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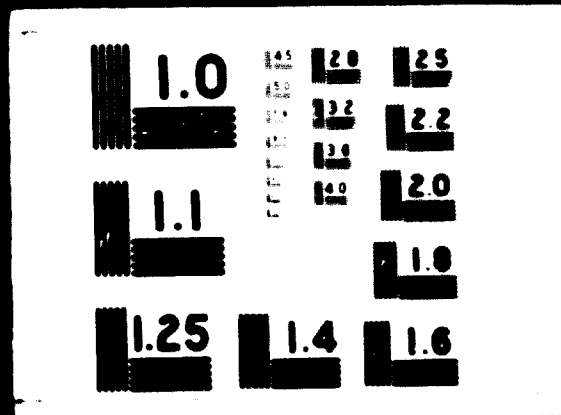
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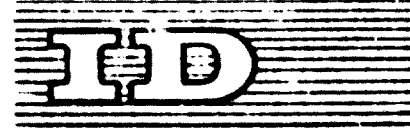
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United Nations Industrial Development Organization

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ID/WG.103/1
3 October 1971

ORIGINAL: ENGLISH

Expert Group Meeting on Industrialization
in Countries at Early Stages of Development
with Special Reference to Small-scale Industry

Vienna, 6 - 10 December 1971

PROVISIONAL AGENDA AND SCHEDULE OF MEETINGS

Monday, 6 December 1971

8.30 - 9.30

Registration of participants

10.00 - 12.30

Item 1. Opening addresses

Item 2. Election of Chairman, Vice-Chairman and
Rapporteur and adoption of the agenda

Item 3. Problems of industrial development in
the least developed countries

3.1 Characteristics of the least developed
countries and major obstacles to their
industrialization

14.30 - 17.30

3.1 (continued)

id.71-8047

We regret that some of the pages in the microfiche copy of this report may not be up to the proper legibility standards, even though the best possible copy was used for preparing the master fiche.

Tuesday, 7 December 1971

9.00 - 12.30

3.2 Strategies and policies

3.2.1 The role of industrialization in the economic development of countries at early stages of development

14.30 - 17.30

3.2.2 Strategy and policies for industrial development in these countries

Wednesday, 8 December 1971

9.00 - 12.30

Item 4. Promotion of small-scale enterprises in the least developed countries

4.1 Institutional framework

14.30 - 17.30

4.2 Promotion of entrepreneurship

Thursday, 9 December 1971

9.00 - 12.30

4.3 Measures for the development of small-scale enterprises

4.3.1 Small-scale industry

4.3.2 Traditional artisan and handicraft activities

4.3.3 Service industries and trade activities

14.30 - 17.30

4.3 (continued)

Friday, 10 December 1971

9.00 - 12.30

Item 5. International co-operation for the promotion of industry in countries at early stages of development

5.1 International and regional co-operation

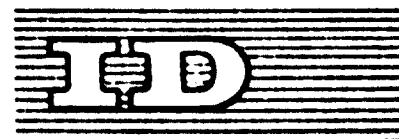
5.2 Technical co-operation

5.3 Follow-up of the Meeting

14.30 - 17.30

Item 6. Adoption of the general conclusions of the Meeting

Item 7. Concluding addresses



United Nations Industrial Development Organization

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12 October 1971

ORIGINAL: ENGLISH

Expert Group Meeting on Industrialization
in Countries at Early Stages of Development
with Special Reference to Small-scale Industry

Vienna, 6 - 10 December 1971

**ANNOTATED PROVISIONAL AGENDA
AND
PROPOSED ISSUES FOR DISCUSSION**

- Item 1. Opening addresses
- Item 2. Election of Chairman, Vice-Chairman and Rapporteur
and adoption of the agenda
- Item 3. Problems of industrial development in the least developed countries
- 3.1 Characteristics of the least developed countries and major obstacles
to their industrialization

1. In a recent report on "Least Developed Among Developing Countries in the Context of the Second United Nations Development Decade: Identification and Special Measures" (E/4/90)-which is submitted to the Expert Group as a background document - the United Nations Committee for Development Planning proposes criteria for the identification of the least developed countries (per capita gross domestic product of \$ 100 or less; share of manufacturing in total gross domestic product of 10 per cent or less; and literacy rate of 20 per cent or less), draws up a list of 25 countries satisfying these criteria and makes recommendations on special measures in favour of these countries. The list of countries includes:

Africa

1. Botswana;
2. Burundi;
3. Chad;
4. Dahomey;
5. Ethiopia;
6. Guinea;
7. Lesotho;
8. Mali;
9. Malawi;
10. Niger;
11. Rwanda;
12. Somalia;
13. Sudan;
14. Uganda;
15. United Republic of Tanzania;
16. Upper Volta;

Asia and Oceania

17. Afghanistan; 18. Bhutan; 19. Laos; 20. Maldives; 21. Nepal;
22. Sikkim; 23. Western Samoa; 24. Yemen Arab Republic;

Latin America

25. Haiti.

2. This list will undoubtedly provide a concrete focus to the discussions of the Expert Group. In view of the purposes of the present Meeting, it is not proposed that the criteria and the list be reviewed by the Expert Group, whose attention is drawn to the problems, policies and measures of industrial development in countries such as those listed.

