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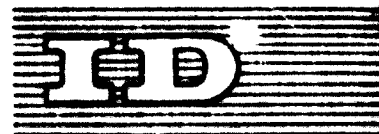
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**THE ROLE OF SMALL-SCALE INDUSTRY IN A STRATEGY FOR THE  
DEVELOPMENT OF THE LEAST DEVELOPED COUNTRIES ✓**

by

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## Introduction

Extreme under-development can be the result of a state of mind, a political situation, natural conditions or a combination of all these factors. It is evident that the underlying cause or causes of this state of affairs will deeply affect whatever strategy can be considered to bring forth development to the areas under consideration. It is also evident that, at this stage, thoughts about the problem will be tinted by the experience acquired by each individual who has been concerned with one or more countries or areas in this category. It will be the purpose of this paper to present our experience in a few countries within our own perspective which, at this time, cannot encompass all aspects of the socio-economic complex to be included under the heading of "development".

In these circumstances, it is clear that the examples which follow cannot and should not be used as models for other situations. Nevertheless, each one can contribute in some way to the preparation of formulae which in their turn will make it possible to frame strategies for development.

The countries selected as examples include Bolivia, seen from a very broad angle and Zambia, within a somewhat narrower angle.<sup>1/</sup>

The institutions which sponsored our activities in these countries during the sixties have been many, each with a particular objective or strategy in mind, but all with one purpose, that of giving impetus to incipient development.

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<sup>1/</sup> The complete paper contains four other case studies on Haiti, Paraguay, Nicaragua and Brazilian Amazonia, which are not reproduced here  
Editor's Note.

Case Study: Bolivia

Within the context of least developed countries, Bolivia holds a very special niche. It is a country with a rich historical past. Its pre-Inca and Inca civilizations have left not only imposing monuments, but a philosophy of life which enabled the indigenous population to survive the cataclysm of the Spanish conquest and that, even worse, of the internal and foreign exploiters from independence to the revolution of the mid-twentieth century. Whereas the pre-Incas and the Incas did much to build the country for the people, the Spaniards and their successors left only big holes in the ground where once there was considerable mineral wealth. This ruthless exploitation of all resources, human and natural, left its imprint in the form of a nearly negative institutional structure, loaded with the responsibility for everything that was not successful and therefore could not be taken away. The revolution of twenty years ago meant an attempt to wipe off the past and re-create a Jean-Jacques Rousseau type situation from which could spring a new life for this badly exploited and eroded body.

As was to be expected, this attempt received the full opposition of most nations, including particularly the industrialised ones. The acceptance of the idea that economic independence is just as important as political independence is not, even today, fully accepted by all nations, and instead of support, Bolivia received brickbats or self-defeating assistance, designed more for the benefit of the donors than that of the recipient. The best example is that of the budgetary assistance provided in the form of surplus wheat by the US Government in the fifties. The result was that a country which used to be self-supporting in cereals must now import yearly the bulk of its consumption.

It was thus to a demoralised and suspicious country that we arrived eleven years ago, with instructions to find ways of reversing this trend and show the confidence of the international community, particularly the inter-American one, in the will of Bolivia to move forward.

The first step in our investigation was to determine the validity of existing institutions, their capacity to identify properly existing problems and recommend solutions, and ability to carry out remedial action.

Today, with the era of free enterprise buccaneering behind us, the problem of institutions appears in the forefront of economic development, particularly in the least developed areas. The question of exploitation or development is not yet one of the past, as was the case in Bolivia with the mineral resources of Potosi and of the tin ore bodies. It arises in Libya with petroleum; it arises also in West Irian with copper; it arises periodically in Amazonia, beginning with rubber and going on, on a boom and bust basis.

It is clear therefore that where institutions do not yet exist, they have to be established to assess existing resources and plan their utilisation in such a way that they can provide development on a long-term basis.

In Bolivia, the institutions created in the forties, particularly the Bolivian Development Corporation (BDC) offered an unexpectedly favourable picture within the context of a country suffering from a stagnating economy, high un- and under-employment with consequent social unrest. The very economic structure of the country, a mixture of advanced infrastructure and generally primitive primary sectors, particularly in the higher reaches of the land, posed the problem of finding a mid-course which could not only break the vicious circle of low productivity and inadequate budgetary resources, but also permit sufficient foreign exchange earnings and savings to pay for the importation of goods and services required for a take-off of development.

In such circumstances, only a broad front approach could have the necessary impact to get the country moving again. The inventory of high priority sectors and projects led us to recommend action in the primary sectors - agriculture, including small-scale irrigation and drainage - livestock raising, mining, industrial development, especially of plants to process agricultural production, and in power development to provide the main centres of population with the energy required.

Much of the secondary production would be exportable or help reduce imports, with a marked impact on the balance of payments.

