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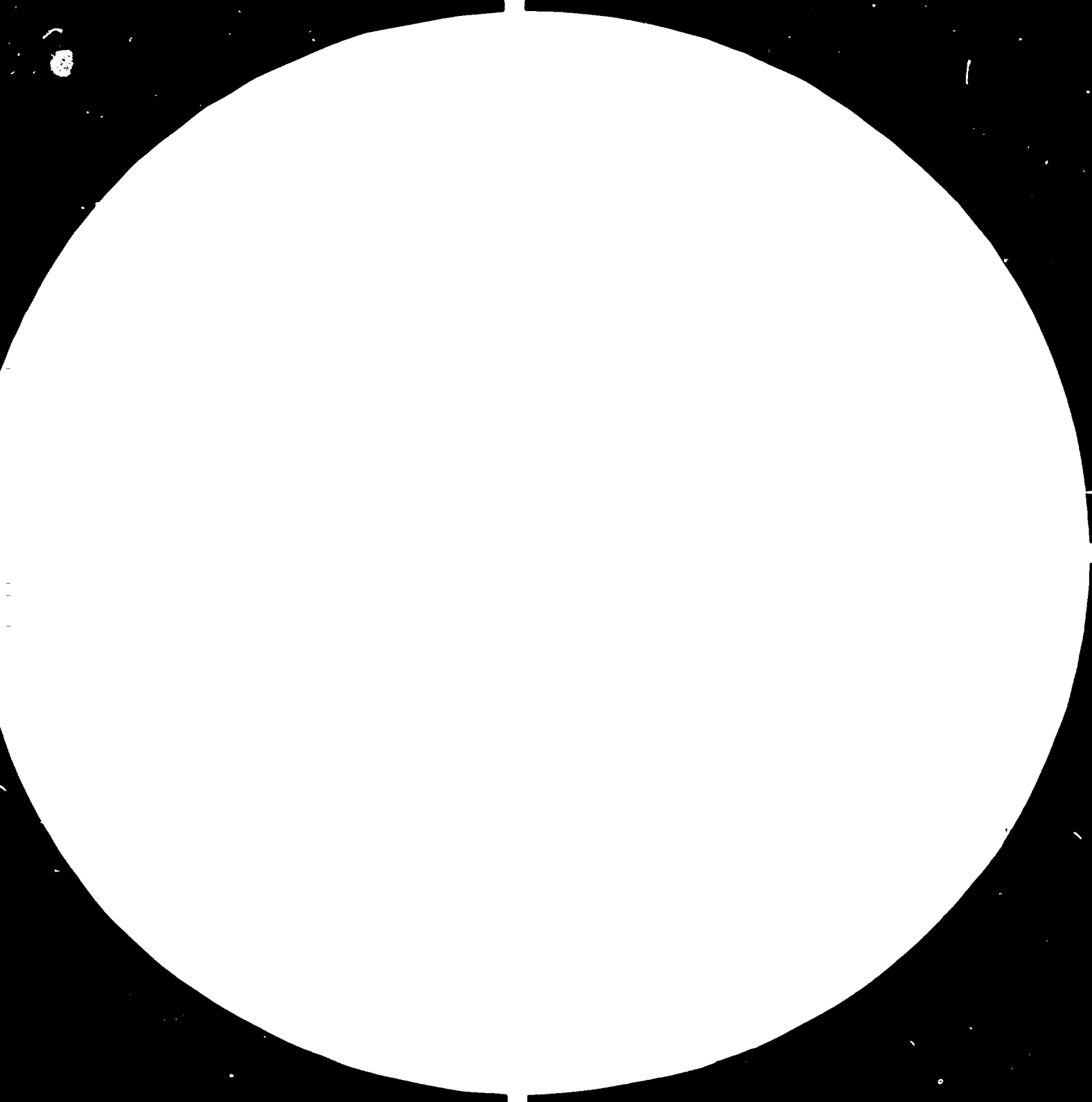
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RURAL INDUSTRIALIZATION POLICIES AND PROGRAMMES
IN ASEAN COUNTRIES*

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PREFACE

A Colloquium on Administration of Rural Development in ASEAN countries is planned to be held in Indonesia in 1983 organized by ESCAP and the Government of Indonesia in collaboration with other ASEAN Governments.

Consequent on the recommendations in the Report of the Preparatory Consultation for the Colloquium held in Bangkok 1980, UNIDO was invited to prepare a paper entitled "Rural Industrialization Policies and Programmes in the ASEAN countries". Accordingly, this paper has been prepared as a UNIDO input for the Colloquium.

Part - 1 General Considerations^{1/}

Introduction

1. With the exception of Singapore which is wholly urban, the economies of the other four ASEAN countries, namely, Indonesia, Malaysia, the Philippines and Thailand, are basically rural and agricultural, with about 60 per cent of the populations living in the rural areas. 50 per cent of the labour force in three of the ASEAN countries, namely, Indonesia, the Philippines and Thailand are engaged in agriculture. It has been indicated that out of a total population of about 236.5 million people in the ASEAN countries, about 88.3 million or 37 per cent could fall within the category of absolute poverty. It has also been estimated that the share in the national income of the bottom 40 per cent of the population did not exceed 20 per cent.^{2/} It was also evident that much of that poverty was largely a rural phenomenon.

2. Between 1970 and 1979, the relative share of agriculture in the total GDP in respect of these four countries under discussion in fact declined as a result of rapid industrial growth. In Indonesia it declined from 45 per cent to 32.3 per cent; in the Philippines from 28.7 per cent to 25.9 per cent; in Thailand from 32.2 per cent to 25.8 per cent; and in Malaysia from 28.8 per cent to 24.6 per cent.

^{1/} Part I is largely based on "Industrialization and Rural Development", United Nations, New York, 1978 (ID/215); and "Industrialization in relation to integrated rural development with reference to Bangladesh", an article by M.T. Haq, published in Industry and Development No. 4, United Nations, New York, 1979 (ID/SER.M/4)

^{2/} These Statistics are taken from "Report of the Preparatory Consultation for a Colloquium on Administration of Rural Development in ASEAN countries", ESCAP, Bangkok, 9 January, 1981 (DP/PCARD/2), p.2.

Table I shows the percentage distribution of GDP at constant prices by industrial origin in 1970 and 1979, in the four ASEAN countries. The table shows the structural changes in their economies.

3. In spite of this decline of the relative share of agriculture, the agricultural sector of the ASEAN countries, excluding Singapore, has profound socio-economic implications. The agricultural sector has often remained a backward and stagnant sector with fluctuating prices whereas other economic sectors have been growing or getting modernized under external influences, thereby aggravating the structural dualism. Further, the universal problems of unemployment, under-employment, disguised unemployment and mass poverty have predominated in the agricultural sector partly due to rural population explosion and partly due to low productivity.^{3/}

4. Attempts have been made to alleviate poverty and to improve the living conditions in the rural areas of the ASEAN countries through rural development which has implied a variety of activities such as cultivation, creation of complementary employment opportunities in the processing of agricultural raw materials and the production of a variety of agricultural tools and implements, the development of small-scale and cottage or handicraft industries, construction and land improvement activities, creation of infrastructures like roads, schools and health facilities, water supply, rural electrification etc.

3/ John Wong, Asean Economies in Perspective, London, 1979 p.93.

Table 1. ASEAN. Percentage distribution of GDP at constant prices by industrial origin, 1970 and 1979

	Agriculture, hunting, forestry and fishing	Mining and quarrying	Manufacturing	Electricity, gas and water	Construction	Wholesale and retail trade	Transport storage and communication	Finance, insurance, real estate and business services	Community social and personal services	Others ^{a/}
Indonesia										
1970	45.5	10.1	8.4	0.4	2.8	16.3	3.2	2.6	10.7	-
1979	32.3	10.5	12.9	0.7	5.7	16.5	5.4	4.9	11.2	-
Malaysia										
1970	28.8	6.9	14.7	1.9	3.7	12.0	5.2	8.6	14.7	3.4
1979	24.6	5.0	18.7	2.3	4.3	12.6	6.4	8.1	15.2	2.8
Philippines										
1970	28.9	2.1	23.2	0.8	3.4	15.6	4.0	11.4	10.6	-
1979	25.9	2.4	25.3	1.0	7.3	14.5	5.3	8.7	9.6	-
Thailand										
1970	32.2	1.7	15.5	1.1	5.8	21.3	6.1	5.9	10.4	-
1979	25.8	1.6	20.9	1.9	5.3	19.6	6.4	7.2	11.4	-

Source: 1. UN Statistical Computer Sheets, 1981

2. Malaysia Economic Report 1981/1982

Note: a/ including import duties, imputed bank service charge, value added taxes and other adjustments.

5. Agriculture, however, remains the principal occupation of the rural poor including the poorest group of small scale farmers, tenants, share-croppers, landless workers and their families. One of the main objectives of rural development is to reduce rural poverty and as such these are the section of the rural population that must form the target groups which must benefit from rural development. The strategy for rural development focusing on poverty must be designed to increase production and enhance productivity. It must also be designed to ensure that the basic needs of the rural poor - adequate food, nutrition, clothing, shelter, education and health-care will be met. The objectives of rural development should, therefore, extend beyond any particular sector. Integrated rural development must cover many activities besides cultivation on which the main emphasis must remain because agriculture plays the dominant role.