3. Several of the documents prepared for the Expert Group Meeting contain an analysis of symptoms and causes of extreme under-development.

4. In his paper (ID/WG.10)/3) Mr. P. Turner attempts to separate symptoms from causes.

He distinguishes quantifiable symptoms

(predominance of rural population and of non-industrial exports, low per capita GNP and low share of industry in GDP, low tax revenue and low capital formation, poor health conditions, low electricity consumption, low level of literacy, etc.)

from non-quantifiable symptoms

(contrasts of wealth and poverty, ineffectiveness of institutions, enervating climates, poor nutrition, inadequate housing, of sectarianism, urban drift, transport and communications difficulties, etc.).

As regards causes, Mr. Turner considers that extreme under-development is due to

low agricultural productivity, lack of transportation and power, inadequacy of basic and vocational education, low standards of public health and ineffectiveness of leadership and government services. There is a lack of knowledge of the processes and techniques of development on the part of most of the inhabitants, a shortage of institutions, facilities and commercial traditions, and a shortage of capital.

5. In his paper (ID/WG.10)/2), which contains an analysis of 19 least developed countries ^{1/} Mr. H. W. Singer makes no distinction between symptoms, forms and causes of extreme under-development, but lays stress on a number

^{1/} These countries, which were listed in an earlier United Nations study, are:
Africa: 1. Botswana; 2. Burundi; 3. Chad; 4. Dahomey; 5. Ethiopia; 6. The Gambia;
7. Guinea; 8. Lesotho; 9. Malawi; 10. Niger; 11. Rwanda; 12. Somalia;
13. The Sudan; 14. Uganda; 15. United Republic of Tanzania; 16. Upper Volta.
Asia: 17. Afghanistan; 18. Laos; Middle East: 19. Yemen Arab Republic.
In its more recent report (ID/WG.10), the United Nations substituted Mali for the Gambia and added Bhutan, the Maldives Islands, Nepal, Sikkim, Western Samoa and Haiti to the list which includes now 25 countries.

of characteristics, the most important of which appears to be the lack of diversification of the economy, which is mostly based on traditional subsistence agriculture or pastoral activities. Where a traditional artisan sector exists, it is itself very under-developed: it is characterized by certain features common to most of the least developed countries;

use of hand tools and importance of manual skills, family labour and management organization, concentration in a few trades, inadequacy of information on industrial and semi-industrial activities in this sector.

Other characteristics are

low employment (intermittent labour utilization), low savings and low capital formation, lack of finance, small and remote markets, marginal monetary exchanges, inadequate physical infrastructure, high cost of transport, lack of known or explored natural resources, lack of trained personnel and of entrepreneurs, and educational systems based more on primary instruction than on technical and vocational training.

6. In his book Economic Theory and Underdeveloped Regions (Duc'worth, London, 1957), in which he argues that the economic and social process, if not regulated, causes increasing inequalities within countries and between countries, Prof. G. Myrdal considers that the basic causes of under-development are internal inequalities in very poor countries and low effectiveness of government institutions. "To a low level of economic development correspond low levels of social mobility, communications and popular education: this implies greater impediments to the spread effects of expansionary momentum ... The poorer nations ... have ... been up against narrower financial and, at bottom, psychological limitations on policies seeking to equalize opportunities. In addition inequality of opportunities has contributed to preserving a low 'quality' of their factors of production and a low 'effectiveness' of their productive efforts, and this has hampered their economic development" (p.51). In these countries, international trade, capital movements and migration do not work for equality, but, on the contrary, may have strong backwash effects. Spread effects are weak: "Differences in legislation, administration and mores generally, in language, in basic valuations and beliefs, in levels of living, production capacities and facilities, make national boundaries much more effective barriers to the spread of expansionary momentum than any demarcation lines within one country can be ... The weak spread effects as between countries are ... for the larger part only a reflection of the weak spread effects within the under-developed countries themselves caused by their low level of development attained". ("Poverty becomes its own cause".) "In these circumstances market forces will tend cumulatively to accentuate international inequalities." (p.54-55). The heritage of colonialism - a large agricultural subsistence economy and production of primary goods for export - is a factor of continued under-development.

7. While the above analyses provide a picture of under-development and of its causes, none of them discusses in any depth the question why and how some under-developed countries have overcome the obstacles, handicaps and disincentives described, and have begun to develop effectively, while others have remained stagnant at the lowest levels of economic development.

8. The experts are invited to discuss these issues and, among others, the following two sets of questions:

(1) To what extent do physical conditions limit the prospects of advancement of certain countries, especially in respect of industrial development?

