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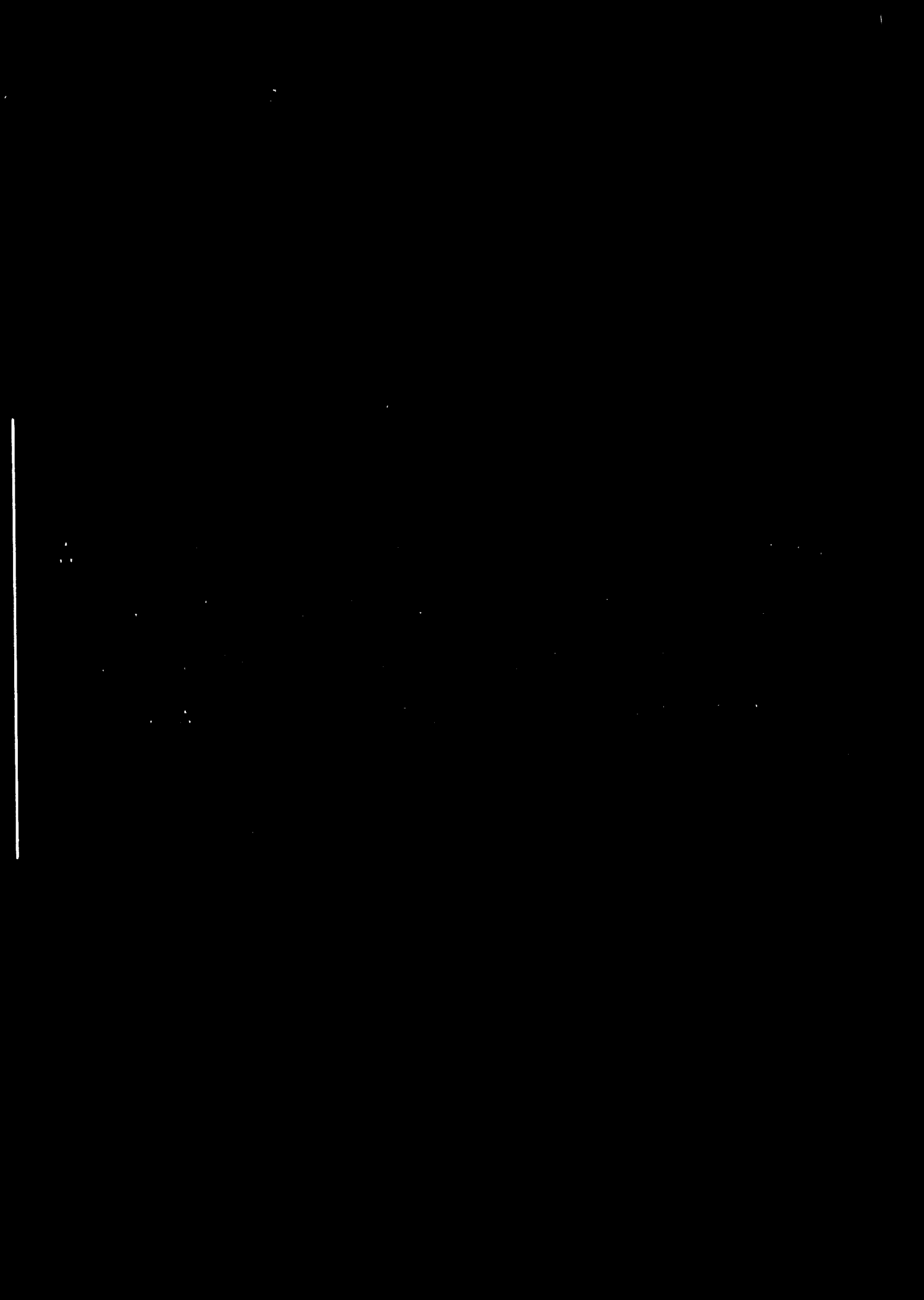
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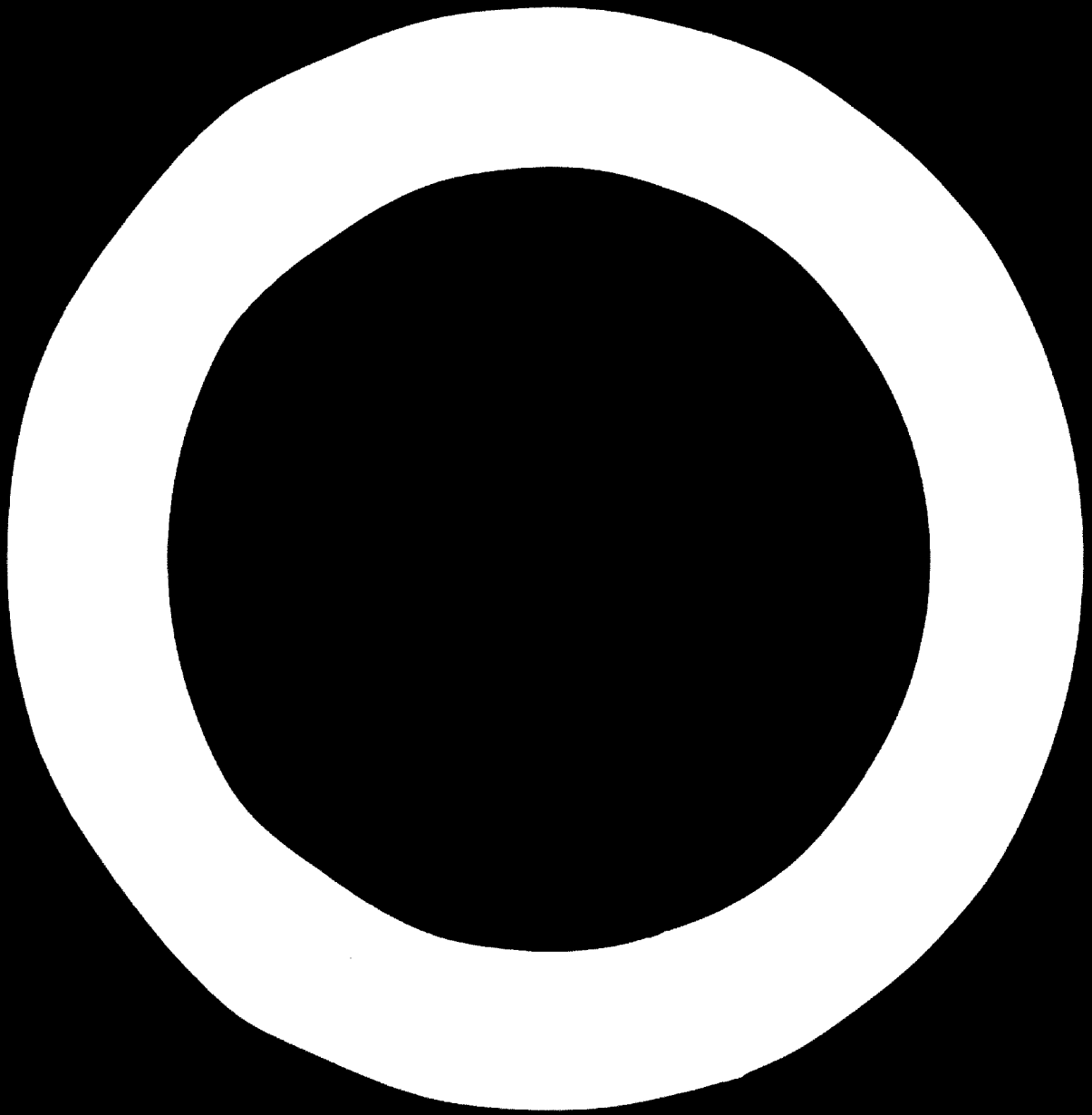
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HELP AND SELF-HELP.<sup>1/</sup>

