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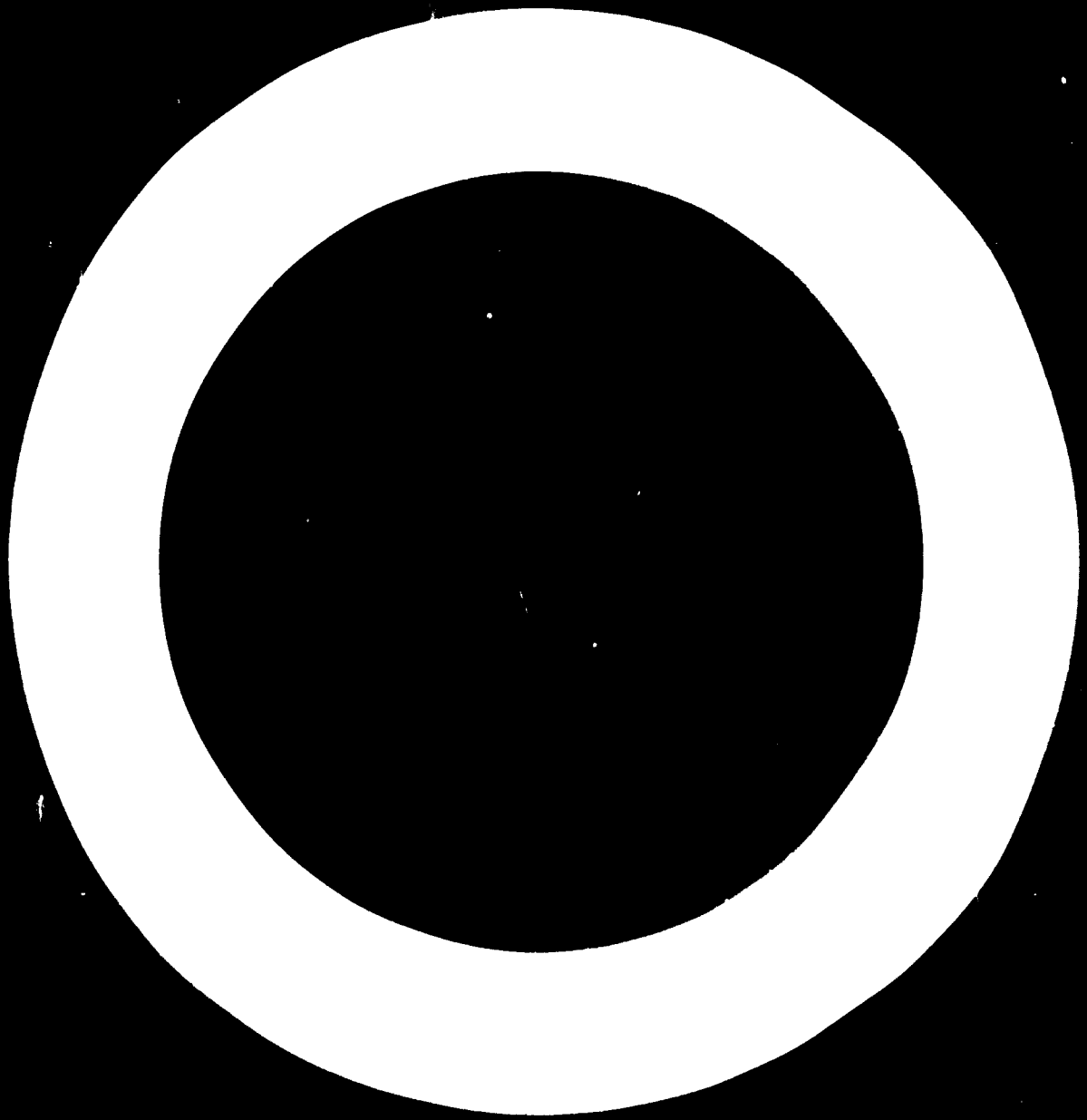
Meeting of the Working Group on
Small-scale Industries in Developing Countries
Vienna, Austria, 14-15 November 1975

Handwritten notes:
1. ...
2. ...
3. ...