Are land-locked conditions, especially when the surrounding countries are also less developed, a major obstacle? Out of the 25 countries listed in E/4000, 15 are land-locked. ^{2/} It may be noted in this connexion that, in the integrated conditions of Europe, land-locked conditions do not seem to have been any appreciable obstacle to the industrialization of Austria, Czechoslovakia, Hungary, Luxembourg and Switzerland.

Other conditions being equal, is very small geographical area (as in the case of Burundi, the Gambia, Rwanda) or very large but relatively under-populated area (as in the case of Chad, Niger, the Sudan) another serious limitation. It may be noted in this connexion that Hong Kong, Singapore and China (Taiwan) developed production for both the domestic and export markets in spite of their small areas and Australia in spite of its large and under-populated area.

Other things being equal, is there a necessary correlation between availability of natural resources and prospects of advancement?

The position of the least developed countries varies appreciably in these respects. Some have a good and diversified agriculture and livestock production (Tanzania, Uganda); many, however, remain at subsistence levels (Afghanistan, Chad, the Sudan, etc.) and one practices monoculture (the Gambia). Some have abundant but little-exploited mineral resources (Botswana, Guinea); others have few known mineral resources (Burundi, Chad, Lesotho, Niger). Yet all present the characteristics of extreme under-development especially the negligible development of industry.

2/ These countries are:

Africa: 1. Botswana; 2. Burundi; 3. Chad; 4. Lesotho; 5. Malawi; 6. Mali; 7. Niger; 8. Rwanda; 9. Uganda and 10. Upper Volta. (Other less developed land-locked countries in Africa are the Central African Republic and Swaziland. Rhodesia and Zambia are land-locked but are at a relatively higher level of development). Asia: 11. Afghanistan; 12. Bhutan; 13. Laos; 14. Nepal; and 15. Sikkim. In Latin America, Bolivia and Paraguay, both relatively less developed, are land-locked countries.

(2) To what extent do psycho-sociological and other "non-economic" factors explain the persistence of extreme underdevelopment in certain countries?

In the papers of Mr. Turner, Mr. Singer, Mr. Orboski and Mr. Voeth, as well as in several of Prof. Myrdal's books, ^{3/} emphasis is put on such factors as adherence to traditional patterns, outlooks, motivations and valuations, which affect the "quality of the factors of production" and the "efficiency of production", as well as the effectiveness of government. (It is possible, at the same time, that some psycho-sociological factors in these countries might, if properly channelled, facilitate the undertaking of certain measures of development. See for example, the issue of co-operatives under 4.3.2, below).

There is some evidence to indicate that the creation of government departments and of various institutions, the spread of education, the improvement of health and other progressive measures do not always result in a change in outlooks and motivations such as a greater propensity to taking entrepreneurial and other risks, an acceptance of new ways, a desire to achieve, and an improvement in productivity on a scale sufficient to influence development decisively. Nor have they always improved political climates and the effectiveness of governments. Is it that such progressive measures have not been taken on a sufficient scale and over a sufficiently long period of time?

Documents

- Official Records of the Economic and Social Council, Fifty-first Session, Report on the Seventh Session of the Committee for Development Planning, E/4990
- Forms and Causes of Extreme Under-development, by Hans H. Singer (ID/WG.109/2)
- Industrialization in Countries at the Earliest Stages of Development, by Frank L. Turner (ID/WG.109/3), chapters 1 and 2
- Problems of Industrialization in Swaziland, by John A.E. Orboski (ID/WG.109/5)
- Problems of Industrialization in Dominica, by W.G.K. Voeth (ID/WG.109/6)

3.2 Strategies and policies

3.2.1 The role of industrialization in the economic development of countries at early stages of development

1. In countries where the economy as a whole is under-developed, the problem of allocation of relative priorities, or more exactly of determination of respective targets among the competing needs of agriculture, industry, handicrafts, infrastructure, health, education, housing and so on, is of considerable difficulty. Since the needs in each of these fields are equally urgent and since each field is mutually related to the others (Prof. Myrdal's "circular causation"), it is generally accepted that, whenever possible, development should be simultaneously pursued in all or most of these areas, the determination of the respective shares being one of the central tasks of economic planning.

^{3/} Especially Economic Theory and Underdeveloped Regions (Duckworth, London, 1957) and Asian Drama (New York, 1968)

This problem is of much broader scope than the subject before the Expert Group and is not proposed for discussion in its entirety. It is suggested that the discussion be focused on the relative priority to be given to industrialization as against the other main development objectives, in particular agriculture, infrastructure and power, and education. The issue is whether, in the different types of least developed countries, industry, including small-scale industry, should be developed at all, or from the outset, or at some further stage of development; in what forms (large-scale and/or small-scale) and on the basis of which criteria; and to what extent, especially as compared to other development objectives. The following passage from Prof. Myrdal's book is relevant to part of this issue:

"The advice - and assistance - which the poorer countries receive from the richer is, even nowadays, often directed towards increasing their production of primary goods for export. The advice is certainly given in good faith, and it may even be rational from the short-term point of view of one underdeveloped country seen in isolation. In a broader perspective and from a long-term point of view, what would be rational is above all to increase productivity, incomes and living standards in the larger agricultural subsistence sectors, so as to raise the supply price of labour, and in manufacturing industry. This would engender economic development and raise incomes." (.52)

2. Several of the authors of papers submitted to the Expert Group have taken position on the question of priorities in development in the countries under consideration.

