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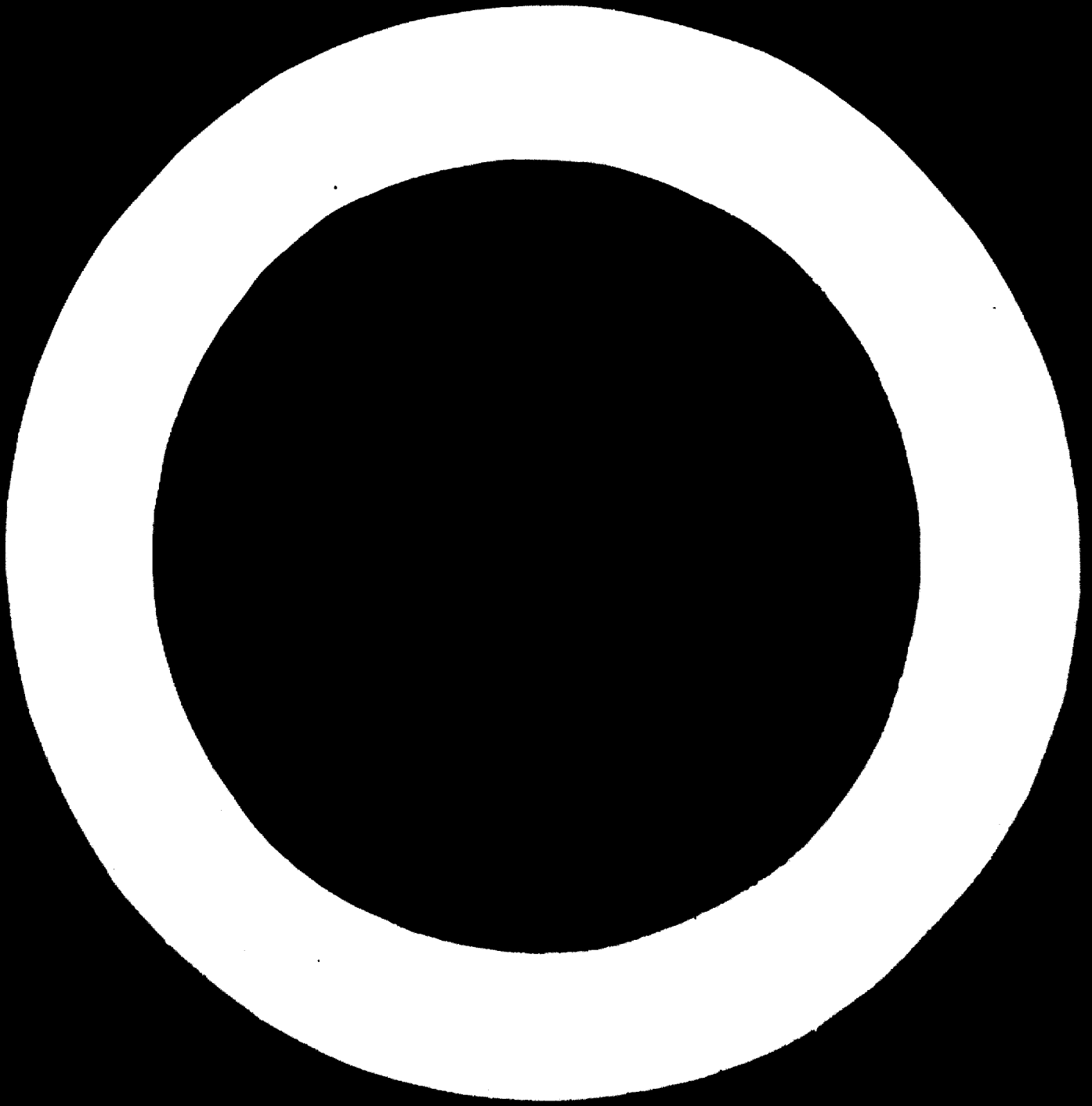
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**A NOTE ON IMPORT SUBSTITUTION AND IMPORT
RESTRICTION POLICIES AND OTHER RELATED TOPICS**

by

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BACKGROUND INFORMATION

1. The writer is the General Manager of Kenya Industrial Estates Ltd. a subsidiary of Industrial and Commercial Development Corporation which is an autonomous body of Kenya Government. Kenya Industrial Estates Ltd. was formed late 1967 with prime objectives of promoting industrial enterprises in general and in particular promotion of small and medium scale industries. Other objectives of the scheme were to promote indigenous entrepreneurs by means of offering well constructed industrial premises and loans to purchase machinery and equipment for production of various items which were proposed for Industrial Estates Scheme. The scheme envisaged establishment of 5 industrial estates in major urban centres in the country, starting with Nairobi as a pilot scheme.

