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COUNTRY STATEMENT IMPERIAL GOVERNMENT OF IRAN ^{1/}

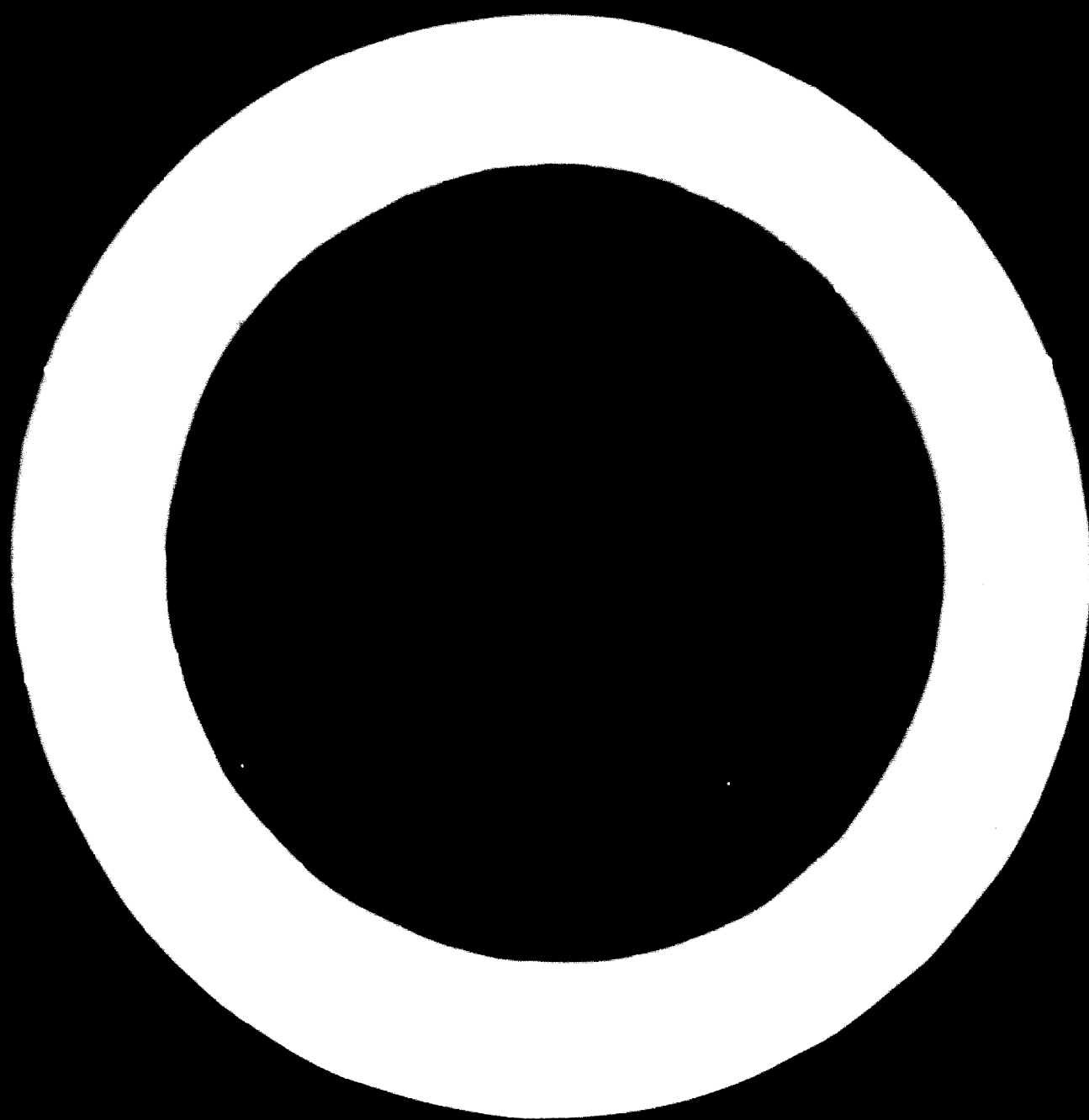
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MINISTRY OF NATIONAL POLICIES

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MINISTRY OF SMALL INDUSTRIES

Historical Background

The first organised effort directed to promote and expand small scale industries in Iran dates back to 1964. In the middle of that year the Council of Ministers noted the need for : i) expanding small and medium scale industries; ii) promoting technical man-power for these sectors of industry; iii) improving financial assistance programme, and iv) providing factory accommodation on modern lines in the shape of industrial estates with developed infrastructure facilities. The Council laid special emphasis on the programme of industrial estates and decided to establish an Industrial Estate Authority (I.E.A.) as the principal agency for the planning of industrial estates in different parts of the country and for the establishment and operation of a demonstration estate at Ahwaz - with the assistance of United Nations.