Mr. Turner (ID/WG.10)/3) points out that, in early development programmes, the predominant emphasis was placed on agriculture, transportation, social capital and electric power. Comparatively little stress was placed on industry. Later, emphasis in investment shifted to industry, and Mr. Turner feels that when a country is ready (that is, when it can answer in the affirmative the questions listed in paragraph 2 below), at least in the economically important regions of the country, such policy is right. Restraints, however, are imposed by the necessity of continuing and slowly expanding programmes in agriculture, transportation and communications, electric power, education and health, government services and public works; and by the need to start industrialization on a modest scale and to limit industrial development to levels of investment that can be absorbed.

According to Mr. Spiro (ID/WG.10)/EP.1) the priorities should be: "First, agricultural development, second the introduction of small- and medium-scale agro-processing industries, together with the necessary commercial channels for inputs and outputs. Third, education, not at a philosophical level, but at a down-to-earth, technical one". (The latter point is also made by Mr. Singer (ID/WG. 10)/2), Mr. A. Neilson (ID/WG.10)/4) and Mr. J. Orloski (ID/WG.10)/5). Mr. Spiro feels that too much emphasis is usually placed on infrastructure and transportation. The implication is that infrastructure development should be dovetailed with agricultural and industrial programmes, not in excess of these.

Mr. A. Neilson (ID/WG.100/4) also feels that "the prime objective of the attack, in all developing countries, should be to increase the income in the agricultural sector. This applies equally to countries with a present surplus of food as to those with a deficit." A second priority task is the building up of infrastructure. Then industry may be developed on a selective basis. Health, housing and education, the latter "work-oriented", are the next priorities in the order indicated.

3. A number of conditions should be fulfilled to make industrialization possible. The following list of environmental factors, paraphrased by Mr. Turner from Mr. E. Staley's and Mr. R. Morse's book Modern Small Industry for Developing Countries (McGraw Hill, New York, 1965, p.322-324), is relevant to the issue:

- (i) Is there general confidence in the Government and its ability to enforce laws and to provide reasonable progress in education, health, transportation, agriculture and other services?
- (ii) Is there an expanding market for the products of industry?
- (iii) Is there a labour force sufficiently skilled or adaptable to meet the needs of industry?
- (iv) Are there natural resources or other raw materials available to meet the needs of industry?
- (v) Is there adequate power and water and are there sufficient banking, postal, wholesale and retail distribution services?
- (vi) Are the laws and regulations adequate to safeguard the fruits of labour and management skill?

Should all these conditions be fulfilled in the case of the least developed countries?

Documents:

- Industrialization in Countries at the Earliest Stages of Development, by Frank L. Turner (ID/WG.100/3), ch.3
- Development Strategy in Countries at Early Stages of Development, by A. Neilson (ID/WG.100/4)
- The Role of Small-scale Industry in a Strategy for the Development of the Least Developed Countries, by Benjamin P. Spiro (ID/WG.100/3P.1)

3.2.2 Strategy and policies for industrial development in these countries

In the countries under consideration, large-scale industries - if they offer good prospects - would probably be set up by foreigners, by the Government or by both (mixed economy companies). Small-scale and medium-sized industries would be largely set up by indigenous entrepreneurs.

Discussion is invited of the strategies and policies appropriate for the promotion of industrialization in all forms. The following issues, among others, might be reviewed

1. A high proportion of the few industries existing in these countries are usually owned and operated by foreigners and expatriates. In many countries, the need for continued reliance on foreign investment in industry is recognized. What incentives and guarantees should be provided to stimulate it? What measures should be adopted to ensure that foreign and expatriate industries correspond to the needs of the country?

2. Most of these countries have a very narrow domestic market and hardly produce any manufactures for export. They are often advised to begin an industrialization programme through import substitution. Is import substitution a sound policy of industrialization in these countries?

3. What is the scope, in countries poorly endowed in natural resources, for setting up industries based on imported raw materials and oriented principally towards export?

4. Should industrial development in these countries be mainly concentrated, in the foreseeable future, in the main urban areas, where the external economies are present, industrialization in the provinces and rural areas proceeding very slowly or being even deferred to a much later date?

5. If some rural industrialization is to be undertaken, would this be in the form of agro-industries? Can rural industrialization contribute, among other things, to checking urban drift?