The action suggested was to be realized through credits extended by the BDC, with a considerable amount of technical assistance to the borrowers as the result of appropriate project studies and evaluations. However, the first stage of technical assistance was to the BDC itself, to help it set-up a section of studies and preparation of projects within its Division of Economy and Finance. Ideally, it was sought to establish a sponsor relationship between a specialised firm of consultants abroad and the BDC, to provide the framework for the training of Bolivian technical experts, and initiating immediately with their help the feasibility studies of the various projects. This recommendation was not implemented for political reasons and the progress of the project was set back in consequence.

It is not the purpose of this paper to review the entire development effort of Bolivia, nor of all actions taken to implement the development programme. The remarks which precede have been made solely for the purpose of bringing out the facts that:

- the processing of raw materials, agricultural and mineral, into semi-finished or finished products, or into ore concentrates, is a very important element in the process of development. Not only does it create employment and local value added, but it can have a major effect on the balance of payments.
- it is an anachronism to see the least developed countries import food when they have the potential to feed themselves. Exchange savings can be employed to pay for the machinery and equipment required to process the agricultural production, as well as for those manufactured goods which cannot be produced locally.
- the processing of primary products does not necessarily require large-scale investments or large-scale enterprises.
- a certain degree of infrastructure is required, but this does not imply that atomic reactors or superhighways are "musts" from the word go.
- as far as social amenities are concerned, they should follow in that order: education, housing and health.



Before closing these remarks on Bolivia, a few figures may help situate better the problems as they existed eleven years ago. The gross national product per capita was \$ 72. Exports per capita were \$ 23, while imports per capita were \$ 27. Seventy-five per cent of the value of exports was accounted for by mineral exports. On the import side, thirty-seven per cent were spent for capital goods, thirty-three per cent for consumers' goods and thirty per cent for raw materials and intermediate products.

Case Study: Zambia

Within the scope of least developed countries, Zambia is an in-and-out member. On the one hand it is highly privileged with its Copper Belt which was developed by foreigners for foreigners, and on the other hand, it has to pay the price of having been, so to speak, the larder of a federation set-up by foreigners for foreigners. It is difficult to understand how, only 20 years ago, the hoax of the Federation of Rhodesia and Nyassaland could have been accepted. It is frightening to realize that even the World Bank accepted the Kariba scheme with the powerhouse on the South shore of the Zambesi instead of the Kafue project, cheaper and better suited to the conditions of the region. Zambia is paying the price of this policy, and will go on paying it for quite some time to come. However, as it got away with the Copperbelt that no amount of gerrymandering could succeed in placing within Southern Rhodesia, it is now considered as being a favoured nation.

In a limited sense, Zambia and Bolivia can be considered in a similar context: they both depend heavily on mineral exports to pay for what they need. In that sense they are favoured since they can import what they need to gain a measure of development. But the needs are so extreme that Zambia, just as Bolivia, or Libya for that matter, will remain in fact in the least-developed group for some time to come.

We were invited to go to what was still Northern Rhodesia, six months before independence was achieved. Our task was to try to get some order in the maze of credit organizations (26 of them) which had been set-up during the colonial era, often for the sole benefit of white colonists, and develop a comprehensive rural credit organization which would provide credit to African farmers, fishermen and businessmen in commercial enterprises undertaken by them. The organization was to be concerned predominantly with agricultural credit.

A broad framework for development had already been established by a UN/ECA/FAO mission, its confidential report had just been released for selective local use. The question was to incorporate any new programme

within this framework. At the stage of development of Zambia, it was evident that rural credit could not be taken out of the context of the general credit needs of the country. Therefore a general plan was drawn to include small- and medium-scale credit, leaving the large-scale project credit to the Industrial Development Corporation, yet using to the greatest extent possible its and the Land Bank's administrative structure to make up for the great shortage of trained and even educated manpower in the country.

Within the scope of the plan, agricultural credit had first priority, for the simple reason that outside of the Copper Belt, the notion of small-scale industrial enterprise did not even exist. Even trade was largely in the hand of Indians who did not invest their profits in the country. Almost without exception, these traders considered themselves as temporary residents, anxious to return to India once their fortune accumulated. Thus, the usual stepping stone from trade to production was largely missing and had to be provided for by other means, namely by the promotion of trade among Africans, and the organisation of associations or co-operatives of agriculturalists to set up small processing plants, as simple as tobacco curing plants.

The Zambia Institute for Development Credit (ZIDEC) was established by ordinance. It was supposed to become the main development agency of the Government, including lending to large-scale agricultural, industrial and mining enterprises - very loosely defined as enterprises requiring more than £ 250 - and to small-scale enterprises involving agriculture, co-operatives, housing, industry, marketing and mining. Its aim was to assist development by providing technical supervision to the borrowers through the rural extension service in the case of agricultural credits, and with the help of technicians in the case of industrial credits.