Very soon it was realised that the establishment of industrial estates by itself will not be adequate for promoting the growth of small industries and that more comprehensive programmes of assistance to small scale industries were necessary. It was recognised that the basic task was the stimulation of interest among indigenous entrepreneurs for starting modern small scale industries and improving the efficiency of existing ones and that the industrial estates programme will be effective as a tool for development of small industries only if it was integrated with other development programmes for this sector.

The experience gained during the few years of existence of the I.E.A. led to a rethinking on the whole approach to the promotion of small industrial units. The government decided in 1968 to replace I.E.A. by a new organisation called the Organisation for Small Scale Industries & Industrial Estates of Iran (OSSSI & IEI), with wider responsibilities and powers for the overall development of small scale industries in the country. The charter of the Organisation laid down for it the following functions :

to conduct a continuous review of all the aspects of the status of small scale industries with a view to uncovering and solving any problems and to put the findings of such investigations at the disposal of government authorities, credit institutions, chambers of commerce, etc.

to prepare by annual and other short term plans for the development, and to provide assistance of small scale industries within the framework of National Development Plans.

to train specialists and supervisors in small scale industries to acquire skills in appropriate fields by preparing and implementing training programmes for 'on the job' application.

To provide appropriate consultancy services to meet the needs of small scale industries and to draw up suitable plans and prospects.

e) To develop and extend research programmes suited to the needs of small scale industries.

f) To use all possible means of facilitating the purchase of materials, machinery and equipment by the use of domestic credit provided by foreign vendors under the appropriate regulations.

g) To establish and expand industrial estates and to provide them with necessary equipment and other installations and to encourage small scale industries to settle on the estates and to make use of the facilities.

h) To extend the use of industrial cooperatives for buying, selling and production purposes and to provide loans for these.

i) To give guidance and assistance to small scale industries in the marketing of their products particularly in regard to the design, standards, packaging and any other aspects needed to increase their sales.

j) To take all necessary steps to improve the quality and productivity of small scale industries as well as their development.

k) To encourage private investors by advice on the use of domestic and foreign credits and of long term credit facilities made available by machinery manufacturers, suppliers of materials and buyers of the products in question and by assisting these private investors in obtaining internal or foreign loans.

Role of Small Industries

Iran is experiencing an era of great prosperity and progress under the able guidance and foresight of Shahanshah Arya Mehr. It has been maintaining a high rate of economic growth, over 10%, during the last few years. Various large industries for the manufacture of light and heavy machines, tractors, automobiles, diesel engines etc. have been set up and huge petrochemical and steel complexes are being established. With the phenomenal progress achieved in the planning and establishment of large industries, government's attention has now turned to the promotion of a healthy middle sector of modern small industries. In a policy statement issued by the Minister of Economy in September 1970, the government has defined its new approach and policy relating to development of small scale industries.

The Policy Statement declared the government's intention to extend full encouragement and support for the establishment of viable new small scale industries by private entrepreneurs in different parts of the country and for the modernisation and improvement of the efficiency of the existing small industries. The statement defined the objectives of the small industry development programme in the country. Small industries provide new avenues of employment at relatively small capital investment; they help in tapping new resources of capital, labour and raw materials and facilitate industrial decentralisation. Above all they provide a good training ground for indigenous entrepreneurship. There are many items of consumer goods and producer goods for the manufacture of which smallness is not a handicap but may on the other hand offer competitive advantages. Similarly the extensive programme of industrial development in the large sector has opened up new opportunities for small industries to undertake a variety of processes and finishing operations for large industries. The statement declared that the government will continue to encourage

encourage entrepreneurs to set up new industries in selected areas so that they will contribute to the building up of a balanced industrial structure in which small industries not only co-exist with large industries but are inter-linked with them wherever feasible, in complementary relationship.

