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Training Workshop and Study Tour on Small-scale Industry
in the Least Developed Countries of Asia, the Far East
and the Middle East

Nepal and India, 1 - 26 April 1974

SOME OBSERVATIONS ON THE PROMOTION
OF SMALL-SCALE INDUSTRY ^{1/}

John C. de Wilde*

* Consultant on Economic Development Problems, formerly Economic Adviser,
International Bank for Reconstruction and Development

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ID/WG.174/1 Summary
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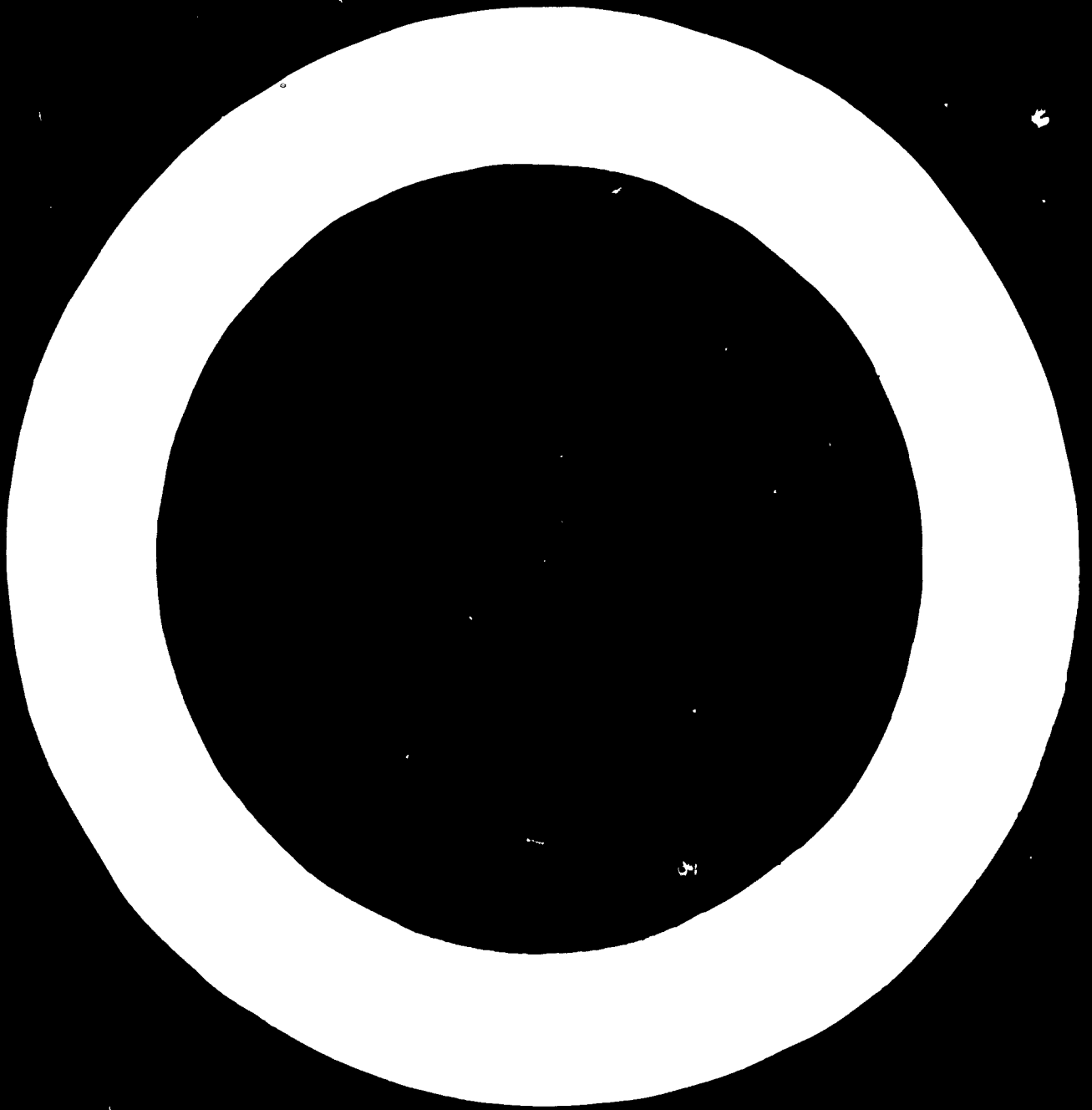
Summary

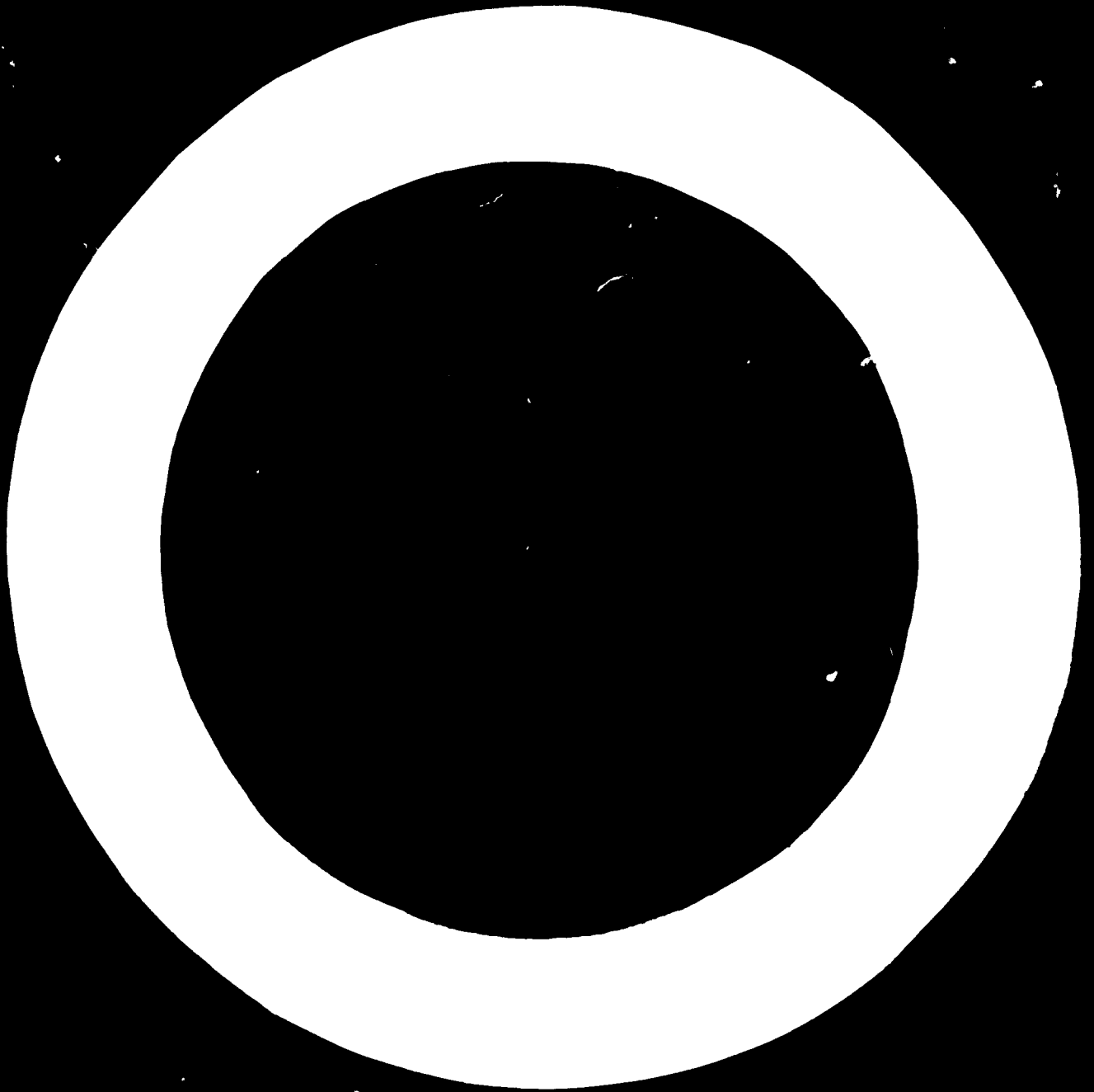
The development of small business in industry and other fields will tap potentials for savings and production which otherwise would not be realized. It can bring about a wider dissemination of the ownership of means of production, thus countering the tendency toward oligopoly which often characterizes the private sector in developing countries.

Any effort to promote the small-scale sector should be selective in its approach. It should concentrate in the first instance on helping those among already existing businessmen who have been able to make progress by dint of their own efforts and have potential for further development provided effective assistance is available. However, the emergence of new entrepreneurs must also be encouraged in many cases. While it is difficult to identify entrepreneurial talent among people without previous business experience, the methods for testing and stimulating "achievement motivation" developed by Professor McClelland may prove useful.

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The organization and staffing of a good business extension service is absolutely essential to the successful promotion of the small-scale sector. Such an organization must have sufficient autonomy to enable it to select and assist promising businessmen independent of political considerations and to offer the salaries required to recruit competent staff. Its personnel should have the practical experience needed to provide the kind of technical and managerial assistance which will really appear useful to emerging businessmen.