6. If no priority is given to rural industries, should efforts in rural areas concentrate on upgrading of agriculture, irrigation, electrification, and community development schemes?

7. More generally, should industries, irrespective of location, be mainly concentrated on transformation of agricultural raw materials and production of goods (e.g. implements) used in agriculture?

8. Is there any scope for industries engaged in semi-processing of mineral resources, in countries where these exist?

9. Even in countries having a very small domestic market, the public sector (government services, army, police, schools, hospitals, public transportation, etc.) is an important purchaser of a wide variety of goods. Is it a sound policy to orient a large part of industry, especially small-scale industry, towards productions catering to the public institutional market (a competitive bidding and a preferential purchase scheme for small industries being a corollary of this system)?

10. Should infant industries be protected by high import duties or restrictions in these countries? If so, under what conditions?

11. Would tax and tariff incentives be of any use in promoting industry, and in particular small-scale industry, in these countries?

12. In most of the countries at early stages of development, there is a traditional manufacturing sector - artisans, handicraft undertakings and cottage industries - part of which is obsolete and not capable or not worthy of modernization, part of which has a role to play in a modernizing economy (see paper by P. C. Alexander (ID/WG.10)/7). What is the future of the traditional sector in the economies under consideration? To what extent can it survive, modernize or be transformed into modern small industry, in the same or in different lines of business?

Documents

- Industrialization in Countries at the Earliest Stages of Development by Frank L. Turner (ID/WG.10)/3), ch.4
- Some Problems in the Modernization of Traditional Industries in Developing Countries, by P. C. Alexander (ID/WG.10)/7)

Item 4. Promotion of small-scale enterprises in the least developed countries.

1. The role of small-scale industry in the industrialization of developing countries in general is well known: small-scale industry is an effective means of inducing the participation of the indigenous population in an important area of economic development; it may strengthen and diversify the industrial structure; it may cater to narrow markets; it makes it possible to use local raw materials or by-products; it may mobilize small savings; it may contribute to the decentralisation of industry.

Small-scale industry would play the same role in the least developed countries, but the measures to promote and assist it may need to be different from those applied in relatively more advanced countries.

2. In addition to small-scale industries, small enterprises engaged in artisan and handicraft activities, in trade and in services play or should play an important role in the economy of the countries under consideration.

3. The upgrading of artisan and handicraft undertakings is the responsibility of ILO. In view of the broad scope of the subject before the Expert Group, it is felt, however, that the question of artisans cannot be ignored by it and a few relevant issues are proposed for discussion.

4. As regards trade and service undertakings, their establishment and the upgrading of their activities is perhaps the most neglected area in both the development programmes of governments and assistance programmes of international organizations. None of the latter has a clear-cut jurisdiction in this area. A brief discussion of measures for the promotion of this sector in the light of conditions prevailing in the least developed countries is desirable.

5. Since the main theme of the Expert Group Meeting is industry and especially small-scale industry, it is suggested that the discussion of Item 4 proceed as follows:

Sub-items 4.1 "Institutional framework" and 4.2 "Promotion of entrepreneurship" would be discussed only as far as small-scale industry is concerned.

Under sub-item 4.3 "Measures for the development of small-scale enterprises", the discussion would be concerned, respectively, with small-scale industry (4.3.1), traditional artisan and handicraft activities (4.3.2) and service industries and trade activities (4.3.3). The question of technical co-operation for artisans on the one hand and trade and services on the other would be discussed under 4.3.2 and 4.3.3. The question of technical co-operation for small-scale industry would be discussed under sub-item 5.2.

4.1 Institutional framework

1. Although small-scale industries have been set up in some developing countries where no promotional and assistance institutions exist, substantial progress can usually be achieved only in countries having established some machinery to that effect. In certain countries, a number of promotion institutions (small industry service institutes, industrial extension centres, small industry departments of development corporations or development banks, etc.) have been set up, in most cases by the Government. There are also some educational institutions providing vocational and technical training, research centres and special financing organizations. In some other countries the promotional machinery consists only of one government-sponsored organization extending both financing and technical and managerial assistance, or of one industrial extension centre, financing being provided by public and/or private banks. Only in a few of the least developed countries has any start been made to set up the necessary institutions.

2. In the conditions prevailing in the least developed countries, it is likely that only a very small number of institutions would be possible and desirable. Participants are invited to discuss the types of institutions - promotional, financing and educational - suitable for small industry development in the countries under consideration and, in particular, the following issues:

(i) Promotion and financing institutions. Should extension services and financial assistance be provided by a single agency or by separate institutions in the countries under consideration?

Attention is drawn, in this connexion, to conflicting views in two papers submitted to the Meeting: Mr. Spiro (ID/WG.10/GP.1) advocated the establishment of one public development institute providing both financing and industrial extension services. He feels that, in these countries, very few institutions should be set up, that there are not enough manpower resources or even need for the respective services to justify separate agencies and that extension services would anyway be mostly provided to borrowers.