CONFIDENTIAL AND NON-GOVERNMENTAL ACTION
FOR
SMALL INDUSTRY DEVELOPMENT 1/

1/ This document contains the revised version of a report prepared for the UNIDO Secretariat by Mr. B. K. Malhotra, UNIDO expert in several small-scale industry missions in developing countries. Mr. Malhotra was formerly Joint Secretary in the Planning Commission of the Government of India. This document has been reproduced without formal editing.

We regret that some of the pages in the microfiche copy of this report may not be up to the proper legibility standards even though the best possible copy was used for preparing the master fiche.



In almost all countries where small industry development programmes have been introduced, promotion has been carried out through a combination of state help and self-help. Generally speaking, the proportion of self-help depends on the degree of industrialization of a country. In industrially developed countries with free market economies such as the United Kingdom, the United States, Japan, the Netherlands and West Germany, the role of self-help is relatively more important than that of state help. In most of the less developed countries, on the other hand, the element of state help has been, and continues to be, predominant. The main reason for this is that, in these countries, small-scale industries have had to work to help themselves and to help each other. In the 1950s and early 1960s, when a number of developing countries introduced programmes of national economic development with a distinct employment orientation, the promotion of small-scale industries was accorded a fairly high priority. Institutions with varied composition and functions were set up to channel governmental assistance and advisory services to the small entrepreneurs and became important instruments in the implementation of development programmes. Since the internal resources of the small-scale industries were scant, and their capacity to grow by their own efforts was very limited, it was inevitable that the state would take on itself the responsibility not only to create favourable conditions for the growth of these industries - e.g. by installing the necessary infrastructure facilities - but also to initiate, assist, support and finance their establishment and expansion. Because of their limited access to economies of size and scale and their technical and managerial inadequacies, the industries needed help in all areas and over a long time. When international agencies became interested in small industry development programmes in the developing countries, their help was also generally routed through governments or through government-sponsored organizations and this further reinforced the role of the state in the promotion of small industry.

Although numerous small organizations do exist and function in the rural areas of many developing countries, their activities are mostly directed towards securing credit facilities and an active policy oriented approach to the needs of these institutions. They have not undertaken an organized scheme of programmes of self-help, for which the rural areas are ill-equipped due to lack of money and resources.

Enterprises, risk-taking, ingenuity, adaptation and improvisation constitute the elixir vital - the life-force - of small-scale industry and, in an environment of excessive state interference, patronage or "bureaucratic feeding" this life force might wither. In fact, in a few countries, doubts have been expressed in recent years whether success in setting up and operating small-scale industry would not be better achieved through a greater reliance on the granting of licences, permits and special treatment by appropriate government agencies and through less emphasis on project planning, entrepreneurship development and help in technology and management. If the springs of self-reliance and self-help were allowed to dry up, small industry development might be brought to a dead end.

It is, therefore, time to take a hard look at the trends of state help and of self-help, to evaluate the respective roles of both over the whole range of small-scale industry programmes and to consider whether steps should be taken to correct or reverse the present trends and, if so, which policies and measures should be adopted. The crucial question considered in this paper is: how much more can be done for small-scale industries by non-governmental bodies or by the enterprises themselves? This leads to another question: should the governmental functions be limited to general regulation, broad support and provision of selected facilities, concessions and incentives?

The present paper is limited to presenting some short answers to the first question. Its conclusion is that much more can and should be done in many of the developing countries, by

associations of small-scale industries, at the national, regional and industry levels, federations of such associations, chambers of commerce and industry, industrial co-operatives and groupings of small industrial enterprises, private consultant firms, commercial banks, and, at the plant level, by the small industries themselves. Yet, in almost all cases, non-governmental efforts will not substitute for government action and might even need some encouragement on the part of the state.

The paper does not attempt to provide answers to the second question. Indeed, the answers might vary very much from one country to the other. Yet the question deserves to be given more reflexion than has been the case so far in many developing countries, especially in those which are reaching a relatively higher level of industrial development.

1. Strategies, plans and policies. It is self-evident that the formulation of strategies, plans and policies for the development of small-scale industries belongs to the domain of the state and cannot be undertaken by a collective representative body of the industries. It involves national priorities, inter-sectoral relationships and questions of integration within the over-all national plan. However, the collective bodies of small-scale industries can, and should, play a larger role by doing their own thinking and preparing draft proposals for the consideration of the planning authority.