2. Present Position:

At the moment phase I of Nairobi Industrial Estate has been completed and fully operational. Phase II is nearly operational with about half of factory premises constructed already occupied by various types of entrepreneurs. Phase I and phase II when completed, will comprise of 52 industrial premises ranging from 625 sq. ft. to 12,000 sq. ft. Phase I and Phase II of Nairobi Industrial Estate is an all-purpose estate accommodating a number of various industries ranging from service units to import substitution items mainly in the consumer groups. Another Industrial Estate at Nakuru is under construction and it is hoped that 20 units planned for this estate will be operational towards the end of 1973. Other industrial estates are being planned to be established within 1970/74 Development Plan.

3. Initial Problems:

The problems of establishing such schemes as Industrial Estates in developing countries are well known and they need not be repeated here. Nonetheless, Kenya compared with most developing countries where industrial estates have been built, is in a relatively undeveloped position particularly in regard to quality and type of entrepreneurs attracted to new openings offered by Industrial Estates Schemes. With this type of ~~development~~

one would expect an elaborate extension services incorporated in the estate programme. This however, is not the case for it was argued that too much spoon-feeding of entrepreneurs would be undesirable particularly in view of the fact that one of the most important objectives of the scheme is the promotion of indigenous entrepreneurs. With this assumption, therefore, very limited extension services were incorporated in the activities of Kenya Industrial Estates.

4. Extension Services:

From the foregoing, it was concluded that minimal extension services should be provided and it was emphasized that since most of the products were import substitution and that the Government was going to give protection to these industries in one way or the other, the marketing aspects of these products and other services like book-keeping, stock control etc. were considered not priority services. On the other hand, it was recognized that most of the entrepreneurs were not technically qualified to handle various production machines. It was therefore considered that provision of technical services through a Technical Service Centre was extremely essential. The present position is that Kenya Industrial Estates Ltd. identifies projects, undertakes market survey, carries out feasibility studies and assists entrepreneurs in plant layout, erection of machinery and equipment, maintenance and repair services, making of tools, dies and jigs and to a limited extent assists in production design and development.

5. The Role of Government - Import Substitution and Import Restriction Policies:

Item No. 5 Sub-Item of the Agenda N.5.1.1:

Kenya Government like most Governments in developing countries is committed to promotion of industries in the country with a view to increasing local manufacture including those items which are at the moment imported from outside. As Kenya is a small country, hence its market potential for most of items is limited, it follows that the biggest field for import substitution will be found in small and medium sized industries. Industrial Estates Programme therefore aims, among other objectives, at encouraging a number of import substitution items.

Protection:

a. Protection by Licensing

b. Import ban

Imports substitution industries in most cases and in most developing countries tend to be more expensive than imported similar items. The reason for this is not difficult to find because most developing countries have small markets due various reasons including small and low purchasing power of the population. Other factors which contribute to high costs include lack of proper planning and control of production and if an industry uses imported raw material, then the matter is even complicated by the fact that as a small consumer compared with other consumers using the same raw materials a small industrialist is unlikely to get big discounts from his suppliers due to small quantities he occasionally orders. Due to these factors, the Government realizes that small industries in the Industrial Estate must be given some sort of protection in one way or the other because they could not be expected to compete with imported goods.

(a) Protection by Licensing:

Due to small market existing in Kenya, import substitution items which were to be encouraged were of large range of commodities of the same function and it became necessary for economic reasons to produce only those types or sizes which were considered economically feasible and other types to be allowed on licensing basis. Although this device was thought to be most suitable type of protection both from the point of view of the consumer and the manufacturer, nonetheless, it has proved to be extremely cumbersome to administer. One of the most difficult aspect is that the system leaves a lot of loop-holes for traders to evade regulations under various pretexts e.g. under the item buttons come various types such as plastic, polyester, metallic and combination of various materials. Definitely all these various types and sizes of buttons cannot be economically produced in a limited market and it becomes necessary to produce only certain types with a view to licensing those which are not available from the local manufacturer.

In practice, however, the importer could obtain a licence for those not available and use the same licence for products already produced in the country. In short, it is not difficult to see how such a system is open to all sorts of shortcomings. Despite these shortcomings, the system is likely to remain for sometime particularly in a country where individual choice is respected to a great extent.

(b) Import Ban:

Complete import ban on certain items^{of} which the whole range could be locally produced has been imposed and this has been very effective except at the initial stages during which time previously imported articles were still in the country. Although this system is the most effective way of protecting young industrialists in developing countries, it is not the most popular to consumers and also to some economists who argue that such protection could give rise to very inefficient industries resulting from over-protection. Ideally, an industry which has been given full protection should only be given ^{it} for a limited time to enable it to go through gestation period, after which such protection should be withdrawn. But then, the problem is when such a protection has been given, it is always difficult to withdraw because invariably all industrialists will have some reasons to ask the Government for further protection on the same lines.