Mr. Neilson (ID/WG.10/4) also thinks that as few separate organizations as possible should be set up, but feels that financing should be institutionally separated from other forms of assistance, though there should be close co-operation between the two. His main reason is that promotion organizations are called upon to exercise a variety of functions which cannot be

carried out by banks. Moreover, objectivity cannot be maintained if financing and promotion are undertaken by the same institution.

(ii) Technical education. How can the education imparted by vocational training centres and other technical schools be geared to the actual needs of the existing and immediately foreseeable industries, both qualitatively and quantitatively? What role is to be played by apprenticeship schemes and how should they be organized? How can upgrading of skills and training in new skills be given to managers and foremen of small-scale industries, who are often illiterate and can hardly leave their factory? The conventional methods may not be appropriate in the case of the least developed countries.

Documents.

- The role of Small-scale Industry in a Strategy for the Development of Backward Countries, by Benjamin P. Spiro (ID/WG.102/BP.1)
- Development Strategy in Countries at Early Stages of Development, by A. Neilson (ID/WG.102/4).

4.2 Promotion of entrepreneurship.

The creation, in countries at early stages of development, of the first modern indigenous industries is an exceedingly difficult task. For a number of reasons - lack of industrial tradition, lack of knowledge of technique and management, shortage of financial resources, etc., the number of prospective indigenous entrepreneurs is extremely limited. Even where extension centres are set up, their action for the stimulation of entrepreneurship remains largely ineffective: this is usually due to their recent establishment, their inadequate proficiency, their insufficient co-operation with financial institutions (which are traditionally reluctant to extend credit to small entrepreneurs).

While, in the long run, the extension centres, jointly with financial and training institutions, should be expected to identify prospective industrial entrepreneurs and to help them until they are able to help themselves, special measures to accelerate this process may be required. Participants are invited to discuss the following issues, among others:

1. What are the likely sources of industrial entrepreneurs in the least developed countries: artisans, workers and foremen from existing industrial undertakings, graduate students, tradesmen, ex-civil service and army personnel, or, more generally, different types of persons having accumulated some savings?
2. To facilitate the most difficult initial period, should the Government set up itself the first small industries and turn them over as soon as possible to private ownership and management?
3. Should the Government set up joint ventures with indigenous entrepreneurs and have its share bought out as soon as possible by the latter?

4. In a paper entitled "Partnerships", which is submitted to the Expert Group, the secretariat of UNIDO proposes to undertake a new scheme aimed at associating foreign industrialists and institutions from industrial countries to indigenous entrepreneurs - in African countries to begin with - in a variety of projects ranging from sale of machinery at liberal conditions (with or without services of technicians) to joint ventures with equity participation and co-management. The Expert Group is invited to express its views on this proposal and its applicability in the least developed countries.

5. Would demonstration plants be of use in stimulating entrepreneurship in these countries? Such plants, which might be obtained from donor countries through voluntary contributions, would consist of either specialized machines and/or interrelated general-purpose machines with which certain types of production could be undertaken. These types of production would first be ascertained by feasibility studies. In cases when several enterprises of the same type can be set up, demonstration would be expected to facilitate the emergence of new entrepreneurs. The demonstration machinery would be turned over to one of them and orders for other sets of machinery would be expected from other new entrepreneurs.

Document

- Partnerships - A Note on Co-operation Between Developed and Developing Countries in the Field of Small-scale and Medium-sized Industry in African Countries, by UNIDO

4.3 Measures for the development of small-scale enterprises

4.3.1 Small-scale industry

In the developing countries, programmes of development of small-scale industries usually consist of three main components: (i) provision of extension services (promotion of new entrepreneurship, feasibility and pre-investment studies, and assistance and training to existing enterprises in technique, management and marketing) (ii) financial assistance at liberal conditions, especially supervised credit schemes linking technical assistance to financial assistance, and credit guarantees; and (iii) industrial estates offering standard factory buildings and, in many cases, common service facilities.

It is likely that all these basic measures will also be needed in the least developed countries, but their form may have to differ from that prevailing in countries at higher levels of development. Participants are invited to discuss the forms which the measures for small industry development may need to take in the least developed countries. Some of the relevant issues are listed below.

1. Industrial extension services

(i) Feasibility and pre-investment studies

One of the first steps in any programme of industrialization is to determine the kinds of industries to be set up. General feasibility studies

resulting in lists of industries suitable in given locations are necessary for providing a rational orientation to prospective entrepreneurs, for planning industrial estates, for adapting vocational training programmes to actual needs etc. Detailed pre-investment studies, describing requirements in plant, equipment, labour, raw materials, working capital, as well as processes, markets and so on are needed to enable entrepreneurs to obtain financing and to set up their factories.

It is not proposed that the Expert Group discuss the kinds of industries suitable for the least developed countries, since this is a matter for consideration in each individual country.

