Wages	
1—9	170	127	2,113[b]
10—49	239	170	2,461
50 or more	247	248	3,359
Average	230	172	2,876[b]

a One Iraqi dinar (ID) = $2.80; one Jordanian dinar (JD) = $2.80; one Lebanese pound (LL) = $0.32 (approximately).
b Excluding establishments employing 1—4 persons.

Jordan, where average output, value added and wages in small-scale industry are about 60 to 70 per cent of those in medium-sized and large industries. The gap is narrowest in Iraq, where the differences are less than 5 per cent, and lies midway in Lebanon, where the differences are about 25 per cent.

The patchy data available on capital intensity confirm the assumption that considerably less capital as well as less machinery and equipment are used per person in the smaller establishments than in the larger ones. Thus, in Lebanon the average horsepower used per person in 1964 was 2.0 hp in establishments employing from 5 to 9 persons, 2.5 hp in establishments employing from 10 to 49 persons, and 4.3 hp in those employing 50 or more persons.

The available data on total industrial investment, which are far from adequate, indicate that in the past only a small part of the total capital invested in the manufacturing industry in the six countries has actually been invested in small-scale industry. In addition, the average capital investment per employee is much lower in small than in large industries. This pattern is to be expected when it is recalled that a number of the largest industries (such as oil refineries and petrochemical, cement, textile and sugar plants, as well as some metal and chemical industries) have transplanted modern large-scale technologies that require heavy capital investment in comparison with traditional industries and with many of the new types of small-scale industries.

This investment pattern is similarly reflected in the relative volume of annual investment by small and large industries. Thus, in Lebanon, small industries employing from 5 to 49 persons invested 18.6 million Lebanese pounds in 1964

compared with LL50.8 million invested by large industries, i.e. a ratio of 36 per cent, while the ratio of employment in the two sectors was as high as 112 per cent. The gap in investment per person between the two sectors is probably wider in other countries of the region, where the Government's contribution to the capital of large industries is considerable. Thus, in Iraq in 1964, average capital invested per person in government industries, most of which are large, is estimated to have exceeded 3,000 Iraqi dinar, compared with about ID600 in private small and large industries, and with a little over ID100 in private handicrafts and small establishments employing fewer than 10 persons. Similarly, in Jordan in 1965, average fixed assets per person in establishments employing 10 or more persons were seven times as high as those in establishments employing fewer than 10 persons.

These quantitative characteristics of small-scale manufacturing industry, namely, the generally lower wage and output levels per worker as well as the lower value added per worker and lower capital intensity, reflect the basic and distinctive problems of this sector. This is not to say that small-scale industry in the six countries does not also share the general problems of all industry, whether large or small, in its efforts to achieve a higher rate of growth and a higher level of productivity. A brief analysis of these distinctive problems and an explanation of their causes are attempted further on in this paper.

Small-scale industry is not restricted to specific manufacturing activities but is found in all the existing major manufacturing groups with the exception of oil refining (ISIC major group 32), which is exclusively large-scale, and of wood and basic metal industries (ISIC major proups 25 and 35), which are either very small or do not exist at all. Most small-scale industries in the six countries are engaged in food manufacturing, the production of building materials (particularly cement products), footwear and furniture, printing and publishing, the manufacture of metal products and repairs (particularly of motor vehicles). In Iraq, Lebanon and Syria, many small-scale establishments are engaged in textile manufacturing. Iraq, which has four large firms and numerous small establishments that manufacture tobacco products, contrast with Jordan, Lebanon and Syria, which have only one or a few large tobacco manufacturing establishments, as well as with Kuwait and Saudi Arabia, which have none at all.

Small-scale industries prevail in the traditional types of activities such as the manufacture of food, clothing and building materials, and in some more recent types of industry, such as printing and car repairs. These industrial fields are also the largest, in terms of number of establishments and of persons employed, and include the bulk of the numerous very small industries and handicrafts in the six countries. This pattern suggests that the growth of small-scale industries has moved along with the growth of population and income, which has stimulated the general demand for industrial products and that, in their majority, they represent the more enterprising firms in these industrial fields or the more favourably situated in relation to the market. This is not the case with all small-scale manufacturing establishments. In some industries, such as beverage production or the manufacture of certain construction materials, the establishments may have been set up to produce a new product and use modern technology. They

therefore have assumed a minimum size from the start. In such cases it is probably true that technological requirements have often determined the minimum size of the establishment and that market and financing limitations have been the main obstacles to the establishment of larger-sized plants. In some well-established industries, such as textiles and leather tanning in Syria and Lebanon, special market and ownership conditions may have prevented small-scale industries from graduating into the larger-sized group for which they are normal candidates and thus kept them in existence side by side with large establishments.

Small-scale industry in the six countries is privately owned for the most part. This is true of practically all small-scale industry in Jordan, Kuwait, Lebanon and Saudi Arabia. It still remains true in terms of number of establishments in Syria and Iraq, despite the extensive nationalization of industry in these two countries in 1964 and 1965, respectively.[3] In contrast, most of the largest industries are fully owned by the Government in Iraq and are fully or partly owned by the Government in Syria. In Jordan, Kuwait and Saudi Arabia, the Government participates in the ownership of many of the largest industrial concerns and fully owns some of the largest in the latter two countries. Only in Lebanon is the industrial sector exclusively a private reserve.[4] While ownership of small-scale industries is thus generally private, the degree of control and regulation of these industries by the Government as well as the incentives the Government offers differ from country to country, as will be noted later. A picture of the legal status of manufacturing establishments in three countries of the region is given in table 4.

Private ownership of small-scale industry takes various forms, the predominant form being individual ownership, followed in importance by partnerships. The corporate form of ownership is generally undeveloped in the six countries and is of negligible importance in the small-scale industry sector. It is of some significance only in the large-scale industry sector in Jordan, Kuwait, Lebanon and Saudi Arabia.

Foreign capital in the six countries has been primarily interested in large industry and has been concentrated in oil refining in Kuwait, Lebanon and Saudi Arabia and in a few other large industries in Lebanon.[5] Thus, foreign

[3] In January 1965 (Legislative Decrees 1 and 2), Syria nationalized fully 21 industrial enterprises and acquired 20 per cent ownership in 22 industries and 25 per cent ownership in 61 companies, i. e. it acquired full or partial ownership of 104 industries. By comparison, large establishments (employing 50 or more persons) numbered 89 in 1960 and small-scale industries (employing 10—49 persons) numbered 699. In Iraq in 1965, 79 manufacturing establishments were owned by the Government. This compares with a total of about 270 large manufacturing establishments and about 870 small manufacturing establishments that existed in 1965. See Iraq, Central Bureau of Statistics (1967) *The Industrial Survey 1965*, Baghdad (in Arabic). Data derived from tables 3, 32, 44 and 47.

[4] For a more detailed review of the role of the Government in industry, see Centre for Industrial Development and United Nations Economic and Social Office in Beirut (January 1966) *Industrial Planning, Programming and Policies in Selected Countries of the Middle East* (CIDAC./KUW/IV/UN-6, distribution restricted), pp. 97—102, a study presented to the Conference on Industrial Development in the Arab Countries, held in Kuwait from 1 to 10 March 1966.

[5] For further details, see Centre for Industrial Development and United Nations Economic and Social Office in Beirut (February 1966) *Financing of Manufacturing Industry in Selected Countries of the Middle East* (CIDAC. KUW/IV/UN-7, distribution restricted) pp. 53—58.

TABLE 4. PATTERN OF OWNERSHIP OF MANUFACTURING ESTABLISHMENTS IN THREE ARAB COUNTRIES OF THE MIDDLE EAST
(number of establishments)

Country	Year	Number of employees per enterprise	Establishments						
			Individually owned	Partnerships (or sociétés simples)	Joint-stock and limited liability	Other private companies[a]	Unclassified private	Government owned	Total
Iraq	1965	100 or more	...	...	...	...	...	79	1,136
		Total[b]	544	230	170	...	...	47[c]	991
Lebanon	1964	5—9	737	318	13	7	3	—	1,078
		10—49	387	412	37	33	11	—	880
		50 or more	21	46	11	58	4	1	141
		Total	1,145	776	61	98	18	1	2,099
Syria	1960	Total	22,772	4,660	111	...	147	17	27,707

Source: Iraq, Central Bureau of Statistics (1967) *The Industrial Survey 1965;* Iraqi Federation of Industries, *Directory of Industry* and *Annual Report, 1965* (in Arabic).
Lebanon, Direction Centrale de la Statistique (1967) *Recensement de l'industrie au Liban, résultats pour 1964*, Beirut.
Syria, Ministry of Planning, *Results of the Census of Establishments in the Syrian Arab Republic for the Year 1960* (in Arabic).

a Includes the *sociétés en commandite* in Lebanon.
b Includes establishments that are members of the Iraqi Federation of Industry and the value of whose machinery and equipment exceeds ID3,000.
c Includes 5 establishments jointly owned by the Government and the private sector.

investment in small-scale industry is very small in volume and is composed largely of investments by Arab nationals in the various countries, particularly in Kuwait and Saudi Arabia, in participation with local capital. Non-Arab direct investment in small-scale industry is limited to very few industries in each of the countries concerned. Foreign interest in local industry does, however, take the form of licence or royalty agreements to produce several brand products in Jordan and in Lebanon.

Government investment in small-scale industry remains small even in Iraq and Syria, where the Government owns (partly through nationalization) the bulk of industrial capital. In Iraq, out of 266 government-owned industries in 1965, approximately one quarter had an average of fewer than 50 employees per establishment.[6] Similarly in Kuwait, there was only one small establishment among the 24 industries owned by the Government in 1965. Government participation in the capital of private industries has also been concentrated in large industry. The Government participated in the capital of 13 companies in Iraq (ID2.0 million out of a total of ID9.0 million in 1963), 8 companies in Jordan (JD2.2 million out of 9.2 million in 1965), 6 companies in Kuwait (KD11.4 million out of 18.9 million) and in that of an unknown number in Saudi Arabia.[7]

PROBLEMS OF SMALL-SCALE INDUSTRIES

The problems facing small-scale industry in the six countries are often the same as those facing industries of all sizes, including handicrafts and large industries. Small-scale industries do, however, have problems peculiar to them as a group, or they may suffer more acutely from the problems they share with large industry. Such problems may be conveniently grouped under the following headings: entrepreneurship and management; investment; credit; demand and marketing; and costs and productivity. Problems related to government policies will be treated separately.

Entrepreneurship and management

Entrepreneurship and management problems are common to all industry but are particularly acute in small-scale industry. The general scarcity of experienced entrepreneurs, particularly in industry, in the six countries[8] tends to channel the limited entrepreneurial talent towards the creation of large, private

[6] See Iraq, Central Bureau of Statistics (1967) *The Industrial Survey 1965*, Baghdad, p. 27. This total figure, however, does not agree with other figures given in the same survey.

[7] See Centre for Industrial Development and United Nations Economic and Social Office in Beirut (February 1966) *Financing of Manufacturing Industry in Selected Countries of the Middle East* (CIDAC. KUW/IV/UN-7, distribution restricted) pp. 53—58.

[8] Industrial entrepreneurs are often men who have made their fortune in trade or real estate and who have had no earlier experience in industry. For a study of the characteristics of entrepreneurs in one of the six countries, see Y. Sayigh (1962) *Entrepreneurs of Lebanon*, Cambridge.

industrial firms, where there are hopes of greater gains, or to employment in large government concerns, which offer more prestige but lower (though more stable) income. Small establishments, as has been noted earlier, are very largely owned by individuals or by a few partners, who are generally both managers and owners. While large-scale industry may be able to afford to engage professional management staff (including administrators, lawyers, accountants, sales specialists and even research workers), it is rare that a small firm can afford to do so. Frequently, one of the main reasons for carrying on a small enterprise is to assure employment for the owner and his partners or for the members of their families.

While specialized management services are generally scarce and costly, the inadequacy of supporting advisory and research services is particularly glaring in such fields as economics, planning, marketing, technology and production methods. Indigenous private research and marketing firms are rarely to be found in the six countries except in Lebanon, where a few have been established in recent years and have helped to serve industries, particularly in the field of marketing in the other countries as well as in Lebanon itself. In the other five countries, the Governments have taken some steps to improve the situation, but their efforts so far have had only a limited impact on small-scale industry; however, many studies relating to the establishment of large industries have been commissioned by various Governments. Thus, the supply of specialized advisory and research services to small-scale industries is far from adequate, and the obtainable foreign and local specialized services remain beyond the reach of most small-scale industries. Similarly, it is easier for large industries to develop specialized research skills through training on the job than it is for small establishments.

There are very few quantitative indications of the disadvantages of small industry, compared with large industry, as far as the availability of specialized management staff is concerned. Since the great majority of small establishments are managed by their owners alone or with the help of relatives, they would find it more difficult to support the employment of qualified professional managers and other specialists even if they wished to do so.

Investment

It has been noted earlier that practically all the small-scale industries in the six countries are privately owned, while only a few of the large industries, outside Lebanon, are fully owned by the private sector. The obstacles to expanding investments in small-scale industries are largely identical with those hampering the growth of private investment in general. The volume of private investment in manufacturing industry is determined by several factors, such as the total volume of domestic private savings, including retained profits of existing concerns; the size of other available sources of finance, whether public or foreign; and the relative profitability of industrial activity in relation to other types of economic activities in each of the countries concerned. In addition,

investment in manufacturing industry, owing to its long-term nature and relatively low returns, tends to be particularly sensitive to the general political atmosphere, which affects private expectations of the future profitability of the investment, or even confidence in the security of ownership of the capital assets themselves. Internal political instability in some countries of the Middle East and the threat of instability in the region as a whole have probably discouraged private businessmen from undertaking new investments or from expanding their present investments in the region. The trend of economic policy towards greater government control in the last decade, particularly in Iraq and Syria, and the nationalization of assets in these two countries have seriously checked private investment in industry of all sizes, particularly during the last five years.

General organizational problems, which may delay the growth of industry, are probably more acute in small than in large industry. Such obstacles include the lack of long-term planning and the inadequacy of information on demand trends. Market feasibility studies are seldom undertaken by any but the largest enterprises. In addition, the small investor in the six countries is far less familiar with technical developments than his counterpart in the industrially advanced countries, and the facilities available to him for inquiry are far more limited.

While affecting the rate of growth of small-scale industry, the above-mentioned organizational obstacles may often lead to burdensome types of investment. The unfamiliarity of the small investor with the exact economic and technological characteristics of imported machinery or with the comparative economic advantages of various types may often lead him to prefer apparent economies and then to choose in fact the less economic type of machinery or to accept technologically outdated or uneconomical second-hand machinery and equipment. In addition, the virtual absence of experience in, and the inadequacy of the facilities for, adapting, improving or creating capital equipment meeting specific market and cost conditions remains an obstacle to the long-term, healthy growth of investment in small and large industries.

Credit

It has already been noted that direct government loans to, and foreign investment in, industry in the six countries are largely concentrated in large industry. Other sources of credit to small-scale industries in the countries under review are the commercial banks, which are now nationalized in Iraq and Syria, and the special financial institutions, which are fully owned by the Government in Iraq, Kuwait, Saudi Arabia and Syria, and are jointly owned by the Government and the private sector in Jordan and Lebanon. Industrial credit in three countries—Iraq, Saudi Arabia and Syria—is thus closely tied with government ownership of industrial establishments and with government plans to develop industry. The role of banks and institutions in financing small-scale industry in these countries is thus determined by the over-all role played by the Government in the development of industry, a subject which is considered later in this paper.