The proper selection of industrial activities for promotion is also important. Insufficient attention has been given to the definition of industries which can operate economically on a small scale. The types of industries chosen within this broad category will change in accordance with progress achieved in the development of entrepreneurial capacity. In the early stages emphasis should be given to the service industries, the production of goods for local, as distinct from national, markets, and the processing of local agricultural commodities and raw materials. It will often prove advisable also to develop building enterprise. At a later stage the manufacture of products for the broader, national market and of parts and components for large enterprises can be given progressively more attention.

While the principal function of a business extension service should be to identify entrepreneurial potential and to give continuing advice and guidance to businessmen with a capacity for development, it can also play a useful role in providing certain common facilities. Among these are industrial estates and workshop clusters. However, it should be kept in mind that industrial estates are costly and are not suitable for all small industrial firms. The interests of many of these enterprises will often be better served by small workshop clusters constructed in various parts of a city.

Small enterprises should as far as possible be financed through normal banking channels. The high risks which often prevent such financing except on excessively onerous terms can be significantly reduced by the adoption of a credit insurance scheme and the operations of a business extension service. In financing small business, care should be exercised to coordinate the extension of short-term and longer-term credit so that the total debt service burden is properly related to the prospective income of the enterprise.

While it is desirable in most cases to entrust technical assistance and financing to separate institutions, this course may not be feasible or necessary in the earliest stages of enterprise development when the promotional programme is limited in scope and the very inexperienced entrepreneurs may find it easier to deal with a single institution which can provide all the help they need.

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Introduction

A bibliography of all that has been written on the development of small-scale industry, or, more generally, on the promotion of business enterprise, is likely to fill a number of volumes. Any attempt, within the scope of a brief paper, to summarize what has been said or written on this subject would not only be repetitive but would also be too general to have practical value. This paper will therefore discuss selectively those problems pertaining to development of small-scale industry and methods of promotion which the author believes require particular emphasis and on which he may be able to comment usefully on the basis of personal observations in Africa and Asia. In doing so the discussion will often not be confined to small-scale industry, but will be addressed to all types of small business enterprise.

I. ADVANTAGES OF SMALL-SCALE INDUSTRIAL DEVELOPMENT

A. Multiplication of production initiatives

Successful development of small business has one important advantage which is seldom adequately stressed. By making it possible for individuals with entrepreneurial talent to go into business it multiplies initiatives for the production of goods and services and helps to bring about a wider and more "democratic" ownership of the means of production. In every population there are actual or latent entrepreneurial resources which can be mobilized. It usually includes many individuals who are not content to be simply employees or workers in government services or in large public or private enterprises. They want to be their own masters. They want to be engaged in some activity of their own in which they see a direct relationship between their own efforts and the results achieved and from which they can derive profit and a personal sense of accomplishment. All businessmen, of course, are not motivated by this entrepreneurial spirit. Many of them -- and they may well constitute a substantial majority in some countries -- start a business simply because they cannot find the secure paid employment they really prefer or because they have insufficient education to obtain attractive positions in the government service or in large business enterprises. But to the extent that persons with real entrepreneurial talent can be effectively assisted to establish or expand enterprises, a government will succeed in mobilizing a reservoir of talent which otherwise would remain inadequately developed or would develop at an excessively slow pace.

The tapping of this potential resource may be vital even in countries where the government puts major emphasis on the development of a public or socialized business sector. The capacity of governments to initiate and operate business ventures is frequently limited by managerial constraints, by bureaucratic inefficiency and lack of initiative, and by the many other responsibilities which governments must discharge. Under these circumstances

the public sector must often be confined to the larger enterprises; and the number of such enterprises will in many cases be restricted by the limited size of national markets. In practice governments will usually find it difficult to initiate and provide for the operation of the numerous and highly varied small and medium enterprises which are needed in any economy to produce goods and services for local requirements, to process scattered and relatively small quantities of locally available raw materials, and to distribute and sell goods in all parts of the country.

B. Competition and democratic ownership of the means of production

The development of entrepreneurs for the small-scale business sector can have certain benefits transcending the value of this sector to the economy. Some small entrepreneurs will get the training and experience that will qualify them progressively to establish medium and even large ventures. In developing countries private ownership of large-scale business often tends to be oligopolistic in character. A relatively few wealthy families come to dominate medium- and large-scale industry. Because the capital market is small and poorly developed and access to credit by those who are comparatively poor and inexperienced is severely limited, the small number of initially successful large-scale entrepreneurs can perpetuate and enhance their ownership of major industries. The profits earned in established business undertakings are the principal source of financing new or expanding old ventures; and successful enterprises usually command most of the credit that is available. Thus there is an almost inevitable tendency toward the creation of industrial empires. This concentration of power is undesirable not only for political and social reasons, but also for economic reasons. It frustrates the competition and efficiency which are necessary to make industrial products available to the masses at reasonable prices. A government can counter by nationalizing large-scale industry or developing a public sector to provide competition for large-scale private enterprise. But it can also, as an alternative or complementary measure, seek to increase the number of large-scale industrial entrepreneurs. This can be most effectively done by encouraging and helping successful small-scale entrepreneurs to undertake larger ventures. Sometimes governments dedicated to the promotion of small enterprise shrink from such a course. They develop a cult of "smallness" and have a somewhat irrational fear of "bigness." Governments may therefore impose limits with respect to size beyond which an enterprise or a businessman will not be entitled to get any further assistance in expansion. This may prevent the injection of more competition in the large-scale sector and also thwart development of the full potential of a number of entrepreneurs.

C. Mobilization of savings

For countries experiencing a shortage of capital small enterprise development will often stimulate savings that otherwise would not be available. Many people will save or increase their savings if they themselves see, and are enabled to utilize, opportunities for profitable employment of capital. Farmers who have become aware that they can grow profitable commercial crops often show an astonishing capacity to mobilize the capital required to produce such crops. The same is true of small-

scale businessmen in other sectors. The emergence of potentially profitable opportunities provides an incentive to save the capital required to start a venture and, subsequently, to plow back a considerable part of profits into business expansion. Self-financing is a characteristic of developing private business, all the more because outside capital is difficult to obtain. Ironically enough, the limited availability of outside capital is not an unmitigated handicap. It often forces people to face up to the need to save more if profitable ventures are not to be foregone.

D. economy in capital utilization

Some arguments for the development of small business, and, more particularly, of small-scale industry deserve to be qualified. Small-scale industry is said to be especially advantageous because it requires less capital investment in proportion to output. Indian data, based on the Annual Survey of Industries for 1965, indicate, for example, that value added per unit of fixed capital employed was four times higher in small-scale industries than in large-scale industries. However, this favorable capital/output ratio, which, incidentally, does not invariably characterize all types of small-scale industries, is in part simply due to the fact that the entrepreneurs in this field cannot engage in types of production and processes which by their very nature require heavy investment. The low capital/output ratio does not necessarily mean that small-scale industry makes the most efficient use of its capital or that a more efficient use of capital could not be achieved either if its products were produced on a larger scale or if more machinery and equipment were employed. The modest amount of capital used in small-scale industry is at least partly dictated not by economic rationale but by sheer necessity such as deficiencies in financial resources or government measures and policies that limit the availability of capital equipment. During a survey of Indian small-scale industry, made a few years ago by the author, a large number of entrepreneurs expressed a great need for more machinery and especially for more modern and more specialized equipment. While some may have been rather irrationally infatuated with new technology, could apparently make out a good *prima facie* case that heavier investment would improve their efficiency and their competitiveness. Given the inefficiency that usually characterizes at least a portion of small-scale industry and given the frequent need to protect such industry from competition by foreign products or by the products of larger-scale domestic industry, the prevailing low capital/output ratio can hardly be accepted as necessarily reflecting the optimum.

E. Effect on employment

Some reservation must also be made to the argument that successful promotion of small business will substantially increase employment. True, the "multiplication of entrepreneurial initiative" which was mentioned before will undoubtedly raise employment significantly in the long run. In India, for instance, employment in the small factory

sector rose from 3.6 million to 4.55 million in the period 1960/61 to 1969/70. At the same time the sector's share in total industrial employment increased from 38.7 to 41 per cent. Yet one can readily imagine a set of conditions under which a successful campaign to assist small entrepreneurs may for some time fail to expand total employment and even reduce employment. Any campaign of this kind must be selective and is likely to concentrate at least initially on already existing entrepreneurs who are deemed to have the greatest capacity for improvement. If these are in fact enabled to become more efficient and to expand their output, this will almost inevitably happen at least in part at the expense of other less efficient and less receptive small businessmen and the workers the latter employ. Ultimately, however, an increase in the number of efficient small entrepreneurs will raise total production substantially. Employment will then rise, though not as rapidly as output.

II. IDENTIFICATION OF ENTREPRENEURIAL CAPACITY

Promotion of business enterprise implies an ability to locate and identify entrepreneurial talent. In all countries the number of people already engaged in business or anxious to start one will almost certainly far exceed the capacity of any promotional organization to provide assistance. If the latter is to avoid an excessive and fruitless dispersion of effort, to keep failures at a manageable minimum and to concentrate on persons with real potential as businessmen, it must obviously be able to devise and apply criteria of selection.