Discussion is invited of the criteria for the selection of industries. The earlier discussion of the main orientations of industrial development programmes - import substitution, use of domestic raw materials, production for the public market, production for export, agro-industries etc. - will already have provided some guidance in this respect. Additional issues are:

In view of the extreme capital scarcity and abundance of labour in the least developed countries, should priority be given to the establishment of industries that provide high employment for comparatively low investments in machinery and fixed installations? This would mean seeking out industries and choosing processes that do not require the most modern machines (e.g. agro-industries, leather, wood-based industries).

Should the establishment of small mechanized highly-productive units requiring easily acquired operating skills be also encouraged? Is there any scope in the countries under consideration for domestic or international subcontracting, even on a rudimentary scale?

In the countries under consideration, should industries be set up with a size appreciably smaller than in developing countries at a higher level of development? Such industries would begin with one or two machines and gradually expand their equipment as funds for re-investment become available and increase their employment.

(ii) Assistance in technique, management and marketing

It is likely that, in the least developed countries, assistance will require closer and longer co-operation between extension officers and entrepreneurs and their employees than in relatively more advanced countries. What methods would be particularly effective to provide such assistance (itinerant teams for factory visits, training at the extension centre and in the factory, seconding of extension officers to assist managers, seminars, common service facilities, achievement motivation techniques, marketing clinics etc.)

2. Financial assistance

Leaving aside the organizational aspects discussed earlier (4.1), the discussion might be focused on the following aspects:

- (i) Should security requirements be drastically relaxed especially in the case of small loans?
- (ii) Can a simplified hire-purchase system be applied in the countries under consideration?
- (iii) Is there any scope for leasing of machinery and factory buildings?
- (iv) Would a credit guarantee system be effective in stimulating commercial bank financing of small-scale industry?
- (v) Should consideration be given to a system of temporary equity participation in the capital of small-scale industries? This system might be operated by a special fund having resources provided by the Government and by banks.

3. Industrial estates

Should the least developed countries resort to the costly device of the industrial estate with standard factories or sheds built in advance of demand? If so, what forms would be appropriate for such estates (small number and small size of standard factories, limited common services etc.)? Should they be established in the main urban centres or even (as is being done in Swaziland, Tanzania and Zambia) in certain rural areas? If not, should factory buildings be provided on common sites against a known demand only?

What role can be played by industrial areas offering only improved plots?

4.3.2 Traditional artisan and handicraft activities

In his paper on "Some Problems in the Modernization of Traditional Industries in Developing Countries (ID/WG.10/7)", Mr. P. C. Alexander describes measures of modernization of traditional manufacturing activities having a role to play in an industrializing economy. He points out that techniques of modernization can be adopted even though the activities basically remain of a traditional character. Traditional artisans may use improved tools, implements and dies, facilities for maintenance and repair, certain types of common service facilities, co-operative supply of raw materials and co-operative marketing of finished products, quality control methods, better design and modern marketing techniques. The following questions might be discussed in this connexion:

- (i) Should a special promotion and assistance organization, distinct from that for modern small-scale industry, be set up for the artisan sector?
- (ii) Several of the measures mentioned above can best be carried out through co-operative associations. What is the scope for their establishment in the countries under consideration? Is it likely that, in countries where people do not evince strong individualistic traits but, on the contrary, gregarious qualities, and are used to collective leadership, undivided crown or tribal property etc. co-operatives, including production co-operatives, have more chances of success than elsewhere?
- (iii) Is there any point for setting up mini-estates (workshops) for artisans in these countries?

Documents:

- Some Problems in the Modernization of Traditional Industries in Developing Countries, by P. C. Alexander (ID/WG.10/7).

4.3.3 Service industries and trade activities

In most of the least developed countries, commercial establishments are owned and operated by expatriates. This tends to favour the marketing of imported products rather than of items produced by the local industry. Can industry, including small-scale industry, be developed if commerce is not upgraded and developed at the same time?

How can the indigenous population take its part in wholesale and retail trade?

What institutions are needed to improve skills in marketing and merchandizing? What role can be played by trade organizations and private trading houses? What scope is there for technical co-operation in these areas?

Item 5. International co-operation for the promotion of industry in countries at early stages of development

5.1 International and regional co-operation

Participants are invited to discuss the role of regional and sub-regional groups (e.g. Conseil de l'Entente, OCAM, RCD, Andean Corporation etc.) or institutions (e.g. regional development banks, subregional centres for the training of extension officers, etc.) in the promotion of industry in the countries under consideration.

The following recommendations of the United Nations Committee for Development Planning (E/4090), though of much broader scope, may be read in the context of the promotion of industry in the least developed countries:

"Since most of the least developed countries cannot support adequate training facilities, other developing countries should facilitate the training effort of these countries by opening up their own facilities to them or by co-operating with them in the joint establishment of regional institutions and the sharing of experience on common problems".

