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SMALL-SCALE INDUSTRY IN RCD COUNTRIES WITH SOME VIEWS
ON ITS PROMOTION ON A REGIONAL BASIS ^{1/}

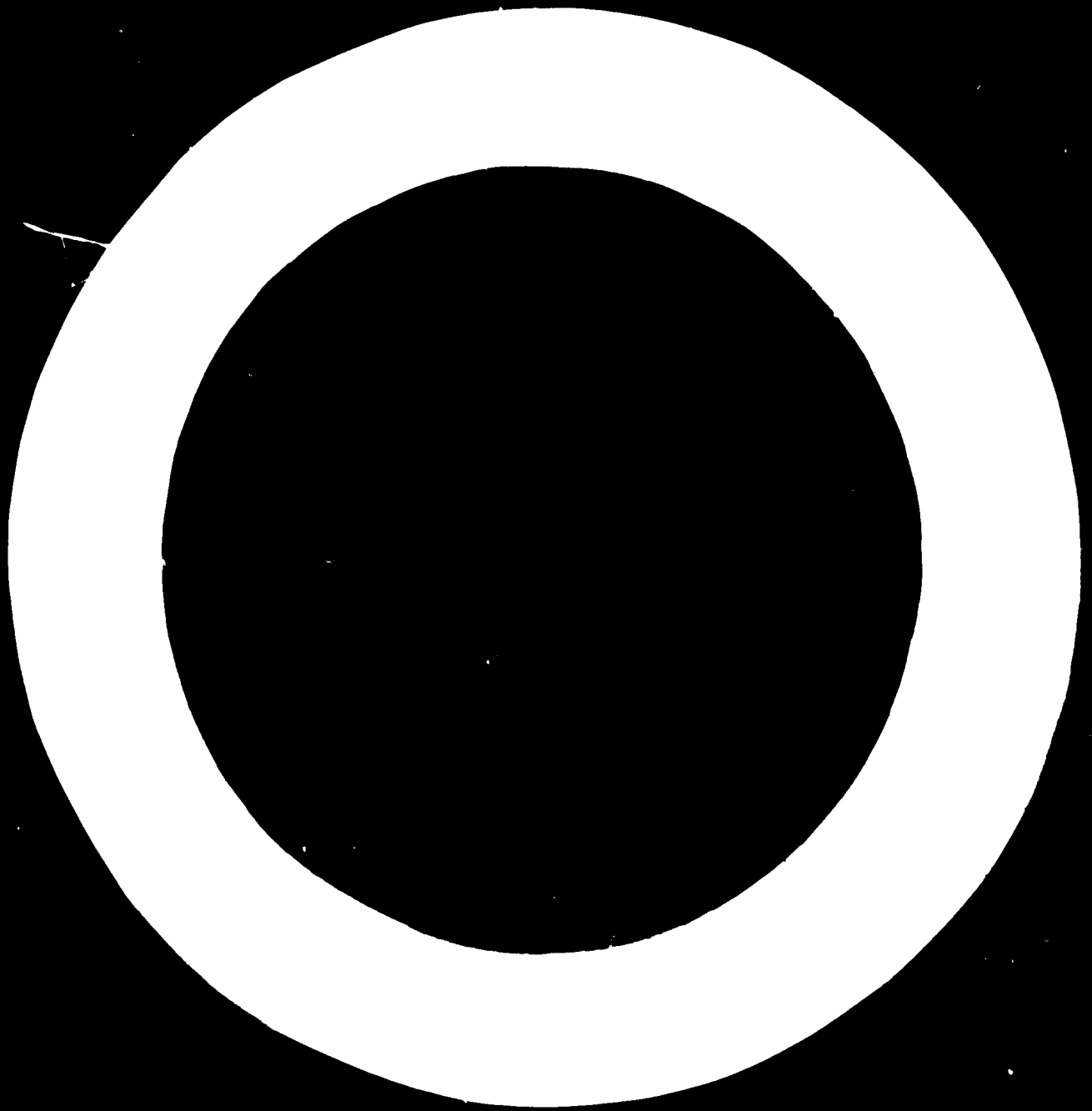
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RCD Secretariat

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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.



1. In the three ECD countries the small scale industry sector represents an appreciable proportion of the total number of manufacturing enterprises and the value added in industry. This sector also provides a very important avenue for employment which is a major problem which developing countries like the member countries of ECD are confronted with.