A network of regional offices was set-up to serve not only as disbursing and collection offices, but as promotion centres, to try to provide development incentives in all corners of the country and not only in some more favoured sections.

Even though the ZIDEC project was approved by parliament already semi-autonomous, it was never fully implemented after independence. More than hindsight would be necessary to judge whether the measures which were actually taken during the past six years were more effective in bringing forth a measure of development to the country, than those which had been proposed under the ZIDEC concept. The difficulties which arose with Zambia's Southern neighbours may have forced a different order of priorities in the development of the country, at any cost. The re-orienting of the country's economic life away from what had been the federation towards Tanzania in particular, may also have affected the ultimate choice of priorities and measures. It is thus somewhat academical to say that, in the circumstances which prevailed in 1964, rural development followed by small industry production of import substitution goods for a very primitive market, offered the most promising prospects of bringing Zambia forward from the stage of extreme under-development in which most areas of the country were finding themselves, even though the country as a whole was provided with an infrastructure - transportation and power - designed for an expatriate population. That education should have received a very high priority to overcome the huge void left by the colonial power is evident, but it was necessary to first provide for the wellbeing of the population and that could be achieved only by promoting first agricultural development with its concomitant industrial progress. At the very primitive stage in which most of the rural population still found itself, handicrafts were almost non-existent, except for folkloric items for tourism and some exports, and therefore it was necessary to contemplate immediately a stage of industrial production to meet the needs - limited as they were - of the population in replacement of imports.

Development Strategy

The case studies which precede provide a certain background for the elaboration of conclusions on various aspects of the problem of extreme under-development and on a strategy to overcome it.

Without reverting to the causes of extreme under-development, it may be well to re-examine some of the characteristics of countries or regions which, by historical or natural accident, have remained at that stage of development.

The first characteristic is that these countries generally have for sole activity the production of food at a primitive level, and the production or extraction of some exotic products for export, often in a very crude form.

If there are major known natural resources, mineral in general, they are exploited by outsiders, for their own benefit, with little, if anything left in the country. An interesting case in point is that of West Irian, where a foreign company is scheduling to exhaust a very major copper ore deposit in such a short time that it won't have to pay any taxes to the Indonesian Government, or at least a bare minimum only, before moving out, leaving a hole in the ground and nothing else. The facilities to be established for the mining and exporting of the ore are of such a nature that little will be usable for other purposes.

Another characteristic is that, except for the most primitive tribes which have not yet learned how to use or modify anything, people do not waste anything. Everything is reused almost immediately, sometimes in very ingenious and artistic ways. This means that while education may still be very limited, there are skills beyond the bow and arrow stage, to adapt to new circumstances. Anyone who had the opportunity of visiting Peru and the higher reaches of Ecuador and Colombia will have wondered at the old vintage automobiles doing a land office business carrying, at age forty or more, twice or three times as many passengers as the designers ever intended them to carry. This means that there must be skilled mechanics, machinists and part manufacturers-cum-tinckers, working in the back streets and not recorded as such in any labour statistics.

It was our experience, while carrying out a survey of small-scale industry in selected countries of Latin America, to discover that official statistics ignored a great number of small-scale industries, precisely of this type. For many reasons, tax and social legislation being far from the least, these entrepreneurs find it convenient to be ignored.

We must repeat here that our purpose is not to cover all the aspects of the problem, but only a very few of them as seen from our own experience. We recognize, without attempting to analyze them, the fundamental question of feeble and often unstable governments, that of inadequate knowledge of the local natural resources, that of lack of education particularly at the higher echelons which makes it very difficult to implant foreign know-how often even at simple levels for lack of local counterparts - or of foreign experts - adequately prepared to the local conditions. But while these problems must be tackled in a comprehensive manner, they do not present insurmountable obstacles to finding solutions to the specific problems which are our concern, namely the introduction of better methods of agriculture, as well as for a diversification of production which should leave enough surplus for processing and export to pay for some of the means of improved processing, thereby initiating a spiral of progress which will leave at each turn a greater value added at the national level. Within this process, the introduction of industrial processes which can use the skills and ingenuity already present will mean much more than that of elaborate techniques requiring heavy investments in equipment and foreign know-how.

With this background, we feel that it is now possible to consider priorities within a strategy for development. 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, to complement the usually existing natural talents and curiosity. And to cap this package, establishment of an operational and pragmatical development institution, responsible for the implementation of this programme. It is worth commenting on the fact that there exists an interesting cause-and-effect relationship between agriculture and small-scale industry, the latter supporting agriculture with local

inputs and at the same time processing agricultural outputs for local consumption and exports.

It is on purpose that we have not mentioned infra-structure and transportation. We feel that often too much emphasis is placed on them, with the result that when they are established, there are neither energy nor resources left to make use of them. They turn out to be monuments to the ambitions of some who like the prestige of inaugurating big things, which fields of sprouting groundnuts are not, at least in their eyes.