2. Financial institutions. In order to support the development of small-scale industries, the government should create a network of financial institutions, including co-operatives, which will be able to provide the necessary credit facilities. The government should also encourage the formation of such institutions by providing them with technical assistance and financial support. The government should also ensure that the financial institutions are able to provide the necessary credit facilities to the small-scale industries.

city-firm contracts, temporary rent
subsidization, etc. for industrial estates.

3. Large-scale industrial surveys, assessment of industrial
potential, identification of new industrial opportunities
and other activities, require such expertise
and are normally undertaken by government-sponsored agencies.
Associations of small-scale units, generally unskilled,
equipped and untrained. However, there is an activity where
they could make a useful contribution. For instance, they
could organize export surveys and reports. As regards other
related activities, their co-operation in a consultative
capacity with the agency carrying out such work would be useful
and desirable. There is also scope for private engineering
consultant firms to undertake industrial surveys, under com-
mission from state agencies, or as a matter of association of
small-scale industrialists.

4. Preparation of feasibility studies and project reports is
at present being done in several developing countries by govern-
ment agencies, free of cost or at a nominal cost to the entre-
preneur. This is a vital service and although private consultant
firms could take it over with advantage, it should be ensured
that the cost to the prospective entrepreneur is kept low. One
course would be for the government or the federations or asso-
ciations of small-scale industries to commission private con-
sultant firms to undertake these studies and to recover part
of the cost from the entrepreneurs. When a small industrialist
has technical education, which is not always the case, he might
plan himself the establishment or expansion of his business.
Even then he might often find it valuable to have his plans
checked for technical and marketing accuracy by submitting them
to an expert for review.

5. Establishment and development of industrial estates and
areas. The demarcation of industrial zones in the city and town

plans and the development of industrial estates or areas is an activity where state initiative and action is unavoidable, especially as the provision of electricity, water supply and communications is involved. However, the collective representative bodies of small-scale industries could be associated with it at various stages through appropriate consultative arrangements.

In the less advanced among the developing countries and in the provincial areas of almost all the developing countries, the element of government help should necessarily be large. Industrial estates offering pre-built factory accommodation on a standard pattern should often be provided. In the metropolitan centres of relatively advanced countries, the degree of self-help should be much larger. Industrial areas offering only improved sites might be sufficient. The entrepreneur would construct his own factory in the industrial area. He should be helped with promptly given connexions to public or semi-public electricity, water supply and sewerage, but the fittings within the factory would be his own concern.

In the main cities, self-help can be further strengthened by encouraging entrepreneurs to set up estates on a co-operative or even commercial basis, in the form of co-operative societies or joint stock companies.

6. Industrial financing. Financing of small-scale industries is one activity where the role of the state, through public banks or special financing institutions has until now been predominant. There are no good reasons for suggesting that federations or associations should undertake this activity either directly or indirectly. The state should be encouraged by them. The state should also be encouraged to provide the necessary facilities for the state banks to which the state should be encouraged to provide the necessary facilities. The state should be encouraged to provide the necessary facilities for the state banks to which the state should be encouraged to provide the necessary facilities.

scholarship. The Government of India, among other countries, for the promotion of small-scale industries under this system. The Government of India had a cooperative financing scheme for small-scale industries in 1951. As the financial resources of the Government of India are limited, the Government of India is not necessarily a necessary condition.

7. Provision of technical services.

(a) The organization of technical assistance and advisory services (including information, demonstration and pilot plants) is an area in which the associations of small-scale industries and the chambers of commerce and industry have at present a more or less marginal role in the developing countries. The main reason is that these organizations do not consider that they should discharge such functions. Another consideration is that they claim not to have the necessary financial means and personnel. To be effective, persuasion might need to be reinforced by the provision, by government authorities, of some financial resources - subsidies or grants. As regards personnel, which would be mostly technical, the problem might be more intractable because in the developing countries most specialists or experts might prefer to be employed by the government than by a private body, in view of the security and stability of government service. Subsidies, or the loan of expert services, might, however, induce non-government organizations to provide such services. Activities such as the establishment and operation of information and documentation centres, could usefully be organized by both government and associations, even if this leads to some overlapping and duplication. Advisory services have been undertaken in some countries such as Japan and India by banking institutions; this practice has obvious merits and could be usefully adopted in many developing countries, in particular in these at early stages of industrial development.