As a first step one should define entrepreneurship in terms of its essential characteristics. The entrepreneur must know how to combine the various factors of production effectively for the purpose of producing some needed service or product. He must be willing to take risks but only after a careful evaluation of such risks. He must be able to perceive opportunities for production and capable of exercising the initiative necessary to take advantage of them. He must assemble and direct the means of production including labor, raw materials, equipment and financing, and in this connection must be able to deal effectively with his employees, his suppliers, his customers and his sources of finance. He must demonstrate some capacity for innovation in the form of an eagerness to search for means of doing things in a new and better way. Finally, he must have a high need for achievement in the sense that he derives strong satisfaction from overcoming challenges and obstacles in his path.

In practice how can persons with these characteristics be found? This paper will deal with this question first with respect to people already in some type of business, and then with reference to those wanting to start a business for the first time.

A. Development potential of existing businessmen

Existing businessmen presumably have some record of experience or performance from which the possession or lack of entrepreneurial skill

can be inferred, at least in broad terms, if not in terms of its specific components. Surveys of existing business enterprise are probably the best initial step to get at this "record." Such surveys are necessary in any event to obtain data for intelligent planning -- information on the distribution of enterprises by size, geographic area and type of activity, on their total contribution to output in various branches, on methods of financing, on employment and investment etc.

It can be objected, of course, that a comprehensive census of all small business enterprises is too burdensome and expensive. Even in a very small country there are likely to be thousands of such business enterprises without taking into account those in trade and transport. However, the cost can be significantly reduced by limiting the scope of the initial surveys. The organization charged with the promotion of small-business will in any event be incapable of immediately assuming responsibility for encouraging enterprise in all parts of the country and in all branches of economic activity. Personnel constraints, and perhaps also financial constraints, will limit its operations for quite some time. The initial surveys can therefore be confined to a particular geographic area -- e.g. one in which there is a substantial concentration of enterprise -- and to certain sectors of the economy which are deemed to have a high priority. The cost of surveys can also be kept down by enlisting the cooperation of technical schools and universities. In Nigeria, for example, the Industrial Research Unit of the University of Ife used students to carry out a comprehensive census of 12,012 enterprises in 49 towns in the Western and Mid-Western States. Students of economics worked on this census as part of their academic program and were thus enabled to get a realistic insight into an important aspect of the country's economy. Moreover, the very fact that the census was carried out under university auspices was probably instrumental in eliciting more reliable information from the businessmen who are traditionally inclined to distrust government officials.

The survey can also take place in two stages. In the first stage it will suffice to obtain information on the number of years the enterprise has existed and on the size it has achieved in terms of production or sales and number of employees. Relative size and rate of growth can be regarded *prima facie* as indications of the degree of success of the enterprise. The larger ones with a comparatively rapid growth are likely, other things being equal, to be more promising candidates for promotional efforts.

The number of such enterprises selected from the first survey should be considerably larger than the number with which the promotional organization can effectively deal over the next few years. This will permit a second screening process designed to obtain from these businessmen additional data which will further help to assess their capacity for future growth and therefore their probable response to promotional measures. This screening should preferably be done by personnel of the business promotion organization. They will thus have

an opportunity to become acquainted with entrepreneurs and their problems. The information to be obtained should cover (a) the businessman's occupation and family background, (b) his education, (c) his sources of financing, and (d) finally, his conception of his own problems. An examination of the relevance of each of these follows:

a. Occupational and family background

While entrepreneurial talent can be found among people of almost any background, surveys of existing businessmen that have been made suggest that those with certain backgrounds are more likely to be successful than others. Thus a businessman who comes from a family which has long been engaged in business has an advantage in that he has been reared in an atmosphere which emphasizes initiative and achievement. Previous occupational experience will determine the extent to which the businessman has been able to acquire the attitudes and, above all, the technical, managerial and marketing skills essential to success. Available evidence suggests that previous experience with farming is not particularly relevant, although this may not be true when the experience is predominantly with commercial agriculture rather than subsistence. Traditional artisans whose trade passes from father to son in general have little capacity for development. Training takes place entirely within the family enterprise, and outside work experience which might expose the artisan to new methods and different stimuli is seldom, if ever, obtained. Moreover, such artisanal enterprises are disinclined to employ non-family or outside labor which might introduce some fresh experience. They tend therefore to be traditional in their methods and are resistant to change. On the other hand, craftsmen who start their own business after having learned a trade and worked in a larger enterprise are more promising material. They have usually learned their job in business establishments which are more modern in their methods.

Government service is not ordinarily conducive to entrepreneurship. It does not usually encourage independent initiative and risk-taking. However, government service often does provide opportunities to acquire skills useful in business, particularly various types of trade in government workshops or a knowledge of construction methods in public works departments. Also, the very fact that a person has given up the relative security of a government job to go into business may indicate that he does have those qualities of independence and enterprise essential to business success.

When small industry rather than business as a whole is considered, previous experience in trade or commerce seems particularly useful. In 1971 the National Council for Applied Economic Research in India carried out for the World Bank a survey of 129 small-scale enterprises which were larger than the average small-scale unit. This survey disclosed that most of the entrepreneurs came from the commercial classes or other affluent sectors of the economy rather than from artisans or technically trained groups. However, one should be cautious about

generalizing this finding. For example, in an earlier study of 52 medium-size metal-working enterprises in the Indian state of Madras, James J. Berna learned that over one third of these had started as small repair and odd-job shops. 1/ Persons who have been successful in trade often do have an advantage over others whose training and experience is exclusively technical. Once a small enterprise has expanded to a point at which it can no longer rely on a neighborhood clientele and must begin to sell its products through intermediaries, marketing often becomes a much more important problem than production. A "merchant-entrepreneur" is likely to deal more successfully with this problem. He usually also has greater experience in handling money and has larger savings to invest. Principally for these reasons he is inclined to start a larger industrial enterprise than the "artisan-entrepreneur." However, his business may fail unless he can find and is willing to hire technically trained workers and supervisory personnel to ensure the necessary volume and quality of production. At an early stage of the development of an industrial economy there is often a severe shortage of people with practical technical experience and, particularly, of supervisors. Whenever this is true, artisan-entrepreneurs may well have better prospects in starting an industrial unit than merchants.

b. Educational background

Such evidence as is available indicates that small-scale businessmen are only marginally better educated than the average adult in the population. While most of the businessmen in developing countries are self-made and self-taught, it is obviously an advantage to have enough education to make simple calculations and to read elementary instructions, texts and blueprints. However, a number of surveys of small businessmen in Africa have shown a correlation between education and business success that is more often neutral and even negative than positive. 2/ A secondary or a higher education may actually prove a handicap. Ambition and confidence often prompt better educated people to launch ventures of a size that are well beyond their capacity owing to deficient managerial and technical experience. Frequently, too, they are less inclined to undertake the hard work and make the personal sacrifices which are usually essential in the initial stages of developing a business.

1/ J.J. Berna, Industrial Entrepreneurship in Madras State (Asia Publishing House, London, 1960).

2/ See the author's study, The Development of African Private Enterprise (IBRD, Report No. AW-31, Vol. I, p. 13, 1971).

At the same time, it must be recognized that as enterprises grow in size or in technical complexity they make larger demands on the businessman and his supervisory personnel in terms of (1) for formal education, whether academic or technical. Educational deficiencies which were not a significant handicap in the early stages of the development of an enterprise may become serious constraints in later stages. Then the better educated entrepreneur will be more able to master the more sophisticated management techniques, including proper accounting and costing, which the larger business venture will require. He will be better equipped to acquire and apply new knowledge and ideas, to deal with financial institutions and to establish the organization necessary for the procurement of a growing volume of materials and for the marketing of an expanding output. Thus if industry is to continue growing and become more diversified it is important to attract an increasing number of comparatively well educated people to business careers. This does not mean, however, that promotional measures should neglect entrepreneurs whose education may be inadequate for the management of a larger enterprise. Many of these do have a potential for development even if within certain limits. The objective should be to assist them in advancing to a point where they can perceive the possibilities of continued expansion of their enterprise and are anxious to provide their children with a better education that will enable the latter to take over their business and develop it further. As a matter of fact, young educated people who emerge from such an environment are likely to make more successful businessmen than those who come from a family background alien to business.

c. Sources of financing

Information on a businessman's sources of financing throws valuable light on his determination to succeed. If the record of his enterprise shows that he was able and willing to put his own savings in the business originally and subsequently "plowed back" a considerable portion of the earnings into expansion of the business, this is certainly a positive indication of his potential. It demonstrates not only that he has the capacity to "manage" money, but that he has the strength of character to curb his own consumption until his business becomes firmly established.

d. The businessman's conception of his own problems

In making a final selection of the businessmen which should be singled out for promotion provision should be made for an interview designed to elicit their own idea of the problems that confront them and tend to inhibit their development. The objective of such interviews is to determine their awareness of their own limitations. Unless businessmen are conscious of such limitations, they are unlikely to take advantage of the technical and managerial advice and training which a promotional organization may make available to them. Frequently small businessmen will blame all their difficulties on factors beyond their control. Lack of institutional finance, for example,

is often singled out as the only problem, even when it is evident to an objective outside observer that such financial difficulties primarily reflect inadequate managerial and technical skills. At other times unfair competition by others or government failure to provide an adequate volume of orders may be cited as the critical difficulties. It is, of course, a common human trait to attribute one's failure or limited success to external factors. Almost every businessman has some grievance of this type and it is therefore natural for him to express them early in any interview. Once he has done this, further judicious probing by the interviewer may well reveal that he is also cognizant of his own limitations and anxious to overcome them. If, however, in the last analysis he persists in blaming others for all his difficulties, then he can hardly be found eligible for promotional assistance.