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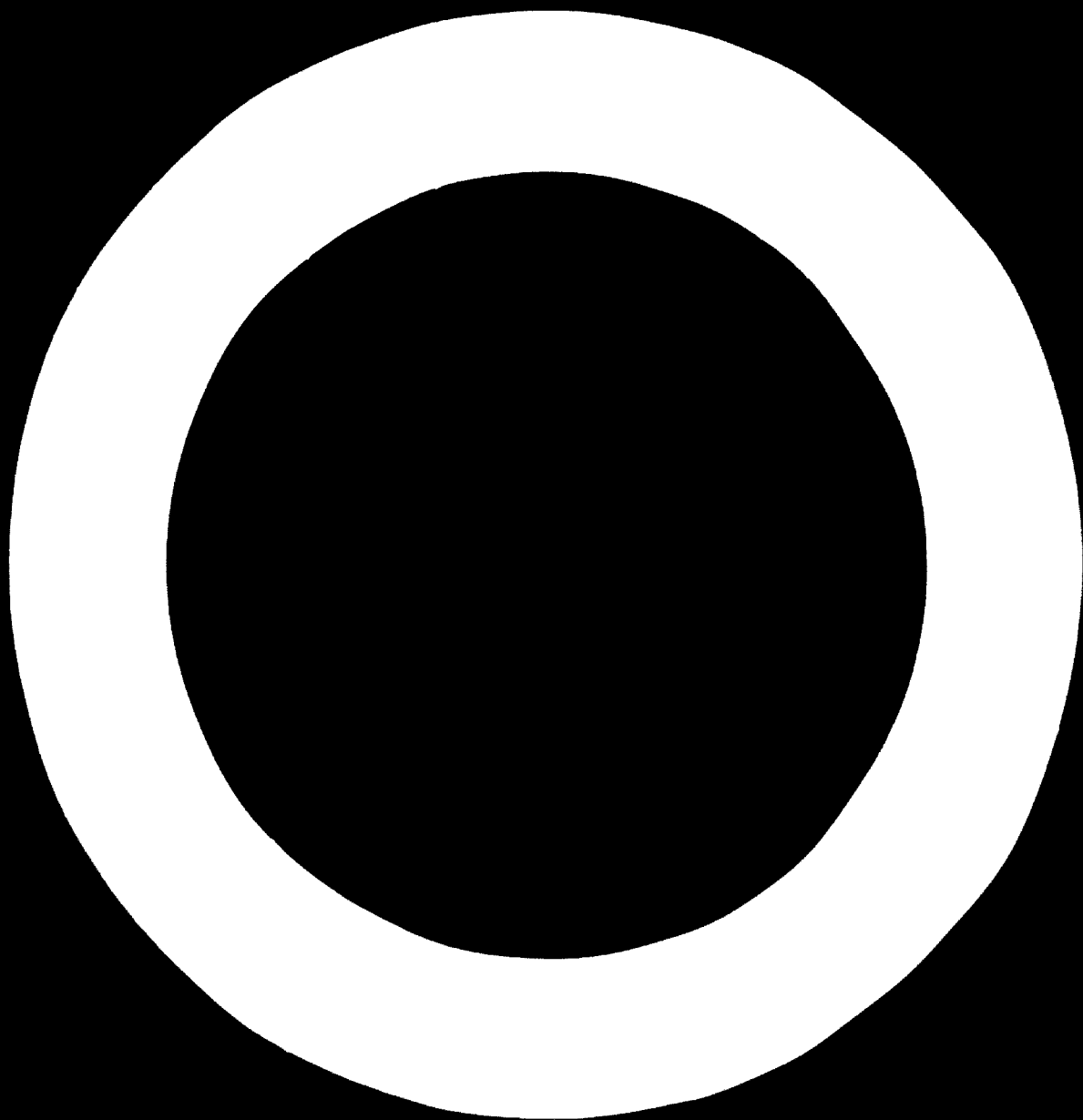
<sup>1/</sup> This document has been presented to the Second Afro-Asian Conference on Small-scale Industry, New Delhi, India, 19 - 23 April 1971. This document has been reproduced without formal editing.