Since the sense of this paper is directed towards small-scale industry development within the broad set of priorities outlined above, we shall not attempt here to discuss agricultural development, except in so far as it must be related to that of industries, particularly agro-industries. All too often, agricultural development is considered without taking into account the problems of scale of processing industries. Experience in many developing countries indicates that the famous slogan "economy of scale" often works in reverse; that the largest processing units are not only not necessarily the most economical, but that they present technical problems of such a nature that they become quickly counter-productive. Agricultural planning must take in consideration the need for several smaller units, strategically located to reduce transportation problems on the one hand - reducing the need for heavy investments in infra-structure - and suited for the kind of human skills locally available. Breakdowns in one unit will not mean an interruption of processing for the entire production, but only a reduction. And breakdowns do occur even in the most advanced countries, all the more so in the least developed ones, where a well intentioned but still relatively untrained workman may cause a shutdown, and where spare parts may be most difficult to obtain. Further, smaller units are likely to involve less sophisticated and automated equipment, thus permitting a speedier formation of the workforce and greater employment per unit of investment. If, furthermore, this investment is considered more in terms of benefit to the country than to that of the investors, production costs may well be lower and therefore more competitive than for a large-scale unit.

We mentioned the problem of spare parts. As in the case of the everlasting jitneys in Latin America, it may be possible to produce locally many parts for plants which may no longer be in common use in developed countries. Indian experience in this respect in the early fifties is quite indicative. It was the beginning of many small-scale machine shops where ingenuity went a long way to replace costly imported machines and went on to produce many implements better suited to local conditions.

There is another advantage to smaller processing units, that of the use of by-products which, elsewhere, may be discarded or destroyed. While the main product may be for export, by-products can often be further processed for local markets, thus creating additional enterprises, sources of income and employment.

In Latin America, it was possible, by and large, to define a small-scale industrial enterprise as one of local initiative, without attraction for foreign capital. In the least developed countries, this definition holds true, with the variation that local initiative must generally be understood as being public rather than private, as the back street tinkers or their equivalent may not have the means of expressing themselves beyond the level of handicrafts and perhaps cottage industries. In these conditions, it must be the role of the state to function as a stand-by for this latent but timid and often undetected initiative, until such time as the "could-be" entrepreneurs can be given the opportunity of taking over after adequate preparation.

This implies a number of steps. We must assume that there is an adequately structured government capable of formulating, probably with appropriate foreign assistance, a development programme, encompassing all aspects of development in proper relationship one to the other, including industry.

This programme must provide for a certain institutional infrastructure which can best take the form of a development institute or bank. There has been a great deal of to-do about the so-called "private" vs. public development banks for industry. At a time when it was thought that



only private enterprise could be efficient and successful, many industrial banks were created with private and semi-private foreign equity capital, often with huge leverage provided by what amounted to government subsidies. It is sad to have to recognise that these banks have promoted mainly the interests of the foreign owners, with but token attention to the problems of developing a real, balanced industrial structure for local interests. In many instances, these banks backed the exploiters of the type mentioned in West Irian. As a consequence, much damage has been done not only to the image, but to the morale of the local public development institutions which, with a minimum of support, have had to deal with the main and most difficult problems of down to earth development, particularly with those related to assisting an incipient entrepreneurship grow and mature to the point where it can play an important role on its own footing.

The many nationalisations of foreign banks which have taken place lately have dampened the enthusiasm of foreign banks in participating in these "private" development banks. In fact, fewer and fewer such banks have been created during the last decade, and it is only the IFC which maintains the fiction that they are private banks as a sort of dogma left over from the fifties. But the fallacy must be exploded once and for all, and all assistance possible given to the institutions which do all the real donkey's work. It is not a question of capitalism vs. socialism; it is only a very pragmatic question, that of recognising that development must be pyramidal, from the bottom up, and that the "trickle down" theory of some well-known republicans in the United States, has never worked. As foreign private enterprise has not been willing to take the initiative and to assume the risk inherent in promoting development on a broad base, it is the task of government to assume this function at least until such time as a new type of private enterprise can take over.

What must be the task of this public development institute? It is evident that within the context of a country at the stage of extreme under-development, this institution must perform many functions and that the degree of specialisation will be limited by both the needs and the resources. Programming functions can be carried out for all the sectors of production and even for the necessary infra-structure. Studies and

appraisals can also be handled at this level for all the productive aspects of the economy. This will make it possible to co-ordinate development efforts and to maintain a proper balance between the various sectors in function of the resources, human and financial, available. At the stage of realizations, a degree of specialization will have to be introduced. On the one side, there is agricultural credit which supports or is supported by an extension service best provided by an independent body, but not necessarily. On the other side, there are general banking services, but such services are likely to be at best limited in the type of country which we are considering. These services are necessary at an early stage so that financial habits such as savings can be introduced, small as they might be. Finally, there are industrial credit and industrial promotion, in whichever order one wishes to place them.