(b) The organization of training programmes, particularly in

advanced skills and sophisticated techniques, is another sphere of activity in which federations or associations should participate more actively, supplementing state efforts in the beginning and gradually taking over increased responsibility. The organization and operation of training schemes including seminars and study groups should in fact be a major activity of the associations, especially in the fields of management (above all in business accounting, in which many small establishments are woefully deficient), marketing and upgrading of production techniques.

Recruitment of labour and on-the-job training should be organized at the plant level on a self-help basis.

(c) Common service facilities, including testing and quality control, benefit the recipient in a direct tangible way and, **except in the early stage of development of small-scale industries, when they should be provided on a subsidized basis, the cost of service should be recovered on a no-profit no-loss basis from the beneficiary.** It is not certain whether associations and chambers could organize such facilities for their constituent industry groups. What is quite desirable, on the other hand, is that public-sponsored common service facilities should be taken over as soon as practicable by co-operatives of small-scale industries, or that such facilities be set up on a co-operative basis from the outset by groups of small industrial enterprises.

4. Export promotion is a complex of several factors - market intelligence, enquiries, contacts, publicity, price and quality, prompt delivery and packing - and this is a field in which the associations and chambers can render such more help than they have done in the past. It is to other countries by delegations and exchange visits, and by participation in international exhibitions and organized occasions, that they can best help their members in the developing export trade. It is also in this field that they can best help their members in the development of their own export trade.

specific industry by government. Government promotion can also be undertaken by the government in small-scale industries.

9. Research, research and development are quite important for small-scale industries. In the absence of innovations, these industries will not survive. Research for finding out new and better products, new techniques, new processes and methods should be organized to the needs of small-scale industry in such a manner in some institutions or in separate institutions of the research institutions and on a long-term basis. The associations of small-scale industry can encourage and assist particular industry groups, e.g. household electrical appliances, radio receivers, television sets etc. to organize such activities, set up research laboratories or centres. State help in the form of research grants and making available the results of research in government-financed institutions should be provided. Subsidies could also be made available to groupings of small-scale industries and to private consultant firms for research undertaken on behalf of small-scale industries.

At the plant level, the equivalent of this activity is the pattering about of the small entrepreneur with his machines and tools in his workshop or his backyard and such activity should be encouraged. Useful discoveries of new techniques, time-saving methods and cost-reducing devices are known to have emerged from plant-level experimentation and research. There is hardly any better example of self-help. This should be promoted and assisted, for instance by instituting a government-financed inventions fund to give cash awards and grants for innovations and their follow-up.

Closely connected with the above activity and partly dependent on it is the organization of modernization programmes to combat the ever-present danger of obsolescence in a world of changing technologies and management techniques. The collection of information on new improvements and changes is best organized by the different industry groups themselves with the help of

possible, of federations, associations and chambers of industry and commerce. However, an expensive modernization programme for replacement of out-of-date machines and equipment would hardly be a practical proposition without very substantial state help, generally in the form of long-term loans.

10. Government purchases of small industry products, often on a preferential basis, provide a solid support for which neither the associations nor the units acting individually can offer a substitute. In this major activity, state help should be welcomed and should continue. However, the associations could usefully undertake on behalf of industry groups bulk purchases of raw materials and execution of large orders for bulk supply of specific products such as footwear. More promising would be the establishment, by small industries in the same or similar line of business, of co-operatives for the bulk procurement of raw materials and the marketing of finished goods. The associations might help these co-operatives by finding or training their managers and salesmen.