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### Introduction

It is axiomatic that, both in the developed and the developing countries, small industrial enterprises are in need of special measures of promotion and assistance such as extension services, liberal financing and industrial estates, and that the support they need should be provided at the initiative of the Government, and usually, though not always, by it. The deficiencies in technical and managerial knowledge of those who make up the small-scale entrepreneurial class, their weaknesses and handicaps in obtaining financing or in marketing their products are such that, even in the most "laissez-faire" economies and in the most highly industrialized countries, small industrialists are not left entirely to their own devices.

It should be no less evident that a programme of assistance to small-scale industries should not result in keeping these in a state of dependence towards the giver of aid, but that it should be aimed at building up strong, efficient enterprises, self-supporting and self-reliant. The implication of such a policy is that help should be concentrated on the initial stages of the establishment and operation of an industrial enterprise or on the early phases of a programme of plant modernization, with a view to inducing, facilitating and accelerating self-help by the entrepreneur and self-sustained growth of his undertaking. From this standpoint, rapid achievement of self-help is a major objective of help.

This view has a number of implications regarding the scope and limits of assistance, its intensity and duration, the selection of beneficiaries, the obligations which these should assume, and the arrangements for eventual take-over by the industrialists of responsibilities for certain types of facilities originally put at their disposal in the form of help. It has also some implications regarding the scope and limits of self-help.

### Limits of help

It is a basic principle of assistance that maximum support should be given to those who need it most and who, at the same time, are able to make use of it effectively and rapidly, both in the interest of their enterprise and in that of the community, local or national, of which they are a part. It is on this principle that small industry development programmes are or should be based. This sets out one of the limits of such a programme of assistance - the restriction of its benefits to industrial enterprises of a given size range; this will usually be defined by a legislative or administrative act, in the form of a ceiling on investment in fixed capital, employment, or both, with or without a lower limit.

The purpose of a definition of small-scale industry is to identify that part of the manufacturing sector which is in need of, and is entitled to, special measures of promotion and assistance. That sub-sector is given a special status in recognition of the particular difficulties with which it is confronted and of the importance of the role it is called upon to play in the national economy. This special status may appear to be a privileged one. Up to the limits of the definition, an industrial enterprise is entitled to certain benefits. Beyond the limits - even if it exceeds these by a single monetary unit or a single worker - it has no right to them.

It may be questioned whether any privilege is granted when help is given to an under-privileged class of enterprises with a view to offsetting their handicaps and enabling them to stand on their own feet. It is legitimate to give such help and it is undoubtedly correct to set a cut-off point at which the need for help may be considered to have disappeared or to have been substantially alleviated.

The ceiling or ceilings of the definition of small-scale industry should therefore be set at realistic levels. If they are sufficiently, though not excessively, high, most enterprises will be situated well below these limits and their need and right for help should not give rise to contestation. Continued availability of help within the limits of the definition would be an incentive to further growth, as well as a means of achieving it. Ceilings set at reasonable levels



should not deter any dynamic enterprise from crossing them and growing further. Indeed, the ceilings should be set at levels at which the need for help of healthy enterprises should be considerably reduced if not eliminated.