B. Selection of new businessmen for promotion

The methods of selection set forth above depart from the premise that promotional efforts should largely concentrate on assisting the most promising people who are already engaged in business. In general this is a valid premise. Existing businessmen who have at least some experience and have demonstrated in practice their ability to develop their enterprises in some measure by dint of their own efforts are likely to benefit most from constructive outside assistance. However, circumstances will often justify some focus on helping people who want to go into business for the first time. There are still countries, notably in Africa, where business is almost entirely in foreign hands. If such a situation is to be remedied, one has to start from scratch in fostering indigenous entrepreneurship. In many countries where enterprise is developing, there may well be many people engaged in non-business careers who also want to start a business and appear, on the basis of their occupational background, to have some qualifications to become entrepreneurs. For instance, public works engineers who have long been employed in government and have had considerable experience in construction and in the supervision of private contractors may want to launch a construction enterprise of their own. Similarly, individuals who have occupied middle or top management posts in large government or expatriate enterprises may want and may merit help in starting their own business. Finally, when serious "academic unemployment" develops, there may be strong pressures to provide graduates from engineering and technical schools or from universities with opportunities to start their own business.

This has in fact happened in India. There the number of people receiving degrees or diplomas in engineering and technical fields has risen from 4,000 in 1960 to 50,000 in recent years. Employment opportunities failed to keep pace so that by 1970 there were estimated to be 40,000 unemployed engineers alone. To enable such unemployed engineers and technicians to start their own small industrial enterprises

the Government of India, in the fall of 1970, started and financed a program under which (a) a considerable number of institutions were designated to run three months' (initially, four months') entrepreneurship training courses, and (b) special financing on concessional terms was offered to those who completed the course and worked up an industrial project acceptable to a financing institution. The content of the entrepreneurship course was in general modeled on that of a pioneer venture earlier carried out by three development corporations in Gujerat state. The first half of the course was devoted to the basic concepts of an enterprise and its management as well as to the relationship of government to business. The second half was concerned with particular industrial opportunities and the preparation and justification by each participant of a specific industrial project.

Such programs raise the serious question whether there are methods for identifying entrepreneurial talent and capacity among people who have had no previous experience as independent businessmen. This question is posed in most acute form for those who have just left professional schools or universities and have no occupational experience of any kind. In the author's opinion the question has not yet been satisfactorily resolved. Under these circumstances the training and promotion of entrepreneurs is accordingly characterized by a considerable waste of time and resources. In India applications for participation in the entrepreneurial training courses have exceeded the number of places available, so that applicants have had to be screened on the basis of written submissions and very brief oral interviews. Apparently no definite selection criteria are applied, although those applicants who have a definite "project idea" or who come from a family business background are reported to be favored. One suspects that the selection has often been, even though inadvertently, rather arbitrary. Once applicants are admitted to a course, it should in principle be possible for the personnel involved in their training to form some judgment about their capacity, their imagination and their drive and initiative. The author found that some of the training personnel conceded that they were able to make such judgments, but none of them evidently felt able or authorized to communicate these judgments to others, for example to an institution which had been requested to finance a project prepared by a trainee.

a. Tests and training for achievement motivation

At this point it becomes appropriate to inquire into the relevance of certain techniques that have been developed in an effort to identify and even to develop the "achievement motivation" which is essential to success in business. The nature of these techniques and an analysis of the results achieved in experimental applications are set forth in a book written by Professor David C. McClelland and Dr. David G. Winter and entitled Motivating Economic Achievement (The Free Press, New York, 1971). The methods employed are not easy to describe briefly. They

can perhaps best be characterized broadly as "stimulated self-analysis." They try to identify and foster certain behavioral patterns characterizing entrepreneurs, including the capacity to (a) set challenging but attainable goals and take personal responsibility for achieving them, (b) make specific plans for personal and corporate activities to reach these goals, (c) take calculated risks in making investment and other business decisions requiring foresight, and (d) analyze past mistakes and successes for the purpose of improving performance. A variety of methods -- competitive games, simulations, case studies, group discussions, tests and questionnaires -- are employed in order to bring out an understanding of behavior under given situations, to clarify and define motivations and to appreciate the factors conditioning achievement.

Achievement motivation courses have been conducted in a number of countries, including the United States, India and some Latin American states. The results have not been easy to assess. They evidently depend considerably on the quality and skill of the personnel conducting them. The techniques are rather difficult to master. Conductors of the courses can easily sink into a morass of psychological jargon and leave the participants more baffled than enlightened. However, when conducted by properly trained personnel, they appear to be useful. While they may not help greatly to strengthen and develop pre-existing motivations, the testing methods devised for this type of training do seem helpful in identifying entrepreneurial talent. In any event, the results achieved so far warrant further experimentation with these techniques.

C. Need for continuous screening

Given the present state of knowledge, one can hardly expect that the methods available for qualifying existing businessmen and "would-be" businessmen for a program of promotional assistance will be infallible. Inevitably a considerable number of mistakes will be made. At best one can expect that the selection criteria will reduce the risk that the people chosen for promotion will fail. It is therefore important that the business promotion or extension organization which is established to provide continuing technical and managerial assistance to businessmen keep the performance of these businessmen under constant review and that it discontinue help to those who are consistently unresponsive. There must be arrangements for periodic visits to enterprises and discussions with their owners in order to determine whether progress is being made, what problems exist and whether the entrepreneur is disposed to tackle these problems and accept advice on how they may be resolved. The number of really competent personnel that can be found to staff a business extension service will always be severely limited. Such a service must therefore be able to concentrate on those businessmen who in practice demonstrate their capacity and drop those who are unable or unwilling to take advantage of its facilities.

III. ORGANIZATION OF A BUSINESS EXTENSION SERVICE

The organization of an effective business extension service is critical to the development of small-scale industry or small-business in general. Before considering some of the problems involved in establishing such a service, the functions which the latter should perform should be clearly understood. Apart from selecting existing or potential businessmen for promotion, the service should

(1) determine, presumably in cooperation with the economic planning authorities of the country, the fields of activity in which small businessmen are most likely to be successful and where they can also make a suitable contribution to economic development;

(2) assist in elaborating projects for expansion or new ventures which are adapted to the capacity of the businessmen and likely to prove profitable, and provide necessary assistance in the choice and procurement of machinery and equipment;

(3) stimulate in businessmen an awareness of the principal constraints actually impeding their development;

(4) furnish continuing in-plant or in-enterprise advice and guidance on management and technical problems, and provide, or facilitate access to, such technical and managerial training as may be needed;

(5) provide, when necessary, for the establishment of common facilities, including industrial estates or workshop clusters; and

(6) facilitate access to financing for entrepreneurs with worthwhile projects.

Comments on a few of these functions will be made later in this paper.

A. Need for independence

If the business promotion or extension service is to do its work effectively, it should be independent. It should be independent of financing institutions and be organized as an independent, autonomous government service. It can be argued, of course, that such a service should be attached to a financing institution since the latter must in any event determine which businessmen are qualified to receive loans and to follow their operations closely in order to protect their investment. Although in exceptional cases institutional factors may make this desirable, the balance of argument favors the creation of a service that will be independent of banks but will cooperate closely with them. In most cases it will be necessary to involve a number of banks in the financing of small business; and it can hardly be expected that each of these will be able to afford a well-manned extension service. The administration of small loans is normally quite costly even without

taking into account the expenses of providing the various non-financial services which emerging businessmen will need. A business extension service, like an agricultural extension service, involves considerable outlays, and it is natural that these be met largely out of public funds. In theory extension services attached to banks could be subsidized by the government, but this is likely to create practical problems and to lead to a dispersal of effort. Moreover, promotion and financing should in principle be divorced. A business extension service must be to some extent an advocate, albeit a very discriminating advocate, of the entrepreneur and his project. A financing institution, on the other hand, should be able to consider objectively and independently any request for financing presented with the support of the extension service while giving due weight to the latter's recommendations. If the extension service is to do its job effectively it must, of course, be fully conversant with the banks' lending criteria and inspire confidence on the part of banks that it is capable of providing small businessmen with the advice and guidance that will help ensure proper utilization of the credit extended.

A business extension service must have considerable autonomy within the government framework. Businessmen everywhere tend to distrust government and are disinclined to work closely with, and confide in, an organization that is not somewhat removed from government. The service will need to be able to attract highly competent personnel with qualifications quite different from those of the regular government service. It must therefore be able to determine its own salary scales and conditions of service. Above all, it must be protected as far as possible against political pressures. Experience demonstrates that such pressures are often brought to bear in order to get favors for particular clients. While no form of organization can ensure complete insulation from these pressures, an autonomous status can at least minimize them to some extent.