11. Subcontracting is a special case of organized marketing but, because of the close relationship it establishes between large industry and small-scale industry as buyer and seller respectively, it has acquired such importance. Three forms of subcontracting have come to be practised: (1) between a manufacturing enterprise in the public sector and small-scale industry; (2) between a private manufacturing enterprise and small-scale units sponsored and directed by it and supplying exclusively to it (small units in this case are "tertiary", not "auxiliary"); and (3) between a private manufacturing enterprise and an auxiliary small-scale industry. In the first two cases, large-scale industries enter into voluntary subcontracting with small-scale producers, e.g. small producers of handloomed cloth, etc. In the third case, the small-scale units are established by the public sector.

enterprise, which is often financed from government, and the artificial barriers to entry, especially or largely to the public sector. The second case is identical, except that the firm or enterprise is in the private sector. In both these cases, the small-scale units are "handicapped" since they have little freedom to sell their products in the open market. It is only in the third case that associations or chambers have a role to play by bringing the large firm and small-scale enterprises together into mutually beneficial subcontracting arrangements. An effective way of doing it is to help set up subcontracting exchanges.

Of the two types of subcontracting, namely, capacity subcontracting and specialized subcontracting, the latter is particularly relevant to the conditions of developing countries. This is the type which the associations should promote through their efforts.

12. Analgamations and mergers of small-scale units are a rare phenomenon because, generally speaking, a small entrepreneur would, due to his deep-rooted individualism, rather quit the scene than play a second- or third-rate role in a somewhat impersonal organization. Moreover, mergers into medium or large units would involve the added disincentive of losing the benefits and concessions available to small-scale units. Partnerships of like-minded entrepreneurs are a more feasible proposition. These will in any case come about under the stress of self-interest when they offer the best course for survival or progress in a competitive market. There is very little that the associations or chambers or the state agencies can, or should, do about it.

Turning next to the large area of activity where the small entrepreneur has necessarily to make decisions for himself, it would be useful to consider where: (a) his self-help should be fortified, the associations and the state agencies playing only a marginal or peripheral role; (b) the associations should provide more help than they are doing at present; and (c) the state

agencies, in addition to the associations, could provide a useful, although marginal, support.

13. In all pre-investment activities such as selection of industry, choice of location, determination of plant size and layout and decisions about technical and financial collaboration with, say, a foreign firm, the small entrepreneur has ultimately to make his own decisions. What the state agencies and associations can and should do is to ensure that his decisions are well-informed and technically and economically sound. For this he should be given all the available information, documents and studies at the centres established by the governmental agencies and the associations. He should also have the benefit of guidance from the various advisory services operated by the state agencies or associations. This should be a situation of self-help strengthened and properly guided by outside help.

14. As regards acquisition or construction of factory accommodation, it is clear that in the initial stages, there is considerable benefit from standard factories and improved plots in industrial estates and areas, whether government-sponsored or co-operative. Financial help for construction should be made available to them.

15. As regards procurement of machines and equipment, the problem is rather complex. Under normal conditions, the entrepreneur should locate the machine, place the order and obtain the equipment. However, in some cases, the entrepreneur may be unable to do this and may require assistance from the state agencies or associations. This assistance should be in the form of financial help for the purchase of machines and equipment, or in the form of technical assistance in the selection of machines and equipment, or in the form of assistance in the procurement of machines and equipment.

the necessary financial services to the prospective entrepreneur. In such a situation, it will be better to obtain respects than setting up a system of operation wholly financed by government but involving a system of lease-purchase of machinery.

16. In respect of operation of industrial enterprises, that is, production, management and marketing, the entrepreneur should, after initial assistance, help himself entirely, except to the extent that it is to his advantage to join marketing or purchasing co-operatives or groups.

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The following synoptic table summarizes the main conclusions of the present study. It suggests that while the government will continue to provide the bulk of promotional and other services to small-scale industries in the developing countries, there is considerable scope, in many areas, for complementary action by non-governmental bodies. That action will be of special importance, as far as industrial organizations are concerned, in the areas of training, export promotion and subcontracting; and, as far as co-operatives are concerned, in the organization of common service facilities and joint procurement and sale; there is also considerable scope for increased financing by commercial banks if certain incentives, in particular credit guarantee schemes, are made available.

It is likely that the action of non-governmental bodies will be carried out primarily on behalf of existing small-scale industries. For the promotion of new industries, state help will continue to be relatively more important.