Thus, while a definition of small-scale industry gives the same rights to all enterprises that find themselves within its limits, it assumes that the needs for assistance of the enterprises will decline as they grow, and that recourse to most benefits will no longer be indispensable at higher levels of their development. There is usually a correlation between size and strength, and it is legitimate to assume that an industry growing from small-scale to medium-size would forego assistance without qualms. At higher levels of enterprise development, the special status granted to small-scale industry should normally fade away into the common status.

The assumption of reversal to common status at a specified level of enterprise development may however not be verified entirely in all economies. In countries without an established industrial tradition, such as the newly-independent countries of Africa where few and sometimes no modern indigenous small industries exist, the need for certain forms of help may be in evidence even in enterprises exceeding the limits of the definition. Inadequate knowledge of technique, management and marketing may subsist for a long time in indigenous enterprises having grown from small to medium size. Quite evidently, assistance should, to the extent possible, be given to all those who need it as long as it is required. There may be a point, indeed, in African and some other countries, in reserving a special status to indigenous industries in general, irrespective of their size, at least as far as provision of certain types of services is concerned.

Thus, even the larger indigenous enterprises may feel the need for industrial extension services in the form of technical and managerial counselling and training, and should be entitled to receiving such assistance. Government-sponsored extension services, however, need not necessarily be provided to them free of charge, as would usually be the case for small-scale industries, since the larger enterprises would be able to pay for them.

On the other hand, the use of such facilities as standard factories in industrial estates, hire-purchase of machinery, preferential government purchasing schemes, etc. should, in such economies, be reserved to small-scale industries as legally defined, since such benefits are aimed at helping enterprises which, because of their small size, suffer irreducible handicaps and drastic financial hardships. At relatively higher levels of enterprise development, such handicaps and hardships should normally have been overcome. Moreover, some of these facilities, e.g. standard factories, are physically "tailored" for occupation by small firms, their number is necessarily limited, their cost is high and restrictions on their use are therefore imperative. As regards the larger common service facilities like tool rooms or testing laboratories, they might, within the limits of their capacity, be used by enterprises of all size.

While some of the advantages normally reserved to small-scale industry would not be indispensable to larger enterprises, they might still be of great value for many of them, in particular to accelerate growth and to facilitate modernization, diversification or, on the contrary, specialization of production. For this reason, special higher limits may be set for certain types of industries considered to be of particular priority, for instance export or subcontracting industries. A special definition exceeding that applying to small-scale industry in general may be adopted for these particular industrial groups, to make available to them all or part of the advantages normally reserved to smaller enterprises. They might even be given additional benefits, for instance, more favourable tax concessions.

Thus, the limits of a programme of assistance may also vary according to the priorities of the industrial development of the country.

The ability of a country to muster the necessary resources in personnel and facilities to carry out a programme of assistance to small-scale industry is another limit, and a stringent one. In the face of competing needs in all areas - education, health, agriculture, transport, industry and so on - resources in many developing countries are inadequate to meet thoroughly any single need. There

is no simple and really satisfactory solution to the problem of allocation of extremely scarce resources to different but equally urgent needs and the determination of priorities in such conditions is one of the most difficult tasks confronting Governments in the least developed countries. Small-scale industries need assistance at all stages and in all aspects of establishment, production and management and the implementation of an integrated programme covering all their needs on a country-wide basis calls upon substantial human and financial means. National experts in technique and management are usually very scarce, industrial estates and service workshops are expensive; foreign technical co-operation experts are often hampered by lack of suitable counterparts and by the inability or unwillingness of Governments to allocate sufficient funds to build estates, to set up extension centres, to provide credit facilities and to adopt other measures of promotion.

This explains the fact that, in too many countries - with some outstanding exceptions - the promotion of small-scale industry is carried out through piece-meal measures rather than through integrated programmes and that the scope and, all too often, the quality of assistance are inadequate. The result is stagnation: indigenous small industries are not established, or do not develop, or do not modernise, or even do not survive.

There is no reason why this situation should be so widespread. Even the poorest countries should be able, with foreign technical co-operation, to finance and man a nucleus industrial extension centre, to allocate funds for credit on liberal conditions to small-scale industries, and, in most cases, to set up one small industrial estate; and, in the course of time, to develop further these three fundamental tools of promotion, and gradually to adopt other measures of support. But this requires, on the part of Governments, a deeper conviction than evidenced thus far that the development of small-scale industry is a major policy objective, and not only an economic, but a political and social one as well, and that, to achieve it, a diversion from other needs of even very scarce resources would be justified.