2. The term "small-scale industry" in all the three ECD countries is invariably used to define all types of establishment operated on a small scale. There is no uniform criteria to define "small-scale industry" except the limitation in dimensions and size that the term has inherent in it.

3. In all the three ECD countries, there are, generally speaking, two broad categories of small scale industries: The first is the industry carried on by traditional craftsmen and artisans. In this promotion of arts and crafts which reflect the tradition and culture of each of the three countries, there is often need for assistance to modernize tools and techniques of production. The second category pertains to the group of small manufacturing enterprises. In this field the sector has an important role of producing a variety of consumer and simple producer goods as well as components and parts required by large industries. It is always desirable to leave

the large industrial sector free to concentrate on specialisation. By being regularly fed and by providing an efficient auxiliary service through small scale industry, larger industrial units can attain concentration and specialisation in their respective fields.

4. Small scale industries have been assigned a very important role in the economic development plans of the three ECD countries. Important social and economic objectives are served by their promotion. Small industrial enterprises provide an effective means of stimulating indigenous entrepreneurship; they assist in the diversification of the industrial structure in the country; they make it possible for the growth of industry to be less concentrated geographically; they can channel the skills of traditional craftsmen into new lines suited to modern economy; and they help with the unemployment problems since many small industrial establishments lend themselves to capital saving methods. The emphasis and trend, however, appear to be "national" in perspective and more concerned with the individual industrial projections of each of the three countries.

5. The three ECD Countries are passing through almost similar stages of economic growth. They have in addition a similar structure of national economy and have achieved favourable results in their economic development efforts. Although all of them achieved conspicuous results in the industrial field, the agricultural sector still remains dominant.

6. As in many developing countries, particularly those with long traditional and deep-rooted skills, handicraft and other small scale industry have an

important role in the national economy and are largely dispersed over the country. Looking at the structure of industry from point of view of size, we can discover that few of the industrial firms of the region can be categorized as being "large" ones. The statistics in Iran in 1967 in this field were:-

ACTIVITY	Number of industrial establishments of the cities. (large & small)	Total Number	
		Large establishments.	Small establishments.
Total	160265	4386	155879
Food industries	21866	776	21090
Beverages industries	58	45	13
Tobacco industries	3	3	-
Textile, carpets and gelim industries	28220	1144	27076
Foot-wear and wearing apparel industries	43046	366	42680
Furnitures and fixture industries	15538	191	15347
Paper and cardboard industries	281	32	249
Printing & publishing ind.	1220	122	1098
Leather & hide industries	1344	46	1298
Rubber and rubber products industries	1061	40	1021
Chemical industries	665	131	734
Oil industries (excluding NIOC)	7	7	-
Mineral products industries (non-metal)	4472	694	3778
Basic metal industries	1548	54	1494
Metal product industries	19378	336	19042

Machinery manufacturing industries (non-electrical)	1828	84	1744
Electrical equipment manufacturing industries	3853	77	3776
Transport industries	10004	190	9814
Miscellaneous industries	5693	48	5635

Source: Industrial survey of Iran in 1967. Large industrial rates are those over 10 employees.

7. The break-up of small scale industrial units in Turkey is as follows:-

Number of Small scale industry workshops

Fields of small scale industry	1965 year
Machinery Manufacturing Industry	154
Chemical Industry	18
Electrical Machinery and Equipment Industry	162
Agricultural Machinery and Equipment Industry	1022
Metal Goods Industry	2494
Paper and Picking Industry	165
Construction Materials Industry	1752
Forest Products Industry	2835
Textile and Clothing Industry	4446
Hide and Leather Industry	413
Rubber Industry	332
Plastics Industry	45
Storage (Modern storage & frozen storage ind.)	22
Automobile Repair Shops	3808
Other Repair Shops.	3053
Total	20461

Source: State Planning Organisation (2nd Five Year Plan)

There are in addition to the above 192,242 handicraft workshops which can be included in the small scale industry sector.

8. Pakistan has a West Pakistan and an East Pakistan Small Industries Corporation, for promoting small-scale industry and to provide facilities to private enterprise. It has not been possible to ascertain the number of small scale industrial units in Pakistan. It can, however, be concluded that Pakistan and Iran have a similar specific small scale industry.