To safeguard the autonomy of an extension service it should have a board of directors consisting of representatives of the business and financial community as well as of the government agencies most concerned with the private sector. It is also important that it be emancipated as soon as feasible from sole reliance on government budget funds for its financing. For instance, trade associations, such as industry federations and chambers of commerce and industry, might be persuaded or perhaps even required to assume an increasing portion of the cost. Similarly, part of the cost might well be met by banks which participate in the financing of small business and which presumably will benefit from the operations of an organization capable of giving effective advice and guidance to small businessmen.

B. Scope of operations

When a business extension service is established, the initial scope of its operations should be rather modest. The service must be able to work intensively with those businessmen that have the

potentialities for development. Personnel limitations and the need to test various methods of business promotion make it advisable to confine its operations to a manageable geographic area and a limited number of business sectors. There will undoubtedly be strong pressures to extend the activities of the service prematurely to all parts of the country and a wider range of business activities, but unless these pressures are resisted its promotional efforts will simply become too widely dispersed to be effective. The scope of operations should be expanded only as the availability of capable staff increases and as the work of the service has demonstrated its practical value.

C. Staffing

The most difficult problem encountered in maintaining and expanding an extension service is that of finding competent staff. This problem is undoubtedly not easy to resolve. A business extension service demands a range of expertise far broader than that needed by an agricultural extension service. It must not only have a nucleus of permanent personnel expert in the problems of those branches of industry which are most common or prevalent in the country, but also be able to command from time to time the temporary services of experts on other industries that may not warrant the full-time employment of advisory staff. The qualifications of the personnel required are hard to meet. They must be people of practical competence capable of impressing businessmen by demonstrating concretely the application of what they teach or advise. The businessman is not likely to be impressed by someone who cannot show him how to deal with practical technical problems on the workshop floor or how to install accounting and record keeping systems that are pertinent and useful to the conduct of his particular business. Moreover, the personnel should be able to develop a sympathetic rapport with the businessmen with whom they work and should have a knowledge, or be enabled to acquire a knowledge, of the socio-economic factors conditioning the development of enterprise. They are unlikely to succeed unless they have some feeling of dedication to their task.

In staffing organizations designed to help small-scale businessmen there has often been too much emphasis on management experts and engineers with impressive academic qualifications. Management experts with degrees from schools of business administration and with management experience in large companies may know how to teach sophisticated management techniques, but they often have difficulty in addressing themselves to the simpler management problems of small-scale business and to adapt their methods of teaching and advising accordingly. Academically qualified engineers may be needed to make project studies, particularly for ventures of some size and technical complexity, but many of them are not equipped to advise on practical, technical production problems. Far more emphasis should be placed on the recruitment of good technicians with practical experience.

Finally, the qualifications of extension service personnel will need to be adapted to the evolving requirements of the enterprises they are seeking to help. This principle is perhaps best illustrated by the experience of India. In that country the Small Scale Industrial Development Organization (SSIDO) with its network of Small Industry Service Institutes and Extension Centers was long a model of its kind. Its technical officers who were the heart of the extension service were for the most part people of practical experience. Its activities undoubtedly made an important contribution to the rapid progress of the small-scale industrial sector. Yet, when its operations were observed closely a few years ago, its effectiveness seemed to have declined markedly. With the growth and diversification of small-scale industry, a need for more sophisticated and specialized technical and managerial advice and assistance had emerged. At the same time, however, the quality of SSIDO personnel appeared to have deteriorated rather than improved. There were not enough technical officers to cope with the increasing demand for higher-level and more specialized technical advice, and the available management experts were to a large extent not sufficiently numerous and experienced to cope with the more acute management problems which expanding enterprises were encountering. Conditions of employment no longer provided adequate inducements for the recruitment of fresh and experienced talent. Salaries had evidently not kept pace with the rising cost of living and were no longer commensurate with those afforded by alternative opportunities in industry. New recruits tended to have little or no practical experience; and the older officers complained of inadequate opportunities to update their knowledge of technology through extended visits and retraining in larger plants at home and abroad which employ a more sophisticated technology. This does not mean, of course, that SSIDO is no longer a useful organization, but simply that it is not as effective as it could be if its staffing patterns had been adjusted to the changing requirements of industry.

IV. SOME FUNCTIONS OF THE BUSINESS EXTENSION SERVICE

A. The need to avoid spoon-feeding

Before discussing a few of the functions of the business extension service, some comments on the spirit in which the service should approach its responsibilities as a whole might be in order. It should always be kept in mind that the fundamental objective is to develop businessmen capable of standing on their own feet and of surviving in a competitive environment. A business promotion organization should stimulate self-help and not seek to do for businessmen what these should learn to do themselves. Spoon-feeding does not produce self-reliant entrepreneurs.

It is sometimes suggested that the promotion organization should itself establish small factories and manage them until they are going

concerns, at which point they would then be sold to new businessmen. Undoubtedly it is easier for an inexperienced businessman to manage an enterprise whose teething troubles have been overcome. At the same time he has missed the extremely valuable learning experience which comes from starting a business from scratch. He has not learned how to set about planning an enterprise, how to obtain financing, how to procure the initial equipment, how to start up production and iron out the inevitable initial production problems, and how to develop a market for the products of the enterprise. It is these tasks which will test and develop his acumen as an entrepreneur. In discharging such tasks he should, of course, be able to call on the advice of the extension service, but the responsibility for the actual decisions at each successive stage in the development of the enterprise should be borne by the businessman himself. Moreover, if the business promotion agency were itself to establish and operate enterprises, it is very likely that virtually all of its personnel and resources would become quickly absorbed by a relatively limited number of ventures to the detriment of its responsibility for advising a much larger number of businessmen.

Another field in which an extension service may be tempted to do too much is that of marketing. The development of adequate markets is unquestionably of critical importance to small enterprises as soon as their output significantly exceeds the demand of a localized or neighborhood clientele. Because this is a difficult task, governments are sometimes inclined to establish and manage marketing organizations for small enterprises. Such a course seems to be ill-advised. It is true that common marketing facilities for a group of small producers may be necessary, but in that event the producers should be encouraged as soon as possible to assume joint responsibility for these. In the initial stages of their development small businessmen may need help in marketing or in obtaining orders, but if the promotional organization tries to take over these functions itself on a more or less permanent basis they may never learn to operate in a competitive economy.

B. Industrial activities for small-scale enterprise

On the whole existing small-business promotion organizations seem to have paid surprisingly little attention to the determination of types of industrial activities that small-scale enterprises are best qualified to develop with some prospect of success. Frequently there has been a tendency to assist businessmen in almost any branch of industry without adequate attention to the market, the competition likely to be encountered or the demands which the particular activity makes on managerial and technical skills. Even in India, which has long been engaged in the encouragement of small-scale industry, the Small Industry Service Institutes have apparently not had available to them the results of any systematic research on the types of industries suitable for small-scale development.

Economy of scale is the critical factor in the choice of such industries. The industries chosen must manifestly be able to operate

economically on a small scale. It is on the comparative economies of various scales of production that more research appears, above all, to be desirable. The degree of capital or labor intensity is only partially relevant to a choice. National economic considerations may require special emphasis on the development of labor-intensive industries, but in that event the type of large and medium-scale industries as well as small-scale industries will be affected. Experience in India has shown that successful small-scale industries cover a rather wide range of capital/output ratios. Capital intensive industries are not necessarily more difficult to manage. They are, however, more difficult to finance, and since any entrepreneur is expected to provide at least a part of the capital needed, a bias in favor of industries which require only a modest initial investment is inevitable. Another criterion is the needs of the economy. These may dictate, within such limitations as are set by economies of scale, the development or improvement of the production of goods and services that is not adequately meeting demand or that is taking place at levels of efficiency and quality which can and should be raised. Finally, the capacity of available and potential entrepreneurs should obviously be an important factor in delimiting the range of industries which such entrepreneurs can be expected to undertake successfully.

Within the framework of the above considerations, the suitability of specific branches of industry for small-scale businessmen will now be examined.

a. Modern manufacturing

Modern manufacturing in the sense of the manufacture of standardized articles for the national market presents considerable difficulties for inexperienced and new entrepreneurs in many developing countries. In this field they are likely to encounter strong competition either from imports or from much more experienced and larger manufacturing concerns (foreign or locally owned) which may already have been established in the country. The economies of scale characterizing such industries often make it difficult, in view of the limited domestic market, to produce at cost levels approximating the prices being charged for imports or for similar goods already produced in larger local factories. Above all, they usually require a broad range of managerial and technical skills which exceed the competence of all but a few local entrepreneurs. They may entail the mobilization of a considerable amount of capital and sufficient prior personal or business savings to provide the equity base essential for obtaining supplementary loan finance. A good knowledge of the national market and an ability to organize marketing on a national scale are required. The procurement of equipment and raw materials from various sources must be organized. Careful accounting must be instituted to control costs. Financial planning of a comparatively high order is necessary. Cash flows must be projected in order to ensure that sufficient resources will be on hand to meet debt service obligations, to replenish stocks of raw materials and spares and to replace equipment. Reserves must

be accumulated to surmount temporary fluctuations in the volume of business. Great care needs also to be exercised in the training, organization and supervision of the work force, involving an ability and willingness to delegate responsibility which most inexperienced businessmen have difficulty in developing.