Approaches to integrated rural development

6. Rural development should proceed in terms of area development, which has been emphasized in some countries. Area development calls for specific programmes locally prepared and tailored to local conditions. The needs of the rural poor are focused upon directly by promoting diversified crops and integrated farming systems linked with training, social services and rural work programmes. Area or regional development programmes can embrace a great variety of operations and take many forms. The primary objectives of some area schemes may be not so much to help the poor farmers as to generate additional output to be marketed. These schemes may emphasize the production of one or two major

crops and may provide services to growers in the form of a technical package and credit and marketing arrangements, combined with farm operations and supervision of credit.

7. Rural development programmes are characterised by a careful definition of the needs and resources of the target population, detailed planning of preparation and implementation, phasing of multi-sectoral components and the setting up of or reorganization of related institutions. The primary objective of the programme is to provide resources and services in selected rural areas in order to increase employment, raise rural living standards by introducing directly productive activities and improve basic social infrastructure and production services. Foreign technical and financial assistance may be available for these programmes, and new institutional arrangements may be introduced for their implementation.

8. Secondly, there is the sector approach under which the types of activity are usually organized on a nation-wide basis. These activities may or may not serve the specific needs of the rural poor. The benefits of these activities are not confined to a particular group. Roads, schools and health centres constructed under a public works programme in rural areas, for example, bring benefits to all. These are essential components of programmes of integrated rural development. Other sector programmes - those concerned with the provision of feeder roads, village electrification, water supplies, health facilities and the promotion of rural industry - are important means of carrying benefits to the rural poor. The major issues concern the need to integrate such programmes with programmes of rural development and with particular projects and with the choice of design appropriate to rural conditions.

9. The present paper seeks to indicate, in general terms, what part industrialization can play in rural development in the developing countries of Asia, particularly in the four ASEAN countries, Indonesia, Malaysia, the Philippines and Thailand and to review rural industrialization policies and programmes in these four countries.

The role of industry in integrated rural development.

10. Along with other sectors of economic and social development, industry must be accepted as an important component of any integrated rural development programme. The nature and pattern of rural industrialization, both small-scale and cottage or handicraft industries will, however, depend on the material and human resources of the area concerned. In the formulation and execution of an integrated rural development programme, the role of rural industrialization has not been adequately recognized, in spite of its importance, nor is it always reflected in the rural development programmes of the developing countries.

11. Industrialization in general is also of great significance to rural development. Industry helps develop the skills and disciplines necessary for modern economic society. It is looked upon as the leading means of breaking the traditional barriers to growth.

12. Industrialization has brought about some considerable changes in the economic structure of the four ASEAN countries. Table I shows that between 1970 and 1979, the relative shares of manufacturing in GDP increased substantially in the four ASEAN countries. In Indonesia, this share increased from 8.4 per cent to

has often been mainly oriented to satisfying the demands of the well-to-do sections of the societies living in the urban areas and not to the requirements of the large majority of the poor people living predominantly in the rural areas of the developing countries.

15. The current official plan documents of the four ASEAN countries have clearly recognized the serious problems of the disparities in the distribution of income, both among different sections of the societies as well as among different geographical regions in these four countries, and have tried to redress these by following some definite strategies and policies for economic and social development.

Industry supports rural development.

16. Industry supports integrated rural development in several ways, as the examples of four types of industry demonstrate. First, in almost all countries, including the four ASEAN countries, in both rural and urban areas, there are cottage or handicraft industries producing a variety of articles for rural and urban consumption and also for export. The traditional and inherited skills on which these industries are based can be further developed and upgraded. Secondly, there are manufacturing industries that are closely linked with agricultural development - industries producing fertilizers,

pesticides, agricultural machinery, equipment and tools (mechanical, hand-operated and animal drawn) - and industries concerned with the maintenance of machinery and transport equipment. Some of these industries are operated on large and medium scales and, although these may be located outside the rural areas, they contribute substantially to increasing agricultural productivity by supplying inputs for rural development, which largely means agricultural development. Thirdly, there are industries based on the processing of local raw materials from agriculture and fisheries - food processing, leather and textiles; from forestry - construction and furniture. Many can be developed in rural areas as modern industries on a small scale. Lastly, other industries not included in the types already mentioned but capable of satisfying some of the basic needs of the rural population or linked with infrastructural development effects may be developed in the rural areas as part of the policy of decentralization of industrial development.

Requirements of an industrial development programmes as a component of integrated rural development.

17. A certain geographical area is usually taken as the unit for integrated rural development, selected on the basis of criteria formulated in the light of the objectives of government policy on rural development. The criteria may vary from area to area in a country, depending on the needs and resources of the area, both material and human. An economic and social survey of the area is essential to obtain information on the size of the area, the composition of its population by sex and age; employment and unemployment and the main occupation; actual and potential resources

for economic and social development; and infrastructural facilities. As the purpose for collecting all this information is to prepare an industrial programme for the area, efforts must be made to identify the opportunities for developing non-agricultural and industrial activities in the light of the available resources of the area such as raw materials, the supply of labour, technical know-how, entrepreneurship, the availability of finance and the demand, both domestic and external.

18. National machinery for preparing, coordinating and implementing rural development programmes is a prerequisite for their success; and most countries committed to such programmes have set up central, regional and local machinery for carrying them out. There must also be a national organization responsible for the industrial part of such programmes. It may be a corporation or a division of the ministry of industry, with the specific charge of formulating the area plans for industrial development, in cooperation with the national organization that exists for integrated rural development. Such a corporation through its several departments will perform all functions relating to an industrial plan for an area, such as collecting information, identifying industries suitable for development in the area, assisting in preparing and evaluating projects etc.

Elements of a rural industrialization programmes.

19. A broad, integrated approach should be adopted in formulating an industrialization programme for rural areas. It is not enough to set up an institution charged with, say, making money and credit more readily available to small scale and rural industries. The opportunities for industrial development may be limited by such

factors as lack of technical knowledge, inefficient marketing, poor design of products and lack of skill in planning and managing an industrial enterprise. In the same way, a technical advisory service or an industrial research institute by itself or a demonstration centre showing improved practices or a management training course will have a rather limited impact unless it is set up as part of a comprehensive programme. The small entrepreneurs, for example, may be impressed by a demonstration of mechanized production methods, but without access to suitable financing, they may be quite unable to acquire even a modest amount of machinery. A programme for developing industries in the rural areas must consist of measures to deal with several limiting factors simultaneously.

20. A rural industrialization programme as part of integrated rural development should, therefore, include the following essential elements:

- The selection of an area on the basis of the desired criteria
- A survey to assess the human and natural resources of the area
- Identification of industries suitable for incorporation in the industrial programme for the area
- Project preparation and evaluation
- Financial or credit support
- Industrial research and advisory services
- Procurement of raw materials and equipment
- The establishment of industrial estates or centres with basic facilities
- Industrial training.

21. As things stand at present, no country has endeavoured systematically to include industrial development as a component of integrated rural development. Almost every developing country in Asia has a programme for developing small-scale and cottage industries, but these programmes rarely form part of integrated rural development.

22. There are several categories of industrial activity suitable for development in rural areas as mentioned below.

Processing of agricultural products.

23. Agricultural raw materials processing plants are essential and, for most of them, there are good reasons for locating them close to their sources of raw materials. Processing may include the primary processing of the output of fisheries, silviculture and poultry products. There may be simple and inexpensive operations to preserve food stuffs against losses through vermin or insect attacks as well as somewhat complicated processing plants converting the raw produce into a form acceptable to the markets.

Provision of agricultural inputs.

24. Agricultural improvements often necessitate the introduction of mechanical devices such as the substitution of steel for wooden implements and the use of irrigation equipment and tractor drawn appliances. Village craftsmen can make simple hand tools, non-motorized transport equipment and tools for servicing and repairing agricultural machinery. The skills of rural craftsmen may be upgraded so that the craftsmen may eventually be able to manufacture such items as ploughs, burrows and sprayers and to introduce post-harvest technology to minimize the loss of agricultural produce and maximize utilization of land resources.

Mineral extraction and the production of building materials.

25. Where mineral resources are exploitable, mining could lead to the setting up of new enterprises, namely, the servicing and repair of mining equipment, the manufacture of certain mining supplies, such as protective clothing, small-bore hoses and gaskets. Building materials such as crushed stone, bricks and floor tiles could be produced by small enterprises in rural areas more cheaply than in urban areas.

Rural consumer goods produced and services performed by traditional artisans.

26. In all rural communities, there are some tradesmen, wood workers or carpenters, sheet-metal workers, blacksmiths and tailors. Small-scale industries or handicrafts centering round the activities of these workers could be developed by improving designs. The demand for consumer items will increase as rural income rises as a result of greater agricultural productivity stimulated by government policies. More rural workers will thus be employed in the maintenance and repair of equipment used in rural transport, industry and homes.

Artistic handicrafts.

27. In most countries rural skills of a high degree exist for producing articles of artistic excellence from locally available materials. Frequently such articles are produced as a spare-time family occupation. For these articles there is an expanding domestic and foreign demand. The designs for these products can be improved, their qualities enhanced and their markets, particularly export

markets, promoted. Both technical and marketing assistance considerably benefits small-scale handicraft producers.

Auxiliary manufactures.