There is a big difference between agricultural and industrial credit. Even in the least developed areas, there is a modicum of agricultural production. The processes involved are fairly standard, and even the introduction of more efficient methods does not bring fundamental changes. In other words, agricultural development can be promoted from an existing base which everyone understands, as food must be produced.

Industry, on the other hand, is a new concept beyond that of simple processing at the cooking or handicraft level.

As an important element in the process which should permit a speeding up of the various steps involved in development, let us consider for a moment not so much the characteristics of the small-scale enterprise as what it needs in the form of assistance from the development bank. We assume here that there is an entrepreneur capable of absorbing assistance, which is not always the case.

First, the entrepreneur is concerned with problems relating to the administration of his enterprise, the establishment of a system of financial accounting and cost controls, as well as inventory controls; he is concerned with the problems of improving the technology of his enterprise, of a better system of sales as well as of procurement of the materials he needs, and in general with all the factors which affect his productivity.

Next he is concerned with financial problems; he needs financial assistance to purchase plant and equipment; he needs working capital to increase the utilization of his equipment; he needs short-term loans to purchase raw materials, generally agricultural; finally, he is concerned with his general financial position, all too often jeopardized by the fact that he must finance both his suppliers and his customers.

Last, he is concerned with ways of reinforcing his economic position in the market place. As a small producer, he has little weight with suppliers, and often must pay higher prices for materials of lesser quality than bigger producers pay for first-quality goods. Since his production is limited in quantity, he finds it difficult to meet competition. Therefore, he is concerned with the problems of forming trade associations or cooperatives for the purchase of raw materials and equipment, or for the sale of his production. At the same time, he is worried about the effect of joining others, for the very reason that he is an entrepreneur, independent and jealous of his very independence.

By his very nature, the small entrepreneur cannot clearly compartmentalise these problems; he has to handle them all at the same time and give them all the same degree of attention. For this reason, whatever assistance he can obtain must be at the same generalised level, and not of a highly specialised nature. The problem of the development institute is to find people who are in a position to provide this generalised type of assistance rather than highly qualified specialists. There is no question that specialists are also needed, but only after the generalist will have done his job and defined the area for which specialised knowledge is required. There is another aspect to this, the problem of understanding the problems of the small-scale entrepreneur, namely that he himself seldom is conscious of the complexity of his problems, and therefore fails to realise that assistance might be available. He is so engrossed by his preoccupation that he fails to see the woods for the trees.

It should therefore be one of the principal functions of the development institute to seek out the entrepreneur in his enterprise, to find out if he is in need of assistance, and of what kind of assistance. Carrying this type of work in many Latin American countries as part of training courses for generalists within development banks, we asked hundreds of entrepreneurs to tell us what their main problem was. In 95 per cent of the cases, the first answer was, financial. Yet, after an hour or so of discussion in the plant itself, it turned out that the main problem was not financial at all, but rather one of lack of controls, lack of knowledge of how to utilise a certain piece of equipment, plant layout, etc. But most interesting of all was the general reaction of these entrepreneurs to the fact that someone had come to talk with them, at their level, trying to understand their problems and offering assistance in solving them. The mere definition of the problem, the possibility of expressing it, was often enough to solving it. When further assistance was required, be it technical or financial, the development bank was in a position to decide if it could provide it from its own resources or suggest another source better qualified.

With this background, we can now define what the functions of the development institute must be in the context of small-scale industrial development.

First of all, it must be staffed with a limited number of generalists. Strangely enough, present education systems no longer prepare generalists; on the contrary, the specialist, and the more specialised the better, is the only one available. It is therefore necessary to somehow reverse the process and try to give the specialist an understanding of the problems of that generalist of all, the small-scale entrepreneur. There is already a certain body of experience in the techniques of training generalists. The Caja de Credito Agrario, Industrial y Minero of Colombia, the Banco do Brasil and the Banco de la Republica Oriental del Uruguay, all have organised courses for selected members of their staffs and for new staff recruited from the outside for the purpose, with a high degree of success. This staff was formed to act as extension agents, as advisers to provide a modicum of

technical assistance itself, and also as credit agents, capable of appraising the needs of the enterprises, recommend action to the bank, and supervise the utilization of the resources. The statistical time series on the effect of these actions are not yet comprehensive enough to be able to quantify them. It is possible to say, however, in a subjective way, that it has been profound.

Second, it is necessary to provide the institution with adequate resources to finance the cost of this technical assistance-cum-extension service, and to provide the credits required to implement the recommendations. At an early stage, technical assistance may have to be classified in the same category as rural extension, namely as a subsidy. At a later stage, it might be partially recovered from the beneficiaries, or included as part of the credit costs. It may be said, as it is for rural extension, that the effects of the industrial work will result in an increased level of economic activity in the country and that, consequently, it pays for itself indirectly.