6. Experience gained and inter-relation between type of product, calibre of entrepreneurs and import restriction policies:

For a pilot scheme which is only 3 years old, to talk of experience gained in implementing such a scheme is definitely inconclusive. However, one can talk of problems encountered and how those problems were solved during the period under consideration. It is also possible to point some future lines of action which should be taken in order to improve upon what has been achieved so far. As mentioned above, the philosophy of leaving the entrepreneurs 'to swim or sink' was extremely bold experiment which has yielded substantial good results. The basic objective behind this philosophy was that one has got to

learn swimming by swimming; with this in mind the entrepreneurs were left to discover for themselves certain business pre-requisites without advice from Kenya Industrial Estates Ltd; but they were free to get advice from outside. It is surprising that people who hardly had any experience whatsoever in industry managed to pick up some rudiments of running an industry in a short time. Of course such people had some experience of one kind or the other in Commerce, Industry or Government and they needed some practical experience 'on the job' which they conveniently obtained by running their own industries. However it must be remembered that in phase I programme, the types of industries encouraged were very small and therefore production technique, marketing and distribution of products were not complicated.

Industries encouraged in Industrial Estates can be divided into main three categories viz:-

- (a) Servicing Industries like printing, photo engraving, sheet metal fabrication etc.
- (b) Non-import substitution industries such as ladies hand bags, both plastic and game skins, ready-made garments, furniture etc.
- (c) Import substitution products such as hinges, cloth pegs, zip fasteners, buttons etc.

The first category of industries attracted mostly people of artisan type who had started their own business in a small way before they came to Industrial Estate. In most cases, these artisans had attended trade schools, and prior to their self employment, had worked for a number of years either in a private firm or in a Government Department. In most cases, these people have very little formal education and could be said to be just literate. In terms of stability, this group is the most successful. On the other hand they are most difficult to change and accept new ideas.

The second group of industries attracted a slightly higher calibre of entrepreneurs both from professional point of view and also formal education; but in most cases these entrepreneurs were employed and they had not started their own business elsewhere. Here is where we find the greatest number of not very successful enterprises. One of the major factors contributing to such a state

of affairs is that most of the products in this group are already produced in the country by well established expatriate firms who have better access to distribution channels and the other factor is that although this group has better academic and professional education than the first group, nonetheless they lack practical experience in business. It is also in this group where it has been found that the entrepreneur with business acumen has succeeded despite very odd conditions surrounding him.

- (d) Import substitution industries attracted a miscellaneous type of entrepreneurs mainly with very high academic qualifications, some being University graduates. A great majority of these people have never been in business before; but have had varied degree of managerial experience of one kind or the other in private or public sector. All the import substitution industries were given protection by way of licensing and, as mentioned earlier in this paper, the system proved to be very difficult to administer and it took up to two years for certain industries to fight imported articles which despite Government efforts to enforce regulation based on a licensing system still found their way in the country. It is interesting to note that in this group, we find some of the most successful entrepreneurs who are forward-looking and readily accept advice or counsel if they see it as a means of improving either the design of their products or an increase in the sales of their articles. It is in this group where it is hoped that big indigenous industrialists of the future will emerge. It may be mentioned here that entrepreneurs in this group generally are young people who are ambitious not only to succeed in their present enterprises but look forward to bigger things.

From the foregoing, it is clear that entrepreneurs in group one and two types of industries are not expected to go very far although a few in group two may grow into successful industrialists in future. However, it is thought that entrepreneurs in group three will be the industrialists of the future and phase II programme of Nairobi Industrial Estate aims primarily to encourage the type of industrialists who are in this group. Not only because they are likely to be the most

successful; but because industries in phase II are more sophisticated and bigger than those in phase I, thus requiring a high calibre of entrepreneurs both from educational and professional points of view. It is encouraging to note that this group of people are coming forward to the Industrial Estate wanting to be assisted to establish enterprises of their own.

From marketing point of view, the first group of industries has been the most successful. However, it is not anticipated that these are the types of industries which are going to be encouraged in Industrial Estates Programme, although this will be encouraged in rural communities. The most difficult products from marketing point of view have been the import substitution items. The reasons for this are very well known to the experts and they need not be repeated here; but it must be mentioned that despite these difficulties, the Government of developing countries will still continue to encourage import substitution items for reasons very well known again to the group. One of the most surprising things we have found in our short period in this field is that it is not always true that locally manufactured products are more expensive than imported ones. Contrary to what is normally believed, import substitution products produced in the estate are cheaper than similar imported items from most countries except one or two. As a matter of fact, if products from these two countries were not coming into Kenya, protection from the rest of the countries would not be needed. This may be surprising but it is a fact.