28. Auxiliary manufactures include the production of components for eventual assembly in large, usually urban factories. This sort of sub-contracting with a guaranteed market and a feed back of technical assistance is quite practicable in developing countries that have achieved a fairly high technological level and where efficient and dependable small-scale industries exist. Such industrialization brings about an integration of operations between rural and urban areas.

The case for small-scale and cottage industries.

29. At the general level, there are powerful arguments in favour of stimulating the growth of small-scale and cottage industries in all developing countries including the ASEAN countries. Some of these arguments or reasons are listed below.

(a) Developing countries generally lack know-how and workers skilled in technology. Small-scale and cottage industries do not require a high level of technology.

(b) Small-scale and cottage industries are labour-intensive and do not require a large amount of capital. The energy of the unemployed and under-employed should be used for productive purposes in an economy in which capital was scarce.

c) Small-scale industrial projects can be undertaken in a short period and hence can increase production with direct implications both in the short and long run.

(d) Developing countries, particularly, the four ASEAN countries under discussion, are rich in certain agricultural, forest and extractive resources; hence small-scale and cottage industries can be based on the processing of locally produced raw materials.

(e) It is possible to save and earn foreign exchanges by producing and exporting goods processed from local resources.

(f) Small-scale industrial enterprises, whether modern or traditional, are the training ground for local entrepreneurs and decision makers. From small-scale industrial enterprises knowledge and skill can be transferred to other enterprises.

(g) By creating opportunities for the small businessman small industrial enterprises can bring about a more equitable distribution of income.

(h) The growth of small-scale and cottage industries in the developing countries will help to create economic stability in a society by diffusing prosperity and by checking the expansion of monopolies.

(i) The development of small-scale and cottage industries will create jobs in the rural areas of the developing countries where unemployment and underemployment are remarkably high. This will tend to reduce the exodus of workers from the rural to the urban areas in search of jobs.

(j) The development of small-scale and cottage industries will make possible a transfer of manufacturing activities from the congested metropolitan to the non-metropolitan and rural areas. The dispersal of manufacturing away from the metropolitan areas is a policy encouraged and followed by the governments of most developing countries now-a-days.

(k) Apart from the linkages between agricultural or rural development and small-scale industrial enterprises, there is an essential linkage between large scale industries and small-scale industries in the sense ^{that} the former create opportunities or facilities for the growth of the latter. For instance, the growth of the large motor industry creates opportunities for the setting up of small service stations which are spread over the country. Certain large scale industries create work sub-contracted to the small producers.

(l) Lastly, small-scale enterprises have their own place in a country's economy. Imperfect competition which characterises most of the economies of the developing countries protects the small firms' markets and enables them to exist even where these are not efficient in terms of cost. The imperfection may be due to rational factors, like transport cost, which can hardly be eliminated. It may be due to differentiations in taste, that is, there may be an individuality of product to which the consumers really attach significance and to irrational factors which are also important in determining demand.

30. In view of various reasons or arguments stated above, small-scale and cottage enterprises would surely form part of integrated rural development programmes on which a good deal of emphasis has been recently placed in the developing countries in Asia, including the ASEAN countries. However, due attention has not yet been given to the industrial or non-agricultural components or activities of such programmes.

31. It is important to note that in small-scale industry, there may be distinguished two sectors - the traditional and the modern sector - developing rather independently, side by side and co-existing. They are usually not directly related to, and competing with, each other in terms either of the market for their products or their techniques.

The broader implications of rural industrialization.

32. While the roles of the small-scale and cottage industries are important in rural industrialization, these are not sufficient by themselves to lead to such industrialization on the needed scale to deal with the problems of the rural poor and other target groups. Rural industrialization traditionally associated with small scale and cottage industrial enterprises, should really imply a mix of industrial enterprises which may be large, medium, small and handicraft in character, depending on the availability of or access to essential infrastructures and the costs of providing such decentralized infrastructures, raw materials and markets.

33. There are examples to show that large and modern manufacturing enterprises have been located in the rural areas with considerable growth impact on such areas in respect of employment, increase

of income, creation of demand and so on. It is, therefore, important to keep in mind that rural industrialization should not be restricted to only small scale, traditional and cottage industries. Industrial enterprises on any scale could be developed in both rural and non-rural or urban areas (depending on factors such as costs of decentralized infrastructure).

34. Rural industrialization is relevant to attempts at a dispersal or location of industries away from metropolitan or urban areas serving mostly urban markets to rural areas as well as the setting up of industrial activities based on rural resources and the satisfaction of rural needs. Both components - the distinctly "village" type of industrial production related to local resources and initiative and serving highly localized markets and mostly undertaken by small scale enterprises in craft, service-type and "pre-industrial" activities and the more organized and specialized forms of production often undertaken by larger enterprises of the factory-type, serving wider markets and requiring larger aggregate resources of the nation - are necessary ingredients of rural industrialization. Smaller enterprises and handicrafts alone would hardly be sufficient to catalyse rural development. In addition to the traditional craft or artisan-type industries, new rural industrial enterprises whether small, medium or larger in size, would bring both direct and indirect benefits to rural development.

The relevance of Chinese experience in rural industrialization.

35. As emphasized earlier in this paper, rural development should proceed in terms of an area and should have an organization of its own. In the context of mixed economies of the ASEAN countries

where private enterprise predominates, the governments have also followed a policy of rural development broadly in terms of geographical areas. An area in the context of regional or rural development may be very broadly taken as approximating to the commune, which in the People's Republic of China, is the cornerstone for rural industrialization. It is interesting to note that in China, the commune supplies entrepreneurship for economic transformation, assuming the functions that, in a market economy, are taken care of by private entrepreneurs, financiers, industrialists, and traders in rural areas. The commune identifies problems, imagines new products that would solve the problems, examines markets, supplies investment capital, locates raw materials, and hires personnel. The commune is not, of course, the only entrepreneur in rural China; the state government, especially at the country or higher levels, may assume this role.

36. Commune or area or regional development investment in industry is particularly significant for farm tools. There is a widespread need for improved farm tools and repair shops. Many communes have set up factories to make and repair ploughs and harrows, seed drills, rice transplanters, harvesting machines, processing equipment, transportation vehicles, pumps etc. They may also make fertilizers and pesticides. Communes also frequently invest in factories that will make building supplies, including bricks, tiles and cement. To supply the needs of these factories, communes may develop coal mines, electricity generating plants and fleets of trucks for transportation purposes. Communes may also set up food processing factories for local produce. Commune factories can manufacture consumer goods, such as shoes. In addition a commune

may set up a factory to exploit or process any local natural produce.

37. Generally, when a commune establishes a factory, it is designed to satisfy a local need. However, as the local need is satisfied and as the technical stability of the factory improves, the state often purchases output from the factory for wider distribution. The state may purchase the finished product (an agricultural implement, for example) or may purchase certain parts for assembly by state-run factories. Other examples would include pipes for irrigation, or transformers or porcelain insulators for rural electrification. Through these processes, a commune factory can become quite specialized, large and profitable.

38. A commune has a good deal of autonomy when it comes to these types of industrial investments. As long as there is a local need and as long as the project can be done with local resources, it can be undertaken. Naturally, if assistance is needed from higher levels, or if marketing outside the commune is anticipated, their coordination through the higher levels of government is necessary. The Chinese experience in this respect has some lessons for the ASEAN and other developing countries of Asia.^{4/}

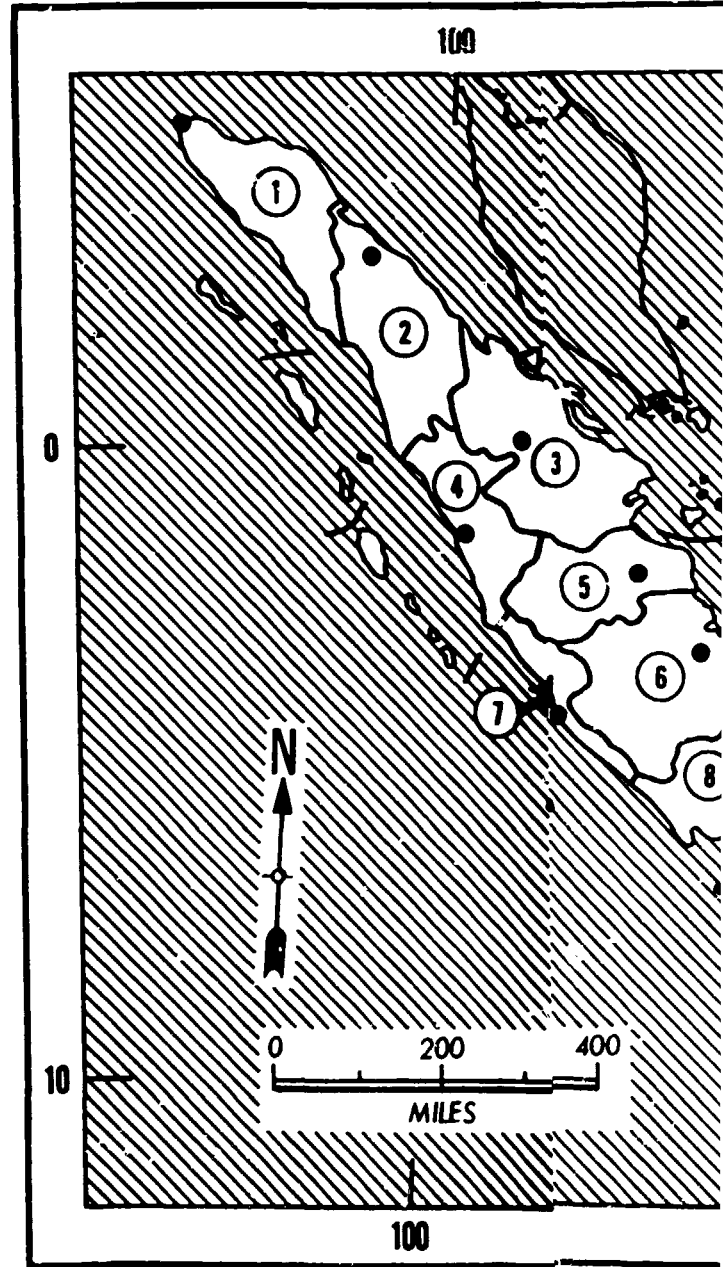
^{4/} References in this connection are made to Sartaj Aziz: Rural Development, Learning from China, The Macmillan Press Ltd, London, 1978; and Jon Sigurdson: Rural Industrialization in China, Council on East Asian Studies, Harvard University, Cambridge, 1977.