Governments have rarely subscribed directly to the financing of small-scale industry, whether in the form of equity capital or in the form of loans.

Governments have, however, made a small, indirect contribution to financing small-scale industry through their contributions to the financial resources available to special credit institutions.[9] These credit institutions have provided in the past about one sixth to one eighth of the credit extended to industry by the commercial banks in Jordan, Kuwait, Lebanon and Syria (see table 5). But in Iraq, the Industrial Bank has extended more loans to industry than the commercial banks. An unknown part of these loans has benefited small-scale industry, particularly in Iraq, Jordan and Syria, but their volume in absolute terms is probably small.

Commercial banks supply the bulk of short-term industrial credit in Lebanon and Syria, and practically all of it in the other four countries. They are thus the primary source of finance for current transactions of industry. They also contribute to medium-term investment to a certain extent by renewing short-term loans from year to year.

Table 5 shows the volume of industrial credit in five countries of the Middle East at the end of 1964.

TABLE 5. INDUSTRIAL CREDIT IN FIVE COUNTRIES OF THE MIDDLE EAST, AS OF 31 DECEMBER 1964
(millions of local currency units)

Outstanding loans	*Iraq ID*	*Jordan JD*	*Kuwait*[a] *KD*	*Lebanon LL*	*Syria SL*
Credit institutions	6.97	0.43	0.89	38.7	35.7
Commercial banks	4.41	3.33	6.07	236.0	204.6
Total	11.38	3.76	6.96	274.7	240.3
Estimated proportion of outstanding loans to capital (in per cent)	10%	20%	...	33%	38%

Source: Centre for Industrial Development and United Nations Economic and Social Office in Beirut (Feb. 1966) *Financing of Manufacturing Industry in Selected Countries of the Middle East* (CIDAC. KUW/IV/UN-7, distribution restricted) p. 34, table 4 except for last line.

[a] As at 31 March 1965; figures are approximate.

The share of small-scale industry in these financial resources cannot be judged from the limited data available, but can be safely presumed to be smaller than its share in total industrial capital, which is probably below one third.

The difficulties that confront small-scale industries in obtaining adequate credit from commercial banks arise in general from the high rate of interest and other fees they would normally have to pay, which rarely fall below 9 per

[9] These credit institutions include: the Industrial Bank of Iraq, fully owned by the Government; the Industrial Development Bank of Jordan, a mixed company (in which the Development Bank of Jordan and the Industrial Development Fund were incorporated in 1965); the Kuwait Credit Bank, fully owned by the Government (incorporated in the Credit and Savings Bank); the *Banque du Crédit Agricole, Industriel et Foncier* (BCAIF) in Lebanon, a mixed company; the General Petroleum and Mineral Organization (PETROMIN), a government organization which, though not a bank, acts as a source of equity capital and credit to industry in Saudi Arabia; and the Industrial Bank of Syria, fully owned by the Government. For a more detailed review, see Centre for Industrial Development and United Nations Economic and Social Office in Beirut (Feb. 1966) *Financing of Manufacturing Industry in Selected Countries of the Middle East* (CIDAC. KUW/IV/UN-7, distribution restricted) pp. 24—46.

cent per year (the legal maximum in several of the six countries). They are more immediately related to the inability of small-scale industries to obtain a loan easily to finance their current operations. While large industries, which import raw materials directly from abroad, may find it comparatively easy to finance their imports through short-term credit supplied by the banks or by the exporter, small industries, which generally depend on local suppliers of raw materials, do not have easy access to this type of credit. The supplier acts as an intermediary by selling on credit and discounting the bills with a bank if such a facility is open to him, or by directly financing the sale. In either case, the mark-up on the price of the purchased raw material would tend to be higher than the rate of interest charged by the commercial banks or by the exporter to large industries and may be considerably higher when the suppliers have limited or no discount facilities open to them. Similarly, small industries are less likely than large industries to obtain loans from commercial banks to finance other current operations or to have such loans renewed automatically.

The demand for loans from the special credit institutions is understandably strong and, except in Kuwait and Saudi Arabia, considerably exceeds available resources. These institutions charge rather low rates of interest on their advances and loans[10] and are the main source of medium- and long-term credit. They generally extend no short-term loans to industry, except in Lebanon, where short-term loans represented 12 per cent of outstanding loans to industry at the end of 1964, and in Syria, where they represented as much as 41 per cent.

However, the special credit institutions do not give preference to small-scale industry in approving their loans; on the contrary, they favour strongly the larger and well-established industries. Various conditions governing eligibility of borrowers and the maximum size of loans tend to work against small establishments. In particular, the ceiling placed on the amount of loan to a single establishment is often fixed as a proportion of the capital, the fixed assets or the value of the real estate used as a security, conditions that favour those industries, generally large-scale, that are more capital-intensive or that own extensive lands and buildings.[11]

[10] Thus, the annual interest rate charged in 1965 by the Industrial Bank of Iraq ranged from 4 to 6 per cent; by the Industrial Development Fund in Jordan, 6 per cent; by the Credit Bank of Kuwait, 3 per cent; by BCAIF in Lebanon, from 5.5 to 7.5 per cent; and by the Industrial Bank of Syria, from 4.5 to 6 per cent. In Iraq, short-term loans were charged 2 per cent less than long-term loans but were charged higher interest in Syria.

[11] Thus, in Iraq, the maximum loan granted by the Industrial Bank to individual concerns (characteristic of small-scale industry) should not exceed ID50,000 but may be 5 to 10 times that amount for shareholding companies. In Jordan, the maximum loan by the Industrial Development Bank should not exceed 10 per cent of paid-up capital and free reserves, and no loan or equity participation may be extended to small enterprises whose capital is less than JD10,000, other small industries being entitled to loans totalling less than 10 per cent of the Bank's assets; in addition, a 2 per cent additional interest is charged on the first JD5,000 of any financing, a provision that would raise the average interest rate on small loans. In Kuwait, the Credit and Savings Bank sets the ceiling on individual loans at 50 per cent of the value of fixed capital; in Lebanon, BCAIF restricts loans only to large joint stock companies whose paid-up capital is LL0.5 million or more and provides that the loan amount should not exceed 25 per cent of the company's paid-up capital. In Syria, the maximum medium-term and long-term loan to a single person should not exceed 25 per cent of the funds invested by him, a provision that works against the individual owner of small establishments and in favour of the larger partnerships.

The security acceptable to special credit institutions also tends to favour large industry and to work against small industry. The most commonly accepted securities, particularly on medium- and long-term loans, are a mortgage on real estate or a bank guarantee (in Iraq, Kuwait and Syria, a mortgage on industrial machinery is also accepted). This situation works against small industries that have limited or no assets in real estate or that cannot obtain a bank guarantee except at a high additional cost.

Demand and marketing

The smallness of the domestic market, whether in terms of total population or of actual consumption expenditure per head, is one of the basic limitations on the growth of the manufacturing industry in the six countries. Domestic demand for individual manufactured products is very often too small to justify the setting up of more than a few establishments—if any—that use modern and efficient mass-production methods. The competition of imported products, for which a general market preference already exists, reduces even further the size of the effective market that can be supplied by domestic producers and tends therefore to limit the size of domestic industries that are not given strong protection.[12] Thus many industries do not enjoy the full benefit of economies of scale in production. This is particularly true of the "non-traditional" industries referred to earlier, which represent a small proportion of the total number of small-scale industries but which are natural candidates for larger-scale operations.

The various steps that have been taken to create a wider Arab Common Market, which would include the six countries and other members of the League of Arab States, if successfully implemented, will no doubt help to remove market restrictions on the expansion of many small-scale industries in the co-operating countries, although greater specialization among the various countries in the manufacturing fields protected at present would be required. To date, two important treaties affecting the market for industrial products among the Arab countries of the Middle East, as a region, have been concluded. The 1953 Convention for Facilitating Trade and Regulating Transit among States of the Arab League, signed by Iraq, Jordan, Lebanon, Syria, the United Arab Republic and Yemen, accords (with its amendments) a 20 to 50 per cent tariff reduction on the imports of a large number of manufactures originating in the signatory countries. The 1964 Arab Common Market agreement, signed by Iraq, Jordan, Kuwait, Syria and the United Arab Republic and ratified by all except Kuwait, aims at progressively reducing the customs duties over a maximum period of ten years on all industrial products originating in the member countries, including products already subject to preferential treatment under the 1953 Trade and Transit Agreement. The reduction in tariffs begun in 1965 is to proceed at the

[12] Imported manufactured goods represented the following proportions of total consumption of manufactures in 1963: Iraq, 37.1 per cent; Jordan, 44.7 per cent; Kuwait, 98.8 per cent; Lebanon, 55.2 per cent; and Syria, 61.8 per cent (Source: Centre for Industrial Development and United Nations Economic and Social Office in Beirut (Jan. 1966) *Industrial Planning, Programming and Policies in the Selected Countries of the Middle East*, table 30 on p. 162).

annual rate of (an additional) 10 per cent of the normal tariff on industrial products, and 20 per cent on the as yet unexempted agricultural products.

These regional trade agreements have been supplemented by bilateral trade agreements among the six countries. Lebanon, a signatory of the first but not the second regional trade agreement and Saudi Arabia, a signatory to neither, are thus able to expand trade co-operation with other countries of the region through such bilateral agreements. In addition, bilateral agreements between signatories to the regional agreements frequently accord preferential tariff reductions, ranging from 33 to 100 per cent, and sometimes accord conditional exemption from import and export licensing in bilateral trade that often go beyond the more general provisions of the regional agreements. Practically all the six countries, except Kuwait, have signed such agreements with each other, which extend over a period of one or two years, but, if not amended, are renewed automatically. The practically free trade policy of Kuwait (import duties do not generally exceed 4 per cent *ad valorem*) renders bilateral agreements of limited usefulness as an instrument of commercial policy, unless they cover such questions as free movement of capital and labour.

The effective implementation of these agreements—administrative and quota restrictions tend sometimes to offset their provisions—and the adhesion of other countries undoubtedly encourage the growth and greater efficiency of industries, including those small-scale modern industries that produce light manufactures and that can potentially benefit from economies of scale. These agreements will promote healthier competition under conditions of free trade with the co-operating countries, yet also afford a degree of protection from the more advanced industries of the developed countries.

Although regional trade in manufactured goods among the six countries and the United Arab Republic remains small, both in absolute terms and in relation to total trade, it does account for a substantial part (39 to 45 per cent) of total exports of manufactures by Kuwait, Lebanon and Saudi Arabia and for the bulk (69 to 82 per cent) of exports of manufactures by Iraq, Jordan and Syria (see table 6).

TABLE 6. INTRA-REGIONAL TRADE IN MANUFACTURED PRODUCTS IN SEVEN ARAB COUNTRIES, 1963

	Regional exports of manufactures (million dollars)	*Share of regional exports of manufactures in total exports of manufactures*[a] *(per cent)*	*Share of total regional exports in total exports (per cent)*
Iraq	8	69	19
Jordan	1	76	68
Kuwait	10[b]	45	39
Lebanon	20	44	46
Saudi Arabia	1	39	25
Syria	16	82	29
United Arab Republic	85	12	4
Total	141	30	16

Source: United Nations (1967) *Studies on Selected Development Problems in Various Countries in the Middle East*, table 4 on p. 16 and table 5 on p. 17.

a Average 1962/1963 or 1963/1964; including re-exports but excluding exports of oil products.

b Mostly re-exports.

While the expansion of the export market is a necessary condition for the healthy growth of many small-scale industries, most establishments in the six countries produce manufactures for which there is a well-established domestic market, often enjoying the natural protection offered by the perishability of the product, the high cost of transport, special tastes etc. These establishments represent many of the "traditional" industries such as food, footwear, clothing, furniture, printing, building materials and repairs. Their technology is adapted to small-scale production, and domestic demand is large enough to enable them to achieve an economic size. The problems of such establishments do not arise primarily from limitations on demand but rather from inefficient production.

However, most modern small-scale industries suffer from weakness of demand. The smallness of the industrial sector as a whole and particularly the scarcity of large-scale industry is itself an obstacle to the expansion of small-scale industry, since the possibilities for small enterprises to supply parts and special products as inputs for larger firms or to subcontract for specific jobs are extremely limited. Furthermore, specialized production, which becomes more feasible as demand for the final product grows sufficiently to justify specialization in the production of particular parts, is also retarded.

Increased demand for domestic manufactured products can also be stimulated through improved marketing. Marketing problems arising from the inherent weakness of the transport and distribution systems are common to small and large industries. This is also true of problems relating to market information and to standards, which include the inadequacy and/or untimeliness of published market information on prices, trade and supplies; the inadequacy of market research facilities or the costliness of their services; and the lack of effective measures to ensure the adhesion to given quality standards and specifications. Small-scale industries, however, suffer particularly from their general inability to make use of improved marketing techniques and supporting services. Small establishments are likely to have fewer and less specialized salesmen than large establishments and are less capable of financing modern publicity campaigns, market research or other measures aimed at increasing sales. Thus, they are at a disadvantage in comparison with the few domestic large industries and even more so in comparison with foreign competitors.

Costs and productivity

It has been noted earlier that average output and average value added per employee are lower in small industries than in large industries in those countries for which data are available. The difference is widest in Jordan, is quite considerable in Lebanon and narrowest in Iraq (see table 3). This difference in output per employee is paralleled by a similar difference in the average wage paid per worker in Iraq and Lebanon, and by a greater difference in Jordan. In other words, the average labour cost per unit of output is approximately the same in the small as in the large industries in both Iraq and Lebanon, but not in Jordan. Or, to put it differently, the average labour productivity is approximately the same in small as in large industry in Iraq and Lebanon but is lower in Jordan, despite a substantially lower wage level in small industry in the latter country.

The higher average productivity of labour in large industry in Jordan may be explained by the fact that such industry is highly capital-intensive and highly protected in relation to small industry, and hence commands higher prices for its products.

While the available data do not allow a quantitative measure of labour productivity in small and large industries in Kuwait and Saudi Arabia, labour is probably less productive in large industries than in small industries in these countries. In Kuwait and Saudi Arabia, skilled workers, clerical workers and management staff of modern large industries are almost wholly recruited from abroad at a substantially higher cost than in the other four countries. These industries generally produce at a level far below capacity and have to meet competition from imports under relatively liberal trade conditions. Small industries, on the other hand, include a large number of traditional establishments that have grown indigenously and are based on cheaper local labour and a naturally protected domestic market.

While plant excess capacity is characteristic of many large industries in the six countries, small industries may also suffer from underutilization of their fixed capital. Both sectors suffer from high depreciation costs, not only because they operate below capacity but also because the proportion of fixed capital in total capital is high. In addition to the extra costs of importing machinery and parts from abroad, many industries find it necessary to construct their plant and offices in or near urban centres, where transport facilities, water and power are more easily accessible, but where the cost of land is high. The tendency to build expensively and more extensively than is justified by the level of production also raises overhead costs frequently in small as well as in large industries.