Definition of Small Scale Industries

On 21 September 1970 a small scale industry in Iran was defined as one which satisfied the following conditions :

1. Its fixed assets should not be more than Rls. 5.0 million (US\$ 67,000 approx.) of which not more than 25 percent should be investment in land and buildings.
2. Its employment should not exceed 50 persons on single shift basis.
3. It should not have any specialised management.
4. Its items of production should not pertain to artistic goods.
5. It should have no financial participation by foreigners

This definition was found to be inadequate to foster the development of a viable sector of modern small industries and it was decided that a simpler and more practicable definition permitting a higher capital ceiling should be introduced. Accordingly the government announced a new definition in September 1970 based only on investment in machinery and equipment. A small industry is now defined as one with investment in machinery and equipment not exceeding Rls. 7.5 million (US\$ 100,000 approx.)

Incentives

The small industries at present do not receive any special incentives or concessions apart from those available to other groups of industries. The incentives for industry in general are the following :

1. Industrial units are exempted from payment of import duty on machinery

and equipment.

2. They do not have to pay income tax for an initial period of five years provided they are located at a distance of 120 km or more from Tehran.

3. Industrial units manufacturing products of standard quality are protected from competition from imported goods through appropriate tariff regulations.

4. Import duty on raw materials used for the products exported is reimbursed.

Experience has shown that small industries are often not able to take full advantage of some of these incentives and concessions. In fact small industries are in need of additional incentives and support, at least in the early stages of their establishment. The areas where they are in need of special support relate to credit facilities on easy terms, accommodation in industrial estates and participation in government store purchase programmes. We are currently engaged in policy studies on some of these subjects and we expect to get favourable decisions from the government on these issues very early.

Programmes and Priorities

The programmes currently undertaken by the OSSSI & IEI may be broadly mentioned under the following five groups :

1. Promotion of indigenous entrepreneurship
2. Improving the efficiency of existing small industries
3. Credit assistance to small industries
4. Participation in government's store purchase programmes
5. Industrial estates

Promotion of Indigenous Entrepreneurship

This has been given the highest priority by the government among the many objectives for small industry development. In order to determine the lines on which new industries should be promoted, the OSSSI & IEI has planned several industry feasibility studies and area surveys. If the industry studies reveal scope for a particular industry on small scale basis, the OSSSI & IEI will undertake the preparation of detailed model schemes giving the requisite information for taking investment decisions.

In addition to general industry studies, the OSSSI & IEI has also planned some ancillary industry studies. Such studies are both in relation to a particular large industry in a given location (e.g. Arrak, Tabriz et.) and in relation to certain sectors of industry (e.g. automobiles, machine tools etc.) The objective of such studies is to identify the items required by large industry such as ancillaries, components and parts which can be taken up for manufacture by small units on a sub-contracting basis.

Area surveys are related to the resources and needs of certain locations as part of the government's policy for regional development and dispersal of industries.

Assistance in the promotion of entrepreneurship includes not only guidance on the prospects of new industries, but also help in the selection of machinery and equipment and training of workers in certain fields.

Improving the efficiency of existing small industries

The industrial extension service undertaken by the OSSY & IEI includes modernisation programmes, industrial counselling service through factory visits and training classes for managers, supervisors and workers. We have planned to introduce modernisation programmes for two groups of industries to begin with namely foundries and repair and maintenance shops. The programme aims at assisting small units in improving their techniques of production and in acquiring modern machinery, tools and equipment as well as modern skills of management.

Industrial counselling service through factory visits is being organised in a few selected subjects for which we have the expertise. The programme was introduced for the first time in 1970 and by now our experts and officers have visited over 200 units in different cities of Iran.

Training courses have been planned in a variety of subjects of interest to small entrepreneurs. They include industrial engineering, marketing, costing, machine shop practice, blue print reading, foundry practice etc. The training classes are conducted generally during evening hours and we do not charge any fees from the trainees. Promotion of ophthalmic lensgrinding industry has been accepted as one of the important programmes of this Organisation and for this industry, it has been decided to set up a central training institute at Tehran. The machinery and equipment for this institute have already been ordered and we expect that regular training-courses will commence by the end of the year. In the meanwhile, we have been conducting training courses utilising the facilities available in the workshop of a small industrial

unit which has been recently set up with the assistance of this Organisation.