PART II - Country Studies^{5/}

39. Against the background of the general considerations relating to rural industrialization, as set forth in Part I, we propose to deal with a few relevant aspects of the rural industrialization programmes and policies in four ASEAN countries, namely, Indonesia, Malaysia, the Philippines and Thailand, in Part II of the paper.

5/ In the collection of information relating to country studies on Indonesia, Malaysia and Thailand, assistance was received from Miss J. Jacobsen, UNIDO Associate Expert, ESCAP/UNIDO Division of Industry, Human Settlements and Technology, ESCAP. Similarly, Mr. Edu H. Hassing, Assistant to the UNIDO Senior Industrial Development Field Adviser, UNDP Office, Manila, assisted in respect of the Philippines.

Legend Number	Administrative Division (Province or equivalent)	Capital
1	SPECIAL TERRITORY OF ATJEH	Banda Atjeh
2	NORTH SUMATRA (Sumatera Utara)	Medan
3	RIAU	Pakanbaru
4	WEST SUMATRA (Sumatera Barat)	Padang
5	DJAMBI	Djambi
6	SOUTH SUMATRA (Sumatera Selatan)	Palembang
7	BENGGULU	Bengkulu
8	LAMPUNG	Tandjungkarang-Telukbetung
9	WEST JAVA (Djawa Barat)	Bandung
10	SPECIAL CAPITAL REGION OF DJAKARTA (D.C.I. Djakarta)
11	CENTRAL JAVA (Djawa Tengah)	Semarang
12	SPECIAL TERRITORY OF JOGJAKARTA	Jogjakarta
13	EAST JAVA (Djawa Timur)	Surabaya
14	BALI	Denpasar
15	WEST NUSA TENGGARA (Nusa Tenggara Barat)	Mataram
16	EAST NUSA TENGGARA (Nusa Tenggara Timur)	Kupang
17	WEST KALIMANTAN (Kalimantan Barat)	Pontianak
18	CENTRAL KALIMANTAN (Kalimantan Tengah)	Palangkaraja
19	EAST KALIMANTAN (Kalimantan Timur)	Samarinda
20	SOUTH KALIMANTAN (Kalimantan Selatan)	Bandjarmasin
21	SOUTH SULAWESI (Sulawesi Selatan)	Makasar (U'djung Pandang)
22	SOUTHEAST SULAWESI (Sulawesi Tenggara)	Kendari
23	CENTRAL SULAWESI (Sulawesi Tengah)	Palu
24	NORTH SULAWESI (Sulawesi Utara)	Manado
25	MAI UKU	Ambon
26	IRIAN DJAJA	Djajapura



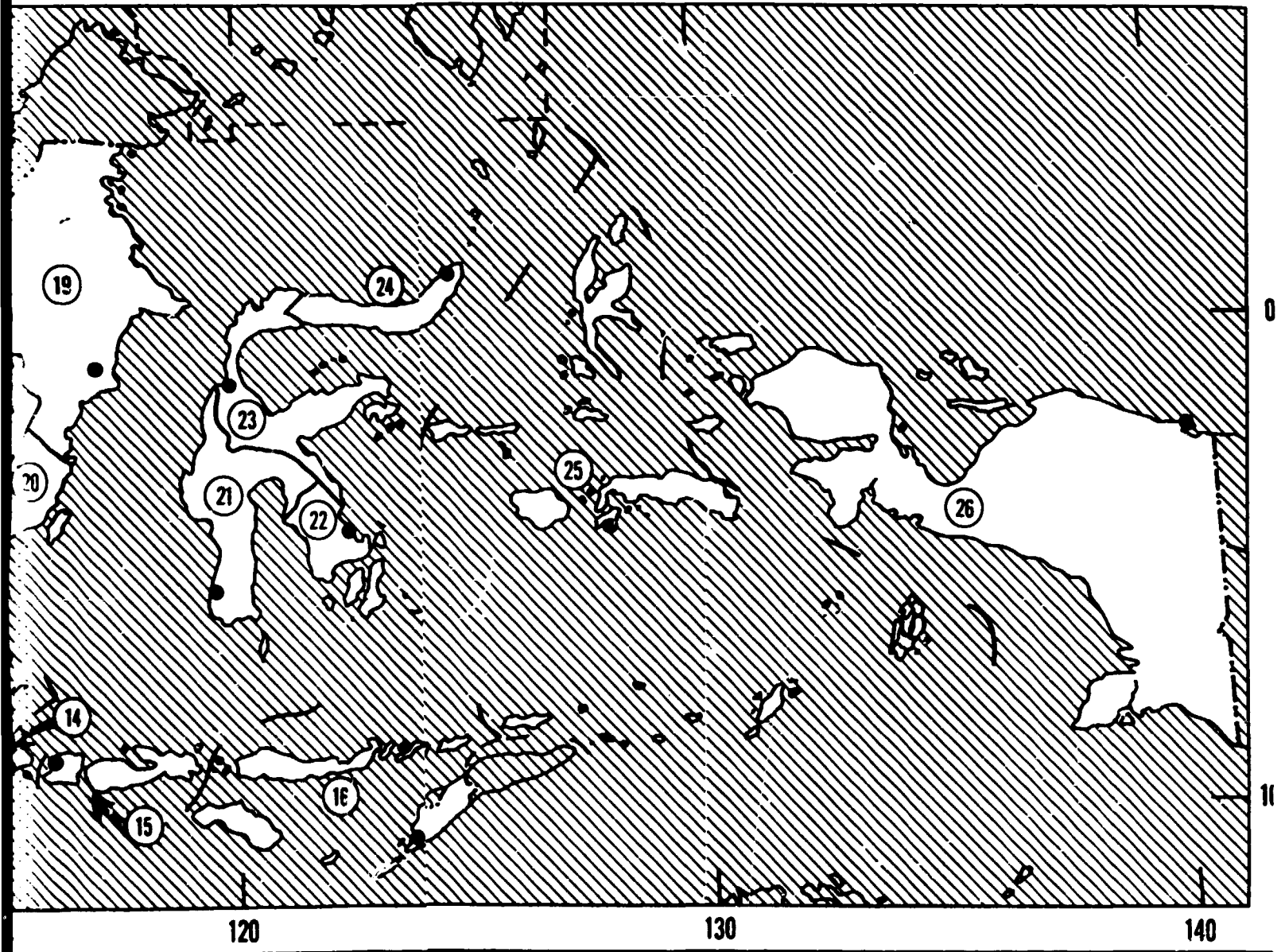
Map of

SECTION 1

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incial Capitals.

SECTION 3

Indonesia

Introduction

40. Indonesia is the largest island complex in the world, richly endowed with a variety of natural resources many of which have not yet been adequately and appropriately exploited. The principal regions are Sumatra, Java, Kalimantan, Sulawesi and Irian Jaya. The whole country consists of some 13,000 islands of which only 900 are inhabited. The country is divided into 27 provinces (with East Timor). Jakarta, the seat of the Central Government is a huge concentration of some 5.5 million people and numerous economic activities. The most heavily populated island is Java which contains about two-thirds of Indonesia's estimated population of 146 million in 1980.

41. Every province has a provincial assembly to which members are elected by the people. The provincial governor is the chief executive of the province. Each province is divided into Kabupatens which may be called districts. The chief of the Kabupaten is called the Bupati. Each Kabupaten is again divided into a number of Kelurahan. The chief of the Kelurahan is called lurah. The Kelurahan is the lowest administrative unit at the village level. It is essential to have an idea of this hierarchy of government and administration because it gives the framework within which people are expected to participate in the political, economic and social activities of the country. People's participation in these activities is considered to be an essential element, according to the Guidelines of State Policy. The Department or Ministry of Industry which is responsible for industrial development on a nation-wide scale, has a well-staffed office at each of the provincial headquarters. The same applies to other departments

or ministries of the Government. Important national bodies such as the National Planning Agency (BAPPENAS), the Investment Coordinating Board (BKPM) and others have their provincial offices.

42. Rural development is a major objective of almost all sectoral development programmes in Indonesia. The village or the Kelurahan is the smallest administrative unit in the rural areas and as such plays a major role in rural development. The current Third Five Year Development Plan (REPELITA III: 1979/80 - 1983/84) emphasizes that one of the main functions of the government in promoting rural development is to induce and encourage the participation of the community in planning and implementing rural development programmes. Further, the village administration should be able to coordinate development activities in its area. It should evaluate whether or not these activities are in accordance with local needs. Furthermore, the village administration should be able to coordinate the work of the existing development institutions. For this purpose, village administration will be improved and will be supported by administrative and development institutions at higher levels.