It is a paradox that, to expand self-help, a measure of state help will in most cases be necessary. It is unlikely that the co-operation of industrial organizations, industrial co-operatives and private commercial firms can be obtained unless the government provides them with special advantages, such as grants, subsidies, loan of expert personnel, guarantees and other incentives. And it is not impossible that the effect of these

tives might remain limited, unless government promotion and assistance programmes for small-scale industries are rethought and revised so as to make self-help a more direct objective of help, if not a condition of it. This subject, which is one of the most important issues of small industry development policies, is beyond the scope of the present paper.

Scope for action by Government & Agencies, Industrial Organizations, Industry or Government in the Development of Small-Scale Industries

Action	Government and Agencies	Industrial Organizations <i>b/</i>
1. Strategies, plans and policies	Government responsibility	Scope for advisory and consultative role
2. Fiscal measures	Government prerogative	Scope for advisory role
3. Industrial surveys and identification of industrial opportunities	Government responsibility	Scope for some market surveys and research Consultative role
4. Feasibility studies and project preparation	Mainly Government responsibility	May commission or subsidize some studies by private consultant firms
5. Establishment and development of industrial estates and areas	Mainly Government responsibility	Scope for consultations
6. Industrial financing	At present, mainly government responsibility	
7. Industrial extension services		
(a) Advisory services in technology, management and marketing, especially for modernisation programmes	Mainly Government responsibility	Scope for some complementary services
	May subsidize industrial organizations and private consultant firms	

Co-operatives, Private Commercial Firms and Individual Small
in the Developing Countries

Industrial
Co-operatives
and Groupings

Private Com-
mercial Firms c/

Individual
Small-scale
Industries

- - - 1.

- - - 2.

- **Some scope for con-
sultant firms to
undertake surveys
under commissions
from state agencies** - 3.

- **Consultant firms
may carry out some
studies for govern-
ment or for indus-
trial organisations** **Scope for self-
help in project
preparation.** 4.

**Scope for co-
operative in-
dustrial estates** **Scope for some
commercial industrial
estates in main
cities** - 5.

**Scope for co-
operative
financing** **Scope for in-
dustrial self-
financing** 6.

**Scope for in-
dustrial self-
financing**

Action	Government and Industrial 1/	Industrial Organizations b/
(b) Trainin	At present, mainly government responsibility	Considerable scope for train- ing, especially in management and marketing
(c) Common services facilities	At present, mainly government respon- sibility	-
8. Export promotion	At present, mainly government respon- sibility	Considerable scope for pro- motional action
9. Research, design and development	Usually, govern- ment responsibi- lity	Scope for some advisory ser- vices
10. Major procurement and marketing schemes	Government respon- sibility for pre- ferential purcha- sing schemes	Scope for some bulk purchasing and bulk supply
11. Subcontracting	Mainly scope for supporting activi- ties, especially through technical assistance to sub- contractors	Considerable scope for sub- contracting ex- changes estab- lished by in- dustrial orga- nizations
12. Mergers	-	-
13. Selection of industry, selection of location, determination of plant size and layout, techni- cal and financial col- laboration	Assistance through extension services	Scope for some advisory ser- vices

Industrial Co-operatives and Groupings

Private Commercial Firms c/

Individual Small-scale Industries

Scope for self-help in on-the-job training (b)

Considerable scope for setting up or taking over co-operative facilities

(c)

Some scope for export promotion by groupings

8.

Some scope for research by groupings, if subsidized

Some scope for research by private firms, if subsidized

Scope for innovations

9.

Considerable scope for co-operative promotion and etc.

10.

Some scope for...

Some scope for...

11.

Activities	Industrial Extension Centres a/	Industrial Organizations b/
14. Acquisition of construction of factories and accommodation	- - - - - - - -	-
15. Procurement and financing of machines and equipment	Assistance rendering advisory services to hire-purchase schemes	-
16. Production, management and marketing	Industrial extension services	Complementary servicing

Note: Frames indicate main responsibility and/or scope for important role.

- a/ Government departments, industrial extension centres, financial institutions, research centres etc.
- b/ Associations and Federations of small-scale industries, industrial organizations, chambers of commerce and industry.
- c/ Consultant firms in engineering and management, commercial banks.

Industrial
Co-operatives
and Groupings

Private Com-
mercial Finance *cf*

Individual
Small-scale
Industries

Co-operative
industrial
estates

-

Own decisions

14.