9. As there are social and economic objectives of promoting small scale industry in all the member countries there is, therefore, need for developing this sector on a regional basis.

10. Overall industrial development depends on the promotion and strengthening of small-scale industry particularly in developing countries. Small scale industry in the ECD region from the economic point of view has characteristics and problems similar to those which have cropped up in the large industry sector. There is the problem of efficiency and competitiveness on the market, low rate of used capacity, difficulties in supply of raw material, marketing, the problem of modernisation and implementation of new technology, low level of management, etc. Although small scale industry mainly is oriented to the local market very often the modern economy requires high efficiency, use of modern techniques and better management. At present the small scale industry in the ECD region requires a larger and more dependable market, better supply of raw material, new technology, cooperation, training, etc.

11. One of the appropriate ways to support development of small scale industry and to increase the efficiency of this sector in ECD, is sub-contracting between large firms and small scale industrial units.

This sub-contracting can be very useful; e.g. in solving the problem of modern designing in improving the supply of material, in increasing output, etc. Many entrepreneurs while dealing with small scale industry can make medium or large term contracts with large firms to provide for an increase in production and a more efficient functioning of firms. These contracts may include improvements of technology and management, but more often their contents would pertain to the arrangements for production and the supply and selling of goods. In RCD Countries a large number of small scale industrial units exists. There is also a rapid growth of large industrial firms. Various types of sub-contracting will, therefore, be very useful for both the large as well as the small firms. The fast pace of development of industry in RCD countries particularly the engineering industry provides a useful and important opportunity for the cooperation and sub-contracting arrangement with small scale industry.

12) In addition, the cooperation amongst the small scale firms based on sub-contracting could take various forms and cover various sectors of activities. One of the main problems for small scale industry - in nearly all RCD countries - is supply of raw material, particularly from imports. The sources of raw material in RCD countries differ. There is accordingly need to cooperate and try to improve supply of raw material on a regional level. Some problems of marketing can be easily solved by catering for an RCD market and by having joint or subsidized action for a third market. Some regional agencies could also be organised. Studying the cooperation among small-scale industry in each RCD country, it is evident that there is a very low level of mutual cooperation and sub-contracting.

There are, therefore, many possibilities for sub-contracting among small firms in each country as well as in the region. In addition many small scale firms can establish joint agencies, design and research centres, on the national or regional basis which can deal with problems of small scale industry. The experience in other regions and developed countries is that a good way to increase production and efficiency of small firms is by sub-contracting with large industrial firms - domestic or foreign - in producing some components or intermediate goods. This experience can be used very largely within the ECD area and can contribute in further development of smallscale industry and economy as a whole.

13. Small projects are less demanding of the things that the developing countries usually, lack: capital management and technical skills; generally they use more labour in relation to capital than large projects; they can usually be built quickly and put into operation to produce returns; they facilitate decentralisation which enables peoples in various areas to have contact with industry; they often raise capital more easily in the absence of capital markets through direct contact between the project sponsors and other local investors; they can provide reduction of financial risk through diversification, thus lessening the magnitude of overall loss through the failure of any one project.

14. The question of any of the three ECD countries having to choose between small industries and large industries has and will not arise as the two types have tended to be complementary rather than competitive. Around a large industrial venture, there is always room

for dozens of small plants which feed the major industrial concerns. This is beneficial as it relaxes the complexities and relieves the burden on large plants which would be much greater if the strict application of self-sufficiency was adhered to for each such venture.

15. The significance of small industry is evident from the fact that Governmental agencies in all the three ECD countries deal specifically with small scale industry. There is a Centre for Small Scale Industries and Industrial Estates of Iran which is affiliated with the Ministry of Economy. In Turkey, the responsibility for the management of the small scale industries development programme is primarily that of the Ministry of Industries, and there is a section in that Ministry which deals exclusively with small industries and handicrafts. In Pakistan there are special Small Industries corporations. In all the three countries there are credit institutions which aid the development of small scale industries and in fact incentives are also provided for the promotion of such industries.