Since reference has been made to foreign technical co-operation it may be mentioned that inducing self-help is as fundamental a principle in foreign aid as it is in national extension service. No foreign expert should be expected to carry out tasks which national officials should normally undertake, though, as intimated earlier, many experts do so, either because of lack or unsuitability of counterparts, because of government directives or because of their own inclinations. Similarly, national extension officers should not substitute themselves for factory owner-managers, but should impart knowledge through training and demonstration so that the recipients of assistance are enabled to solve their problems themselves. But then, the quality of assistance -- whether foreign or national -- must be such as to make this possible. The training of extension workers should therefore be a fundamental element in a programme of development of small-scale industry.<sup>1/</sup>

The scope and limits of such a programme might vary according to the location of small-scale industries. In the large cities where "external economies" exist and where industrialization proceeds spontaneously, less may have to be done for each individual enterprise than in the smaller towns where incentives and measures of support should be provided for a long time to ensure the establishment and growth of enterprises facing greater handicaps. Very often, it is not so much the scope or volume of assistance to individual enterprises that will vary with location as its duration. It is likely that, because of the more favourable environment, the stage of self-help will be reached sooner by enterprises in the large towns than in the smaller ones. However, it is already difficult enough to set up an industrial extension centre in the main urban centre, and decentralizing its services to cover other regions is even harder. The provision of occasional help through itinerant

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<sup>1/</sup> While recent attempts to provide extension services to small-scale industry in a region, a sub-region or even in several countries by a single multi-national centre have not been successful, there are strong reasons for believing that the training of extension workers could and should be carried out as a regional or sub-regional effort, or, perhaps more importantly, on a linguistic basis, the multinational training centres catering, respectively, to English-speaking, French-speaking and Spanish-speaking trainees.

experts or teams of experts is, in many countries, the best that can be done. But it is worth doing it; such help should be scheduled on a regular basis and given as long as required.

In some particularly disadvantaged locations, but which, however, offer the minimum conditions for the establishment of industries, sharper differentials may be needed in terms not only of duration of assistance but also of scope. Thus, tax concessions and financial aid may need to be more generous, certain services may have to be provided entirely free of charge, rents for factories in or outside industrial estates may need to be more heavily subsidized and for longer periods of time, and certain forms of aid, not available elsewhere, may need to be resorted to, for instance, subsidies to reduce the cost of power, freight or raw materials.

This raises, however, the question whether, in the conditions of extreme scarcity which characterize so many developing countries, help should not be concentrated where it is likely to produce maximum and fastest results, rather than being spread thinly over broad areas. This consideration has undoubtedly been decisive in the less developed of the developing countries where assistance - when it is being provided - is invariably concentrated in a few growth points, though the needs for a more balanced development are as great there as in the relatively more advanced countries. Thus, the level of development and the scope, amount and quality of resources which may be made available by the Government constitute other limits to a programme of promotion of small-scale industry.

It is a fact that, in the least developed countries, such as those of Africa, where small industry is still at a rudimentary stage, and where a massive effort would be necessary to achieve a rapid breakthrough, this has not been done so far, even in the most promising locations, for want of policy, of funds and of expertise, both national and foreign.

Another limit of a programme of assistance is the capacity of the entrepreneur to absorb help. A programme of assistance to small-scale industries should not artificially maintain alive weak and inefficient enterprises. If a small entrepreneur, because of lack of ability and drive, is unable to make good use of the assistance he

receives, this should undoubtedly be discontinued, though such a decision is difficult to make. It may be expected that, in time, the scope and intensity of assistance would normally decline, but the period required may vary appreciably from one enterprise to the other. It would be up to the extension officers to judge whether assistance to any given firm is fruitful or is wasted. In extreme cases, a recommendation to give up industry and to turn towards other activities - trade, construction or services - might be the best advice an unqualified industrial entrepreneur might receive.

There are, so far, no scientific techniques for identifying in advance potentially successful entrepreneurs. Perhaps research along the lines of McClelland's achievement motivation techniques - applied until now for enhancing the abilities of established entrepreneurs only - might lead towards a rational identification of such qualifications as willingness to assume risks, ability to take management decisions, to exercise leadership and, at the same time, to delegate authority, to organize and plan production processes, to train subordinates, etc. which are part of the composite make-up of an effective entrepreneur. An entrepreneur should be able to forgo assistance after a certain period of time, but no rigid limits to scope, intensity or duration of help can evidently be set out.

#### Limits of self-help

There are limits to self-help as there are limits to assistance. A small entrepreneur cannot and should not be expected to become entirely self-sufficient in the conduct and development of his undertaking. Because of some inevitable handicaps of smallness, he will be heavily dependent on the good will of financial institutions for credit, on that of large industries for subcontracting work and on wholesalers and other tradesmen for procuring his raw materials and marketing his finished goods.

For solving most other problems in running his business, he will be on his own, all the more so since the very smallness of his resources will usually prevent him from hiring technicians, accountants and other specialized personnel and from resorting on a commercial

basis to the services of engineering consultants or marketing specialists. He will have to rely on himself for organizing and managing economically his plant, for solving effectively the production, management, marketing, labour, fiscal and other problems which may arise, and for planning and implementing rationally programmes of modernization, expansion or diversification of his enterprise.

Self-help, however, is a concept covering not merely the action of the individual entrepreneur, but also that of groups of small industrialists - associated in co-operatives, ad hoc groups, or professional organizations such as federations of industries or chambers of commerce and industry.