This does not mean, of course, that assistance in the development of such manufacturing enterprises should in all cases be avoided. It does mean, however, that one must be considerably more discriminating in the selection of entrepreneurs. Only those who have a rather broad prior business experience are likely to succeed in this field. It has already been noted that successful merchants are more likely to have the experience requisite for such manufacturing than small-scale industrial and artisanal entrepreneurs who have been accustomed to working on order and to catering for a very limited local market.

b. Production of goods for local markets

Small industries producing goods for local markets, as distinct from a national market, are among those which can be encouraged. Quite a few developing countries are still characterized by a series of discrete though overlapping local markets. The factors responsible for the persistence of such local markets are various. The diversity of the population may contribute to a diversity of tastes and preferences to which local industries can cater. Limited purchasing power may create special demands for cheaper, low-quality products which cannot be readily satisfied by articles of uniform quality that are imported or produced by national industries. Limitations on local purchasing power may also make the national distribution of certain manufactured goods unprofitable. Above all, the lack of an adequate, efficient low-cost national transport network may be a continuing incentive to the development of local industries. Some of these factors militating in favor of the persistence of local markets may well become gradually less important. As purchasing power rises and tastes become more uniform, and as transport improves, national markets are likely to develop at the expense of local markets and local industries. On the other hand, transport obstacles are likely to remain for a long time in countries which are large or where there are formidable natural barriers to the development of an effective national transport network. Moreover, even where such a network has been developed or will be developed, there will remain opportunities for local production of goods which by virtue of their bulk, weight or perishability will be too costly to transport over long distances.

Among the items that can be produced for local markets are concrete blocks and other concrete products, bricks, tile and pipe; doors, windows and partitions; millwork of other types; furniture; wooden and paperboard containers; small boats, truck and bus bodies; bulky household goods such as beds, bedsprings and mattresses; and ice. The production of garments, footwear and other leather goods, ice cream, bottled beverages, and bread and other bakery products might also be

profitable depending, from case to case, on the extent of the local market, the special characteristics of the local demand, and the cost of bringing in competitive goods made elsewhere.

c. Processing of local raw materials

The second category of industries that could be encouraged consists of those relating to the exploitation and processing of local raw materials. Among these are quarrying and crushing of stone, gravel and sand; sawmilling and timber curing; charcoal making; brick-making; curing and tanning of hides and skins; drying, smoking and freezing of fish; and various types of agricultural processing such as the milling of locally produced cereals, vegetable oil extraction and, perhaps, canning and preservation of foods.

d. Service industries

Service industries, which by their very definition have to serve localized groups of consumers, are very suitable for small-scale enterprise. Among them are all types of establishments engaged in the repair of vehicles, bicycles, motorcycles, agricultural equipment, pumps, engines, radios, air conditioning equipment, watches, shoes, etc.; printing, photoengraving and lithographing; photography; custom tailoring; carpentry; plumbing and electrical installation; hairdressing; laundering and dry cleaning etc.. The promotion of such service industries has generally not had the attention it deserves, perhaps because they do not appear to be very glamorous. Yet their importance should be underlined. As the experience of modern industrial countries demonstrates, small-scale industries producing goods for local markets tend eventually to disappear in large part under the pressure of competition from larger, more efficient units capable of operating and marketing on a national scale. On the other hand, the need for service industries grows as purchasing power rises and the stock of capital equipment increases. The development of service industries for the installation, repair and maintenance of capital equipment and consumer durables is becoming an increasingly urgent problem in many developing countries. The conservation of capital equipment through better repair and maintenance facilities is necessary. Hire-purchase credit for the purchase of vehicles is generally limited to eighteen months because cars and trucks depreciate too rapidly for want of adequate repair. In some areas where an increasing amount of agricultural equipment is being used -- sprayers and tractor- and animal-drawn implements, for instance -- repair facilities are often insufficient. Thus the development of service industries which can be undertaken by small businessmen usually also meets a clearcut national need.

e. Production of parts and components for larger enterprises

In modern industrial countries small and medium industrial enterprises outside the service industries have managed to persist very largely because they have oriented their production toward the supply-

ing of large industrial undertakings. In the long run a considerable percentage of small-scale enterprises in developing countries should also turn to the production of parts and components for larger companies. However, there are certain prerequisites. Sufficient demand must be generated by enterprises which can advantageously sub-contract the production of a significant volume of parts and components. Above all, the small firms must be able to demonstrate their capacity to provide a regular, dependable supply in accordance with the exact specifications demanded. In other words, trust and confidence between large manufacturers and suppliers are necessary; and experience shows that these are slow to develop. Attempts to stimulate sub-contracting of production are often premature. A diversified small-scale industry, particularly in metalworking, must be established and prove its capacity before these attempts are likely to be successful. In India, where a relatively modern small-scale sector has become established over a considerable period of time, subcontracting has developed only in very recent years. The Indian government is promoting it with a variety of measures -- active propaganda and education of the producers concerned; establishment of special industrial estates in the vicinity of large plants, coupled with assistance by the latter in the organization and supervision of output; institution of special subcontract exchanges, etc.. Even so, the production of parts and components by the small-scale sector is still only a fraction of total output.

f. Construction

The promotion of construction industries in developing countries has so far received little or no attention. In India, for instance, construction is not included among the small-scale industries which the SSIDO is expected to encourage. In most countries measures to assist the construction industry seldom go beyond the reservation of part, or sometimes all, of building contracts to domestic contractors. This is all the more surprising because new construction usually accounts for between 45 and 60 per cent of total fixed capital investment in a country. Any developing country therefore has an important stake in ensuring that construction is carried out efficiently and well. Yet construction industries in developing countries are frequently characterized by high costs and poor quality.

Construction covers, of course, a very wide variety of activities, ranging from simple building to high-rise construction, and, in the field of civil works, from gravelling of roads and the execution of minor drains and culverts to the construction of large dams and port works. The demands on technology and management vary correspondingly. Not all countries will be able to develop domestic enterprises capable of meeting the entire demand for construction of all types. Foreign contracting firms may have to continue to carry out certain large and complex construction jobs, not necessarily because the requisite local expertise cannot be ultimately achieved, but because demand is insufficient to warrant development of domestic enterprises for this purpose. However, building and some kinds of civil works are well suited to

small enterprises. A business promotion organization might well find it worthwhile to assist small enterprises in this field not only to improve efficiency and quality of their operations, but also to extend their capacity gradually to a broader range of construction activities.

C. The role of industrial estates

The establishment of industrial estates or workshop clusters is widely considered to be one of the more effective means of encouraging the development of small-scale enterprise. At times, as in the case of India, other common facilities may be provided, such as machine shops, electroplating, heat-treatment and foundry shops, and laboratories.

The arguments in favor of industrial estates, though well-known, might usefully be recapitulated. By concentrating a considerable number of enterprises in one location, they can greatly facilitate the task of extending managerial and technical advice as well as other services. By providing premises that can be rented or sold on deferred payment terms they can reduce initial capital requirements below that which would be needed if the entrepreneur would have to build his own workshop or factory as well as equip it. On an estate or in a workshop cluster premises of varying size can often be made available on better terms than elsewhere, and the necessary infrastructure in terms of power, water, sewerage and roads can be provided. Many artisanal and small-scale industrial enterprises undoubtedly suffer from inadequate and overcrowded premises which do not permit an efficient organization of work and force much of the work to be carried out in the open air. Expansion is frequently impossible. Most of these premises are rented, tenure is often insecure, and rents tend to be very high. Power in many cases is not readily available.

Nevertheless, the importance of industrial estates to small-scale enterprise must not be exaggerated. It is unlikely that more than a small percentage of small business concerns will want, or will be able, to find accommodation on an industrial estate. The government of India, which put considerable emphasis on this type of assistance to business, had provided 303 estates by 1969/70. However, the 5413 workshops on these estates accommodated only 2.8 per cent of the total number of small industry units registered in India. Industrial estates are likely to be costly, particularly if they are heavily subsidized, as is often the case. They usually have to be located on the outskirts of a city which may be far from the places of residence of entrepreneurs and their workers. Such a location may not serve the requirements of some types of small business. Many service industries may be too far from their clients if situated on an industrial estate. The same is true of jobbing artisans who work for a neighborhood clientele. India's experience demonstrates that industrial estates in rural areas are often greatly under-utilized because the artisanal entrepreneurs who predominate in these areas prefer to be close to their customers or to conduct their business at their place of residence.

On the other hand, small manufacturing establishments catering to a wider market and not selling directly to their customers will often benefit from location on an industrial estate, provided, of course, the industrial premises made available meet their requirements with regard to size and type. In India industrial estates have been found particularly useful for grouping small enterprises which produce parts and components for a large factory nearby.