The main limiting factor in organising a country-wide extension service is the shortage of extension personnel. The OSSI & IEI is a young organisation with a very small cadre of extension personnel. Even though there is a big concentration of small industries in the capital city of Tehran, small industries are spread all over the important cities of the country such as Tabriz, Mashhad, Isfahan, Shiraz, Ahwaz etc. The policy of the government is to prevent concentration of industries in Tehran and instead, to encourage dispersed growth of industries all over the country. Shortage of extension personnel makes it difficult for the Organisation to organise effective extension service in all centres of small industries in the country. What we have attempted to do now is only to initiate the programme on a pilot basis in a few selected subjects. We have first the task of training our own officers in the techniques of extension work. Even after the completion of the training of our staff, we will be able to provide extension service only on a limited scale because of the dispersed location of small industries and the absence of supporting facilities such as workshops, testing laboratories etc. We also feel that instead of spreading ourselves too thin, it would be advisable to concentrate on a few selected units in a few selected subjects. It is our hope that individual units which are being benefited by our services will in due course become model units for others.

Credit facilities

Difficulties in obtaining credit on easy terms have been the single largest problem of small industries in this country. Even though banking is a fairly well-developed institution in Iran, small industries have

been finding it very difficult to get their requirements of credit from institutional sources. The main difficulty of the small industries has been their inability to meet the strict standards of credit-worthiness insisted upon by the banking agencies. They are therefore often compelled to raise loans from private sources at high rates of interest and strict terms of repayment. In order to encourage the banking institutions to adopt a more liberal policy of lending to small industries, it is necessary to introduce credit guarantee or insurance schemes. We are currently examining the scope for liberalising the terms of credit for small industries and introducing a scheme of credit guarantee. A special study on this is being arranged through a high level expert under bilateral assistance.

Absence of a liberalised scheme of credit assistance is in fact reducing the effectiveness of our extension service. We are not in a position now to offer financial assistance to the small units to implement the advice we give them regarding acquiring new machinery and equipment. It is only after introduction of a good scheme of liberalised credit for small industries that we can claim real progress in the programmes of modernisation and extension service.

Participation in government store purchase programmes

At present, small units in Iran are not able to get their due share in government purchases. Even though government and public sector projects buy a variety of goods produced by small industries, small industries are not able to compete with large industries in the supply of such goods. Lack of efficient management and inadequate financial resources often make it difficult for small industries to avail of

their share in government purchases. We have been studying with great interest the progress of government purchase schemes in some of the developed as well as developing countries of the world, and are examining the scope for introducing some special schemes of assistance to help the small industrialists in our country in this field. In some countries certain items have been reserved for exclusive purchase from small industries. In some cases small industries get preference in prices. We are currently engaged in a study of the whole problem of participation of small units in government store purchases and we hope to present our recommendations regarding the introduction of a scheme of assistance to small units in this field by the end of this year.

Industrial Estates

In Iran, there are two broad categories of industrial estates - industrial parks and industrial estates. Industrial parks are composite estates for big, medium and small industries. They are industrial areas provided with amenities such as water, power, roads, warehouses etc. demarcated for location of industries of different sizes. The OSSI & IEI is a shareholder in industrial park projects and it is responsible for the areas earmarked for small industries. Industrial parks generally do not provide standard factories. The industrial units are expected to put up their own factories subject to certain conditions laid down by the park authorities. The preliminary studies for the establishment of two industrial parks, one at Khorramshahr and another at Kermanshah have been conducted, but no park has yet been set up.

Industrial estates provide factory accommodation exclusively for small industries. One such estate which has been completed is located at Ahwaz. The construction of the Ahwaz estate has been planned to be

completed in three stages. A plot of over 200,000 sq. metres has been developed and is provided with water, electricity, drainage, roads, gardens etc. Under stage I, six super-blocks providing covered factory accommodation of about 8200 sq. metres have been constructed along with ancillary buildings for administration, guest house, bank, post office and the central services workshop. Among the small industries now functioning in the estate are those manufacturing wood screws, metal furniture, refrigerator cabinets, paper bags, neon signs, irrigation canal gates etc.

The central services workshop consists of a machine shop, a foundry and an electroplating shop. These are intended to provide training and common service facilities to the units in the estate as well as to other small industries in the neighbouring areas. The UNIDO has provided the machinery and equipment for these workshops as well as the services of experts in foundry, electroplating and machine shop practice.