Self-help through the individual effort of the owner-manager is the preponderant form of entrepreneurial initiative and action in market-oriented economies based on private enterprise, while self-help through co-operatives is a distinctive form of small industry organization in socialist economies.

In some market-oriented industrial countries, the organization of ad hoc groups for "collective actions" such as training, research, participation in exhibitions, begins to take place and some role is played by co-operatives, mainly for procurement, marketing and services, but not for production, since the organization of production co-operatives appears to conflict with the desire for independence and self-determination of the industrialists. In these countries, most professional organizations are reluctant to go beyond their traditional functions of representation and protection and to engage in promotion and assistance to small-scale industries; there are, however, a few exceptions, as in the case of the promotion of sub-contracting.

In most developing countries, the situation is similar or worse; the development of co-operatives is extremely limited, the organization of ad hoc groups is not attempted and the undertaking of promotional action by professional organizations is negligible or nil.

One of the reasons for the lack or inadequacy of collective self-help action in the developing countries (and perhaps in some industrial ones) may be that Governments have not provided sufficient

encouragement and assistance for the establishment of co-operatives and for the undertaking of promotional activities by professional organizations. It would undoubtedly be worth trying to do so, for instance through tax relief, subsidization - e.g. for hiring of extension officers by chambers of commerce and industry - and other incentives. Subsidies might even be used for making available to small-scale industries the services of private consultant firms, whose full fees are usually prohibitive for them. Such measures tend to facilitate self-help at both the sectoral and the enterprise levels and to foster inter-servicing among industrial and commercial concerns, as a complement to the promotional and assistance activities of the Government. The cost to the Government of such encouragements would normally be modest.

#### "Pump-priming" and "follow-up"

What precedes suggests that Government assistance to small-scale industry should mainly take the form of "pump-priming" and "follow-up" action. By "pump-priming" is meant an action limited to giving an initial impetus expected to set in motion a self-sustained and cumulative development by the beneficiaries - individual entrepreneurs or groups of industrialists. This being achieved, only "follow-up" action - regularly scheduled or occasional - would be required on the part of the giver of aid.

This will be briefly discussed with reference to specific measures of promotion, namely, industrial estates, extension services and common facilities, demonstration plants, financing and subcontracting.

#### Industrial estates

Industrial estates are one of the most effective - and most costly - instruments of promotion of small-scale industries, but no development programme contemplates that, in the long run, the majority of small factories will be set up in industrial estates.

The industrial estate is a typical pump-priming and demonstration device which is mainly intended to overcome, especially in locations where small-scale industry is inadequately developed, the con-



siderable initial difficulties of creating modern industrial enterprises. The number of government-sponsored industrial estates can only be limited and, in the long run, the overwhelming majority of small-scale industries would settle outside of them. A Government-sponsored industrial estate programme is also expected to have a demonstration effect inducing other bodies - local governments, consortia of public and private interests and private groups - to follow suit by setting up their own estates.

Pump-priming may take the form of successive steps, gradually extending from maximum support to complete withdrawal by the giver of aid and take-over by the beneficiaries. Thus, in the case of industrial estates, rent of factory-buildings may need to be subsidized initially, but subsidies should be granted only for a specified period of time (say, five years) and should diminish from year to year, until the occupant is able to pay the economic rent. Whenever possible, factories should also be offered, from the beginning, for sale, outright or on hire-purchase terms, so as to build up the independence of the entrepreneur and, at the same time, accelerate recovery of the initial investment by the Government and make it possible for it to plough back funds in other development projects.

At some point of time, the ownership and management of the estate as a whole - and of the common service facilities - should be turned over to the occupants, organized whenever possible in co-operative associations. Once government-sponsored estates have been built and occupied on a sufficient scale and the desired demonstration effect has been achieved, encouragement might be given to the establishment of co-operative estates, largely financed by their members and managed by them. Such encouragement might take the form of complementary financial assistance, credit guarantee, tax relief, and technical counselling.

At some stage, it might become possible for the Government to slow the rate of building standard factories in advance of demand and eventually to discontinue their construction altogether, while still providing some assistance to small entrepreneurs to obtain the necessary physical facilities. The construction of standard factories is, indeed, the most expensive and resource-tying element of an industrial

estate project. As entrepreneurship is being successfully stimulated, several successive steps, involving less and less government expense, may be taken in a given location: building factories for identified entrepreneurs only, for lease or sale; developing industrial areas offering only plots with the necessary infrastructure - power, water, roads, sewers, etc., making available unimproved sites within or outside such areas. In the last two cases, some financial and technical assistance would be given to the entrepreneur to put up his own factory building and, in the last case, also for installing the utilities. Land for industrial use being scarce in most important urban centres, such incentives might prove to be enough to stimulate the establishment of new small-scale industries or the branching out of existing ones, in particular of those which have outgrown the facilities put at their disposal in industrial estates.

In some metropolitan centres, the shortage of land for industrial use may be such as to make possible the operation of private commercial, profit-motivated industrial estates or areas. When this is the case, some government assistance to such concerns, e.g. through facilitation of financing by commercial banks or even through temporary tax concessions or accelerated depreciation allowances, might be an effective means of providing physical facilities to small-scale industries at a modest cost for the Government.