While the relative capital depreciation burden carried by the two industrial sectors as a whole is not known, certain small-scale industries, in particular, seasonal industries such as oil pressing, soft drinks, ice cream, and ice manufacturing, operate under conditions of substantial overcapacity. The textile and clothing industries operate under similar conditions. In Jordan in 1965, for example, 51 out of 81 small-scale olive oil presses operated at less than 25 per cent of capacity, and 11 out of 66 small textile and clothing establishments operated at less than 25 per cent of capacity.[13]

Electric power is another element of cost that is heavier for small industries than for large industries. Large industries produce the bulk of the electric power they use themselves and thereby obtain it at cost; and when they have to purchase electric power, they often benefit from lower electricity rates. A much smaller amount of electric power is produced by small-scale industries, which, however, are probably obliged to bear a higher average cost per unit owing to the small capacity of their generators. Thus, in Iraq in 1964, small-scale industries produced 27 per cent of the electric power[14] they consumed and purchased the rest, whereas large industries produced 50 per cent of what they consumed. While

[13] See Jordan, General Directorate of Statistics (1967) *Study of Industry in 1965* (in Arabic), table 5 on p. 83.

[14] Derived from data given in Iraq, Central Bureau of Statistics (1966) *Monthly Industrial Survey 1964*.

the average rate per kWh paid by small industries for purchased power was 7.2 Iraqi fils (approx. 2¢), the average rate paid by large industries was 4.8 Iraqi fils (approx. 1.3¢).

GOVERNMENT POLICIES AND INCENTIVES

It is a declared objective of all Governments of the six countries to promote the growth of industry, not only to raise income and employment, but also to create greater balance in their economies. Growth of industry is looked upon as an important means of decreasing the heavy dependence on one sector of the economy, such as the oil sector in Iraq, Kuwait and Saudi Arabia or the agricultural sector in Syria.

The course that industrial development has followed in the various countries of the Middle East since the Second World War has been considerably influenced, but to varying degrees, by government policy and measures. In all the six countries, except Lebanon and Syria up to 1961,[15] the Government has played a direct and active role in the establishment of industries—principally large industries—and in participating in the capital of some others.[16] In all these countries, the private industrial sector has developed spontaneously and (except in Syria and Iraq after 1964) has continued to grow side by side with the government-owned industrial sector. The growth of the private industrial sector, which includes practically all small industries, has been affected as much by the general economic philosophy followed by Governments as by the government policies and incentives related specifically to industry.

Government policies for regulating and encouraging industry in the six countries do not, in general, distinguish between small and large industries. With very few exceptions, the rules and benefits apply in principle to industries of all sizes. In practice, however, it will be found that while small industries are subject to the general legislation and regulations affecting industry as a whole and benefit from the general tax and tariff exemptions, they enjoy few of the specific measures of support from which large industries may benefit, such as financial aid, tariff protection, concessionary conditions, preference in government purchases, help in obtaining land, aid in undertaking feasibility studies and facilities for management training.

Policies and incentives that affect small-scale industries, including those shared with industry in general, are reviewed briefly below, with the aim of bringing out distinctive measures or the absence of measures that may help to

[15] In Lebanon, the Government holds no interest in any manufacturing concern. In Syria before 1961, the Homs Oil Refinery was the only significant government investment in industry. In all the discussion, no account is taken of any military industry that may be operated by Governments.

[16] See section on government policies and incentives above. For a general review of the role of Governments in industry, see Centre of Industrial Development and United Nations Economic and Social Office in Beirut (January 1966) *Industrial Planning, Programming and Policies in Selected Countries of the Middle East* (CIDAC/KUW/IV/UN. 6, distribution restricted), Part II.

promote the growth of these industries. The role of the Government in financing small-scale industries has already been touched upon in the section on government policies and incentives. The brief review is made under the following headings: legal framework; tax exemption; protection; government purchases; feasibility studies; and industrial zones, areas and estates.

Legal framework

Laws regulating industry and providing for its promotion have been passed in all of the six countries.[17] In all except Saudi Arabia, registration of an industry is required by law. In Iraq, Kuwait and Syria, a licence for establishing or expanding an industry is also required, and in Lebanon, a licence is needed for importing industrial machinery, although none is needed for establishing or expanding an industry. In general, the establishment or expansion of an industry requires the approval of the relevant ministry based on the recommendation of a special government or mixed committee.[18] The legislation dealing with registration or licensing makes no distinction between small and large establishments. In Iraq, however, small industries with less than ID3,000 (about $8,400) worth of machinery and equipment are free from licensing requirements, and in Lebanon, the definition of an industry excludes establishments employing fewer than five persons or having machinery and equipment worth less than LL50,000 (about $16,000).

Tax exemptions

The Governments of all countries under review grant certain tax exemptions to industry under varying conditions, but without making a distinction between small and large industry except in the above-mentioned cases. Imports of machinery, equipment, packing materials and building materials used in establishing a new industry are exempt from import duty in four of the countries; in Lebanon and Jordan, prior approval is required. In Jordan, Kuwait and Saudi Arabia, imported raw materials and semi-finished products are also exempt from import duty, to an extent determined by the authorities.

With respect to income tax on profits, the exemptions range from a complete waiver from existing and future taxes for a period of ten years in Kuwait[19]

[17] The relevant legislative acts are the following: Iraq, "Development Law" No. 30 of 1960 and the "Industrial Promotion Law" No. 164 of 1964; Jordan, "Encouragement and Guidance of Industry Law" No. 27 of 1955; "Encouragement of Investment Temporary Law" No. 1 of 1967; Kuwait, "Industrial Law" No. 6 of 1965; Lebanon, "Industrial Regulation and Development" Legislative Decree No. 30 of 1967 and Law No. 38 of 1967; Saudi Arabia, "Regulations for the Protection and Encouragement of National Industries" Royal Decree No. 50 of 1962; Syria, Legislative Decree No. 103 of 1952.

[18] The following are the main bodies concerned: Iraq, Ministry of Industry and the Industrial Development Committee; Jordan, Ministry of National Economy and the Investment Encouragement Committee; Kuwait, Ministry of Finance and Industry and the Industrial Development Committee; Lebanon, Ministry of National Economy and the Industrial Development Bureau; Saudi Arabia, Ministry of Commerce and Industry and the Technical Industrial Bureau; Syria, Ministry of Petroleum, Power and Industrial Projects Implementation and the Public Organization for Industrial Projects.

[19] Starting from the date of registration or licensing or beginning of production. The period may be extended for another ten years. The law allows only Kuwaiti nationals or companies to establish an industry.

and full exemption of Saudi nationals in Saudi Arabia to more conditional and limited exemptions in the other four countries. In Iraq, approved projects[20] enjoy a tax exemption, which is not to exceed 10 per cent of paid-up capital in the first five years (starting from the first year of profit-making) and 5 per cent of paid-up capital in the following five years, on a part of their profits and on reserves (up to 25 per cent of profits) used for expansion. In Jordan, approved projects are exempt from income tax for a period of three years under the 1955 Law, and foreign investment is exempt for a period of six years under the 1967 Temporary Law. In Lebanon, approved industries that introduce products that did not exist before 1964, whose fixed capital exceeds LL1 million and that pay at least LL150,000 annually in wages and salaries to Lebanese employees are exempt from income tax for a period of six years from the beginning of operations; if the industry is set up in specific undeveloped areas of the country the exemption is extended for a period of ten years and the capital and wage requirements are reduced to half.[21] In Saudi Arabia, foreign investment in approved projects (outside oil and mineral industries) is exempt from income and corporate taxes for five years from the start of production, provided the domestic share in the total capital is not less than 25 per cent.[22] In Syria, all the profits of approved new industries are exempt from income tax for a period of three years from the start of production, and reserves up to 10 per cent of profits are also exempt if they are used for expansion within a period of two years.

Other tax exemptions are also granted to industry in the various countries. All taxes are waived in Kuwait for a period of ten years. Real estate taxes on factory buildings and land are waived in Jordan for a period of ten years from the start of production and in Iraq for a period of ten years from the date of licensing; they are waived also in Syria on administrative buildings and workers' houses as well as on factory land and buildings for a period of six years from the start of production. Syria also waives the "Tamattu" tax[23] for all industry for a period of six years, and Jordan waives the social welfare tax on income of approved industries for a period of six years. Export taxes and fees on domestic industrial products are waived on all products in Kuwait and on approved products in Jordan and Saudi Arabia; they are, in fact, generally absent in these and the other four countries.

As noted earlier, no special income tax exemptions are given by law to small industry; on the contrary, various legislative provisions exclude many small industries from possible tax benefits. Thus, in addition to the exclusion of a certain category of very small establishments in Iraq, Jordan and Lebanon,

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20 Projects that are licensed and whose paid-up capital is at least 60 per cent subscribed to by Iraqi or other Arab nationals whose machinery and equipment are valued at no less than ID3,000 ($8,400) and whose non-technical employees are all Arab. The exemptions became effective retroactively as of June 1961.

21 Law No. 38 of 1967. Existing industries that expand to the specified limits are entitled to exemption, proportionally to the extent of expansion in fixed capital. In addition, up to 50 per cent of profits of all industry during four years (75 per cent in the specified areas) may be allocated to expansion of capacity or to constructing workers' homes or facilities.

22 Royal Decree issued in 1963, concerning foreign capital investments.

23 Usufruct tax, a type of non-inclusive income tax inherited from the Ottoman administration, is paid by commercial and industrial enterprises and by professional people.

which have already been referred to, from various tax exemptions, Lebanese legislation reserves income tax exemption only for large industry. The considerations embodied in the laws to be taken into account when various privileges are granted are clearly designed to favour those industries that create considerable employment and/or that introduce new products into the market; these are characteristics more likely to be attached to large than to small industries. Furthermore, the entitlement to tax exemption generally requires approval of the relevant committees and ministries and the presentation of well-prepared feasibility studies. Small industries are generally, though not always, less able to satisfy the administrative requirements or to present a satisfactory feasibility study.

Protection

Protection of domestic industry from foreign competition is applied to varying degrees in Iraq, Jordan, Lebanon and Syria, and legal provisions for the protection of industry have been adopted in Kuwait and Saudi Arabia. In these two countries a very liberal trade policy is followed, characterized by very low customs duties and no licensing requirements. While existing domestic industries, both large and small, are not actually protected, the current laws provide for future protection of specific new domestic industries able to produce adequate quantities and maintain high standards. Protection may be extended for an unlimited period in Saudi Arabia and for a renewable period of ten years in Kuwait.

In the other countries under review, both tariffs and quantitative restrictions on imports have been used to provide protection. It is sometimes difficult to distinguish between tariffs for revenue only and protective tariffs, the two being in most cases complementary rather than competitive. However, the higher general tariff level in Iraq and Syria tends to afford greater protection to domestic industries than the lower tariff level does in Jordan or Lebanon.[24] On the other hand, prohibition of, or quota restrictions on, imports of selected goods that are also produced locally can be clearly identified as a measure to protect local industry. The list of such prohibitions and restrictions is longest in Syria, followed by Iraq, and is shorter in Jordan and Lebanon. While the extensive list of restricted imports in Iraq and Syria tends to afford protection to small as well as large industries, the limited list in Jordan and Lebanon is clearly designed to protect specific large industries. However, in the latter two countries, tariffs are used as a source of revenue and as a measure of protection for a wide variety of industrial groups such as textiles, furniture, clothing and footwear, which include many small industries.

Government purchases

The Governments of all six countries give limited preference in their purchases to domestic industrial products. In Iraq and Syria, heavy protection

[24] The tariff level by itself is not an adequate indicator of protection granted to domestic industries. The difference between the tariff imposed on the imported inputs and on the imported final product is a more relevant measure of the protection afforded to a given domestic industrial product.

and extensive government ownership of industry favour strongly government purchases from domestic industry; large government industries are more likely to benefit from this than small private establishments. Preference is given to large public industries also in Jordan and Kuwait. In Kuwait, the industrial law provides preference in government purchases to local products of comparable quality and price "under normal economic conditions". In Lebanon, the Industrial Regulation and Development Decree provides preference in government purchases to domestic products of certified comparable quality and within a price differential of 5 per cent.

Feasibility studies

Lebanon is the only country requiring new private industries that aim at benefiting from the advantages provided by the development law to submit feasibility studies with their applications; the preparation of these studies is the responsibility of the entrepreneurs. However, in Jordan and Kuwait the private sector is assisted in undertaking such studies. In Jordan and Saudi Arabia, the Government has actually commissioned a number of feasibility studies of both large and small industrial projects, the accent being generally on the large projects. In Kuwait, the Government may contribute towards the cost of study and research required for setting up a new industry, such cost being reimbursable in full if the project is implemented and to the extent of half if not. In Kuwait and Syria, the law requires government bodies to supply available information, statistics, studies and technical maps that can help prospective industrialists. While it is generally the large industries that benefit from the facilities offered by the Government, the establishment, jointly with the Government, of a UNDP Centre for Industrial Development in Jordan in 1967 and of a UNDP Industrial Studies and Development Centre in Saudi Arabia in 1966 should help to meet the needs of small industries in these two countries.

Industrial zones, areas and estates

As an additional incentive to the establishment of industries, several countries of the region offer land to prospective private industrialists at low rentals and in some cases with options to buy the land in defined industrial zones. In Iraq, the approved industries may obtain plots of state land at low rental for a period of six years and may subsequently purchase them at market value. In Syria, the Government may give five-year leases of state land at low rental and may sell the land subsequently at a price agreed upon by the Government. In Saudi Arabia, the law requires the Government to supply land outside municipal areas at nominal rent to meet the requirements of factories and of housing for workers and employees. No distinction is made between large and small industries when these privileges are granted.

Industrial areas, which offer land, water, power and other facilities to industry, are not common in the countries under review. Studies for setting up such areas have been made in Jordan, Lebanon and Syria. Industrial areas have so far been established in Kuwait only. The Shuwaikh Industrial Area (expanded to 20 square kilometres in 1966) is in Kuwait City itself and is used

largely by traders and small industrialists, plots being leased at a nominal rent for a period of 50 years. The Shuaiba Industrial Area (about 7.5 square kilometres) is a much more ambitious project.[25] The area is meant to serve medium-sized and large industries by leasing them land at a nominal rent for a period of 50 years and by supplying them with water, power and other facilities. So far, however, only a few large industries, including a refinery and a fertilizer plant, have been established in the area. In Saudi Arabia, industrial estates are planned for Jidda, Riyadh and Dammam, and a decision has already been taken to begin construction of the industrial estate at Jidda.

OUTLINE OF A PROGRAMME FOR DEVELOPING SMALL INDUSTRIES

Promotion

Promotion of small-scale industry in the six countries depends to a large extent on the achievement of an atmosphere of security and confidence in the private sector. Measures that help to increase the confidence of private entrepreneurs in the future growth of the economy and in the security of investment are thus essential elements in any promotion policy.

In addition, the Government can help more directly to promote the establishment and expansion of small-scale industry through an appropriate agency concerned with industrial development and by co-ordinating the programmes and facilities offered by various institutions that can contribute towards the development of industry. The various industrial development committees in the six countries could logically undertake certain tasks in the field of planning and economic studies and co-ordinate, in conjunction with the planning authorities, the activities of the various agencies dealing with specific aspects of industrial development, such as industrial credit institutions, authorities of industrial areas, industrial research institutes, industrial management training centres and vocational schools. Should the administrative and financial limitations allow, a special section should be set up within the central agency to deal with problems of small-scale industry.