16. The trend till now has been that small scale industries and their products have catered for local markets and have been limited in scope. The private sector has been active in this sector but entrepreneurs have not been so broad-minded. Generally speaking, the policy pursued in the three countries has been that the Government invests in those industries in which the private sector is shy and unable, for technical or financial reasons, to make any commitment. Despite this, however, Member Governments have been responsible for assisting small scale industry and laying down a programme for industry of all sizes so that these industries can co-exist and complement each other within the national framework. This policy needs

now to be oriented towards a regional perspective so that activities in the sector can be expanded and made more dynamic.

17. The size of small industry of all types in the RCD Countries is considerable. There are several small firms pursuing activities such as textiles, clothing and leather, construction, food stuffs, furniture, metal production, which belong to the most traditional production branches. The overwhelming proportion of small industries are privately owned, and carry on their activities mainly through their own financial means, using old technical processes and labour - intensive factors. Traditionally, small industries in the RCD Countries (as well as in all developing countries) have been working either for local markets or directly for individual consumers. They were used to supply a rather large range of both consumption goods and production tools (particularly for agriculture) tailored to local requirements and individual preferences. Therefore, there was lack of common standards, of homogeneous quality, of common production techniques, of standardized inputs etc. This situation was basically due to the lack of integration of the national industrial market, and to the absence of large or middle scale modern industrial enterprises.

18. The recent progress of industrialization of RCD countries has made for small industries to undergo, in general, two tendencies. From one side they have faced the increasing competition of the large enterprises for those consumption and production goods which can be produced on large scale and on standardized type. The cost reductions allowed by large-scale and modern production, and the shift of the consumers' preference towards goods of higher quality have had

the combined effect to put a large number of small firms in a difficult economic situation. From the other side, a certain polarization is going to take place in the activities of small firms, namely they are concentrating in some fields where they are better able to survive and to develop without bearing the competition of the larger enterprises. Such fields are either intermediate-goods production operating on a sub-contracting basis, or those consumption-goods productions where mass-production and standardization is not possible (artistic goods, food specialities, fashionable clothing and foot-wears, etc.)

19. In general terms, the tendency for small industries is to find an escape-way either through sub-contracting or by producing special consumption goods. Such specialization corresponds to the requirements of optimizing the existing resources, and to apply the principle of comparative advantages in the industrial fields, by making small industries able to operate in the branches more suitable to their peculiar features, within the specific growth stage of each RCD country where large and middle-scale industries are unavoidably reaching the leading position in the industrial structure.

20. The function of training for small industries should be just to put such activities, by several means, in the best position in order that they keep their place in the national industrial market, and where possible also in the export markets, while meeting the requirements of modern standards, of efficiency, and of decreasing costs. Industrial extension services, carried out by the governments, should help to transmit knowledge and skill to persons engaged in small industries.

21. The problem of training for small industries can be in general sub-divided into that concerning the entrepreneurs and managers, and that concerning workers. As far as entrepreneurs are concerned, they should be trained for both improving the organisation of their firms or workshops, and for grasping the new opportunities offered by the national (and possibly international) markets in course of quick development. As for the workers, considering that small industries are largely employing unskilled workers, the aim of training should be to raise the workers' level of skill, not only for improving their living conditions but also for insuring the best handling of machinery and production-tools and the improvement of the quality of goods produced.

22. The training of entrepreneurs for the sake of better management of the small firms, should cover in principle a rather large range of problems. They range from a better knowledge of the accountancy techniques and the ability of getting informed about the changes of outputs and standards requested by the market, to the knowledge of all possible credit and incentive facilities granted by Governments or local authorities to small industries. Entrepreneurs could be taught to complement their management ability by recurring to consultant units or centres, where they can receive advisory assistance in such fields as market analysis, projects evaluation, procedures for loans, etc. Entrepreneurs could also be trained in the choice of the best technically and economically suitable materials for their relevant productions, and in the best utilisation of the new installed machinery.

23. Another aspect of entrepreneurs' training should be to demonstrate the advantages of operating together

in various forms of cooperatives, to be created either for sale promotion or for common storage, or for common exhibitions, etc. These aspects are particularly important when export activities are concerned.

24. The training of workers should basically take into account the present needs for specialization and modernisation of small industries along the lines explained earlier. In small firms, workers have been traditionally employed in young age as unskilled workers, and they were acquiring their skill only by long experience on the spot. This kind of empirical learning is no longer satisfactory in present days, because of the more sophisticated machinery being introduced in small industries, and of the higher standards requested for its products. Therefore, a higher technical background is requested to each worker in the small industries, and it can be provided only by training. Training, at any rate, should be adjusted to the specific features of the various branches of small industries, and to the kind of modernisation and rationalisation each branch is going to undergo.