A small-business promotion organization should become well acquainted with the needs and desires of the entrepreneurs it is trying to assist in a given area before deciding on the advisability of developing an industrial estate. The cost of the premises and appurtenant facilities on such an estate should be carefully worked out in order to determine whether the enterprises to be located there are able and willing to support the rentals which must be charged. The desirability of establishing workshop clusters rather than industrial estates should also be considered carefully. The construction of such clusters in the form of workshops of varying sizes grouped together in one or several sheds may well be more useful in the early stages of enterprise development. They require a much smaller area than industrial estates and can therefore be established at various places in a city where enterprises can preserve the advantages of close proximity to their customers.

V. FINANCING OF SMALL BUSINESS

Earlier in this paper it was stressed that a business extension service should work closely with financing institutions but that the latter should retain full responsibility for the extension and administration of credit to small enterprises. The financing of such enterprises raises many complex problems which cannot be adequately analyzed within a few pages. However, a brief discussion of some of the more critical issues may be of value.

A. The issue of special financing institutions

One of these issues is whether a special institution should be established to finance small business. The banks which normally provide credit to business undoubtedly find it hard to finance small entrepreneurs who are still inexperienced. They encounter difficulties in identifying businessmen who have potentialities for development even though they are unable to present an adequate record of past accomplishments. In view of the rather high mortality of small enterprises, the risks often appear excessive. Banks therefore tend to charge extremely high rates of interest and to demand security in amounts that frequently are more than double the face value of the loan. In most cases the small businessman cannot furnish the necessary security; and even when he can, he may be saddled with interest and amortization charges which jeopardize the liquidity of his enterprise.

Thus it can be argued that a special institution, financed and owned by the government, is required to ensure financing in such volume and on such terms as meet the needs of emerging small enterprises. An institution of this type should, however, have many branches if it is to provide effective service to businessmen in widely dispersed localities. In fact it would for the most part have to duplicate the services and facilities of a normal commercial bank. Before setting up such an institution it is accordingly desirable to explore whether steps cannot be taken to make existing banks more effective instrumentalities for financing small enterprise. There are many advantages to using such banks. Nascent small businessmen should be accustomed as soon as possible to deal with the same financing institutions that cater to their more experienced counterparts. They should be encouraged to open and maintain accounts with regular commercial banks and, as far as practicable, channel their receipts and expenditures through such accounts. This in turn would provide the banks with a better basis for judging the businessman's performance. Moreover existing banks in most cases already have numerous branches which make it possible for them to serve businessmen in many locations; and they have staffs experienced in the extension and administration of credit.

What then should be done to make these banks appropriate agencies for financing small business? First of all, it is necessary to have a business extension service which operates in such a way as to inspire the confidence of the banks. An extension service can greatly facilitate lending by identifying potentially qualified businessmen, helping them to frame and justify applications for credit and assisting them on a continuing basis to resolve technical and managerial problems. Secondly, some system for guaranteeing or insuring bank credit should be introduced to diminish the risk of loss which otherwise would cause banks either to deny credit or to insist on excessive interest rates and security. Such insurance can only be provided by a government financed institution. Obviously the entire amount of the loan should not be insured. Banks should be expected to bear a portion of the risk so that they will continue to have a stake in maintaining their lending on a sound basis. Usually it will be sufficient to insure between 70 and 80 per cent of the loan. While the experience with credit insurance or guarantee schemes in developing countries is still brief, there is every reason to expect that such schemes will stimulate lending.

B. The coordination of short-term and long-term credit

There may be a problem in utilizing commercial banks as the primary or sole means of financing small business if these banks are prevented by law or by their charters from making investment capital loans as distinct from working capital loans. Both types of loans will be necessary. In the case of small, fledgling business enterprises, it is particularly important to coordinate the requirements for long-term and short-term credit. One must be determined in suitable proportion to the other; and the interest and amortization payments on both together ought to be fixed in a manner that their total will bear a reasonable relationship to the projected gross income of the enterprise and all the

claims on such income. Otherwise the burden of debt service on the enterprise may easily become excessive.

It should be possible to work out arrangements for the proper coordination of lending and debt service even if the commercial banks cannot provide longer-term investment credit. The small businessman, for example, might submit an application covering his entire credit needs to a commercial bank of his choice. The bank would review the application and determine, in consultation with the businessman and the business extension service, the component items of the total credit that could be extended in light of the projected cash flow of the enterprise and feasible schedules for payment of interest and principal. It could then make the short-term working capital component of the loan from its own funds and arrange for the extension of the longer-term component of the loan from either an existing investment bank or from an institution specially created for this purpose. The whole of the loan, including disbursements and collections, would be handled by the commercial bank with which the borrower would be obliged to do all his banking business. The commercial bank would in part act as an agent of the investment bank, receiving a small commission for this service. The cooperating investment bank would need to let the commercial banks know in advance on what terms it would be prepared to advance funds for capital investment, and it would, of course, have the right to review and reject specific loans involving the use of its funds. Both the working and investment capital portions of any loan would be insured under the credit guarantee system operating in the country.

It is sometimes argued that the development of small enterprise requires credit at lower interest rates and on longer terms than is normally made available to established business concerns with a good credit rating and that accordingly such credit should be extended by special institutions financed and subsidized by the government. If, however, the fundamental objective is to develop self-reliant businessmen, subsidized loan terms should be avoided. Experience indicates that it is virtually impossible to terminate subsidies once the conditions that might have justified them at the beginning cease to exist. A business extension service coupled with a credit insurance scheme should together help to make financing available on terms approximating those obtainable by enterprises which are larger, well-established and independently creditworthy.

It cannot be too strongly emphasized that a good business extension service is the key element in any financing arrangements. Without it, defaults on loans are likely to be insupportable both for the credit insurance scheme and the banks. Loans should therefore usually be extended only to small businessmen who are recommended by the extension service and who have demonstrated their receptivity to its advice and guidance.

VI. SPECIAL PROBLEMS OF THE LEAST DEVELOPED COUNTRIES

Much of what has been said in this paper about the identification and sources of entrepreneurship, the selection of industrial activities for small-scale enterprise, the role of industrial estates and workshop blocks as an instrument of promotion, the methods of financing and the organization and staffing of extension services or centres is as much applicable to the least developed countries as to those at more advanced stages of development.

However, it cannot be emphasized too often that programs must be tailored to the requirements of each country, that is, to the needs of new and developing entrepreneurs and to the needs of the economy. Before framing such a program some basic information must be gathered on the extent of already existing enterprise and its distribution by size, location and type of activity. Knowledge must be obtained about the principal constraints stemming from the nature and size of the market, the competition from non-indigenous businessmen and firms, limitations on the education and experience of indigenous businessmen, sociological factors, the availability of financing and the government's policies and practices. Only on the basis of this information can one determine the specific measures and policies that can and should be undertaken to promote small-scale industry and other forms of business enterprise.

To some extent it is possible to generalize about the conditions that will be encountered in the least developed countries or in extremely low-income countries, and, accordingly, about the types of programs that are likely to be necessary. Total domestic purchasing power may well be very modest, particularly when low per capita incomes are associated with a relatively small population; and this may seriously limit the scope for indigenous enterprise, especially in manufacturing industry. There may well be comparatively little indigenous enterprise, confined, for the most part, to petty trade, handicraft or quasi-handicraft industries, road transport, some service industries and simple building operations. Such enterprise as exists will probably be concentrated primarily in the capital and perhaps a few other urban centres where civil servants and foreign residents contribute to above-average purchasing power. There may also be little or no foreign manufacturing enterprise where local inhabitants have the opportunity to acquire some of the modern technical skills and knowledge of business methods that may enable them ultimately to start a business of their own.

At the same time it is well to recognize that there will also be differences among least developed countries that will dictate different approaches. Variations in educational development or in the degree of exposure to modernizing influences may be significant. The conditioning sociological environment will vary with the structure and characteristics of society. The urgency of developing new employment opportunities may not be the same. In some countries there are formidable geographic

barriers which tend to perpetuate the existence of rather small regional or localized markets; in others there are no serious physical obstacles to the development of a national market. There may also be variations in the homogeneity of the population that affect the extent of diversity in tastes and requirements and therefore the prospect of creating a national market for standardized manufactured products.

The geographic focus and the priorities among business activities that can usefully be promoted will be significantly influenced by the factors specially characteristic of the least developed countries. The geographic concentration of the limited purchasing power available will make it necessary to focus measures for the promotion of native industrial enterprise in a few urban centres. Conversely, efforts to promote rural industry are unlikely to prove successful whenever prior agricultural development has not generated an adequate market for industrial enterprises or for industries servicing agriculture. In India, where large parts of the country have lagged far behind others in development, the limited scope for rural industrial enterprise in "backward" districts has been amply demonstrated.

wherever the number and range of activities of local entrepreneurs are very limited, the scope and priorities of any promotional program must take this into account. Emphasis may have to be put, at least in the initial stages, on certain non-industrial or pre-industrial activities. If foreign trade, wholesale trade and even, to some extent, retail trade are in the hands of foreigners, the lack of successful indigenous merchants will cut off one important potential source of industrial entrepreneurship. Under these circumstances special efforts may have to be made to develop indigenous, modern traders by providing training, technical assistance and financial facilities, and also, under some conditions, by introducing progressive restrictions on foreign merchants and firms. When severe shortages of technical skills impede the development of indigenous enterprise, attention may have to focus on the establishment or reform of vocational training facilities where crafts and trade may be learned or existing skills upgraded. Experience shows, however, that great care must be taken to make their training really relevant. Not only must it focus on the practical skills that are really needed, but it should impart some knowledge of business methods and practices as well as of technical subjects. For people already employed in business enterprises whether as employers or workers, opportunities to attend "sandwich courses" and, above all, evening classes should be provided. Efforts should probably be made to stimulate the more promising pre-career vocational students to think in terms of starting a business of their own, particularly after they have served a practical apprenticeship somewhere.