Third, the development institute should be able to assume the role of entrepreneur when either the need for an enterprise is clearly proven and there is no one capable or willing to assume the responsibility to create it, or, when there is an entrepreneur in being which is not yet able to carry on on his own. In both cases, the development institute should seek to divest itself as soon as possible to unfreeze its resources, financial and human, for further development.

Finally the development institute should be in a position to advise the government regarding legislative action which should or should not be taken in support of small-scale industry. All too often, laws are enacted, copied from the codes of more advanced nations, which clearly discriminate against small-scale enterprises. For instance, with the best intentions in the world, Colombia passed minimum wage legislation, with a lower level for small- than for large-scale enterprises. The result is that small-scale industry subsidizes large-scale enterprises by training manpower which, as soon as it is qualified, moves to the enterprises compelled to pay higher minimum wages. Social and labour

laws which the industrialized nations refuse to enact, appear on all the statutes of developing nations where, if not properly interpreted, they can often cause much damage. Being in the closest of contacts with the enterprises, the development institute is in the best position to represent the interests of this community and assist it in obtaining at least as favourable consideration as large-scale enterprises. Within the same context, it must be the function of the development institute to co-ordinate all the assistance which is being offered to small-scale industry. That a certain amount of duplication be allowed in more developed nations is one thing. It must not be the case in the countries which we are considering.

From the above, it becomes clear why we have selected to use the term "development institute" rather than development bank or industrial credit institution. The terms bank and credit institution imply that the principal task is that of providing credit on such terms as may be repaid by the borrower, leaving, if not a profit, at least no loss, to the lender. We are convinced that, because of the socio-economic needs of a very backward nation, this would be a limiting factor, in spite of its soundness in other circumstances, as it would in fact favour the few towards the very unbalanced structure which we mentioned earlier, instead of helping create the broad base of pyramid without which economic development can hardly be conceived. Under more normal conditions, one can consider technical assistance, or advisory services as a separate function. In our case, there is just not enough manpower, or resources, or even need for the services, to think in terms of separate organizations. Finally, even if the development institute should not be profitable, the increased economic activity which will result from its operations will most certainly compensate at the national level, for the subsidies it will in fact be extending to small-scale industry.

In spite of its role as the government development tool, the institute should be as autonomous as possible so as to remain free from too much political interference, or from changes in its administration, should changes occur in the government. Autonomy requires first a high degree of financial independence. For this purpose the institute should be provided with its own capitalisation, based on estimates of needs for

a period of a minimum of three to five years. This capital need not be paid-in all at once. It could be paid-in in yearly instalments by the Government following a pre-determined schedule. The capital must be equity and not on a loan basis, as long as the terms might be. It should not either depend on the whim of an appropriation committee which could change its mind from one year to the next, thus completely incapacitating the institute. The resources should also be earmarked for each of the main functions of the institute, on the basis of a long range budget, but with sufficient flexibility that a certain mobility of funds could exist from one purpose to another as the justifiable need arises.

Besides having its own capital, the development institute should have access to the discounting facilities of the Central Bank, particularly for shorter term papers, according to a yearly budget, or as a percentage of the Central Bank's resources, determined in function of the general development programme of the country. Finally, the development institute should be the channel for foreign development resources earmarked for agriculture and, in our case, small-scale industry. In fact, it should also serve as the channel for funds for larger-scale industry, just to make sure that this type of industry will not adversely affect the development of the smaller enterprises, and the general economy of the country for the benefit of foreign interests in particular.

The question of the basic law and statutes of the institute is of the utmost importance. They should provide for maximum autonomy, which could best be achieved if the board could be so constituted as to include representatives of the government, but also some of the live forces of the country. On the other hand, the board should be kept small enough so that it does not become a forum for general discussions, function reserved for other spheres of government.

In the countries which concern us here, it will be difficult to find a general manager with all the qualifications required for the institute as a whole, nor managers for the specialised departments. It is therefore essential that technical rather than political considerations prevail in their selections, which means that, most likely, they will have to be foreigners. In theory, it is desirable to provide such foreign managers

with local counterparts. In practice, this may be counter-productive as there is little likelihood that adequately trained counterparts can be found, at least at the outset. It will be better to train local personnel at the lower echelons, with a view to promoting them as quickly as conditions and their preparation permits, until they can exercise co-management functions. Otherwise, we may find ourselves with men who might have been good if properly trained upwards, with inflated egos and lacking the capacity to fulfil their duties, thus impairing the development of the institute.

It is possible to conclude this study with the case of a country which is trying hard to promote itself to the rank of developing nations, namely Ecuador.