25. It seems still too early for devising an RCD policy in training for small industries. However, one can indicate some fields in which to start eventually a common activity. A promising field seems that of identifying a given range of products, which can be successfully worked through small industries, according to some accepted common RCD Standards. The Chambers of Commerce can play an important role in this field. A policy of this kind, called the "defence of the trademark", has obtained remarkable successes in other economic areas, like for instance in the European Common Co

Economic Community.

26. In each country there is a definite organisation looking after this work. Coordination can thus be easily organised by the relevant Committee of RCD Secretariat at this stage. In due course of time when a directive has been firmly given to this and a regional body will need to be established. This organisation would serve the purpose of being a store house of information, of needs and requirements and of existing and future potentialities on a regional level in the sector. For the present the RCD Chamber of Commerce and Industry can also play an important role by contacting each of the national institutions and of promoting trade activity.

27. In all three countries exist a long tradition of handicrafts which if properly assisted and developed may form the basis of combined effort to export products to third countries. There is great potential for the exchange of these items in the region. In addition, joint exposition abroad will be of interest for promoting exports to countries outside the region.

28. Small scale industries provide a wider basis of intimate knowledge amongst producers and consumers. An interchange of information on types of small scale industries and how they function can also serve the purpose of regional cooperation a great deal by bringing producers and consumers on a regional level into close contact.

29. Promotion of cooperation and getting to know national efforts in this sector in the three countries better could be secured by exchange of information and concerted activity in this field. This will in fact form a strong basis on which to build small scale industry on a regional level.

30. A survey of existing small scale industries and demand for the products of this sector needs to be carried out on a regional basis.

31. There is already an established RCD framework for industrial cooperation. Agreement on the promotion and operation of Joint Purpose Enterprises was signed between the three countries in 1967, and memorandums of understanding for over twenty projects have already been signed. This cooperation has aimed at heavy industry so far and has neglected the boost such activity could give to small scale industry on a regional basis. A survey or a study can easily identify those small industries which can be planned for the markets of all the the three countries to feed existing and future joint purpose enterprises. There is a potential RCD market for export of national industries. Potentialities for sub-contracting on the basis of the markets of the three countries can also be studied in such a survey.

32. As far as the free flow of products of small scale industries within the region for purposes of trade is concerned, the matter will be covered by trade liberalisation measures which are presently under consideration by the RCD Member Governments. It is quite evident that the promotion of activities in this sector on a regional basis will be given a much needed appreciable boost if such measures are adopted to allow products of this sector free access to markets in the region.

33. Joint training of extension service officers and entrepreneurs and exchange of information and visits, and use of research, training and extension facilities in one country by the other in the region are also among the areas to be looked into seriously.