Market limitations, affecting economies of scale, and the dearth and rather low level of development of existing enterprise will often make it inadvisable to give significant priority, in the initial stages of any program, to the establishment of small-scale modern manufacturing industries working for a national market. One will have to concentrate

on the gradual development of what already exists such as handicraft or quasi-handicraft enterprises producing simple consumer goods and building materials for local markets, small service or repair shops and small builders. Efforts will presumably have to focus on selective and progressive introduction of more machinery and equipment, gradual broadening of markets and sources of supply for expanding enterprises, improvement of technical proficiency, and advice and training in elementary business management. There may, of course, be exceptions to this order of priorities and this "gradualist" approach, depending on the special situations encountered in individual countries. In even the least developed countries there may well be some persons who have the education and who have acquired the job experience (whether in government, in enterprises abroad or elsewhere) that would qualify them, with appropriate assistance, to launch new and more sophisticated ventures. From the outset it may accordingly be necessary to work in some degree with people of varying backgrounds and qualifications.

When indigenous enterprise is only in the initial stages of development, the type and scope of government assistance will need to take this into account, while not losing sight of the need to develop businessmen who can ultimately stand on their own feet without various forms of special help, the government may well have to provide a degree of nurture and assistance beyond that required in countries where business enterprise is already more developed. Thus if nascent but inexperienced indigenous businessmen are severely handicapped by competition from far more experienced foreigners or foreign firms, there may be greater justification for at least temporary measures to protect them in some measure against such competition. More emphasis may have to be put on assistance with problems of marketing and procurement of raw materials and machinery which individual small and inexperienced businessmen often find difficult to resolve. The government may therefore have to establish facilities for common marketing and procurement, although, as indicated earlier in this paper, the eventual aim should be to have the affected businessmen themselves gradually assume responsibility for such essential business functions, either individually or through cooperatives under their own management. In addition, more emphasis may have to be put on channeling government orders to struggling enterprises in order to give them the necessary work experience.

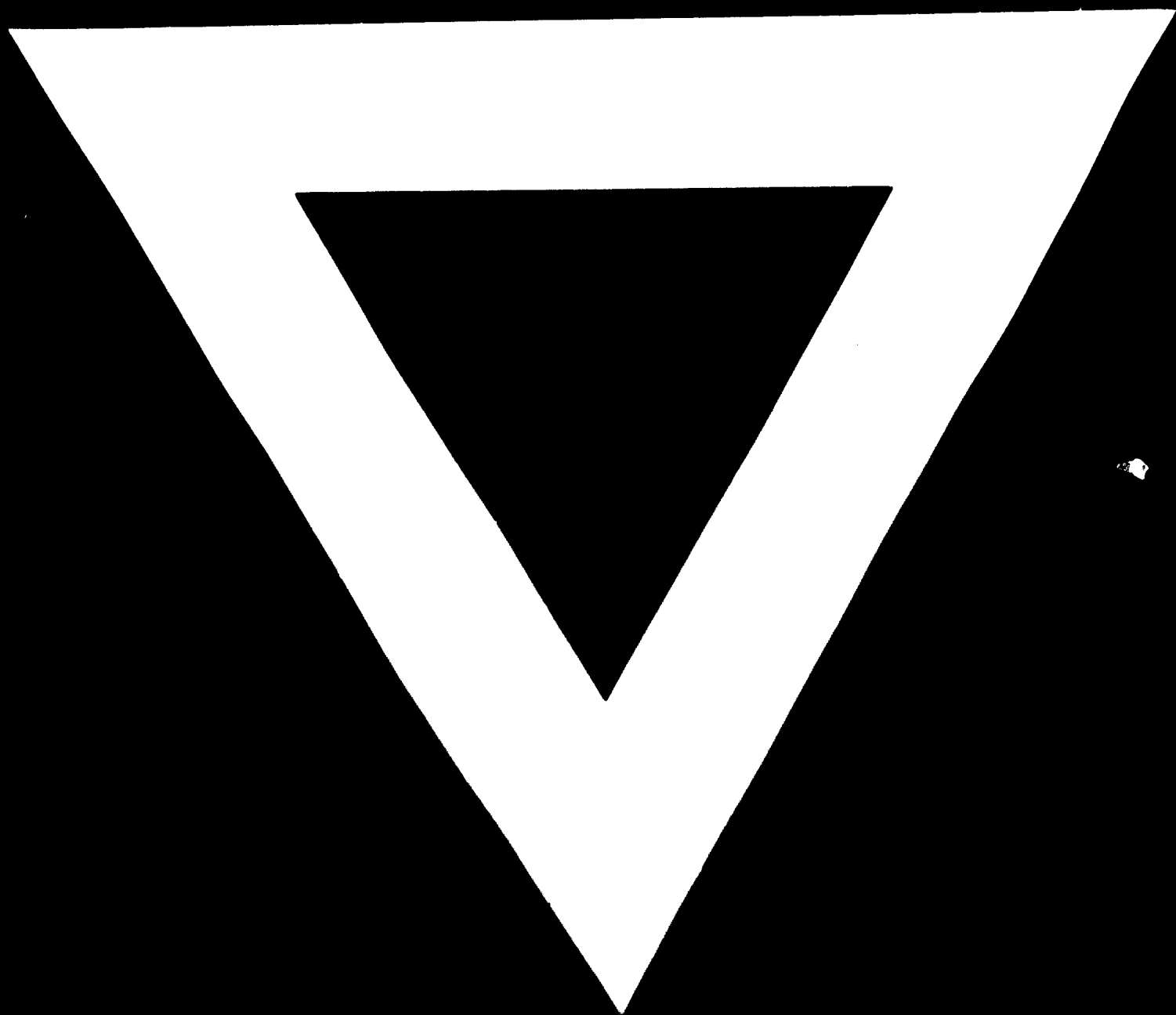
In a few cases the government business promotion organization may also find it advisable to build some model factories itself with the aim of eventually turning these over completely to new entrepreneurs who might have the necessary educational background but who, owing to deficiencies in technical or business experience, need to undergo a period of practical apprenticeship under an experienced manager before assuming complete control. To be sure, skepticism about the practicability of such a measure was expressed earlier in this paper. Under carefully defined and exceptional conditions, however, it may be worth trying, particularly if no alternative method of introducing some modern small-scale industry appears feasible. Its success will largely depend on the ability to find a manager able not only to manage the plant efficiently but to train the understudy who is slated to be the eventual owner of the enterprise and who should be associated with the new enterprise from the beginning.

Finally, special provisions for financing small-scale enterprises may prove necessary in the earliest stages of development. It has been pointed out previously that facilities should be provided to enable existing institutions to participate as early as possible in financing emerging indigenous businessmen, and also that the tasks of furnishing technical and promotional assistance on the one hand and financing on the other hand should be entrusted to separate independent institutions. Initially, however, this may not always be feasible or necessary. Commercial banks may be unwilling to cooperate until the program for promoting small-scale enterprise is past the experimental stage and has yielded some concrete results. If, as seems probable, the first program is largely experimental in character and confined to one or two urban centres it will probably be advantageous to keep the organization as simple as possible. Thus a single institution might be made responsible both for technical advice and for financial assistance so that in the initial stages the relatively unsophisticated and inexperienced entrepreneurs can get all the help they need by dealing with only one institution. However, resort to this approach will reinforce the need to make the promotional organization truly autonomous so that it will not become a vehicle for dispensing government favors in accordance with political criteria.

The particular problems of the least developed countries may not only necessitate emphasis on special forms of assistance, for an initial period, but may also obviate the need for certain measures that are likely to be more appropriate to a later stage of development. For example, industrial estates which are likely to be particularly advantageous to modern manufacturing industries marketing their products over a fairly extensive market through intermediaries may not be immediately needed. For the quasi-handicraft enterprises and service industries that will predominantly characterize the early stages of enterprise development the establishment of smaller but more numerous workshop blocks or clusters may be more useful, particularly since they preserve the advantage of proximity to the neighborhood or localized clientele that such enterprises are likely to serve. Similarly, the institution of sub-contracting is unlikely to be a useful promotional device at this stage when enterprises will probably not have developed the capacity to produce parts and components of the requisite quality and standardized specifications.

Finally, it should be stressed that the governments of the least developed countries should be specially cognizant of the fact that efforts to promote small-scale enterprise can be expected to yield significant results only over a long period of time. The development of the human potential involved is inevitably a slow process.





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