In the area of planning and economic studies, such an agency should undertake, independently or with the help of international experts, basic research in industrial development planning and programming. When a development plan exists, this agency should determine how the plan will affect the development of industries in specific fields, including small-scale industries. In preparing or revising an industrial plan, the agency should undertake economic studies to identify the following: the potential areas of industrial development, based on previous studies of actual production; availability of raw materials, skills and

[25] The Shuaiba Industrial Area was started in 1964 in an area adjacent to the sea and south of the capital, and is designed to create an area in which all necessary industrial facilities can be found. Of these, several have been completed, including a large port, a 210 MW electric-power station, a system of supplying cooling-water from the sea, a natural-gas supply system, an oil pier and the first stages of a road, water distillation and sewage systems. Other facilities are planned.

transport facilities; cost of labour; the supply of electric power, fuel and water; and the existing and potential domestic and foreign markets. Projection of demand for various products and the examination of the possibilities of import substitution and export potentials should be given priority in the study programme. Locational problems, capital requirements and resources, and credit supply and conditions should also be investigated. The results of these studies should be used to influence the Government to channel its financial resources towards the most favourable areas and to encourage private investors to direct their interest towards these areas.

The central agency concerned with industrial development should also help private investors to establish new small industries by making available to them information and results of studies that are relevant to their projects. More generally, it should issue periodicals giving information on prices, markets, foreign trade, fairs, technological advances, new legislation and other areas of interest to industry as well as the results of studies undertaken by the agency or commissioned by it. It should also facilitate as far as possible the completion of the registration, licensing, construction and importation formalities.

Formulation of this type of programme is, to a greater or lesser extent, part of the functions of the government authorities concerned with industrial development in the six countries. Its implementation, however, tends to move very slowly. Assistance of experts in this field is badly needed, and available sources of technical assistance should be more seriously tapped. Expert services should preferably be obtained for a sufficiently long period to provide a solid base on which continued work can be built. Similarly, statistical surveys, foreign market and similar surveys that cannot be undertaken by the existing agency or by other government agencies should be contracted to other competent bodies as early as possible.

The Government can help private entrepreneurs to undertake feasibility studies of specific small industries and give them access to statistics, information, publications and technical studies. As experience is accumulated and feasibility studies of new industries multiply, typical or model outlines of feasibility studies of specific industries should be prepared and made available to all prospective entrepreneurs. To undertake these tasks, relatively important resources in finance and personnel are required, and recourse to international agencies may be necessary. In this respect, the establishment of the Centre of Industrial Development in Jordan and the Industrial Studies and Development Centre in Saudi Arabia, with the assistance of UNDP, are steps that can very usefully be duplicated in the other four countries.[26] The experience of the Industry Institute in Lebanon, which was assisted by the Government and which operates on a non-profit basis, is also of interest in this context. The centres should themselves undertake some training and extension work by organizing regular seminars and discussion meetings with a selected group of industrialists. In this way a dialogue may be begun between small industrialists and government officials, which may lead

[26] A project to set up an Arab regional centre for industrial development (including small industry) is also under study. See Part I, annex 1, of the present publication.

both to an improvement in existing regulations and to the opening of new horizons for entrepreneurs.

Technical and management assistance

Technical assistance, in the stricter sense of a technical advisory service to groups of small industries or to individual establishments, is one of the most valuable means of assisting industry but is one of the most difficult to organize and to finance. Such a service should include advice to new industries, or to industries planning to expand, on the choice of machinery and tools to be purchased, on the installation of machinery and on the plant layout. Advice to existing industries covers questions pertaining to the operation, maintenance and repair of machinery, methods of production, testing and quality control procedures, improvement of design and quality, technological improvements and the storage and distribution system.

At present, no such service is being systematically offered in any of the six countries.[27] Full financial support for such a service should be undertaken by the Government where this is possible (e.g. in Iraq, Kuwait and Saudi Arabia) or should be partially supported where the Government cannot fully meet the cost. It is, in principle, a good policy to supply such services only on demand and against a nominal or appropriately low fee to small private industries and to expand them as demand increases. While services and supplies that are normally required as part of the operation of the industry should be supplied at cost, advisory services on both technical and economic and management matters should be supplied free of charge. The organization of such services is, again, a task to be undertaken by the Government, preferably with international assistance.[28] It is, however, desirable to involve chambers of industry or other representatives of the private sector in financing and in policy-making of such advisory bodies, which should also maintain a close relationship with the government agency concerned with industrial development and with the UNDP centres, whether on an organized basis or on an informal basis through a mutual exchange of members of their respective governing organs.

Management advisory services may be combined with technical assistance or may be undertaken as an extension of the economic assistance supplied by the government agency and/or by the UNDP industrial development centres. They cover advice in such areas as finance, legislation and taxation, management organization, production planning and control, inventory control, book-keeping and cost accounting, marketing techniques and labour-management relations.

[27] Management training is excluded from this discussion. Considerable efforts are being made by Governments in this field, including joint efforts with UNDP, e.g. the work undertaken by the Management Development and Supervisory Training Centre in Baghdad and the Management Development and Productivity Centre in Damascus.

[28] For a description and analysis of such services and facilities, see the United Nations International Development Organization (1970) *Technical Services for Small-Scale Industries* (Sales No.: 70.II.B.19). For a review of United Nations assistance in this field, see United Nations (1966) *Technical Co-operation for the Development of Small-Scale Industry* (Sales No.: 67.II.B.3).

Financial assistance

A programme of financial assistance to small industry in the six countries should aim, first, at expanding the volume of credit available for small-scale industries and, second, at ensuring that the increased volume of credit is used to increase output and raise productivity.

As far as sources of credit are concerned, the establishment of industrial banks where such banks do not exist, as in Saudi Arabia, is a necessary first step. Where industrial credit activity is combined with other credit operations, as in Lebanon, its separation is desirable. The criterion for extending loans and rediscounting facilities to these banks by the Government, or with the guarantee of the Government, should be the economic viability of the projects requiring credit rather than a predetermined ceiling. The second step towards expanding the volume of credit to small industries is to amend the regulations or laws governing the credit policy of industrial banks so that they explicitly recognize that less should be expected in terms of loan security from small industries than from large industries. A particular measure that should be considered in this respect is the regular acceptance of machinery as loan security, or possibly the establishment of hire-purchase schemes for sale of machinery to small establishments.

To ensure that loans extended by industrial banks reach efficient small industries and that they are used in the best manner, credit supervision should be undertaken seriously, and credit extended to small industries should be linked to technical assistance both at the stage of loan application and at the later stage of investment and operation. Although the industrial banks may wish to undertake the extension of technical assistance services to their clients, the creation of special sections within the banks would quite likely be costly and would duplicate the services of other technical and management assistance bodies, where they exist. Full co-operation and co-ordination between the industrial bank and the technical and management assistance bodies is necessary for the successful operation of a supervised credit programme aimed at helping small industry in the Middle East.

Industrial areas and estates

Of particular importance for the development of small-scale industry is the reduction of overhead costs, in particular through the provision of inexpensive factory space conveniently tied to the transport network and cheaper electricity, water and fuel. This can be economically achieved through industrial estates and industrial areas, which, for this reason, should be included in the programmes for the development of small-scale industry in the countries under consideration.

By grouping together small industries, industrial estates in developing countries permit the co-ordination or integration of various measures of support. Concentration in a given area may also enable small industries to achieve economies of scale and to reap some of the benefits of specialization. Common service facilities become possible as well as inter-trading and co-operative organization of production and trade. Industrial estates may also encourage other industries

to locate their plants in the region and stimulate the development of ancillary services and facilities in the area as a whole.[29]

The only industrial areas that exist at present in the region under consideration are in Kuwait; industrial estates are planned only in Saudi Arabia. Except in the latter country, supplying factory space for rent or purchase has not yet been seriously considered with a view to helping small industry in particular. Industrial areas should provide a centralized supply of power and water and transport facilities. They should also be considered focal points for establishing common service facilities (such as toolrooms or laboratories) and as a base for extension services, and possibly for vocational and in-plant training.

[29] For a detailed discussion of the role of industrial estates in the development of small industries in developing countries, see United Nations (1968) *Industrial Estates in Europe and the Middle East* (Sales No.: 68.II.B.11).

APPENDIX

TABLES ON MANUFACTURING ESTABLISHMENTS AND THEIR MANPOWER IN SIX ARAB COUNTRIES OF THE MIDDLE EAST

(classified by ISIC major group and size of establishment expressed in number of employees)[1]

[1] United Nations (1958) *International Standard Industrial Classification of All Economic Activities*, Statistical Papers, Series M, No. 4/Rev. 1 (Sales No.: 59.XVII.9).

TABLE 1. IRAQ—1964

ISIC major group	Size of establishment (number of employees)	Number of establishments				Number of persons employed			
		1 - 9[a]	10 - 49[b]	50 or more[b]	Total	1 - 9[a]	10 - 49[b]	50 or more[b]	Total
MANUFACTURING									
20	Food (excl. 21)	2,362	165	37	2,564	9,132	4,449	4,923	18,504
21	Beverages	3	—	21	24	10	—	2,866	2,876
22	Tobacco	272	53	4	329	354	1,696	2,632	4,682
23	Textiles	445	45	13	503	740	2,135	7,204	10,079
24	Footwear, apparel and made-up textiles	5,134	83	29	5,246	8,382	2,473	1,914	12,769
25	Wood and cork (excl. 26)	—	—	—	—	—	—	—	—
26	Furniture and fixtures	2,785	69	—	2,854	4,815	1,577	—	6,392
27	Paper and paper products	4	9	3	16	18	279	285	582
28	Printing, publishing etc.	91	42	—	133	257	1,088	—	1,345
29	Leather, and leather and fur products (excl. 24)	252	10	8	270	424	122	536	1,082
30	Rubber products	—	9	—	9	—	162	—	162
31	Chemicals and chemical products	—	23	8	31	—	459	1,944	2,403
32	Petroleum and coal products	—	—	4	4	—	—	610	610
33	Non-metallic mineral products (excl. 32)	176	110	158	444	805	1,920	16,048	18,773
34	Basic metals	—	13	—	13	—	195	—	195
35	Metal products (excl. 36—38)	2,257	52	—	2,309	4,481	1,338	—	5,819
36	Machinery, non-electrical	271	23	—	294	728	920	—	1,648
37	Electrical machinery, apparatus, appliances and supplies	576	9	17	602	802	171	1,536	2,509
38	Transport equipment	3,010	62	19	3,091	6,126	3,560	4,179	13,865
39	Miscellaneous	2,224	4	—	2,228	3,119	108	—	3,227
	Total	19,862	781	321	20,964	40,193	22,652	44,677	107,522

Source: Iraq, Central Bureau of Statistics (1966) *Monthly Industrial Survey 1964*. Baghdad; "Results of the industrial census for establishments employing fewer than ten persons, for June and December 1963" (in Arabic).

[a] Derived from data for December 1963; excluding cottage industries, but including cotton ginning.

[b] Based on monthly average number of employees and of establishments in each sub-group of establishments. The total numbers and the classification by size are therefore approximate and the totals do not agree with the more exact totals in table 1 on page 46.

TABLE 2. JORDAN—1965

ISIC major group	Size of establishment (number of employees)	Number of establishments					Number of persons employed		
		1–4	5–9	10–49	10 or more	Total	1–9	10 or more	Total
MANUFACTURING									
20	Food (excl. 21)	1,299	287	147	3	1,736	5,391	2,296	7,687
21	Beverages	1	2	15	1	19	16	372	388
22	Tobacco	—	1	1	3	5	2	884	886
23	Textiles	41	17	36	7	101	233	1,759	1,992
24	Footwear, apparel and made-up textiles	286	195	33	6	520	3,692	1,026	4,718
25	Wood and cork (excl. 26)	28	10	1	—	39	168	17	185
26	Furniture and fixtures	891	77	32	5	1,005	2,646	1,096	3,742
27	Paper and paper products	6	4	3	1	14	35	226	261
28	Printing, publishing etc.	26	27	15	4	72	343	820	1,163
29	Leather, and leather and fur products (excl. 24)	40	2	2	1	45	110	203	313
30	Rubber products	57	3	—	—	60	152	—	152
31	Chemicals and chemical products	5	17	23	3	48	130	913	1,043
32	Petroleum and coal products	—	—	—	1	1	—	775	775
33	Non-metallic mineral products (excl. 32)	1,124	32	34	4	1,194	956	1,248	2,204
34	Basic metals	—	—	—	—	—	—	—	—
35	Metal products (excl. 36—38)	901	104	41	4	1,050	3,271	923	4,194
36	Machinery, non-electrical	1	1	2	—	4	9	58	67
37	Electrical machinery, apparatus, appliances and supplies	187	18	1	1	207	472	261	733
38	Transport equipment	159	111	19	1	290	1,226	404	1,630
39	Miscellaneous	198	16	5	1	220	771	228	999
	Total	5,250	924	410	46	6,630	19,623	13,509	33,132

Source: Jordan, Department of Statistics (1967) *Industrial Survey of 1965* (in Arabic).

TABLE 3. KUWAIT—1963-1965

ISIC major group	Size of establishment (number of employees)	Private industry 1965										Govt. industry 1963	
		Number of establishments					Number of persons employed					Number of establishments	Number of persons employed
		1—4[a]	5—9	10—49	50 or more	Total	1—4	5—9	10—49	50 or more	Total		
MANUFACTURING													
20	Food (excl. 21)	312	77	40	1	430	944	458	709	78	2,189	1	531
21	Beverages	—	—	2	5	7	—	—	62	969	1,031	—	—
22	Tobacco	—	—	—	—	—	—	—	—	—	—	—	—
23	Textiles	2	1	—	—	3	5	7	—	—	12	—	—
24	Footwear, apparel and made-up textiles	65	6	1	—	72	130	37	11	—	178	—	—
25	Wood and cork (excl. 26)	—	1	—	—	1	—	7	—	—	7	4	408
26	Furniture and fixtures	209	65	39	3	316	436	424	768	183	1,811	—	—
27	Paper and paper products	1	1	1	—	3	3	7	12	—	22	—	—
28	Printing, publishing etc.	5	3	9	3	20	15	20	162	214	411	1	588
29	Leather, and leather and fur products (excl. 24)	1	2	—	—	3	1	12	—	—	13	—	—
30	Rubber products	—	—	—	—	—	—	—	—	—	—	—	—
31	Chemicals and chemical products	1	1	3	—	5	—	5	112	—	117	1	63
32	Petroleum and coal products	—	1	2	1	4	—	8	87	487	582	—	—
33	Non-metallic mineral products (excl. 32)	17	45	53	7	122	51	274	1.285	906	2,516	1	10
34	Basic metals	—	—	—	—	—	—	—	—	—		—	—
35	Metal products (excl. 36—38)	121	23	18	3	165	247	150	322	445	1,164	3	580
36	Machinery, non-electrical	47	8	3	—	58	109	40	43	—	192	1	678
37	Electrical machinery, apparatus, appliances and supplies	119	13	1	—	133	249	71	45	—	365	—	—
38	Transport equipment	647	137	68	6	858	1,423	897	1,047	567	3,934	12	2,524
39	Miscellaneous	115	9	1	—	125	204	53	16	—	273	—	—
	Total	1,662	393	241	29	2,325	3,817	2,470	4,681	3,849	14,817	24	5,382

Source: Kuwait, Central Directorate of Statistics, *General Census of Establishments in 1965* (in Arabic); *Annual Statistical Abstract* 1965 and 1966 (in Arabic).

[a] Including 17 establishments which were not operating and 7 establishments on which information was not available.