Emphasis on regional industrialization.

43. The Third Five Year Development Plan has particularly emphasized the importance of regional industrialization through the formation of new regional growth centres based on the utilization of existing and potential resources within a few regions of the country. The regions identified are broadly as follows:

- (1) North Sumatra and the surrounding areas. The region has plantations of rubber and palm and oil-mining activities. The aluminium project at Asahan is a big development project. Gas is available at Aceh. There are also cement plants.
- (2) South Sumatra. The region is very important for its oil resources. There are urea plants and agricultural resources like cassava, maize etc.
- (3) Java and Bali. This region is important for its highly developed industries, good infrastructure, skilled labour, and agricultural resources.
- (4) South Sulawesi and the surrounding areas. This region is also important for agricultural products like rice, maize, palm oil., etc., mining like nickel and for cement production.
- (5) East Kalimantan. It has oil-mining and gas processing activities. It has fertilizer plants. One major resource of the region is timber.

Integration of regional industrialization with sectoral growth.

44. Thus the planners in Indonesia have already applied their attention to the development of regions. An attempt has been made to integrate regional industrial growth with sectoral growth. In the current Development Plan, six groups of industries have been identified as follows:

1. Industries of strategical and political importance.

2. Key or basic industries creating opportunities for other industries and industries generating funds for the national economy;
3. Manufacturing industries producing consumption, intermediate and complementary goods;
4. Traditional industries;
5. Artistic goods industries; and
6. Rural industries.

Possible impact on rural industrialization.

45. It is expected that the efforts to integrate regional industrialization with sectoral growth, as mentioned above, will catalyse the process of industrial growth, bring about spread and transmission effects and stimulate rural industrialization.

Experience has, however, shown that these processes do not go very far and as such decentralization of industries and rural industrialization assume an important role and need to be encouraged through conscious efforts and policy measures. While talking about rural industrialization, it is never implied that industries should be taken to all rural areas in some of which industrial projects of any substantial scale will not be viable in view of the paucity of their resources, smallness of markets, lack of infrastructure of all types etc. Hence, in the context of rural industrialization, the area development approach is usually advocated and preferable.

46. In Indonesia, every province is divided into a number of Kabupatens. A number of Kabupatens or a number of Kelurahan or villages, in the light of their resources-physical, human and

material-and demand situations, may perhaps be taken as a compact geographical area for rural industrialization within which facilities may be available or created for industrial development. As it has been pointed out in Part I, in respect of rural development, two approaches are usually adopted, the area approach or the sectoral approach. The definition or delineation of geographical areas for rural industrialization appears to be an important requirement for rural industrial development in Indonesia because it is in this way that an industrial bias could be given to rural development in the country as a whole.

Definition, importance and character of small scale and cottage enterprises.

47. As regards the definition of a small-scale industrial enterprise from the point of view of rural industrialization, in the Census of Manufacturing Industries, the Central Bureau of Statistics classifies a unit employing 5-19 workers as a small-scale enterprise. The Bank of Indonesia defines a small-scale enterprise in financial terms. A small-scale industrial enterprise is an enterprise with (i) a net worth not in excess of Rp 20 million (US\$48,000); and (ii) current assets not in excess of Rp. 10 million (US\$24,000). The Department or the Ministry of Industry has again used three criteria to define a small industrial enterprise, namely, (i) investment in plant and equipment not more than US\$120,000; (ii) investment per worker not more than US\$1,000; and (iii) ownership by an Indonesian citizen.

48. In Indonesia, no differentiation is made between small-scale enterprises and cottage enterprises. It must, however, be

remembered that more than 90 per cent of the enterprises in the small-scale and cottage industries group are cottage enterprises, each with 1-4 employees. Rural industrialization should be taken to include various types of activities, small, medium or large, as pointed out in Part I of this paper. It may be used as a dynamic concept and may be taken to include all types of industrial activities which could be developed in a well-defined geographical area on the basis of its available and potential resources and the local, regional, national and international demand considerations for their products. The differences are usually drawn among cottage, small, medium and large industrial enterprises for statistical, policy and programming reasons and not for geographical reasons. Rural industrialization should be considered as forming part of regional industrialization.

49. An analysis of manufacturing production by industry groups in 1974, showed that household and cottage and small-scale industry groups overwhelmingly had dominated in number (99.4% of the total) and in employment creation (87% of the total); but had accounted for only 21% of the value added. In the same year medium and large scale industrial enterprises accounted for 0.6% of the total number and 13% of the total employment, but for 78% of the value added. The former two sectors were particularly important for employment generation which was much needed in the rural areas. Although these findings are based on old statistics, the present day picture in these respects would perhaps broadly conform to the same pattern.

50. Within the small-scale manufacturing industry groups, there are a few sub-sectors in which small-scale enterprises prevail, as shown in Table 2.

Table 2. Indonesia. Small-scale manufacturing enterprises

Sub-sector	Employment % of the total	Value added % of the total
Food, beverage, tobacco	44	48.4
Textile, apparel, leather	16.1	11.8
Wood products, incl. furniture	12.1	13.2
Chemicals, chemical products	3.6	6.3
Base metal industries	-	-
Fabricated metal, machinery, equipment	6.4	7.3
All small-scale manufacturing industries	100.0	100.0

Source: World Bank: Report No. 2490-IND. Indonesia: Cottage and small Industry in the National Economy, Volume I, page 15, November 1979.

51. The World Bank has characterised the small-scale industries in Indonesia as a "hybrid of the traditional industries and modern medium industries". On the one hand, their manufacturing operations are dominated by traditional industries such as food processing, textiles and wood products; on the other hand they are involved in many modern industries (particularly chemical and metal-based industries), namely, plastic and cement products, structural metal products and electrical equipment and appliances which are not produced in the cottage industries sector at all.

52. The small-scale enterprises which have been traditionally associated with rural industrialization, are located all around in the rural areas depending on the kinds of products. The food processing and wood products industries are widely dispersed throughout the country and reflect the scattered distribution of raw materials as well as the demands for their products in almost all over the densely populated rural areas. For some other kinds of products, like bricks and metal implements, producers are clustered together in relatively few locations, depending upon the availability of raw materials and fuels or the traditional centres of production. Examples of such products are batiks, leather, silverware and handicrafts.^{6/}

Rural industrialization programmes for small-scale industries.

53. A rural industrialization programme or a programme for the development of predominantly small-scale industries must be seen as part of the overall industrial development programme. Under Repelita III, "the major objectives of industrial development are to create employment, to fulfill basic human needs in sufficient quantities at reasonable prices, to produce finished and semi-finished goods to meet domestic demand as well as for the foreign market, to process raw materials to meet domestic industrial requirements and to produce goods needed by other sectors. In addition the plan stipulates that industrial development should contribute to more balanced regional

^{6/} World Bank Report: No. 2490-IND.
Indonesia: Cottage and Small Industry in the National Economy, Volume I, page 13, November, 1979.

development and a more efficient use of natural resources without endangering the environment".^{7/} In the context of these major objectives, the plan emphasizes policies and programmes to promote and support small-scale industries. The support services consist of financial, marketing and promotional activities. Credit facilities for small-scale industrial enterprises have been made available for some years and will be increased.

54. Another policy measures to support small-scale industries is to encourage large scale industries to use the output of the small scale industries such as components, sub-assembly and related products. Boardly, the programmes for industrial development are divided into two main categories. The first category contains programmes emphasizing equity objectives and the second category contains programmes emphasizing growth objectives. The first category of programmes covers industries which are labour-intensive and fulfil basic human needs such as textiles, building materials for low cost housing construction, medical equipment, pharmaceutical industries, paper and others. This category also includes the development of small-scale industries, village and home industries. The second category of programmes which are capital-intensive emphasize growth objectives. In implementing and financing the first category of programmes, the plan emphasizes the use of public resources, while the second category of programmes will mainly rely on private domestic and foreign sources.

^{7/} Repelita III: The Third Five Year Development Plan (English summary), p. 35.

55. According to Repelita III, US\$80,000 million is allocated for the small industry sector. This indicates that the Government emphasizes the development of the small industry sector. The goals for the small industry sector are an annual growth rate of 7% (compared to 5% previously) which is expected to result in a 12% contribution to value added in the manufacturing sector and creation of 434,000 new jobs during the plan period. The allocations are increased for marketing assistance, data collection/processing and training of extension workers.

Programme for technical assistance to small enterprises.

56. In view of the importance attached to the programme for the development of small-scale industrial enterprises, the Indonesian Government has also worked out a major technical assistance programme directed towards this objective. The BIPIK for the guidance and development of small-scale industries was established in 1974-75 by the Department of Industry with UNDP/UNIDO assistance. The policy for the development of small-scale industry has, however, been activated since 1978-79. The aim of the BIPIK programme is very broadly to provide technical assistance to the economically weak segments of the manufacturing sector, i.e. the household, cottage and small-scale enterprises which are important components of rural industrialization programme. Under the BIPIK programme, there are a number of sub-programmes with different objectives or aims, namely, (i) education, training and upgrading of entrepreneurs in product development, technology, management and marketing; (ii) guidance in the determination of needs and sources of raw-materials, machinery and spare parts, product design and quality control; (iii) technical

and managerial assistance covering use of appropriate technology, maintenance of equipment and proper business management; and (iv) marketing assistance consisting of product promotion, advice on market outlets, credit facilities, sub-contracting and market surveys.