The construction of six super-blocks providing factory accommodation of 7300 sq. metres under stage II of the estate project has been completed. The new industries which are being set up in these workshops include those for lensgrinding, pressure die casting, plastic conversion, drills and grinders, electric panels and transistor radios.

We have no intention of putting up standard factory sheds under stage III. Developed plots will be allotted to prospective entrepreneurs and they will put up their own buildings conforming to the designs and specifications laid down by the Organisation.

The O&I is currently engaged in the planning of an ancillary industrial estate at Tabriz. There are five large industries at Tabriz

- three for manufacture of diesel engines, one for machine tools and one for tractors. The OSSSI & IEI is promoting the establishment of a group of small industries at Tabriz which will undertake the manufacture of certain ancillaries and components and parts required by these large industries on a sub-contracting arrangement. The techno-economic feasibility survey for these industries has just been completed and the report is now under examination of the concerned authorities. The OSSSI & IEI has already acquired a plot of land for the construction of the estate.

The OSSSI & IEI proposes to set up industrial estates in two or three other important industrial cities more during the next two years. The feasibility studies for the new estates will be undertaken by the Organisation during the current year.

The experience of the functioning of the industrial estate at Ahwaz has thrown up many lessons which serve as guidelines for the future. The provision of factory accommodation by itself is not considered adequate for the promotion of small industries. The units in the estate, if they are to become demonstration units for others, should receive special attention in regard to management and production problems. The technical services including common service facilities have been found to be very helpful to the units, but they need guidance in regard to plant layout, maintenance of tools and equipment, economic use of raw materials and proper marketing techniques. Very often they need special assistance in obtaining credit facilities. It is only by a programme of integrated assistance that the units in the estate can be assisted to overcome their teething troubles in the quickest possible time. Our experience has also shown that management of the estate should be left to autonomous corporations in order to ensure prompt and effective attention to the needs of the units. We therefore have accepted as a policy that as and when each estate is completed, it should be handed over to an autonomous

corporation which will function as a subsidiary of the OSSI & IEI. Again, gaining from our experience in Ahwaz, we have decided that in cities with good potential for industrial development, we need not provide standard factories for all the units. Instead, we may provide only developed plots and ancillary facilities and construct only a few standard factories.

We also intend to make the banks interested in financing industrial estate projects. The Tabriz industrial estate which will be the second to be set up in Iran may be a joint venture between the OSSI & IEI and one of the major banking institutions of the country.

Institution and Facilities

The aims and objectives of the OSSI & IEI which is the principal agency for the development of small scale industries in Iran have already been described in the earlier part of this statement. The OSSI & IEI is an autonomous organisation attached to the Ministry of Economy. Its executive functions are exercised by a Managing Director under the authority of a governing board. Besides being responsible for the promotion and development of small scale industries, it also manages the industrial estate at Ahwaz.

The OSSI & IEI has at present no branch offices or extension centres. The Organisation will in due course set up branch offices at least in three or four important places.

The OSSI & IEI is receiving the assistance of a team of ten international experts working under the leadership of a Chief Adviser & Project

The experts in foundry, electroplating and machine shop practice are located at Ahwaz, while experts in industrial economics, industrial engineering, cost accounting, lensgrinding and marketing and one associate expert in marketing and one in lensgrinding are located at headquarters. Each expert has two or three counterparts attached to him. Extension visits to factories, discussions with small industrialists, training courses etc. are jointly undertaken by the experts and the counterparts.

The main problem of the OSSSI & IEI is to find trained personnel for its various programmes. There is a great shortage of trained personnel in Iran, particularly in subjects such as industrial economics, industrial engineering, chemical engineering and business management. In spite of the shortage of personnel, the OSSSI & IEI has drawn up an ambitious programme of activities for the next two years. The 5th 5-Year Plan of our country commenced early in 1973 and our endeavour is to lay the foundations of a sound programme well in advance of the 5th 5-Year Plan so that during the 5th Plan period the programme will grow on its own momentum. Besides availing of the U.N. assistance, as indicated earlier, we are also availing of assistance under bilateral arrangements particularly in programmes for economic investigations and surveys. It is our hope that by the time the Fifth 5-Year Plan begins, we would have completed the training of a strong cadre of extension personnel and launched a sound development programme for small scale industries in the country.