TABLE 4. LEBANON—1964

ISIC major group	Size of establishment (number of employees)	Number of establishments				Number of persons employed			
		1–9	10–49	50 or more	Total	5–9	10–49	50 or more	Total
MANUFACTURING									
20	Food (excl. 21)	331	142	18	491	2,214	2,411	2,056	6,681
21	Beverages	21	15	7	43	145	300	1,111	1,556
22	Tobacco	—	—	1	1	—	—	2,033	2,033
23	Textiles	24	78	19	121	183	1,532	3,562	5,277
24	Footwear, apparel and made-up textiles	142	121	11	274	962	2,419	1,182	4,563
25	Wood and cork (excl. 26)	42	35	5	82	281	654	1,027	1,962
26	Furniture and fixtures	119	97	14	230	788	1,753	1,377	3,918
27	Paper and paper products	12	23	1	36	84	...	...	610
							526		
28	Printing, publishing etc.	76	93	16	185	520	1,961	1,317	3,798
29	Leather, and leather and fur products (excl. 24)	20	31	3	54	135	612	365	1,112
30	Rubber products	4	8	2	14	22	...	...	276
							254		
31	Chemicals and chemical products	23	26	5	54	163	654	608	1,425
32	Petroleum and coal products	1	3	3	7	78	—	697	775
33	Non-metallic mineral products (excl. 32)	167	118	17	302	1,140	1,943	2,648	5,731
34	Basic metals	—	—	3	3	—	—	921	921
35	Metal products (excl. 36—38)	60	49	13	122	384	899	1,849	3,132
36	Machinery, non-electrical	2	9	1	12	...	93	...	293
37	Electrical machinery, apparatus, appliances and supplies	8	9	—	17	48	186	—	234
38	Transport equipment	—	3	1	4	—	160	—	160
39	Miscellaneous	26	20	1	47	163	294	...	527
	Total	1,078	880	141	2,099	7,250	16,506	21,228	44,984

Source: Lebanon, Direction Centrale de la Statistique (1967), *Recensement de l'industrie au Liban, résultats pour 1964*. Beirut.

TABLE 5. SAUDI ARABIA—1963 AND 1965[a]

ISIC major group		1963		1965	
		Number of establishments	Number of persons employed	Number of establishments	Number of persons employed
MANUFACTURING					
20	Food (excl. 21)	2	136	1,819	4,954
21	Beverages	5	360	19	796
22	Tobacco	—	—	—	—
23	Textiles	—	—	1	10
24	Footwear, apparel and made-up textiles	2	248	375	485
25	Wood and cork	—	—	341	987
26	Furniture and fixtures	—	—	540	1,003
27	Paper and paper products	1	110	55	105
28	Printing, publishing etc.	—	—	35	432
29	Leather, leather and fur products	1	182	48	154
30	Rubber products	5	317	364	493
31	Chemicals and chemical products	4	352	3	3
32	Petroleum and coal products	—	—	1[b]	16[b]
33	Non-metallic mineral products (excl. 32)	11	1,671[c]	488	3,608
43	Basic metals	—	—	147	264
35	Metal products (excl. 36—38)	—	—	711	1,360
36	Machinery, non-electrical	—	—	208	498
37	Electrical machinery, apparatus, appliances and supplies	—	—	487	812
38	Transport equipment	—	—	1,453	4,610
39	Miscellaneous	—	—	584	924
	Total	31	3,376	7,679	21,514

Source: Saudi Arabia, Central Department of Statistics, *Statistical Yearbook 1395 A.H.*; Ministry of Commerce and Industry, Administration of Industry and Electrical Affairs, *"Industrial Statistical Tables 1385 A.H."* (in Arabic).

[a] Approximate figures for private establishments employing 50 or more persons, excluding oil companies.

[b] Census figures, excluding foreign oil companies and government industries in the cities.

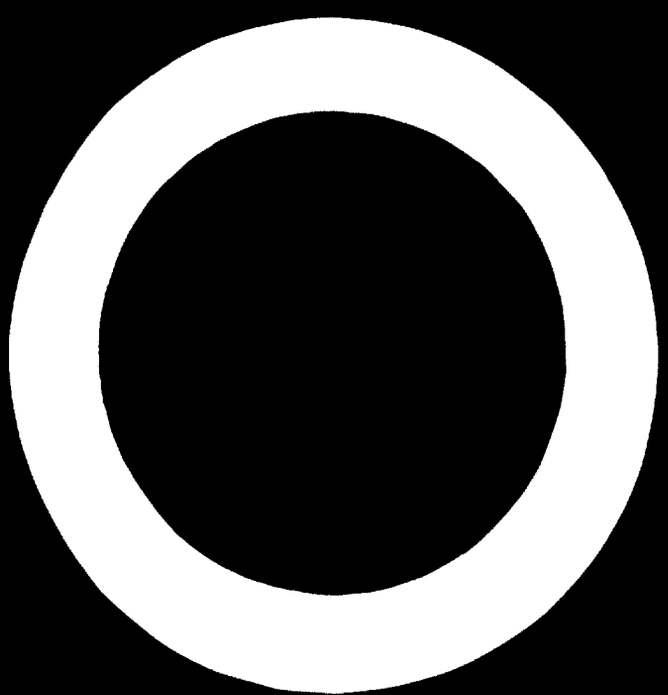
[c] Partly estimated.

TABLE 6. SYRIA—1960 AND 1963

ISIC major group	Size of establishment (number of employees)	1960						1963	
		Number of establishments[a]				Total	Number of persons employed	Number of establishments	Number of persons employed
		1–4	5–9	10–49	50 or more				
MANUFACTURING									
20	Food (excl. 21)	2,958	742	112	14	3,826	15,867	3,732	27,194
21	Beverages	139	26	9	1	175	711	181	870
22	Tobacco	—	—	—	—	—	—	1	7,327
23	Textiles[b]	4,344	354	241	42	4,981	26,638	4,928	11,837
24	Footwear, apparel, made-up textiles	4,314	123	11	2	4,450	7,648	4,135	7,507
25	Wood and cork (excl. 26)	603	57	10	1	671	1,911	622	3,642
26	Furniture and fixtures	3,584	236	47	—	3,867	8,577	3,853	12,104
27	Paper and paper products	26	13	2	1	42	428	44	179
28	Printing, publishing etc.	133	43	22	—	198	985	197	1,266
29	Leather, leather and fur products	638	27	9	3	677	1,634	649	2,350
30	Rubber products	172	8	4	6	190	1,067	171	1,314
31	Chemicals and chemical products	69	40	18	5	132	1,285	130	2,687
32	Petroleum and coal products	—	—	—	1	1	1,885	1	...
33	Non-metallic mineral products (excl. 32)	517	134	138	10	799	7,581	760	7,374
34	Basic metals	410	35	9	1	455	1,215	370	621
35	Metal products (excl. 36—38)	2,511	126	28	—	2,667[c]	5,585	2,596	5,552
36	Machinery, non-electrical	331	22	8	1	362	1,096	326	638
37	Electrical machinery, apparatus, appliances and supplies	309	6	1	1	317	661	215	162
38	Transport equipment	1,494	168	25	—	1,687	4,705	1,690	7,447
39	Miscellaneous	970	21	5	—	996	1,681	985	2,954
	Total	23,522	2,181	699	89	26,493	91,160	25,586	103,025

Source: Syria, Ministry of Planning, *Results of the Census of Establishments in the Syrian Arab Republic in 1960* (in Arabic). Ministry of Planning, unpublished data on 1963.

[a] Including only active establishments.
[b] Including cotton ginning and baling.
[c] Including two establishments with unknown number of employees.



2. A COMPARATIVE ANALYSIS OF SMALL-SCALE INDUSTRIES IN ARAB COUNTRIES OF THE MIDDLE EAST AND IN OTHER SELECTED COUNTRIES[1]

An attempt is made in this paper to present a comparative analysis of data on small-scale industry in (a) Arab countries of the Middle East, (b) some of the other developing countries and (c) selected developed countries.[2]

MANUFACTURING INDUSTRIES

The small share of the economy devoted to manufacturing industry in the Arab countries of the Middle East, as compared with some of the other developing and developed countries, is brought out in table 1, which shows the contribution of manufacturing industry to the domestic product.

The manufacturing sector accounts for 3 to 13 per cent of the national income in Arab countries of the Middle East, as compared with 11 to 19 per cent in other developing countries (excluding Mexico and Argentina) and 25 to 35 per cent in developed countries. Among the Arab countries of the Middle East, manufacturing industry is more developed in Iraq (11 per cent), Lebanon (13 per cent) and Syria (12 per cent) than in Jordan (8 per cent), Kuwait (3 per cent) and Saudi Arabia (less than 3 per cent).

[1] Paper presented to the Expert Group Meeting by UNIDO.

[2] The data used have been obtained or compiled from the following secondary sources: 1. United Nations (1966) *Yearbook of National Accounts Statistics*. 2. E. Asfour, "Situation, Problems and Prospects of Small-Scale Industries in Selected Countries of the Middle East", Part II, No. 1 of this publication. 3. G. K. Boon, "The Place of Small-Scale Industry in the Industrial Framework: A Statistical Analysis", to be published by UNIDO; a summary of this study is included in doc. ID/WG. 17/BP. 1, Annex I and in *Industrialization and Productivity Bulletin* No. 14 (Sales No.: 69.II.B.12). 4. United Nations Industrial Development Organization (1967) "Industrial Development Survey", International Symposium on Industrial Development, doc. ID/CONF. 1/46, September. 5. E. Staley and R. Morse (1965) *Modern Small Industry for Developing Countries*, New York. 6. United Nations (1967) "Small-Scale Industry in the Development of Latin America", *Economic Bulletin for Latin America*, Vol. XII, No. 1, May.
The selection of countries and the extent of analysis possible have been limited by the availability of comparable data.

TABLE 1. SHARE OF THE MANUFACTURING INDUSTRY IN THE DOMESTIC PRODUCT OF SELECTED COUNTRIES

	Year	Percentage of manufacturing in gross/net domestic product
Developing countries		
Middle East		
Iraq	1964	11.0
Jordan	1965	8.0
Kuwait	1965	3.0
Lebanon	1964	13.0
Saudi Arabia	1963—1965	less than 3.0
Syria	1963	12.0
Others		
Argentina	1965	34.0
Chile	1965	17.5
China (Taiwan)	1965	19.2
Colombia	1965	17.7
India	1964	16.8[a]
Mexico	1965	28.5[b]
Pakistan	1964	10.9
Peru	1963	16.4
Developed countries		
Canada	1965	26.3
Finland	1965	24.7
Japan	1965	27.7
Netherlands	1963	30.5
United Kingdom	1965	35.5
United States	1965	30.5

Source: Middle East: E. Asfour, Part II, No. 1 of this publication. Other countries: United Nations, *Yearbook of National Accounts Statistics*, 1966.

[a] Including construction, electricity, gas and water.

[b] Including extraction of crude petroleum.

SMALL-SCALE INDUSTRIES

Within the manufacturing industry, the small-scale sector accounts on the whole for a higher proportion of employment and value added in Arab countries of the Middle East than in other developing and developed countries, for which data are presented in table 2.

If factories employing fewer than ten workers are excluded, the share of small-scale industry is smaller in the Arab countries of the Middle East. Table 3 gives the percentage of employment in small-scale industry for several countries.

TABLE 2. SHARE OF SMALL-SCALE INDUSTRY IN EMPLOYMENT AND VALUE ADDED OF THE MANUFACTURING SECTOR IN SELECTED COUNTRIES

	Year	Percentage of employment	Percentage of value added	Definition of small-scale industry (number of employees)
Developing countries				
Middle East				
Iraq	1964	49.5	30.9[a]	1—49
Jordan	1965	80.3	53.7	1—49
Kuwait	1965	54.4	. . .	1—49
Lebanon	1964	65.8	63.4	1—49
Saudi Arabia	1963—1965	84.2	. . .	1—49
Others				
Brazil	1960	38.9	32.2	5—99
Chile	1957	42.8	25.4	5—99
Colombia	1962	45.9	29.2	5—99
Ghana	1959	8.4	6.5	6—100
India	1962	35.8	29.7	1—100
Korea (Rep. of)	1963	56.7	42.4	5—99
Pakistan	1958	22.2	24.8	1—99
Philippines	1960	42.1	23.6	5—99
Developed countries				
Canada	1961	34.5	27.7	1—99
Japan	1961	46.2	47.4	4—99
United Kingdom	1958	15.8	13.6	1—99
United States	1958	27.0	23.0	1—99

Source: Middle East: F. Asfour, Part II, No. 1 in this publication. Other countries: G. K. Boon, ID/WG. 17/BP. 1, Annex I.

[a] Share of wages paid.

TABLE 3. PERCENTAGE SHARE OF SMALL-SCALE INDUSTRY IN EMPLOYMENT IN MANUFACTURING INDUSTRY (10—99 WORKERS) IN SELECTED COUNTRIES

		Source
Developing countries		
Middle East		
Iraq	31.7	G. K. Boon
Jordan	21.0	Asfour (10—49 workers)
Kuwait	23.2	Asfour (10—49 workers)
Lebanon	49.0	Staley and Morse
Saudi Arabia	12.5	Asfour (10—49 workers)
Others		
Argentina	34.3	Staley and Morse for all countries below
Brazil	31.5	
Chile	37.9	
Colombia	37.8	
El Salvador	40.6	
Korea, Rep. of	50.6	
Philippines	47.0	
Developed countries		
Australia	35.3	Staley and Morse for all countries below
Germany, Fed. Rep. of	22.1	
Japan	43.7	
New Zealand	46.2	
Sweden	33.1	
United States	23.4	

In Arab countries of the Middle East, small-scale industry predominates in establishments employing fewer than ten workers. In Iraq, there is a substantial amount of industry in the category of establishments employing 50 or more workers (55,557 workers); more workers are employed in this category than in the category of establishments employing fewer than 50 workers (54,293 workers). In Lebanon and Kuwait, employment in industry in the category employing 50 or more workers is greater than in the category employing 10—49 workers, but employment in small factories (fewer than 50 workers) exceeds employment in large factories. The comparative data in table 3 indicate that, on the whole, the structure of industry in Middle Eastern countries, as compared with other countries, shows concentration in extremely small establishments and relatively large establishments, with inadequate development in the middle-sized category of small industry.

The extremely small average size of factories in the small-scale sector in Arab countries of the Middle East is brought out in table 4.

TABLE 4. NUMBER OF PERSONS EMPLOYED PER ESTABLISHMENT IN ARAB COUNTRIES OF THE MIDDLE EAST

Country	*Year*	*Small-scale*	*Large-scale*	*All establishments*
Iraq	1964	3.0	139.1	5.1
Jordan	1965	. . .	. . .	5.0
Kuwait	1963—1965	4.7	177.3	8.6
Lebanon	1964	12.1	150.5	24.1
Saudi Arabia	1963—1965	2.3	108.9	2.8
Syria	1960	. . .	. . .	3.4

Source: Compiled from the tables in the appendix of E. Asfour's paper, Part II, No. 1 of this publication.
Note: Establishments with fewer than 50 employees are classified as small-scale.

With respect to the productivity of small-scale industries, comparable data for Arab countries of the Middle East and some other countries are available only for value added per employee. They are tabulated in table 5.

The value added per employee in the small-scale sector in Jordan and Lebanon is comparable to the value added by these industries in Brazil, Central America and Colombia, but is higher than that in India and Pakistan. In large-scale industry and in industry as a whole, figures for the Middle Eastern countries are lower than those for the Latin American countries but higher than those for India and Pakistan. It is not possible to compare the productivity of the small-scale sector, since no figures of fixed assets per employee are available.