-

**Considerable scope
for commercial
bank financing and
even advice**

**Own responsi-
bility**

15.

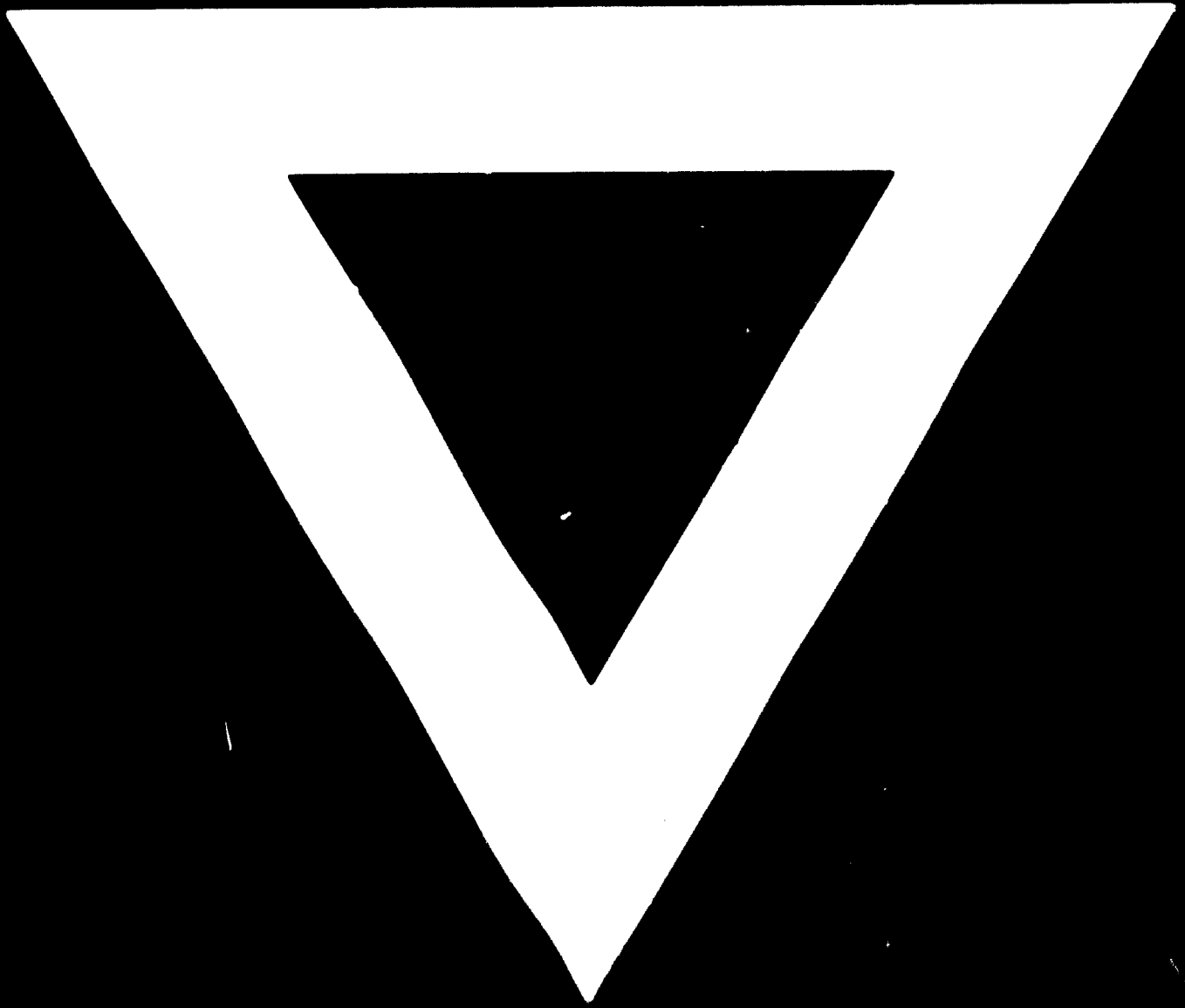
**Complementary
servicing**

**Complementary
servicing**

**Own responsibi-
lity
Self-help is
ultimate ob-
jective**

16.





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