57. The BIPIK seeks to achieve its objectives in a number of ways constituting the programme. First, the core of the technical assistance programme is the extension service officers - both general and specialized. After a couple of months' training they are assigned to a BIPIK office. Their job is to go out and see the small entrepreneurs, discuss their problems and then suggest possible ways to solve them. The extension officers are an essential link between the small-scale entrepreneurs and the assisting officers and policy-makers. They can rightly be regarded as change agents in the field of rural industrialization.

58. Secondly, in addition to soft-ware assistance, there is an important provision for hard-ware assistance - the Common Service Facilities (CSFs) in the form of workshops, storehouse, repair and maintenance facilities which can be used either free or very cheap by the small entrepreneurs. With all this equipment and some technical personnel, the service facilities can assist small-scale enterprises in processes which otherwise would be very costly to do.

59. Thirdly, another important means for carrying out the programme is the reservation scheme, which reserves certain product groups for the small-scale industry sector, like batik, leather and silverware etc.

60. To facilitate assistance and to increase the effectiveness of the services of the Extension Service Officers (ESOs) and the Common Service Facilities (CSFs), the BIPIK has developed some useful programmes, namely, (i) the setting up of the mini-industrial estates (MIEs); (ii) the creation of clusters, (iii) the establishment of cooperatives; and (iv) the development foster-father (F-F) scheme.

Mini-Industrial Estates (MIEs).

61. There is a special programme for the establishment of mini-industrial estates to promote small-scale industries in an organized and well-integrated manner. These estates are to serve small-scale industrial enterprises through meeting their demands for raw materials, promoting the market for their products, the dissemination of information, studies, skill development, process design and management. Further, they may offer assistance in loan acquisition and promotion of sub-contracting facilities. Furthermore, these estates are to provide location for small industrial enterprises and their service facilities are open to others outside the estates. Lastly, the private companies can also take advantage of the facilities created under the government programme of establishing and running the mini-industrial estates. Only a limited number of mini-industrial estates are in operation at the moment, but a total of two hundred such estates are to be established during the current plan period. This scheme will have the effect of bringing about rural industrialization on an area development basis, as enunciated in part I of this paper.

Clusters.

62. This feature of the policy seeks to promote, and integrate assistance to, small industrial enterprises in the same sector. The precondition of establishing a cluster is a sizable number of production units, say 20 or so, in one neighbourhood which are producing, for example, textiles but not necessarily the same product. The aim of the cluster is to assist the enterprises with raw-materials by buying for a common stock and by supplying common equipment facilities. It may so happen that the cluster will also try to change the product of some enterprises and divert or direct them to the types of products where the enterprises can benefit most from the common facilities.

Cooperatives.

63. A third way of locating small-scale industrial enterprises under the same roof is to form a cooperative. The Government supports the formation of cooperatives with assistance, if small-scale entrepreneurs within the same sector and within a limited area intend to be organized in the cooperative way. The idea of cooperatives is more or less similar to the cluster idea, but the cooperatives will be operated on a somewhat bigger scale.

Foster-father (F-F).

64. Lastly, there is the foster-father scheme of organizing small-scale entrepreneurs. The scheme implies that the large enterprises will buy from the small enterprises. To realize this kind of arrangements, efforts are necessary to identify potential sub-contractors. Sub-contracting will also mean some improvements

in the production process, the design and quality of products etc. required to ensure or guarantee the right delivery. The foster-father arrangements will often be made with enterprises from either a mini-industrial estate, or a cluster or a cooperative. These several schemes are inter-related and need about the same kind of assistance.

Programme for financial assistance to small enterprises.

65. In 1974, the KIK/KMPK (fixed/working capital) programme was instituted. The primary objective of this programme is to facilitate access of small-scale enterprises to institutional finance for fixed assets (KIK) and working capital (KMKP). The formulation and the administration of the programme are the responsibilities of the Bank of Indonesia, according to certain rules and regulations.

Institutional framework.

66. The institutional facilities provided by the Government in non-financial terms to the development of small-scale, cottage and home industries are very extensive. The Directorate-General for Small-scale Industries was established in 1979 within the Department or Ministry of Industry. It is responsible for all aspects of promotion and development of small-scale industries including planning, programming and implementation of the programmes. The major programmes for small-scale industry development-the BIPIK programmes-are directly under the supervision of the Director-General for Small-scale Industries, who also has the responsibility for programme formulation and implementation.

67. The Directorate-General for Small-scale Industry consists of five Directorates, namely, (i) programming; (ii) assistance for equipment and raw materials; (iii) entrepreneurship development; (iv) production and market development; and (v) evaluation.

68. The Department or Ministry of Industry has 26 BIPIK offices and these offices, in turn, have branches at district level, altogether 206 in number. It has been suggested earlier that to facilitate rural industrialization, these districts or a number of them should be taken as the geographical units for the purposes of rural industrial development.

69. The central BIPIK office does the planning and promotional work, coordination, monitoring and evaluation relating to the development of small-scale industries. These functions are preformed at the regional offices, but policy-making and strategy planning are carried out only by the central office. It must be emphasized that local or rural industrialization efforts have necessarily to be coordinated at all levels-national, regional and sub-regional or local-with all other government departments and bodies. Industrialization is not an isolated task and must be integrated at all levels with other departments and agencies, both governmental and non-governmental.

70. The regional offices work basically under the governors and indicate a decentralized institutional structure. The funds for the regional offices come from two sources-partly from the Department of Industry, and partly from the governor.

71. In order to ensure an effective implementation of the BIPIK programme, some Small Industry Development Centres (PPIKs) have

been established in a number of selected central areas, namely, Jakarta, Bandung, Semarang, Jogjakarta, Surabaya, North and West Sumatra, South Sulawesi and Bali. It is planned that eventually a PPIK office will be set up in each province.

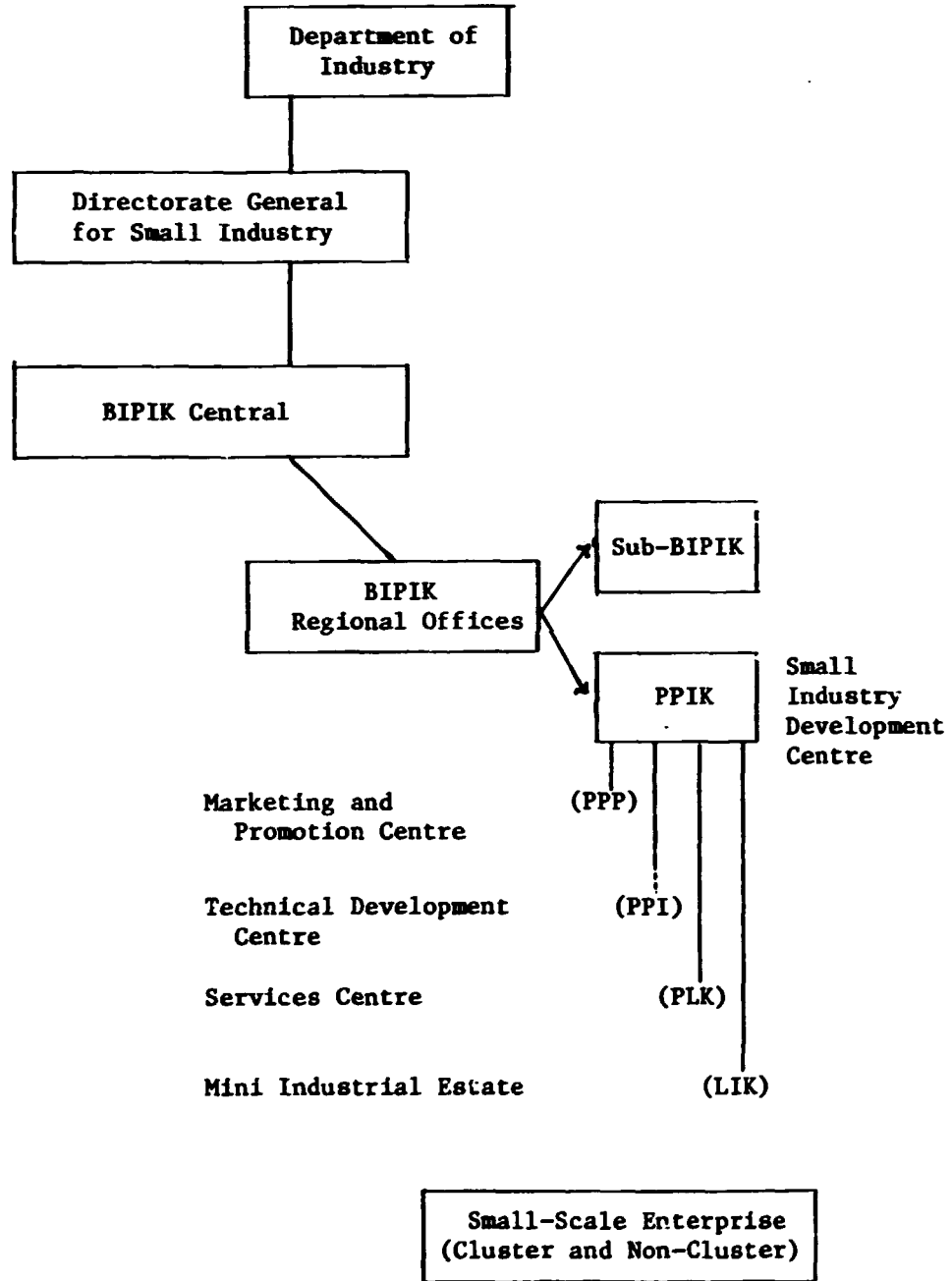
72. The role of PPIK is to provide soft-ware assistance like extension services, development of common services, training of industrial extension field officers, assistance to sub-BIPIK in identification of needs, feasibility studies, studies on mini-industrial estates and common services facilities. The sub-BIPIK gives hardware assistance in respect of raw material supply, small-scale industry protection, market development, financial assistance, provision of common service facilities and setting up of mini-industrial estates.