PATTERN OF INDUSTRIALIZATION

In his study on "The Place of Small-Scale Industry in the Industrial Framework",[3] G. K. Boon concludes that while in developed countries the highest

[3] *See* ID/WG. 17/BP. 1, Annex I.

TABLE 5. VALUE ADDED PER EMPLOYEE IN SELECTED COUNTRIES
(dollars)

	Year	Size of establishment (number of employees)				
		1–9	10–49	50 or more	All	
Developing countries						
Middle East						
Iraq	1964	...	...	...	1,420	
Jordan	1965	683	1,039	2,719	1,159	
Lebanon	1964	1,257[a]	2,067	2,666	2,222	
Others		*5–19*	*20–49*	*50–99*	*100 or more*	*All*
Brazil	1960	1,296	1,468	1,515	1,891	1,631
Central America	1962	1,030	1,917	2,432	2,675	2,055
Colombia	1960	1,226	1,854	2,415	3,591	2,683
		Small-scale	*Medium-scale*		*Large-scale*	
India	1963	435	693		978	
		Small-scale			*Large-scale*	
Pakistan	1958	819			735	
Developed countries		*5–19*	*20–49*	*50–99*	*100 or more*	*All*
United States	1954	6,032	6,140	6,551	7,890	7,470

Sources: Middle East: E. Asfour, Part II, No. 1 of this publication; India: *Small-Scale Industries in India*, Development Commissioner Small-Scale Industries, New Delhi, 1968; Pakistan: G. K. Boon, ID/WG. 17/BP. 1, Annex I; Other countries: United Nations (1967) *Economic Bulletin for Latin America*, Vol. XII, No. 1, May.

Note: Figures given in local currencies in quoted sources have been converted into dollars at exchange rates prevailing in the relevant years.

[a] 5–9 employees.

number of establishments and the lowest average number of persons employed are found in light industry, followed by the metal products industry and heavy industry,[4] in developing countries the position of light industry and the metal products industry is the reverse of that in developed countries. In Arab countries of the Middle East, it is noted that, except in Lebanon, the largest number of establishments is in light industry, followed by the metal products industry and heavy industry. In Lebanon, there is a larger number of establishments in heavy industry than in the metal products industry. Regarding the average number of persons employed in the three groups of industry, heavy industry employs the highest average number, except in Lebanon, where the metal products industry is slightly more important than heavy industry. Except in Kuwait, Lebanon and Saudi Arabia, light industry has higher average employment per establishment than the metal products industry.

The following tables bring out some pertinent data for six Arab countries of the Middle East.

In the absence of information on value added per establishment, value added per employee and average wage paid per employee for the three different

[4] *Ibid. See* Table 1 for classification of industry into the three industry groups.

TABLE 6. RELATIVE IMPORTANCE OF LIGHT INDUSTRY, METAL PRODUCTS INDUSTRY AND HEAVY INDUSTRY IN SIX ARAB COUNTRIES OF THE MIDDLE EAST

Country	*Percentage of establishments*			*Percentage of employment*		
	Light industry	*Metal products industry*	*Heavy industry*	*Light industry*	*Metal products industry*	*Heavy industry*
Iraq (1964)	67.6	30.0	2.4	57.0	22.1	20.9
Jordan (1965)	72.9	23.3	3.8	67.1	20.0	12.9
Kuwait (1963—1965)	53.5	40.7	5.8	37.0	46.7	16.3
Lebanon (1964)	73.6	7.3	19.1	70.5	8.5	21.0
Saudi Arabia (1963—1965) .	53.8	37.2	9.0	47.7	33.8	18.5
Syria (1960)	75.8	18.9	5.3	73.3	13.2	13.5

Source: Compiled from E. Asfour, Part II, No. 1 of this publication.

TABLE 7. AVERAGE NUMBER OF PERSONS EMPLOYED PER ESTABLISHMENT IN LIGHT INDUSTRY, METAL PRODUCTS INDUSTRY AND HEAVY INDUSTRY IN SIX ARAB COUNTRIES OF THE MIDDLE EAST

Country	*Light industry*	*Metal products industry*	*Heavy industry*
Iraq (1964)	4.3	3.7	44.4
Jordan (1965)	4.6	4.2	16.6
Kuwait (1963—1965)	5.9	9.8	24.3
Lebanon (1964)	20.5	24.6	23.5
Saudi Arabia (1963—1965) .	2.4	2.5	5.7
Syria (1960)	3.3	2.3	8.6

Source: Compiled from E. Asfour, Part II, No. 1 of this publication.

groups of industry, no definite conclusions on the pattern of industrialization are possible.

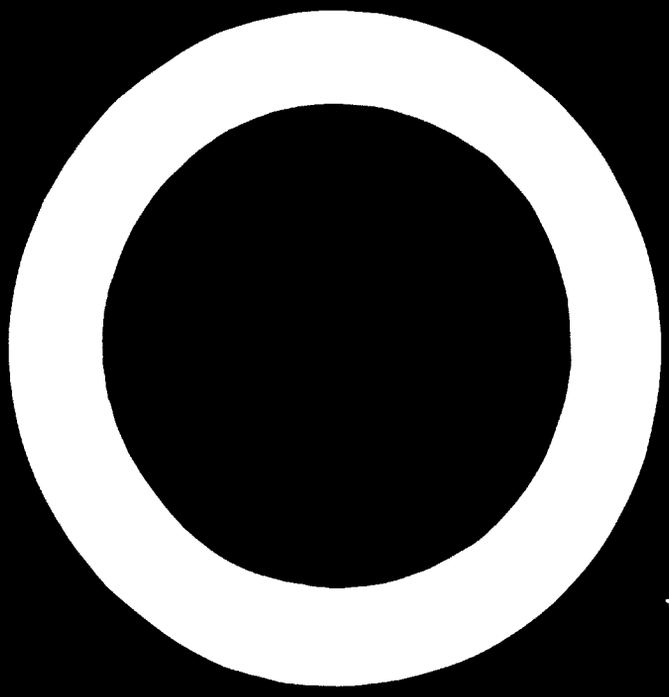
Table 8 shows the share of small-scale industry in light industry, the metal products industry and heavy industry in six Arab countries of the Middle East.

TABLE 8. SHARE OF SMALL-SCALE INDUSTRY IN LIGHT INDUSTRY, METAL PRODUCTS INDUSTRY AND HEAVY INDUSTRY IN SIX ARAB COUNTRIES OF THE MIDDLE EAST

Country	*Percentage of establishments*			*Percentage of employment*		
	Light industry	*Metal products industry*	*Heavy industry*	*Light industry*	*Metal products industry*	*Heavy industry*
Iraq (1964)	99.2	99.5	66.0	67.1	76.1	16.3
Jordan (1965)	99.4	99.7	96.5	. . .	. . .	. . .
Kuwait (1963—1965)	98.6	97.4	93.4	60.2	49.3	56.0
Lebanon (1964)	94.9	90.3	88.4	55.5	51.6	44.3
Saudi Arabia (1963—1965) .	99.7	100.0	97.7	87.9	100.0	46.7
Syria (1960)	99.7	99.97	98.8	. . .	. . .	. . .

Source: Compiled from E. Asfour, Part II, No. 1 of this publication.

The table shows that small-scale industry is dominant in all three groups, except in Iraq, Lebanon and Syria, where large industry dominates the heavy industry group, and Kuwait, where large industry accounts for just over half the employment in the metal products group. In the six countries, the prevalent size even in the metal products industry and in heavy industry is smaller than in many other developing countries, probably because of limitations of market, finance and technology.



3. THE FUTURE OF THE TRADITIONAL SECTOR IN AN INDUSTRIALIZING ECONOMY[1]

Introduction

Most economies at early stages of industrialization depend principally on agriculture and various forms of primary production based on the resources available and on artisan and handicraft activities. Modern technology may bring about advances in agriculture and primary production and may lead to the establishment of efficient industries of all types and sizes. In general, however, it will contribute only slightly to the modernization of artisan and handicraft production; in fact, modern industries will usually make traditional activities obsolete and wasteful. What to do about these activities in a modernizing economy is, in many countries, including the Arab countries of the Middle East, an important problem for the Government.

The term "artisan production" is usually understood to cover manufacturing in which processing is predominantly by hand, with little or no machinery (as distinct from hand tools) being used, and in which there is little or no division of labour. "Handicraft" usually involves skill in producing items with an artistic and decorative value. These activities carried out in rural homesteads are often called "cottage industries". In India and Ceylon, this term is sometimes even used to distinguish between rural and urban artisan activities. From a social point of view, there may be some justification for separating these rural crafts from their urban counterparts, since they may have a special role to play in terms of community development. However, in most parts of the world the distinction has no real significance, and this paper is concerned with "traditional activities", including handicraft and artisan undertakings, as well as "cottage industries".

In countries at early stages of development, many of the needs of life are satisfied through artisan or handicraft activities. This was so in Great Britain and other European countries before the industrial revolution introduced modern machine manufacturing. It is so in developing countries that have not yet had or are only starting—their "industrial revolution".

However, in most developing countries, under the influence of the industrialized countries, industrial operations are introduced quite early to supply many of the basic needs. Other consumer needs are supplied through imports.

[1] Paper presented to the Expert Group Meeting by UNIDO.

Thus, in most cities of the world, even in developing countries at a low stage of development, a great part of the consumption of clothing, shoes, household goods, furniture and so forth is satisfied not through the production of artisans but either through the production of fledgling industries often set up by foreign entrepreneurs or through imports from more advanced industrialized countries.

This situation inevitably creates a crisis for artisan economies. In the production of cheap clothing or shoes, no artisan can compete with mechanized factories. It usually takes several artisans working manually or with primitive hand tools to produce an output equivalent to that of one factory worker aided by power-driven machinery, even when the equipment is not the latest available. Furthermore, large-scale production of goods within a factory brings in its wake forms of management techniques beyond the scope of the artisan. Even though many of the new factories producing consumer goods that have sprung up in developing countries are not noted for using modern management techniques successfully, some forms of marketing organization are usually introduced to enable the manufacturer to meet the requirements of current demand. Factory management has to learn quickly how to design the types of products wanted by the market and to determine the price range in which the products will be competitive. By the very nature of his craft and his way of operating, the artisan has no concept of market or price range and carries on in his old traditional manner, ignoring changing conditions.

The persistent traditionalism of the artisan or handicraft operator only exacerbates his inability to compete with modern industry. Even when he produces goods that are superior in quality to the products of the new industries, he has no hope of competing effectively and maintaining his share of the market.

In European countries, industrialization virtually wiped out much of the traditional sector. Hordes of artisans abandoned their domestic, rural crafts to enter the new factories producing textiles, metal products and a variety of household goods. However, although these artisans were forced out of their traditional role of suppliers of basic needs, a minority managed to survive the onslaught of industry by concentrating on specialized products of high quality that proved unsuitable for industrial production. Thus, after well over a century during which industry has become more and more mechanized, during which technology has advanced to undreamed of complexity far more rapidly than during any other period in recorded history, the traditional sector has maintained its niche in the economy after adapting itself to its new role.

Today, it is not questioned that in the highly technically advanced economies of Scandinavia, Great Britain, the Federal Republic of Germany, Switzerland and other European countries, the products of the Danish silversmiths, the Scottish handweavers, some of the Swiss watchmakers and the German potters have won for themselves an undisputed and unchallenged place in the markets of the world. They and the brand names that have been built up through the wedding of traditional crafts to modern marketing techniques have become synonymous with a standard of quality and artistic merit that few mass-produced items can surpass. In most developed countries, the discerning consumer is ready to pay for the special quality of these items.

In the developing countries, the situation is somewhat different. The market of the artisan is extremely limited and often extends only to the immediate vicinity—rural or urban—of his home. He has no access to the wider markets beyond. When these limited markets are taken away from him, he has little means—even though his product may sometimes be superior in quality—of finding alternative buyers for his wares. Unless something is done to help him in his plight, the result can only be economic disintegration and pauperization.

Some would argue that the gradual disappearance of this large section of primitive economies is a necessary accompaniment of economic and industrial development. There is a continuous, world-wide demand for a better standard of living, which means more consumer products at prices that make them accessible and available in greater quantities to the overwhelming majority of the population; this can be attained only through industrialization. Since experience shows that in general one worker with modern machinery can produce the equivalent of five or more artisans, it is argued that this inevitably means that artisans will be deprived of their means of livelihood. Their impoverishment usually takes place at a faster rate than the newly developing factories can provide employment for them. Even if one were to accept the view that it is no great loss in the long run to an economy if these traditional handicrafts were to disappear—a view by no means shared by all—the very serious problem of providing a form of gradual changeover to avoid hardships and suffering created by this large-scale impoverishment still has to be faced.

BASIC PROBLEMS

When a policy towards the traditional sector of the economy is being formulated in connexion with a programme of industrial development, two basic questions must be decided:

(a) Which of the traditional activities have the ability to withstand the economic competition of newly developing industries and to what extent is it in the national interest to assist these activities to maintain themselves under changed circumstances;

(b) On the assumption that certain of the traditional activities are doomed and that it is against the national interest to attempt to perpetuate their uneconomic existence indefinitely, which measures are necessary to ease the hardships of the transition period and to prepare artisans to assume the new role that they will have to play to ensure their economic survival in another form.

These two basic problems concerning the role of artisan and handicraft undertakings in an industrializing society are not purely economic. The evolution of an artisan economy brings with it a host of social problems. For instance, although rapid industrialization could undoubtedly lead to an absorption of a great many artisans by the expanding factories, sociological and psychological obstacles may still prevent the independent artisan faced with the alternative of becoming a worker in a factory or losing the means of supporting himself and his family from choosing the first alternative. Unable to change his traditional

way of life, the artisan attempts to struggle on long after the economic justification for his independent existence has disappeared rather than relinquish his so-called independence and/or the status he feels his craft affords him.

All too few general studies have been made of this intricate problem. It is, however, well known that despite his humble mode of existence, the skilled craftsman feels he is relinquishing an age-old tradition inherited from his forbears as well as an honourable, satisfying, independent, creative occupation when he abandons his craftsmanship to become a factory worker. This feeling persists, even though such a move would often bring him greater income and free him from preoccupation with the future, which was his lot when he operated independently.

These problems cannot be easily overcome, but the transition can be made easier by a constructive policy on the part of the Government. The change to factory methods also presents other problems. The methods of factory manufacture are often so different from the individual craftsman's way of working that there is little or no association except in the materials used. For this reason, managers of large, new factories established in developing countries frequently declare openly that they prefer to employ persons who have never had anything to do with the product being manufactured. The manager of a large shoe factory in a South American country has admitted that he would prefer not to take on artisans who have been making shoes by hand. Similar statements have been made by industrialists setting up clothing factories with respect to the employment of craft tailors and in ceramic factories with respect to engaging village potters. All the managers explain that the background of these independent artisans is such that they do not easily fit into the factory system and that they find it difficult to concentrate on the single operation for which they are responsible instead of the over-all manufacture of the product to which they have been accustomed.

Very often these problems are accentuated by a difference in outlook between generations. The older craftsman steeped more deeply in his tradition finds that the adjustment to a completely new way of life presents almost insuperable difficulties. However, his son, who frequently has received more formal education than he has, tends to move to the city and is more ready to accept the social gregariousness of factory life. The younger man often finds the traditional ways of the artisan life with its slow moving, almost timeless existence stultifying, and he is more likely to adapt himself to industrial life. However, in many countries where handicraft activities are especially strong, the family framework is equally restrictive and binding, and the younger generation sometimes feels an overriding sense of family loyalty that imposes on it an obligation to continue in the traditional crafts.