Need for Extension Services:

As more industries are established and these new industries become more and more complicated in their nature of operation, extension services of various types would be required. Extent to which these services will be provided will depend on what is considered most essential for the enterprises.

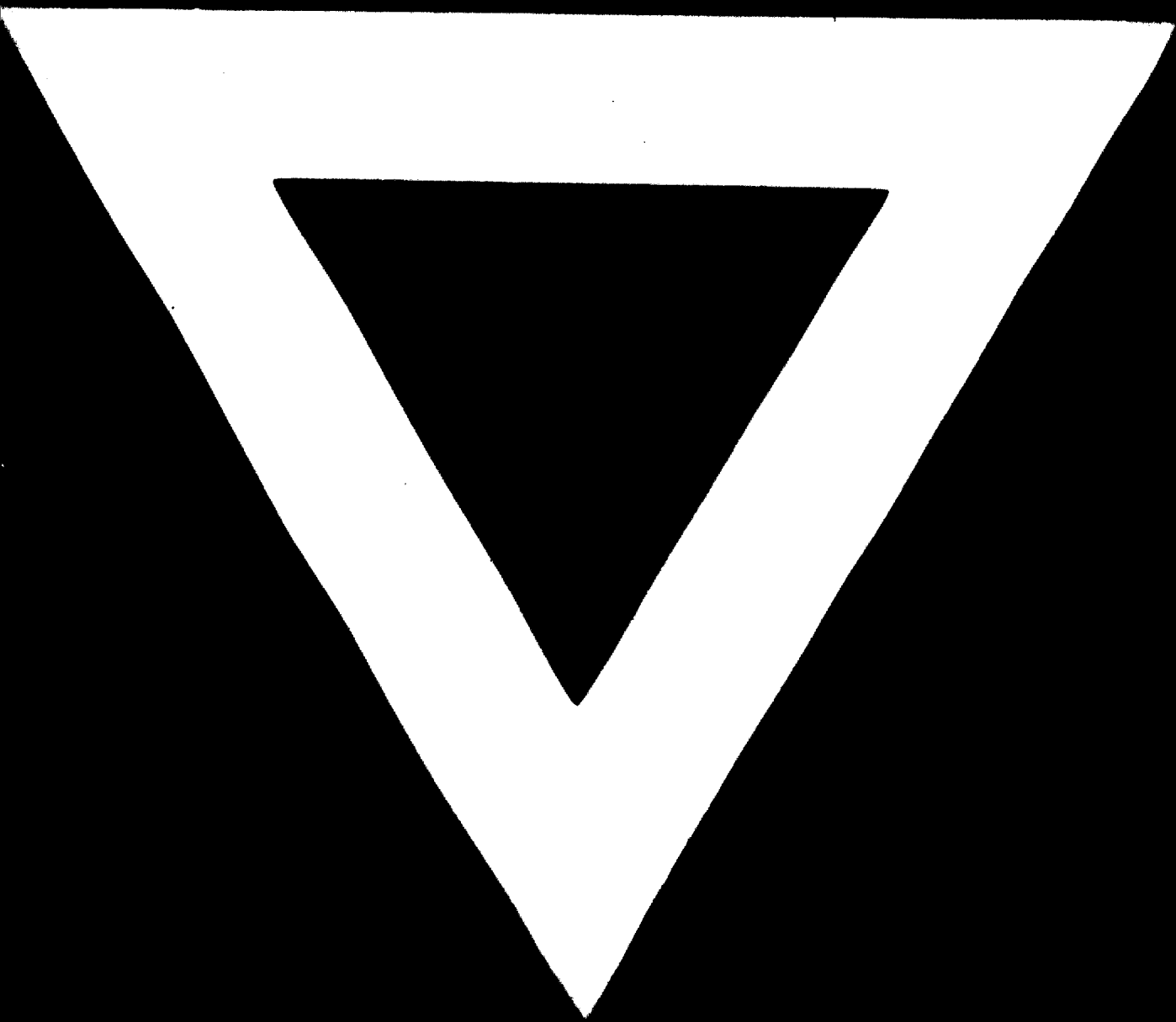
Summary:

- (i) Import substitution industries in developing countries will continue to receive encouragement.

- (ii) In developing countries import substitution will invariably require protection by means of tariffs, licensing or total ban.
- (iii) Whichever method is used for protection, the executing authorities should ensure that the measures taken are effective.
- (iv) Where an enterprise produces the whole range of products previously imported, a total ban should be imposed.
- (v) If it is felt that for some reasons, protection may not be effective, the promoting agency should advise the interested party of the difficulties likely to be faced by the enterprise. Preferably such a product should be undertaken by an agent/distributor who is already handling the imported items in sizable quantities.



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