73. Besides this chain of government and policy related institutions, there are some others of a more autonomous kind. These include the research institutions like the Batik and Handicraft Research Centre, the Leather Research Centre in Jogjakarta, Institute for Textile Technology and the Metal Industrial Development Centre in Bandung. The activities of some of these institutions, though relevant to the smallscale industry field, are not particularly specialized to meet the requirements of small-scale industrial enterprises.

74. The organization chart showing the broad institutional framework for the development of small-scale industry in Indonesia is given in the next page.

INSTITUTIONAL FRAMEWORK

FOR THE DEVELOPMENT OF SMALL-SCALE INDUSTRIES IN INDONESIA



Some remarks.

75. The Republic of Indonesia has developed comprehensive policies and programmes and an institutional set-up for the development of small-scale enterprises. As these are of rather recent origin, it is rather difficult and too early to evaluate the progress that has been made so far. However, a few remarks seem to be in order.

76. First, there is the difficulty about the definition used by the government. The definition at present comprises both the small-scale and the household and cottage enterprises. The two categories consist of mixed groups with different problems and prospects. To make the policies and programmes efficient and appropriate, it will be useful to demarcate or split up different groups. The present policy of setting up mini-industrial estates or clusters, although suited to the small industrial establishments, is not suitable for household and cottage enterprises which form the biggest group. Special efforts are needed to facilitate their operation because household and cottage enterprises which are so important for rural employment are in the rather distant rural areas. Such enterprises may not be attracted to the mini-industrial estates or clusters set up at some geographical points which will become urbanized as industrial centres for small-scale industrial enterprises. An emphasis should also be placed on support to small-scale and household and cottage enterprises which are outside the estates and clusters.

77. Secondly, it is clear from Table 2 that, among industrial groups, the food, beverage and tobacco sub-sector occupies an

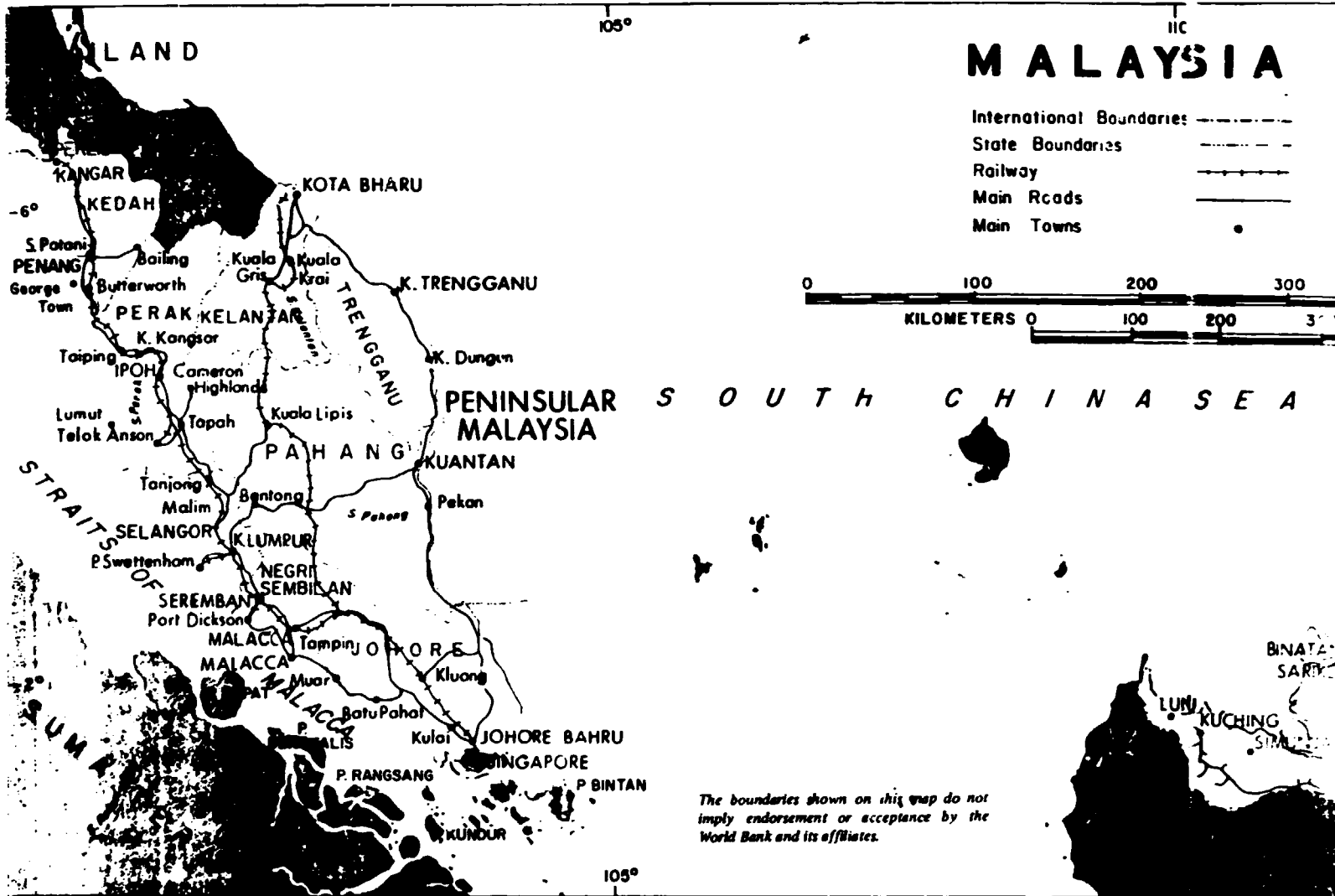
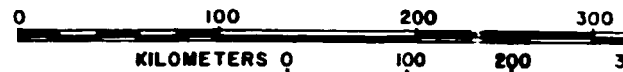
overwhelmingly important position in respect of both employment and value added. This must necessarily be so, but perhaps there is a need for emphasizing the development of such basic sub-sectors as chemicals and machinery so that they grow in relative importance and contribute to developmental efforts by producing intermediate products. At present the priority is given to the textile and leather sub-sector which produces final consumption goods. There is, therefore, a need for a reconsideration of the priorities attached to different sub-sectors of the small-scale manufacturing industries and for the enhancement of productivity which is known to be generally low in small-scale manufacturing industries.

78. Thirdly, there is the problem about the required number of trained extension service officers to give advice and guidance in matters which are not only financial, but technical and managerial. There are potentials for increased productivity in the small-scale industry sector by improvements in management, in tools used and working conditions and other ways. The needed services in these directions can only be given by qualified and specialized extension service officers.

79. Lastly, the whole institutional framework for the development of small-scale industries is fairly elaborate and provides for a good deal of decentralization. As several organizations are concerned with different functions relating to the development of small-scale and household and cottage industries, at the central, provincial and local levels, coordination of their tasks at every level, becomes an important necessity. Such coordination is not sufficiently ensured at present.

MALAYSIA

- International Boundaries: - - - - -
- State Boundaries: - · - · -
- Railway: = = = = =
- Main Roads: — — — — —
- Main Towns: •



The boundaries shown on this map do not imply endorsement or acceptance by the World Bank and its affiliates.

SECTION 1

MALAYSIA

- International Boundaries: - - - - -
- State Boundaries: - - - - -
- Railway: = = = = =
- Main Roads: — — — — —
- Main Towns: •

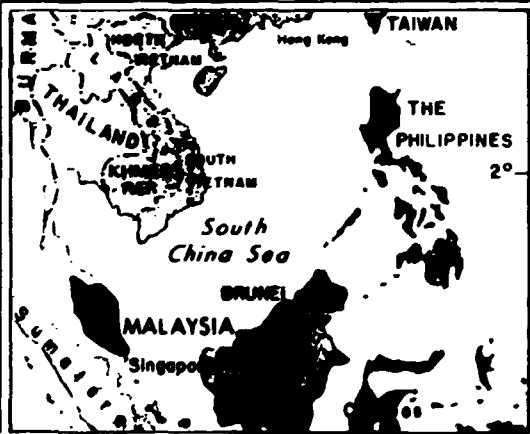


100 200 300 400 MILES

KILOMETERS 0 100 200 300 400 500

C H I N A S E A

SABAH AND SARAWAK



MALAYSIA

Introduction

80. Malaysia has 13 states each of which is divided into a number of districts. Each district is further divided into a number of lower administrative units called mukims (or parishes). Each mukim includes a number of villages. The district office is, however, the focal point of rural administration. In the whole of Peninsular Malaysia, there are about 71 districts each headed by a district officer who combines in himself the roles of a general administrator, collector of land revenue, magistrate, chairman of non-autonomous town boards, and chairman of various committees charged with many functions including rural administration and planning. The district office is the meeting place for the flows of policy from the federal and state governments and the grassroots demands. In Malaysia, each district may perhaps be taken as a geographical unit for rural industrialization, though this concept of development on an area basis is a flexible one in the sense that an area should form a more or less compact economic, social and geographical unit.