POLICY CONSIDERATIONS

The planner's decision as to which crafts can make an effective contribution to the developing economy and therefore should be assisted will usually differ from one country to another because of variations in cultural backgrounds, tastes, ways of life and readiness of different communities to accept the consumer

patterns of more industrialized countries. Where communal life is strong, family ties firm and traditions rich, the changeover to modern forms of mass consumption may be resisted for generations. For several historical reasons, customs regarding dress, homes, food habits have persisted throughout Central America with great variations from country to country, even though the pace of industrial development in these countries is similar. In Guatemala, for instance, the indigenous communities of Indians carry on their traditional crafts, their manner of living in terms of dress, food and customs, resisting adoption of so-called western patterns even though the process of industrialization in that country has been no less than in neighbouring El Salvador or Panama, where this phenomenon is not evident. Such preservation of the traditional way of life also explains why traditional handicrafts have persisted and even grown in Guatemala more than in the other countries of the region.

In some oriental countries, strong religious traditions provide a continuous demand for craft products in the form of ceremonial dress, religious articles and high-grade, handmade apparel for use on festive occasions. In the context of these societies, handicraft activities more easily find an economic "niche" enabling them to continue and prosper for long periods even in the face of industrialization. The decline is thus less abrupt and the transition process less painful.

Nevertheless, despite the uneven social development arising out of the differing historical and cultural backgrounds of different communities, which is expressed usually through the extent and timing of changes, the decline of handicrafts is prevalent in most of the developing countries. The conclusion is inevitable that many traditional productions can survive in an industrializing economy only if they restructure their role and adapt to the "winds of change".

To understand the problems better and to find suitable measures to cope with them, it may be worth while to examine more closely—even though cursorily—a few artisan sectors, such as textiles, woodwork, leather goods and footwear, metalwork and pottery. These are common fields, but they provide examples of a variety of problems, each of which must be approached differently.

SELECTED FIELDS OF ARTISAN PRODUCTION

Textiles

In societies in the very early stages of development, among the most common crafts are spinning and weaving, usually carried on in rural homes. When industrialization begins, the textile industry, engaged in yarn spinning and the weaving of standard cotton fabrics, is usually one of the first larger industries to be set up. Clothing manufacture on a factory scale may follow quickly the emergence of a textile industry. (It may precede it if it is based on imported raw materials.) The spinning and weaving of standard cloth in modern mills soon make the handmade products obsolete. In most countries, not only the towns change over quickly to the use of machine-made textiles, but also the countryside follows suit very soon after. Sometimes the import of cheap fabrics

and clothes from other places aggravates the plight of the artisans. It is hopeless for the hand-spinners or weavers using primitive manual looms to attempt to compete with factory-produced standard yarn and cloth, even though they and their families may attempt a last-ditch struggle to maintain their market by working longer hours and living on low earnings.

Those who print the cloth soon find they, too, are unable to compete with the products of large-scale manufacturers. However, here the situation is somewhat different. By devoting special attention to design, preferably of an original character related to the folklore of the country or the region and the careful selection of high-quality cloth and good dyes, the artisan can produce a higher-grade, more expensive printed product that will find a limited market within the country or that can be sold to tourists or exported. Well-designed prints, incorporating a local "motif", have a definite role to play in the new textile industry. There is also a place for handwoven brocades, velvets and other high-quality cloths even long after the whole market for standard woven products has been taken over by the larger mills. The batik cloths of Indonesia and Malaysia, the woven carpets of Afghanistan, Iran and North Africa and items produced in various South American countries, such as woollen fabrics, tablecloths, "ponchos", are but a few examples of the work of artisans in the textile field who have been able to forge a market for themselves even against the competition of mass-produced goods.

However, to achieve success in practically all the above cases, artisan operations have had to be reorganized. It has been necessary to group artisans together, to provide advice and assistance in improving designs and techniques and, most importantly, to offer direct assistance in selling the products in new markets. Probably the most striking example of a successful reorganization of a traditional handicraft activity is the Thai silk industry. With the assistance of United States marketing techniques and improved designs, a traditional artisan activity in Thailand has been transformed into an export operation worth millions of dollars, and a household industry carried on for generations has been converted into a major field of employment without changing its fundamental handicraft character. Similar successes have been achieved by Indian silks and Chinese brocades. In the field of clothing manufacture, the craft tailors and seamstresses cannot compete once a large-scale, ready-made clothing industry producing inexpensive standard items has been established. In the rural districts these artisans may disappear almost completely, but in the urban areas there are still possibilities for a limited number of these craftsmen and craftswomen to survive and even prosper if their skills are of the highest order and if they can provide services meeting personal requirements that the factory cannot offer.

Woodworking

Woodcarving is a handicraft activity carried on in different parts of the world, in fact, wherever timber of a suitable type is available. However, the making of furniture by handicraft methods is usually doomed to extinction as larger, more mechanized manufacturing units come into being. A small, limited market will always remain for the high-quality, custom-built furniture embodying

the fine craftsmanship of the experienced wood-carver. Woodworking, however, is one of the handicraft fields that does offer possibilities for shifting from craftsmanship and handicraft activitities to small-scale manufacturing in the same line of business. Demand for furniture is an early expression of a rising standard of living. Little retraining is needed to convert a rural carpenter or cabinetmaker into a furniture worker or manufacturer. He has only to be introduced to the use of some simple woodworking machines and mechanical tools. Financial and technical assistance on a modest scale can transform the woodworking craftsman accustomed to using only the most basic hand tools into a woodworking industrialist employing ten to fifteen workers and using simple power-operated machines. In most developing countries, it is possible for a small woodworking shop to compete effectively with larger furniture factories, especially where the demand of the market is not extensive enough to justify full mechanization and where the variety of services and tastes called for still require a diversity and flexibility that only a small factory can provide. However, in many places a successful change-over from craftsmanship to a small woodworking industry may depend to a great extent on assistance in ensuring an adequate and uniform supply of seasoned timber. Here is an excellent example of how a common facility for a group of small operators set up with some state or public assistance can ease the transformation of an artisan undertaking into a small industry.

Leather craft

Footwear can now easily be manufactured on a very large scale at low cost. Most developing countries soon have such factories, and only a few craftsmen shoemakers are able to compete by manufacturing shoes of very high quality or shoes to meet unusual demands in sizes, styles or for special purposes. Once it is clear that the shoemaking artisans cannot survive, the question arises whether these craftsmen can adapt themselves to employment in the new shoe factories that spring up. Here the psychological and social difficulty already referred to manifests itself. Modern shoe manufacture breaks up the production of the shoe into over 100 different operations and bears little or no relation to the ways in which the individual craftsman makes the shoes. Not only does this make shoe manufactures reluctant to take on former craft shoemakers—as in the case cited earlier—but even where these objections are overcome by social pressure or other means, the craftsman turned factory-operater often suffers frustrations and dissatisfactions that make him a poor worker. Experience shows that for these reasons older craftsmen in this field, once a modern shoe industry has been established, prefer to service shoes and go over to repairs and remodelling. For artisans of the younger generation, who are usually more adaptable, the best hopes lie in retraining either to enter the shoe industry as apprentices and operators or, if they have sufficient initiative and assistance can be provided, to manufacture other leather articles such as handbags, leather belts, wallets etc. In some countries these crafts can be developed into export items by introducing different types of leather, such as lizard, crocodile and snake skins. Here again assistance and advice are needed in design and instruction in how to handle

these new materials. Most importantly, help in marketing is needed for the craftsman to be able to face competition and break into new markets.

Other crafts

Some basic metal crafts carried on in a traditional manner can be adapted with some expansion to meet the needs of a more modern economy, at least in the earlier stages. These include: small foundries, metal spinning, some simple production of tools, dies, chains, some accessories for vehicles, containers, some agricultural implements and a variety of special equipment of a simple technical character for the household, agriculture, construction and transport.

Generally speaking, with suitable technical assistance and basic entrepreneurship, these activities can grow into successful small industries. Most of them will not survive without changes in the traditional artisan way of working, but the changes need not be so far-reaching as to be beyond the ability of a skilled artisan, with some public assistance, to cope with the transformation. An important possibility worth pointing out—particularly with respect to the manufacture of equipment—is a change-over to repair operations. Many artisans, confronted with a decreasing demand for simply constructed equipment, are able to develop successfully maintenance and repair shops to service the more mechanized equipment introduced into industry, construction, agriculture and transport.

Pottery is an ancient craft that has always been prevalent wherever good clay and fuel were available. A developing economy may create some increased demand for local, traditional pottery, but earthen waterjugs and other containers are then replaced by enamelware, metal cans or, later still, by plastic items. Only if there is a complete upgrading in quality and functional characteristics of the item produced is there hope for these crafts to survive to any great extent. Much technical assistance will be needed to enable the traditional potters to cope with problems of materials (clays and glazes), new techniques (better kilns and firing methods), improved designs and more uniform quality. A few of the more enterprising potters can, with help, set up small ceramic factories, reshaping their traditional ways to fit the changed markets. Most potters, however, will gradually be deprived of their livelihood by competing industries.

It can be noted that the examples given above reveal certain differences between the crafts even though the general decline of handicrafts in the face of new industries is common to all. In textiles, best hopes lie in using crafts to finish the materials produced by the new factories and in concentrating the skilled craftsmen on special cloths and custom-made items of clothing. Potters face problems similar to weavers, but possibly more scope exists for them to concentrate—with outside help—on specialized, high-grade products with original designs. In woodcarving, as in some metalworking crafts, the transformation to small industries is more feasible if technical assistance is provided so that simple machinery may be acquired and common facilities set up for preparing suitable raw materials. In leather and footwear manufacture, the impoverishment of the artisan may occur rapidly, and the best prospects for the craftsman are to find new materials and create new products; where such possibilities do not exist, only retraining or limiting activities to repair work remain as solutions.

A detailed account of the problems of each different handicraft is beyond the scope of this paper, but it is clear that certain crafts are less prone to competition from industry and may even gain from the rise in the standard of living following economic development. Such crafts include jewellery manufacture, basketmaking, production of silverware, perfumes and even the manufacture of some ornaments, instruments and hand tools. They all require high-grade skills whenever it is very difficult or impossible to replace manual operations by machines, although all these crafts benefit in some way from technical advance. The dividing point between handicrafts and small industries in these activities is blurred. They belong to the category of handicrafts mentioned as worth preserving and fostering provided that the technical skills and know-how are really of a high standard, which is not always the case in developing countries.

POLICY DECISIONS

Traditional industries should be surveyed, and those with good prospects should be guided and assisted if they are to be preserved and to flourish in the wake of industrialization. In each country a definite policy should be worked out with respect to the different types of crafts being carried out by artisans. There should be a clear decision as to what types of crafts are worth preserving in the national interest and which of them have prospects for development along with other industries.

Some new industries should be given the possibility of exploiting the market potential to the full. It is not in the national interest that their success be jeopardized by curtailing their development in order to safeguard handicraft operations unable to provide goods and services at equal cost or quality.

Some crafts can be guided into new channels, taking into account the availability of local materials, the level of craftsmanship and the potential market both within the country and outside it, the number and type of people engaged in the craft concerned, the character of the product and the extent to which it has characteristics identifiable as originating from the country concerned.

Assistance to those crafts considered worth preserving will relate to credit, new techniques or processes, better designs and marketing. Sometimes craftsmen can be encouraged to work with new materials, possibly the products of new industries. For instance, a handicraft based on the dyeing and printing of cloth by traditional methods may change over from the use of handwoven cloth to the use of fabric manufactured in modern weaving plants. There are other similar examples in the fields of woodwork (seasoned timbers, panels, plywoods etc.), pottery (new clay and glazes), jewellery (new alloys) and so forth.

It cannot be stressed too much that the decision regarding the future of the various crafts should be made only after thorough, objective studies have been carried out evaluating their prospects from all aspects.

When the decision has been made as to which of the handicrafts are worth preserving and can compete economically, another measure should be taken—catering for the displaced craftsmen whose livelihood is lost through the advance of industry. Certain crafts can be transformed into modern small-scale industries,

either on an individual or on group basis, in the same or in different lines of business, through a promotional and educational programme and with direct financial and technical assistance. When it is not feasible, either for economic reasons or because of resistance on the part of the craftsmen, to develop entrepreneurship to the stage of small-scale industry or when the industrialization of the production concerned would require too great an investment for this change to be considered viable, a social and economic programme should be worked out for the redeployment of these displaced craftsmen and to prepare them for employment in other activities.

TECHNICAL, FINANCIAL AND MARKETING ASSISTANCE AND COMMON SERVICE FACILITIES

Once the decision has been made as to which crafts are worth preserving, the Government should take active steps to assist them in techniques, finance and marketing.

Technical assistance

To decide that it is both socially and economically worth while to foster a particular craft in a certain country is not to suggest that the craftsman should continue his work in the same manner as previously. The study made for each craft should also determine the steps needed to upgrade the skills required and to improve the marketability of the products. These steps will obviously differ from country to country and also from craft to craft. A new system of procurement of raw materials may be needed or even a change to a different type of raw material. It is usually necessary for a state-aided research or development centre to investigate the availability of new or better raw materials and new processing techniques that may be employed to improve the product or reduce its costs. A technical extension or field service should then inform and instruct the artisan in putting into practice the results of the investigations. Above all, the help has to fit the needs of the artisan. This means that the advisers and consultants working with the artisans to help them should be persons able to explain their suggestions in a simple, direct manner and, if necessary, demonstrate what they are proposing.

In this field there is little difference between the needs of small industrialists and artisans. In the latter case, however, the search for new materials and better techniques should follow simpler lines, and the extension advice should be very practical.

Several illustrations may be cited. A woodworking expert in Jamaica developed a veneer from local resources that can be used by both small-scale furniture manufacturers and artisans. The Technological Institute of Copenhagen has developed new methods for preserving wood and for bending timbers that have been adopted by Danish artisans. In India, Malaysia and Indonesia, technical advisers in tanning methods have introduced new ways for rural tanners to prepare lizard and snake skins. Improved methods of plating silver, glazing ceramics, silk screen printing and even bottling and canning tropical

fruits have been developed in different countries and introduced to craftsmen and artisans.

With regard to technical methods of working, the traditional form of work—predominantly manual—should in general be maintained, but simple mechanical tools should be made available to the artisan to reduce the time of some of the more tedious operations and to reduce the product's cost and raise the craftsman's income. This income at the best of times is at a bare subsistence level, and the craftsmen in the community should be assured a higher income and a better standard of living as the whole economy develops.

Financial assistance

When a co-operative or a state corporation has been set up to deal with groups of artisans in a particular field or in several different fields, the financial problem is often solved automatically. The individual artisan is then relieved of the burden of having to find the funds for his investments in new equipment and facilities and the working capital that he may require—in particular for procurement of raw materials—to tide him over periods in which seasonal factors or temporary market difficulties may interrupt the flow of his income. However, when neither a state corporation nor a co-operative is feasible for one reason or another, some programme should be worked out to supply individual artisans or groups with adequate credit to effect the necessary improvements. Sometimes the use of new materials requires the artisan to order supplies in larger quantities than he is accustomed to ordering. Only with some help in obtaining credit can he overcome this problem.