Among the various tasks undertaken by the OSSSI & IEI, one of the most important is assistance to the government in the formulation of sound policies for the healthy development of small scale industries. During the last six years Iran has been having a spectacular growth of large industries. Immense mineral resources are also being tapped, opening the

possibilities of further strides in industrial development. On the other end of the spectrum, the country has a strong base of traditional industries built up by the skill and experience of Iran's craftsmen over several centuries. Our problem now is to build up a healthy middle sector of modern small industries which will function in complementarity with the rapidly growing large sector on the one side, and the fairly well established traditional sector on the other. The OSSI & IEI is the principal agency to advise the government in adopting proper policies which will facilitate the healthy development of such a middle sector. It is for this purpose that the OSSI & IEI has undertaken a variety of policy studies on priority basis.

Under the system of industrial licensing in Iran, any industry whether big or small, which wishes to avail of the various fiscal concessions and incentives and the facilities of import, have to obtain a licence from the government. Small industries often find it difficult to fulfill the procedural requirements and formalities of licensing. The OSSI & IEI is at present assisting small entrepreneurs in obtaining industrial licences, but its objective is to evolve a simpler system of registration by which the formalities of obtaining a licence can be eliminated in at least some selected industries. The Organisation is currently examining the scope and feasibility of simplifying the licensing procedures and formalities relating to small industries and hope to submit its recommendations to the government in this regard very soon.

Reservation of certain items for exclusive development in the small scale sector and introduction of common production programmes for small and large industries for certain items are among the policy objectives of the industry studies undertaken by the OSSI & IEI. The

OSSI & IEI has already completed a study on the scope for establishment of lensgrinding units on small scale basis. The recommendation on this report that 21 new units in this field should be promoted exclusively in the small scale sector has been accepted by the government and steps are now being taken to promote such units as per the phased programme indicated in the report. The OSSI & IEI has now planned to conduct similar studies for over 12 industries during the next two years. They include auto ancillaries, insecticides and pesticides formulations, scientific and measuring instruments, domestic electrical appliances, paints and varnishes, agricultural tools etc. The aim of these studies is to determine the scope and feasibility of promoting new industries on small scale basis on these lines and to advise the government on the need for either reservation of certain items for exclusive development on small scale basis or for introduction of common production programmes.

Apart from being the watchdog on policy matters on behalf of small entrepreneurs, the OSSI & IEI also functions as the source of information on all matters of interest to small industrialists. A prospective entrepreneur who is interested in starting a new small industry can approach the OSSI & IEI for advice on this subject. Or an existing industrialist can ask for advice on the scope for expansion or diversification of his production. The OSSI & IEI is no doubt working under great handicaps as far as industrial statistics are concerned. Statistics on small industries covered by our definition are not readily available. In the absence of a system of registration, the OSSI & IEI has no ready means of knowing the state of affairs on any group of industries. The OSSI & IEI is hoping to build up a good statistical and information department which can provide prompt answers to enquiries made by small entrepreneurs. In the meanwhile, we are tackling individual enquiries to the best of our ability by making special investigations and studies.

The OSSSI & IEI also helps prospective entrepreneurs by preparing entrepreneur information sheets on specific industries giving them broad information on investment required, probable returns and profit margins. In special cases it prepares detailed schemes indicating the items of machinery and equipment and the raw materials, to be acquired and the techniques and methods of production. It also brings out technical bulletins on specific subjects of interest to small industrialists.

The OSSSI & IEI publishes a quarterly bulletin for the guidance of small industrialists. It gives information on matters of interest to small entrepreneurs and serves as a channel of communication with the small industrialists.