#### Extension services and common facilities

As already stressed, extension services should be provided primarily at the early stages of the establishment and operation of a small industrial enterprise and should be aimed at making it self-supporting as rapidly as possible.

To the extent, which is considerable, to which extension work takes the form of training and demonstration, it should, as a rule, be provided free of charge, education being considered, in most countries, as a public service financed by the community at large.

Extension services analogous to those provided by commercial firms, e.g. manufacture of dies, jigs and fixtures by common-facility tool rooms should normally be paid for, though subsidisation might sometimes be necessary and complete gratuity, at least during the

"infant" stages of a new enterprise, should not be ruled out, especially in countries where industrialization just begins.

As in other cases of subsidization, a system providing for gradual reduction of the subsidy until economic cost is reached at the end of the subsidization period, may be devised. The subsidization period should be equal, roughly, to the length of time needed by an average enterprise to become self-supporting, in other words, to be able to forgo special support and to assume its own status.

The concept of the common service facilities is based on the fact that, for certain manufacturing operations, it may be uneconomic for an individual small enterprise to own certain pieces of equipment used to develop, within its premises, certain types of services. The equipment required may not be used at a sufficient percentage of capacity, or may be too expensive or too complex, the skills may be unavailable or too difficult to master. This is frequently the case of such manufacturing operations as those carried out in tool rooms, heat treatment shops or wood-seasoning plants, or of such industrial services as those provided by testing and quality control laboratories.

There is, for a government promotion agency such as an industrial extension centre, a justification for setting up and operating itself such workshops or laboratory if there is, currently or in the immediate future, a substantial demand for such services, if it is felt that their provision would contribute substantially to improving productivity and product quality and reducing costs in small undertakings and - a most important condition - if no private commercial undertaking engaged in such operations or services exists or is to be established in the vicinity.

In countries where the promotion of small-scale industry tends to stimulate and assist private enterprises - which is the case in a majority of countries, no government facility for small industry should compete with private initiative; in other words, such help should not replace, prevent, or conflict with, self-help.

Whenever possible, a government-sponsored common facility should, after a certain time, be transferred to private ownership and management - either to an individual firm or, preferably, to a co-operative of the users. This would be relatively easy to achieve when common

service facilities are set up on an industrial estate, especially when the ownership and management of the estate are transferred to the occupants. In some cases, it should be possible, from the outset, to set up a common facility on a co-operative basis or to have it sponsored by a professional association.

### Demonstration plants

In a few countries, governments have set up publicly-owned small plants, in particular in the first standard factories on an industrial estate, with a view to "prizing the pump" through demonstration, and inducing and accelerating thereby further occupancy of the estate by private entrepreneurs.

This measure may indeed be effective but ownership and management of such plants should evidently be turned over to private entrepreneurs at the earliest possible time.

Equipment may also be acquired by an extension centre for demonstration purposes with a view to stimulating new entrepreneurship. In some countries at very early stages of industrialisation, industrial enterprises might have to be set up on an extremely small scale, with one or two machines and a few workers to begin with, a gradual expansion taking place in the course of time, as resources for further investment become available in the enterprise. When there is scope, in such a country, for several industrial enterprises using a given type of equipment, the actual demonstration of the machinery may induce entrepreneurs to come forward and to engage in relevant activities. Facilities should be given for the installation of the entrepreneur in suitable premises, for the purchase of his equipment, raw materials and other necessities, and for technical and managerial counselling in the conduct of his business. When entrepreneurship has been sufficiently stimulated, the demonstration machinery should be turned over to one of the new industrialists.

### Financing

The achievement of full self-financing, even by prosperous enterprises, is not and cannot be an objective of an industrial development programme. Any enterprise, large or small, has to turn at some point

to financial institutions for a variety of purposes, for instance in order to carry out without delay a programme of modernization or expansion.

While small-scale industries need credit on easy terms, some effort by the borrower should be called for even under the most liberal financing system. It is a sound banking principle that no loan, whether conventional or under hire-purchase, should ever cover the totality of the needs of the borrower. Requiring some contribution from the beneficiary is also a sound promotional principle.

The key to the financing of small-scale industries is to link technical assistance to financial assistance, both at the stage of application for credit and at that of use of funds. An industrial extension centre should co-operate with financial institutions in making a technical evaluation of the needs for credit of a small entrepreneur and in giving him the necessary help to use properly the proceeds. Supervised credit is consonant with the basic approach of promoting small-scale industry by giving an initial impetus and following it up with subsequent assistance.

An example of the pump-priming approach to financing is provided by the system of temporary equity participation by government and/or commercial financial institutions in the capital of a small industrial enterprise. Under this system, which makes it possible to raise from the outset an adequate volume of capital and to guarantee loans from commercial banks, the small enterprise commits itself to refunding the outside contribution within a certain period of time. The entrepreneur then becomes the sole owner of his business.