Again, the form of the credit programme will vary with the local conditions. If there is no private venture, the source of the funds will usually have to be public, although this need not be so in every case. Some countries have set up a special artisans' bank to provide credit to artisans and craftsmen similar to agricultural banks that provide credit to farmers and small landholders. Sometimes it may be more practicable to operate the credit programme through an existing commercial bank. In either case, great flexibility should be ensured so that the artisans can receive credit quickly. Craftsmen and artisans are not equipped to formulate requests to banks for credit that involve a great deal of paper work, guarantees or other complex legal procedures.

Marketing assistance

Probably the success or failure of a programme for assisting artisans will depend ultimately on the provision of proper marketing arrangements. In many countries, the craftsman is at the mercy of unscrupulous traders because of the lack of organized assistance in marketing, and he receives as his pay only a small proportion of the price paid by the final purchaser. Sometimes trading profits are exorbitant. Only an established marketing organization, whether state-owned or private, but always with some form of government control

to safeguard the rights of the artisans, can both expand the markets of the handcrafted products and ensure that the artisan receives the compensation he is due.

These marketing arrangements should include the establishment of a network of shops (within the country and sometimes abroad), of contacts with major retailing outlets and of business links with importers and commercial organizations in foreign markets. The organization of exhibitions or displays may be necessary. Several countries have achieved success in this field. One such marketing arrangement takes the form of the state "emporia" that exist in the large towns for selling the handicrafts produced in most of the states of India. Similar marketing arrangements exist in Thailand, Indonesia and in some European countries, and beginnings have also been made in some countries of South America and the Caribbean. Almost without exception, government help is needed to achieve this type of marketing organization. However, assistance in marketing should include not only provision of sales outlets and suitable contacts for distributing the products, but also provision of a feedback whereby the craftsman can learn the reactions of would-be purchasers of his products as regards design, quality, size, colour, functional utility and price. This must inevitably be combined with extension services and instruction for the craftsman to enable him to improve his products and make them competitive in the markets.

To break into the world markets on a substantial scale is a long-term venture. A great deal of effort must be invested in undertaking market studies and in searching for improvements in design and originality in products and in finding ways to lower costs before handcrafted products gain acceptance in foreign markets. For lack of knowledge of what other countries have achieved, illusions regarding the quality and competitiveness of handicraft products are sometimes widespread. Local and national consumers have often become accustomed to a certain level of quality and do not realize that this would not be adequate to compete in the world market. Countries that attract many tourists or that have some special historical or religious interest may find it easier to expand their handicraft and souvenir sales. However, only a few developing countries are in this comfortable situation. Usually success is achieved in the difficult field of marketing through long efforts and programmes to upgrade handicraft activities, with special emphasis on quality and design.

The co-operative system of marketing should be examined carefully for possible application. Such co-operatives have been successful in various countries, but their adoption does not in itself guarantee greater success. If suitably organized, with all the social factors taken into account, the co-operative can achieve a greater feeling of participation and responsibility on the part of the individual craftsman, but the same steps must be taken to guarantee the quality design and price level as in any other form of organization. In countries where legislation and the general social climate favour co-operation, the co-operative is more likely to gain the needed financial support of the Government. In other countries the co-operative may encounter difficulties, for instance, when the cultural and social level of the artisans is inadequate and prevents them from recognizing that a co-operative, like any other organization, must be guided also by business considerations.

Common facilities

The provision of common facilities is another measure that should be included in a programme to help the artisan community. Common facilities can take the form of more mechanized dyeing and finishing equipment for handmade fabrics, better equipment and controlled furnaces or kilns for potters or electroplating facilities to ensure a high standard of finish for some metalcraft products. Sometimes the need for a common facility is justified more on economic than on technical grounds. For example, in Ecuador, a group of artisan shoemakers set up with state help a co-operative tannery to ensure a supply of leather at low prices.

The form that common facilities may take should be carefully considered. In some countries they may be organized most appropriately on a co-operative basis. This has the advantage that the artisans become joint owners of the facilities and feel directly involved in their operation. However, experience shows that the co-operative form, while it may stimulate the use of large common technical facilities that the single craftsman cannot afford, raises some social and organizational problems. It should, therefore, be approached with caution and always be preceded by a communal and social educational programme in which the artisans are carefully instructed on the nature of the co-operative and on the responsibilities they assume upon joining it.

In yet other countries, common facilities are provided by a state corporation which often fulfils both technical and marketing functions. Sometimes the corporation is responsible also for procuring the raw materials, marketing the products and financing. The same corporation may act as a facility for preparing materials, finishing the product and selling it, while the individual artisan becomes an independent subcontractor transforming the materials into the product while working for the state corporation. This arrangement has been successfully tried; it certainly has the appreciable advantage of relieving the artisan of the complicated problem of procurement and marketing and of making available to him some technical processes that he is not equipped to handle.

A third possibility is for private enterprise to provide all or part of such services. There is no doubt that under certain circumstances a private venture can create a common technical service for groups of artisans in a form that is profitable for all concerned. Again, the example of the provision of seasoning kilns in woodworking may be cited.

Each country must find the solution conforming best to the prevailing social norms, the general form of organization of industry, the availability of private initiative and the special characteristics and situation of the field of handicrafts concerned. The social, cultural and educational level of the individual artisan and the geographical location and distribution of the artisan community are factors to be considered.

GOVERNMENT MEASURES NEGATIVE AND POSITIVE

All the above comments apply only to that part of the artisan and handicraft sector where, after careful analysis of the situation, it has been deemed economic-

ally feasible to reorientate the activities of the craftsmen. As previously mentioned, a part of the handicrafts will inevitably not be able to survive the competition of new industries. In some countries attempts have been made to slow down the pace of industrial development in order to avoid a rapid dispossession or pauperization of the mass of artisans. This has been done through legislation and fiscal measures to help preserve the status of the craftsman. For example, at one time in Ceylon, importers were obliged to purchase a specified portion of goods from local craftsmen even when they had to sell them at a loss; in India, excise duties have been levied at various times on factory-made cloth and on the output of large-scale firms in the leather industries, the revenue being used to assist artisans operating handlooms. In other periods the printing of cloth by large mills was limited to a certain level of output, and the expansion of large plants, shoe industries, tanning and garment-making was checked so as to mitigate the effect of the competition of these industries on the traditional artisan suppliers. Most of these measures have since been abandoned as unsuitable for a country eager to industrialize. Ecuador provides yet another example. At one time a law granted considerable privileges to the artisans—in fact, it made it economically possible for them to compete against much more efficient larger manufacturers—but discouraged them from expanding their business and transforming their operations into small-scale industries.

Opinions differ as to the advisability of such measures. It is clear that to further the process of industrialization, the newly developing industries should be given the maximum opportunity to produce efficiently and to utilize their capacity to the full. Measures of the type mentioned above may be justifiable as short-term, transitional actions to lessen the severity of the social problems that arise in the artisan community, but as long-term measures they can only result in protecting inefficient production and operate to the detriment of the customer, who has to pay high prices for products often of inferior quality. In the long run, such policies are apt to slow down the growth of industry. Potential entrepreneurs are unlikely to invest in industry if they feel that they will be prevented from exploiting the market to the fullest so as to protect less efficient traditional handicrafts. In addition, an overprotected and privileged status for artisans does not provide encouragement for them to expand into small or medium-sized industries.

The Government may undertake positive action to assist artisans in danger of losing their livelihood. Here again the possibilities lie in two directions:

(a) To stimulate the more enterprising craftsmen to develop as entrepreneurs and establish small, modern industries;

(b) Where the above is not feasible, to retrain and reorientate the craftsmen to enter industry or other modern activities, such as repair and maintenance of machinery or automobiles, construction, electrical installation or plumbing, as entrepreneurs or workers.

In many respects the measures needed to influence the process indicated in *(a)* above are similar to those needed to help the craftsmen in the artisan fields it has been decided to preserve. Again, it is necessary to provide assistance

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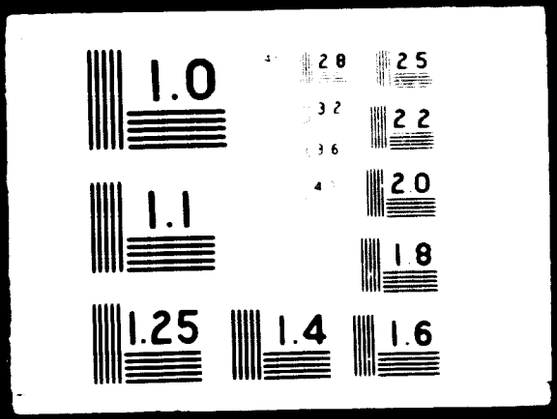


with credits, technical advice and help in marketing. But here the assistance and services needed are generally more extensive. In particular, more consultancy and training services will be required. Even when the craftsman has the entrepreneurial prerequisites, he will need to be trained in the basic managerial functions required to run a small enterprise. He will also require some technological advice and possibly training to enable him to cope with new machinery and processes with which he may not have been acquainted when he was working as an independent artisan. The operation of a small industry extension service either within a government agency or as an autonomous institute or centre or even within some other institution such as a bank would be an indispensable condition for the success of a programme providing for the transformation of artisans into small industrialists.

Industrial estates

A further important tool that a Government can use successfully to stimulate the transition to entrepreneurship is the industrial estate. The lack of physical facilities at a reasonable cost is often one of the most serious obstacles to the development of small industries. Artisans usually work in their own home or backyard, and once their operations grow into small industries, they are immediately faced with the problem of finding adequate premises. Without help from some institution, they usually cannot overcome this difficulty. An industrial estate providing standard factories with the necessary services and infrastructure at reasonable costs can solve this and other problems for artisans able to expand their activities into small industries.[2]

Retraining of artisans

For those artisans who are unable to establish small industries, a programme of retraining and possibly resettlement is needed. A programme for accomplishing this transformation of artisans into industrial workers or providers of modern services cannot limit itself to vocational instruction if it is to be successful. A communal, social and educational programme should also be undertaken that not only retrains the artisan in the use of new machines and techniques but also helps him to adapt to the social structure of factory life. Artisan activities represent a way of life and cultural pattern based on strong family ties and independence within a community where the artisan has an accepted status. Without an educational programme, artisans may resist retraining and resettlement in

[2] A new idea being developed by "Things Jamaican", the state organization in Jamaica for promoting handicrafts in the island, is the establishment of a "crafts complex" at the Bumper Hall industrial estate in Kingston. This complex will consist of workshop blocks divided up into very small units where the craftsmen can carry on their work while certain common facilities are provided to help them. Among the latter is a kiln for seasoning the timber used by the woodworking artisans. Similarly, in a report to the Government of Yemen on the "Development of Handicrafts" (1967), an ILO expert who surveyed the problem in that country recommended the establishment of an artisan industries complex to provide working premises and services for both craftsmen and those ready to start small industries. This proposed "artisan complex" would have a training section, a display centre as well as warehouses and other common facilities.

the pathetic belief that they can somehow survive economically carrying on in their accustomed manner. In some countries, even when the sombre facts of economic reality become all too clear and express themselves in a decline in income bordering on improverishment, the reactions are all too often negative; government help is sought in an effort to turn the clock back.

Political factors sometimes enter into the picture to confuse the issue further. Hence, Governments anxious to avoid social problems of insolubie magnitude arising from the lack of employment of displaced artisans are well-advised to prepare a constructive social and educational programme of appropriate proportions to counteract these difficulties. Resettlement, if it is to succeed, must create new social and communal forms to substitute for what the artisan has abandoned.

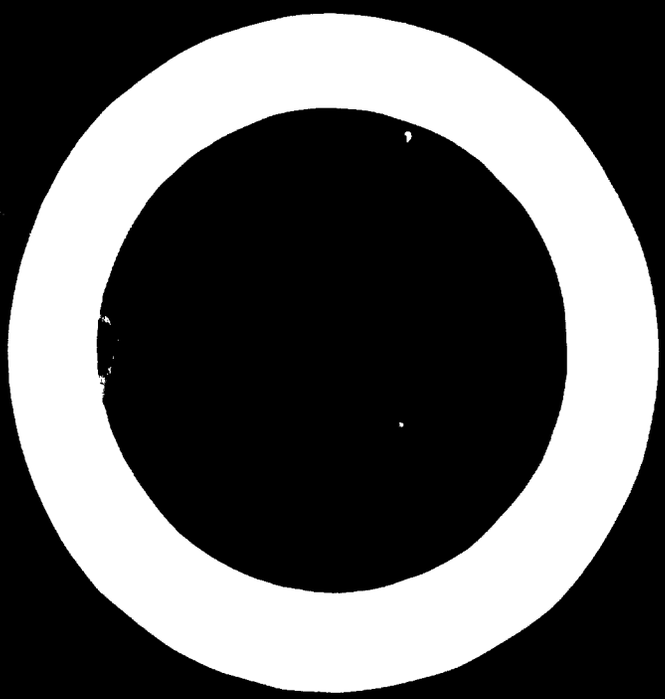
CONCLUSION

As industries develop, traditional handicrafts and artisan activities decline. The problem will not solve itself without government initiative. Industry cannot be expected to develop fast enough to absorb the impoverished artisans as they lose their livelihood through inability to compete with rising industries.

A constructive policy has to be worked out if the social and economic upheaval of a large group of the population is to be avoided. Government policy should be based on a thorough assessment of the whole artisan economy, to determine which activities should survive in the national economic interest. Government policy must then decide which activities fall into the following categories:

(a) Handicraft activities that typify the national folklore or whose products reflect skills of a high order and are competitive on the market;
(b) Artisan activities that can be assisted to develop into small industries;
(c) Activities of the traditional sector that are doomed because new industries provide the products and services much more economically.

After this decision has been made, government policy should be vigorously pursued to ensure that workers in each category of activities are given the maximum of assistance to overcome the social, economic and technical problems facing them. This will mean setting up centres or extension services for both the artisans in group *(a)* and the new small industrialists in group *(b)*. It will mean a suitable programme of financial assistance for both these groups. It will also mean a large-scale programme of resettlement and vocational training to deal with those in group *(c)*. In many developing countries, these problems are urgent if industrialization is not going to bring with it vast social problems and sufferings caused by the impoverishment of thousands of displaced artisans. Only clear government policies followed by the appropriate measures can mitigate the inevitable impact of the growth of industries on the traditional sector of the economy.



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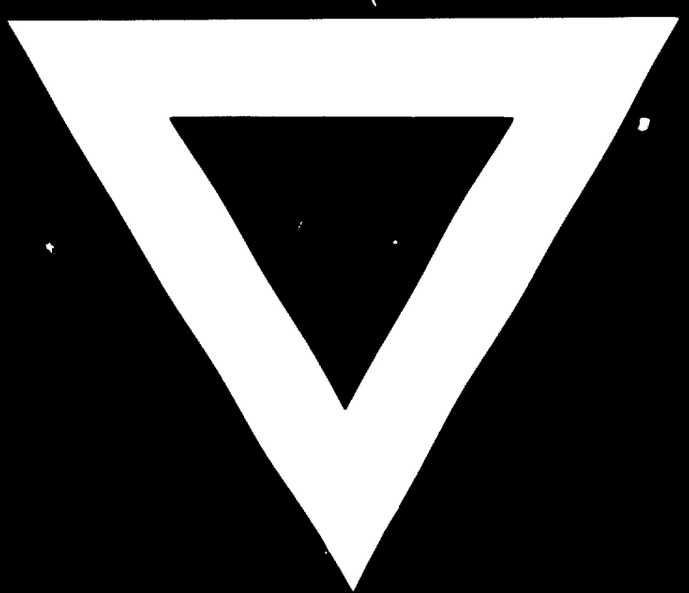

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