Fifteen years ago, we were called upon to survey one of the country's weak institutional aspects, the system of Provincial Development Banks which, far from representing an effective decentralisation from a central bureaucracy, impeded any effective development by the fragmentation of the decision process.

At that time, Ecuador was reaching the end of an agricultural era, that of producing rice and cacao for export as its main foreign exchange earners. Banana production was still relatively incipient, and oil was not even thought about. For lack of a better understanding of the basic problems of development of a backward country - politically, economically and socially - the emphasis was placed on infrastructural and agricultural development, in that order. Industry was thought of in terms of basic processes with the expectation that the lower echelons would take care of themselves under the sacrosanct principle of private initiative and private enterprise. Some attention was paid to the artisan, but no one went so far as to try to define who he was and what his role would be in the process of economic development. It was still considered that the Panama hat makers of Otavalo represented the quintessence of small-scale industry and therefore should be promoted and assisted to the utmost. Unfortunately, fashion and folklore often follow different trends, and the much sought after Panama hat of two or more decades ago is no more.



There may be a temporary fad for Indian ponchos and other typical goods at Woodstock time, but can this serve as the foundation of a country's economy?

Two years ago, we were invited to return to Ecuador, this time to propose a programme for the development of small-scale industry, experience having shown that the expectations of the mid-fifties had not been achieved and that, in spite of a phenomenal growth in banana production and of the discovery of important oil deposits, effective development of the country as a whole was still lagging. The new resources which, in other countries such as Kuwait or Libya are sufficient to provide social security to a largely unemployed population, fall short in Ecuador and ways have to be found to provide employment and income for a not only rapidly increasing people, but also one becoming conscious that it need not remain at the bottom of the heap while the top basks in luxury.

A subjective analysis of the industrial structure of the country indicated that of the 1,793 enterprises with more than five workers counted in the 1965 industrial census, about 12 per cent could be classified as medium to large, employing generally more than 50 workers. At the other end of the scale, about 26 per cent of the enterprises were really artisans. This left us with an in-between group of some 1,100 enterprises which could be classified as small-scale industries within the broad definitions of employment, capital invested and, more characteristically, of a one man show.

A further analysis of the type of industries operating in Ecuador showed a marked preference for the production of consumer goods, durable or not.

Considerable efforts had been carried out in the field of agricultural development, but little had been attempted to relate industrial development to it, particularly to provide locally for the inputs which agriculture requires. In the same context, the processing of agricultural production had remained at a relatively low level.

The institutional structure required to promote economic development had been revised, starting with the reorganisation of the National Development Bank in 1966, and the organisation of two Development Finance Corporations.

one public and the other "private". Various laws had been passed in the late sixties on the subject of industrial development favouring, on the one hand, foreign investments in large-scale enterprises with a high investment cost per job created, while, on the other hand, paying lip service to the development of the artisan and the very small-scale entrepreneur. As is all too often the case, the real small-scale industrialist was left hanging in between, too fend for himself; too big to be assisted by the National Development Bank and too small to benefit from the provisions of the law on Industrial Development and from the possible assistance of the Finance Corporations. As regards the commercial banks, national and foreign, they are satisfied to carry on with their routine business without preoccupying themselves with such type of problems.

Meanwhile, Ecuador had begun to take an active part in negotiations with its neighbours to the South, East and North, to set-up a sub-regional common market to supplement the Latin American Free Trade Area created with much fanfare some ten years ago, but which had remained a long way from its original expectations.

Our recommendations were largely conceptual and institutional. They were conceptual in the sense that they suggested a revision of the definition of small-scale industry, no longer in terms of a very low value of fixed assets, but in function of its very nature, namely:

- that there be no delegation of the decision making process, generally resting in the entrepreneur.
- that it be of local initiative, not holding attraction for foreign capital.
- that it employ less than 50 workers, with a capital of generally less than 1 120,000.

Our recommendations were institutional in the sense that they suggested a revision of the organic law of the National Development Bank to separate clearly artisans from small-scale industry, and enabling the Bank to attend also to the needs of this latter sector. Based on experience elsewhere, we suggested the introduction of a programme of industrial credit with technical assistance, as a separate branch of the Bank's activities, with a specially trained staff and with its own line of decision taking.

We further suggested that efforts should be made to entice the commercial banks to participate in the small-scale industry development programme by providing them with special rediscounting facilities in the Central Bank, and by creating a Guarantee Fund to supplement, when necessary, whatever security the small-scale entrepreneur can offer.

Finally, we recommended that the Planning Board set up sectorial priorities for industrial development, including those pertaining to small-scale industries.