There are also forms of collective self-help in financing, for instance co-operative credit or mutual indemnity financing. These forms of self-help, as the others, have not been sufficiently practiced in most developing countries, and there is scope for government assistance to promote them.

### Subcontracting

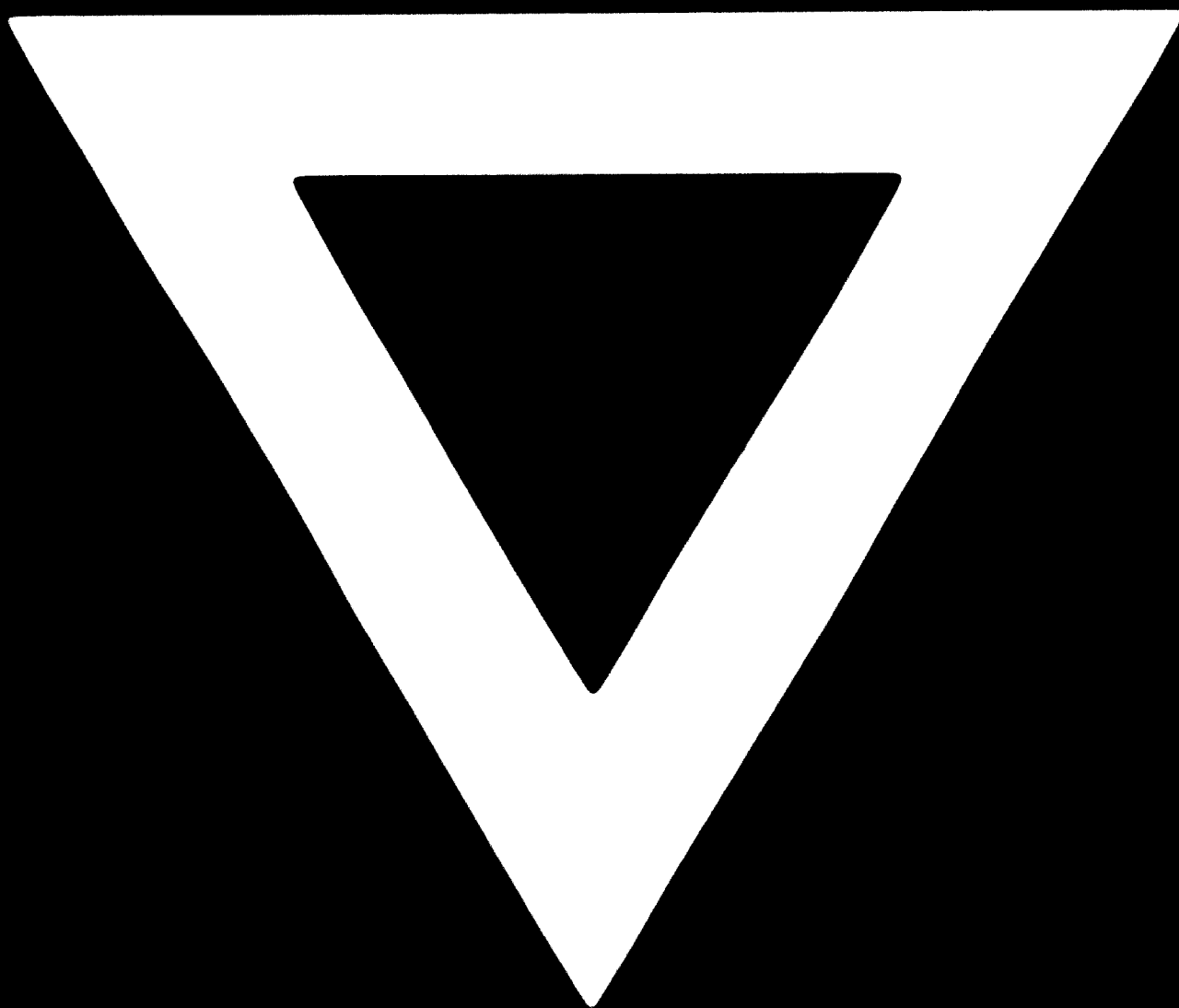
As briefly mentioned earlier, in one field, that of subcontracting, industrial associations in a few developed countries have, in recent years, departed from their traditional hands-off attitude towards pro-

motional action. They have set up a number of subcontracting exchanges, i.e. clearing houses for bringing together demand from large industries for subcontracting work and supply from small-scale industries. Indeed, industrial associations, especially those which group together industries of all sizes, are particularly well qualified for promoting complementary relationships among their members.

It would be worthwhile exploring, in developing countries where there is scope for subcontracting, the possibility of enlisting the co-operation of such organizations in the promotion of subcontracting, either by inducing them to set up exchanges under their own sponsorship or by assisting industrial extension centres in carrying out clearing house functions.

The promotion of subcontracting is another instance of pump-priming action, whereby a relatively small original impetus sets in motion self-sustained and cumulative developments within the industrial community. One by-product is that the extension services given by the Government to small-scale industries may be expected to be complemented by technical assistance from the contractor to the subcontractor. This is another example of the approach discussed in this article.





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