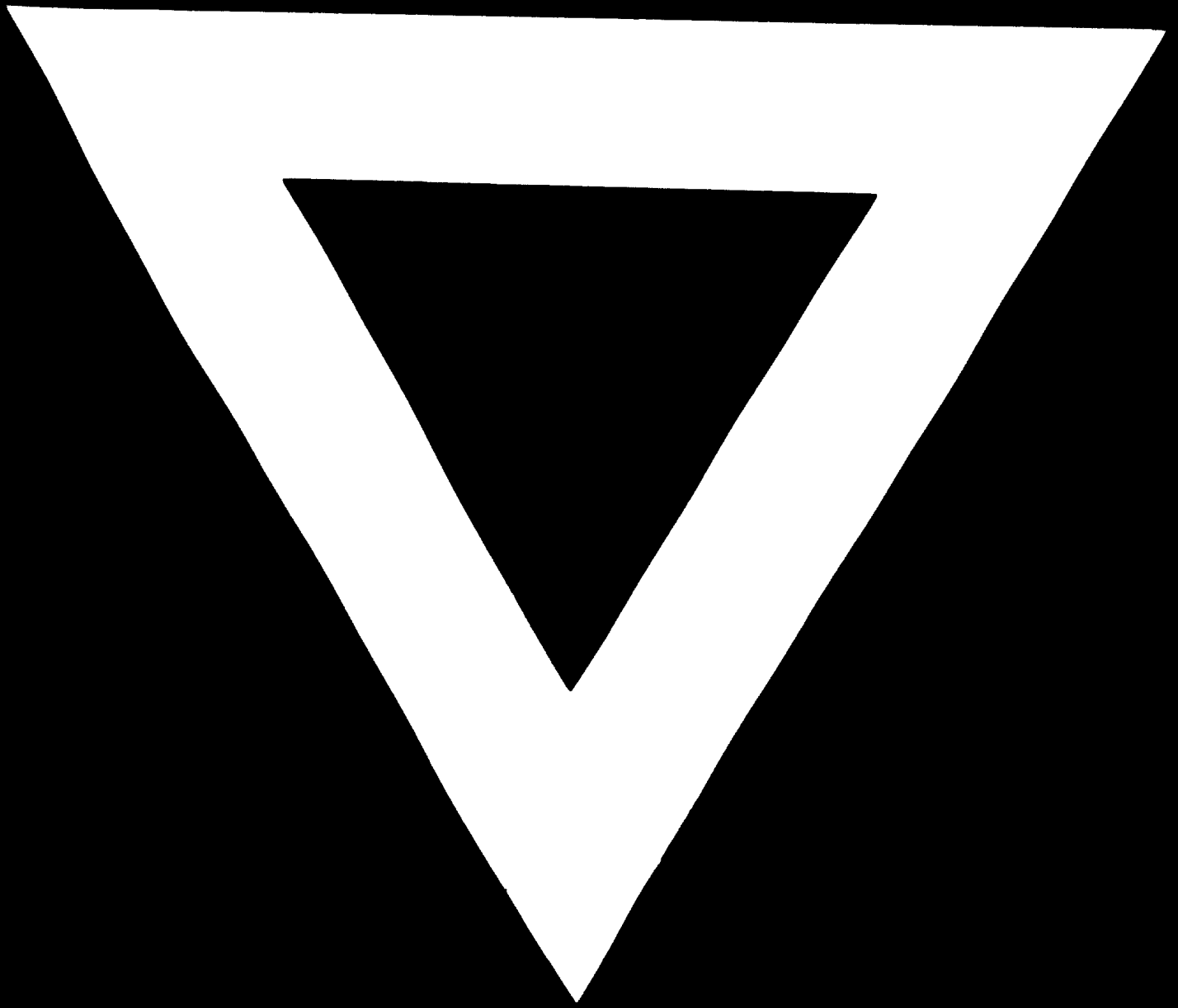
34. The promotion of small scale industry in the RCO region is faced with the problem of technology, management, finance, marketing, raw-materials and factory accommodation. These provide four major fields in which countries of the region could be assisted in the development of small scale industry. These are: (1) Formulation of suitable industrial policies; (2) Formulation of an integrated programme; (3) Planning and establishing suitable institutions and strengthening existing institutions to implement policies and programmes for small scale industries development; and (4) Provision of experienced experts to improve the technological and managerial levels of various branches of small scale industry.

35. It is, therefore, natural that assistance from international organisations such as UNIDO can benefit the development of this field of industry in the region. This assistance can consist of industrial advisory services, management training, industrial research services, development financing, industrial estates, common facilities services, marketing aids and facilities for ancillary development.

36. For this purpose, with the aid of UNIDO, a regional centre for development of small scale industries can be established and the principal functions of such a centre would be: (1) to provide technical assistance to member countries in the formulation and implementation of policies and programmes; (2) to train officials of service promotion and financing institutions in small industry development techniques; (3) to undertake research in the form of feasibility studies and pre-investment surveys on which technical assistance and training action would be based.

37. The provision of Training facilities by each of the RCD countries to trainees from the other two countries can be negotiated through such an agency. The setting up of such an institution should, however, be preceded by a broad based survey of the regional potential as outlined above and its capability to cater for and sustain a regional market. Once this is done, avenues of cooperation and a phased programme could then be drawn up. In fact a regional plan for this sector can be chalked out and the Regional Centre could be maintained as a Research Centre as well as a store house of information. It will thus serve the purpose of formulating plans, organising training programmes and conducting research. The need, therefore, that is imperative at this stage is to prepare the ground for the setting up of such an agency. This will be possible by pursuing a future course of action in the appropriate RCD forum, so that such cooperation and the survey can become practical realities.





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