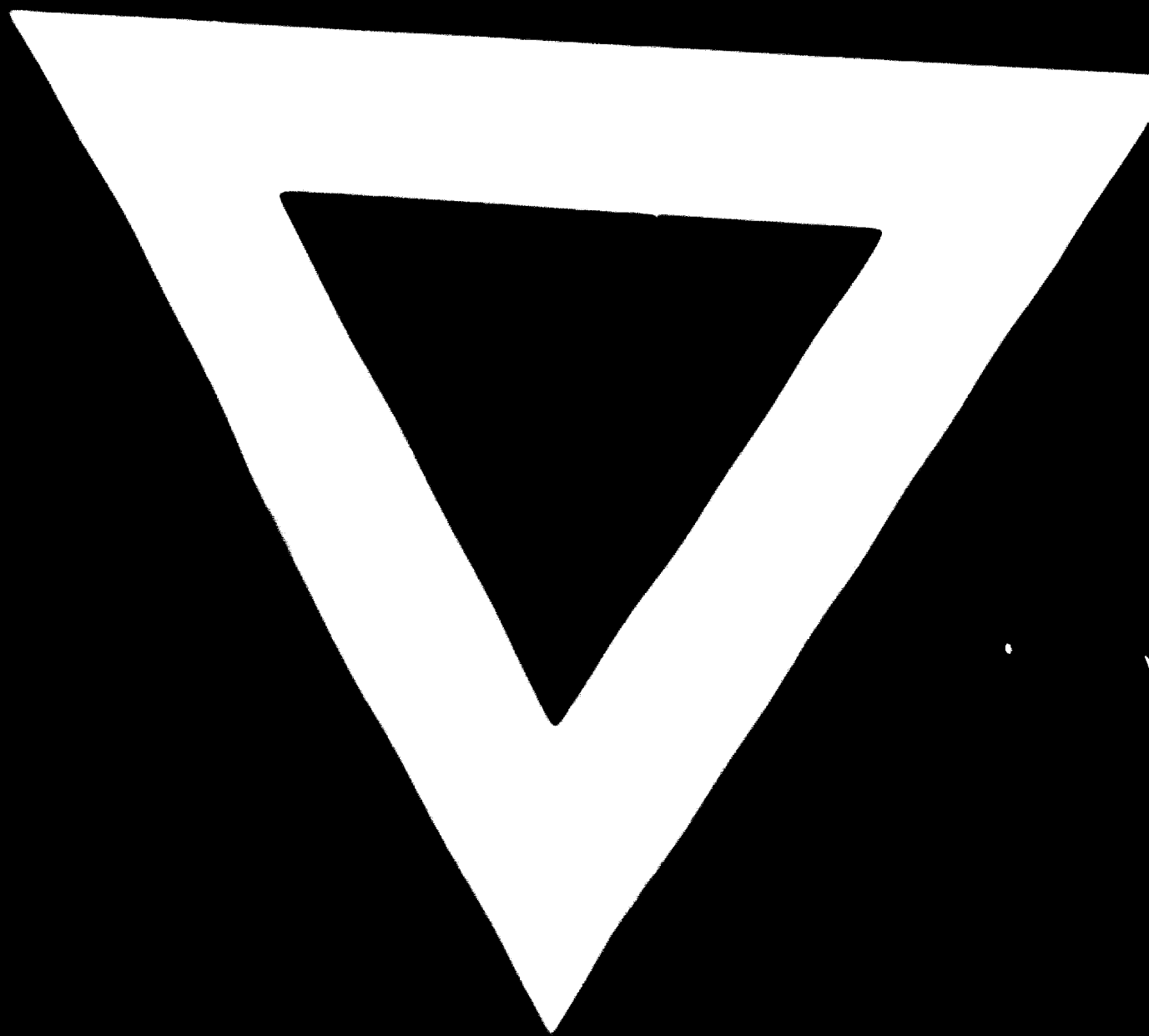
These recommendations led to the formulation of a loan programme by the Agency for International Development (USAID/E), and a new invitation to visit Ecuador, this time to introduce the programme of credit with technical assistance to small-scale industry. To us, this invitation was very rewarding, not so much because it indicated that our suggestions had been accepted, but because it demonstrated that the stage has been reached where the importance of small-scale industry in the development process of backward countries is being recognised.

As encouraging as is Ecuador's progress, the battle is far from being over. Too much emphasis continues to be placed on the need for big prestige projects rather than on the multiple effect of many smaller-scale ones. However, there is at least the beginning of a recognition that a close relationship between industry and agriculture holds the best prospects for the future. It remains to be seen if an effective sectorial programme can be worked out.

It would be relatively easy now to pull together all the experience related above into a neat scheme for the ideal development of backward countries. It would however be futile as, if any real conclusion can be reached from what precedes, it is that each country must be considered within its own context, and that the best that can be hoped for is to convince the Governments involved that development must be step by step.

We may be able to speed up each step, but these steps must be in sequence if back-sliding and waste are to be avoided. What this sequence is, is very relative, again depending on each individual situation. But what is important is that it must be defined early in terms of resources available and of the best way to utilize them within a long-range programme.





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