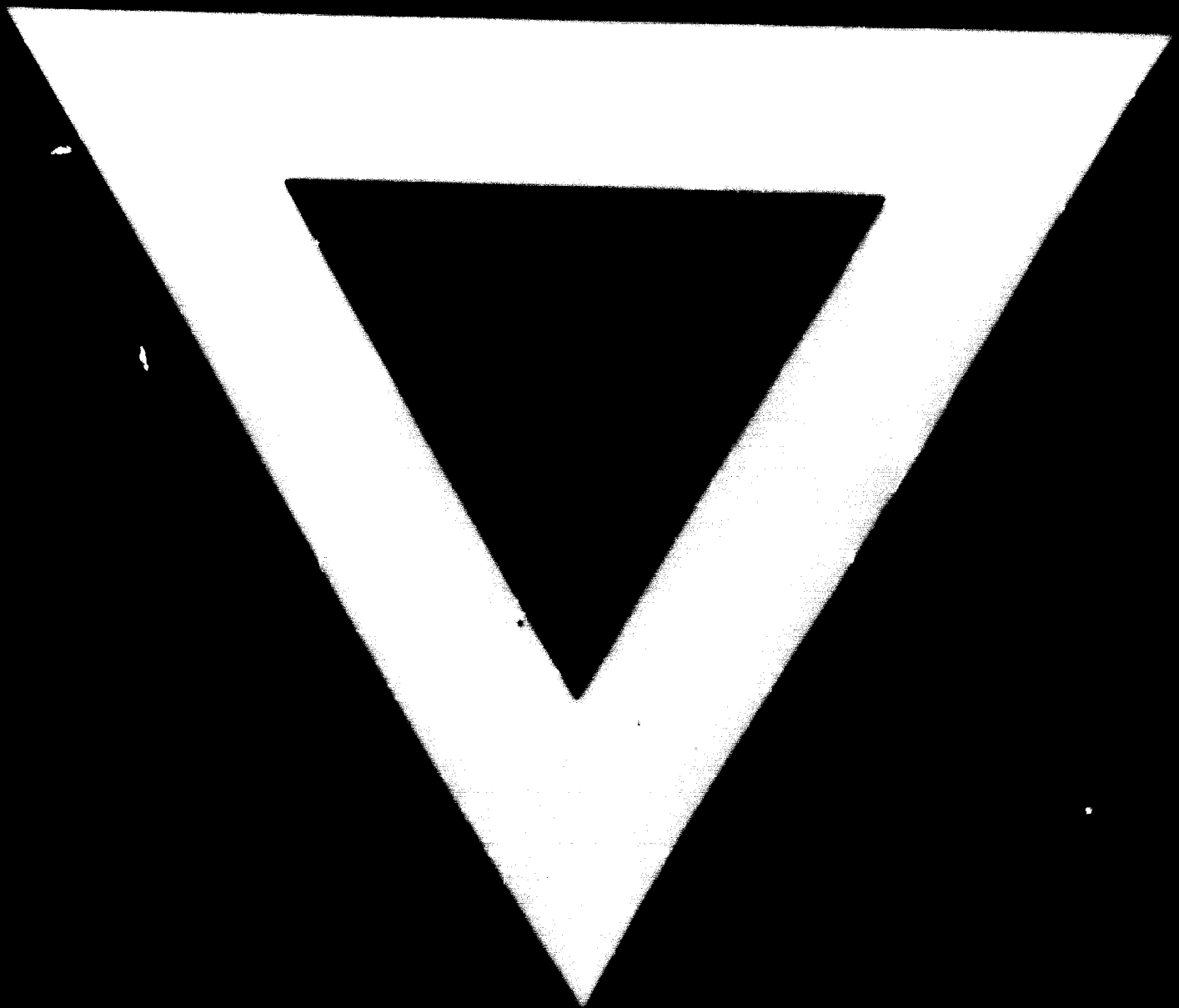
Another facility offered by the OSSSI & IEI is in sponsoring and arranging the visits of groups of small industrialists for observation and studies abroad. About a year ago, we had sponsored a small delegation of small industrialists to India for a study visit. We are now making arrangements for the visit of a group of foundry men to observe the foundry practices in small industries in India.

From the account given above, it will be seen that we have attempted to introduce a fairly comprehensive programme covering a wide variety of subjects of importance to small industries. They include industry feasibility studies, area surveys, policy studies, training courses, extension service through factory visits, publication of model schemes and technical bulletins and guidance and counselling in the establishment of new industries. We hope that in the course of the next two years we

to implement these programmes with arrangements for
the supply of machinery and equipment on hire purchase
and also in participation in government purchases and
to make development programmes more comprehensive and effective.

In the final of this opportunity to place on record our
appreciation and thanks to the UNIDO for its valuable assistance
in our endeavours for the development of small scale industries
in the country.





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