"As a rule, financial aid to these countries /by international or regional financial institutions/ should systematically be given on soft terms, preferably by grants, or at least with a grant element of 80 per cent".

"Developed countries should also assist the promotion of the least developed countries' trade by supporting the establishment of regional institutions for improving the capacity of these countries to benefit substantially from regional co-operation. Improving the capacity of the least developed partners implies the adoption and implementation of concrete measures for an equitable location of regional or multinational industries in these countries. This will be especially important with respect to measures to counteract the polarization tendencies of such arrangements which work to the disadvantage of the least developed partners.

"A regional approach to development should not be limited to trade co-operation. Institutions which might otherwise have been beyond the

capacity of one small country could be shared to mutual advantage. The least developed countries and other developing countries should take decisive steps to establish joint institutions for specific problem areas.

"Multinational projects for agricultural research among countries located in the same ecological zone, technological and training institutes, tourist, industrial and investments promotional facilities, and information collecting and dissemination centres, are cases in point. Multilateral and bilateral donors should adopt a more systematic way of facilitating regional groupings. The existing regional institutions should be supported with financial and technical assistance to allow them to contribute effectively to the regional effort".

Information on measures in favour of the least developed among the developing countries, relating to the generalized system of preferences as envisaged by the Special Committee of the United Nations Conference on Trade and Development (UNCTAD), which are or might be taken, within their field of competence, by the specialized agencies and other intergovernmental organizations, is contained in an UNCTAD report, which is submitted, for information, to the Expert Group.

Documents:

- Official Records of the Economic and Social Council, Fifty-first Session, Report on the Seventh Session of the Committee for Development Planning, E/4990.
- Special Measures in Favour of the Least Developed Among the Developing Countries, UNCTAD, TD/B/372 and Add.1.

5.2 Technical co-operation

The capacity of the least developed countries to absorb technical help is much more severely limited than that of relatively more advanced countries. The lack of "institutional infrastructure", the extreme shortage of trained personnel, in particular of suitable counterparts for foreign experts, the shortage of financial resources to implement the recommendations of the experts, the vagueness of government policies, the difficulties of ascertaining needs raise drastic limits to the capacity of these countries to make effective use of technical co-operation in the two main forms in which it is provided today to most developing countries, i.e. advisory expert services and fellowships for training overseas.

Some modified or new forms of technical co-operation might thus be needed in the least developed countries. Experts are likely to work there without counterparts and to serve in fact in executive capacities. It may be felt that the provision of experts working in such conditions should not be encouraged: indeed, both because of their advisory status and of the relatively short period of their assignments, the services of experts working as executive would be of limited value to the Government and their functions would not be taken over by trained counterparts after their departure. A long-term OPAS-type assistance would thus often seem to be more useful than technical counselling, when technical co-operation is to be extended to government departments or agencies. The OPAS system, however, in its present form, presents

several drawbacks, especially because competent people are not attracted by a system which does not offer them all the benefits given to United Nations experts. Some modifications to the system might thus be called for.

Another need would appear to be for technical assistance to be more closely associated to financial schemes for the establishment or modernization of industries in the countries under review. Expert services of economists and engineers might be provided to credit institutions in these countries for both industrial pre-investment studies and construction and operation of industrial facilities. Special training programmes might be organized for both bank officials and extension officers. For certain projects, joint missions might be undertaken by UNIDO experts and experts from the IDRD group of organizations, especially the International Development Association (IDA), or other international or regional financial organizations.

In the least developed countries, technical co-operation may need to be provided not only to government departments and agencies, but to fledgling industries as well. In the UNIDO paper on "Partnerships" (paras.17 and 20), a suggestion is made to use the OPIS system (suitably modified) for providing not only civil servants but also executive personnel for industry. The "partnerships" scheme itself, which is aimed at promoting co-operation between industries and institutions in the industrial countries and enterprises in the least developed countries, would also be relevant in this context.

Finally, there may be some possibilities of mastering the co-operation of professional associations (chambers of commerce and industry, industrial federations, etc.) where they exist, of established expatriate industries, and of promoting self-help action among small industrialists. This would be worth investigating.

Discussion of the above issues is invited.

Documents:

- Problems of Technical Co-operation in the Least Developed Countries, by UNIDO (ID/WG.109/9)
- Technical Assistance for the Promotion of Small Enterprises in Countries at Early Stages of Development, by Leonard W. Reed (ID/WG.109/8)
- Partnerships - A Note on Co-operation Between Developed and Developing Countries in the Field of Small-scale and Medium-sized Industry in African Countries, by UNIDO (ID/WG.109/BP.2)

5.3 Follow-up of the Meeting

The Experts are invited to discuss further action to be undertaken by UNIDO to give effect to the conclusions and recommendations of the Expert Group.

Item 6. Adoption of the general conclusions of the Meeting.

Item 7. Concluding addresses





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