Alleviation of poverty - a major objective.

81. In Malaysia, there has been a direct government attack on poverty through increasing the incomes of the poor directly and through the provision of basic services according to the theme of development planning. There is a strong political commitment to poverty reduction in a country where the political elite has been

historically divorced from the economic elite. Thus political power has necessitated a strong base among the economically weak rural Malay population. The Fourth Malaysia Plan (FMP), 1981-85, in representing the second decade of the Outline Perspective Plan (OPD) 1971-90 - further elaborates and refines policy measures and programmes embodied in the Second and Third Malaysia Plan (SMP and TMP) to ensure that the socio-economic objectives of the New Economic Policy (NEP) designed to promote national unity through the two-pronged objectives of eradicating poverty, irrespective of race, and of restructuring society to eliminate the identification of race with economic functions, are achieved.

82. Over 54.6 per cent of the population in agriculture in Peninsular Malaysia is poor (if defined as anyone having to spend two-thirds or more of their income on food). Some estimates would put the incidence of poverty in agriculture at over 40%. About 40% to 55% of the agricultural population is in absolute poverty. Nationally (including the non-agricultural population), the incidence of poverty may vary from 25% to 37%.^{8/}

Structural change.

83. In 1970, 72.7% of the population in the whole of Malaysia was rural whereas 27.3% of it was defined as urban. Although the percentage of rural population has gone down and that of urban population must have gone up during the last decade, the vast

^{8/} World Bank: Report No. 2685-MA, Malaysia Selected Issues in Rural Poverty, Vol. I: Overview Dec., 1980, p.3

majority of the population is still rural. The economy of Malaysia has, however, undergone significant changes during the last decade. In 1970 agriculture (including hunting, forestry and fishing) accounted for 28.8 per cent of GDP which went down to 24.4 per cent in 1979 at constant prices, while the percentage of manufacturing went up from 14.7% in 1970 to 18.7% in 1979.

84. Although it is not possible to exactly quantify the contribution of the small-scale industrial enterprises to industrial output, it must be significant. In Malaysia, a small-scale industrial enterprise is statistically defined to include all registered business units each with its assets of upto M\$250,000 or shareholders' fund of upto M\$250,000. The definition does not refer to production or employment. What is, however, more relevant to rural development in Malaysia is the policy of industrial dispersal to the rural areas through the establishment of small-scale industrial enterprises. In some cases, however, large industrial plants would be established in rural areas if the access to raw materials is the most dominant locational consideration, although the usual expectation is that a large industrial plant will be located in urban areas where infrastructural facilities are readily available.

Strategy to reduce poverty.

85. The basic strategy followed by government to reduce poverty has led to two lines of action. The first aims at encouraging people to transfer from low productivity rural occupation to higher income opportunities arising from modern industrial development. According to this line, industrial growth has been maintained at a relatively high level since 1960. The second line has provided for an active

Government role to supplement the transfer of labour by increasing directly the productivity of the poor via projects and programmes in rural areas. According to this strategy, the small-scale industry development and rural industrialization could play an important role in alleviating poverty.

Development policy and small-scale enterprises.

86. As stated in the Fourth Malaysia Plan (1981-1985), manufacturing, which continues to play a strategic role in the achievement of the New Economic Policy, "is expected to generate substantial employment for new entrants into the labour market as well as for the underemployed, especially in the rural areas". Government has decided to further pursue policies for the dispersal of industries to promote balanced industrial growth among regions. To accelerate the pace of industrialization among less developed regions of the country, infrastructural facilities were expanded and special incentives provided. For instance, out of a total of 76 industrial estates (covering about 9,650 hectares) established by the end of 1980, 28 were in the states of Kedah, Kelantan, Pahang, Sabah, Sarawak and Trengganu, (covering an area of about 2,442 hectares). In 1970, only Kedah had an industrial estate covering an area of nearly 40 hectares.

87. In Malaysia, "small scale industrial enterprises played an important role in the development of entrepreneurship, creation of employment, mobilization of individual savings for investment, broadening of industrial base of the Bumiputera and providing input and supportive services for larger scale industries. During the last decade, the government promoted the development of small-scale

industries through the provision of loans by public sector agencies such as the Majlis Amanah Rakyat (MARA), Malaysian Industrial Development Finance Corporation Berhad (MIDF) Bank Pembangunan Malaysia Berhad (BPMB) and Bank Pertanian Malaysia Berhad (BPM) as well as training, consultancy and advisory services by the National Productivity Centre (NPC) and MARA. Total loan provided by these agencies for small-scale industries during the decade amounted to M\$203.5 millions".^{9/} The number of small-scale industrial enterprises during the last decade increased considerably.

88. Small-scale industrial enterprises included motor workshops, welding, foundries, printing, traditional handicrafts, furniture-making and wood works, food, textile and clothing, beverages and tobacco, rubber products and machinery. Some of these industries, for instance, foundry and metal industries provided supportive services for such large scale industries as electrical and non-electrical machinery and transport equipment industries.

Institutional arrangements.

89. In Malaysia, there are strong agencies and institutions for the development of industries including small-scale and handicraft industries. The development of small-scale industrial enterprises has been emphasized by the newly established Small-scale Enterprises Division in the Ministry of Trade and Industry. The role of this Division lies mainly in the coordination of the activities of different institutions charged with the responsibilities

9/ Fourth Malaysia Plan 1981-1985, (1981), p. 297

for the development of the small-scale industries. The Ministry of National and Rural Development has also a Small-scale Enterprises Division, but the function of this organization lies mainly in the implementation of specific projects. The Perbadanan Kemajuan Kraftangan Malaysia (PKKM) continues to promote the development and growth of handicraft industries. The Fourth Malaysian Plan has provided for the establishment of a product development centre (Pusat Daya Cipta) to carry out research into production techniques, designing and other related fields to improve existing handicraft and develop new handicraft products.

90. There are institutions to render services such as dissemination of research, the provision of advisory and consultancy services, training, credit and loan facilities. Examples are the Standards and Industrial Research Institute of Malaysia (SIRIM), the Rubber Research Institute of Malaysia (RRIM) and Malaysian Rubber producers Research Association (MRPRA), the Malaysian Agricultural Research Development Institute (MARDI), the Forest Research Institute (FRI) and the Palm Oil Research Institute of Malaysia (PORIM) to render research and advisory services in their respective areas. The development of skills, technical knowhow and entrepreneurship are encouraged through such institutions as industrial training institutes, vocational institutes and schools, youth training centres, NPC (National Productivity Council) as well as universities and colleges. Consultancy and advisory services are provided by agencies such as MARA, NPC, PKKM and BPMB. Facilities for loans and credit are provided by agencies such as BPMB, MARA and MIDF.

91. At present in Malaysia, there are concerted efforts made to provide training, advisory and consultancy Services to small-scale industries by agencies such as MARA, NPC, PKK, BPMB and the newly established Small-scale Enterprises Division in the Ministry of Trade and Industry. Better terms and conditions of financing and more favourable incentives are provided to these industries to stimulate their growth and development. Under the FMP, a sum of M\$318 million has been allocated to MARA, BPMB and BPM for the development of small-scale industries.

92. In the economic and industrial development of Malaysia, the State Economic Development Corporations (SEDCs) have played a leading role through the development of industrial estates. During the FMP, 37 new industrial estates will be developed, some of which will be necessarily small. These will further facilitate the growth of small-scale industrial enterprises and rural industrialization.

93. To elaborate further on the institutional arrangements consisting of ministries and agencies involved in the development of small-scale industries and rural industrialization, the Ministry of Trade and Industry has listed some 25 different institutions dealing with small-scale industries, although not all of them are directly involved in small-scale industrial operations and rural industrialization. Only a number of them directly involved in these tasks are mentioned here.

The Ministry of Trade and Industry.

94. The Small-scale Enterprises Division of the Ministry was set up only in May 1981 after the new government came into power.

The Division is responsible for the promotion and development of small enterprises in line with the New Economic Policy, with the following specific tasks:

- (i) identification of opportunities for small-scale investment in manufacturing, service and trading activities;
- (ii) provision of incentives to foster development of small-scale industries;
- (iii) fostering an interest among individuals to participate in small-scale industries; and
- (iv) provision of advisory and information service to assist small-scale enterprises.

95. As there are various government departments and agencies involved in implementing governmental programmes for the development of small-scale industries, this Division has the responsibilities for harmonising and co-ordinating the policies and strategies that govern those programmes so as to ensure a more orderly development of the small enterprises sector in line with national policies. This task was previously performed by the Co-ordinating Council for the Development of Small-scale Industries which became defunct since May 1981.

The Ministry of National and Rural Development.

96. This Ministry was established only in October 1981. It is the responsibility of this Ministry to promote rural industries in line with the Government's policy of revitalizing traditional villages in order to limit migration to urban areas.

The Ministry is also the responsible unit for supervising the implementation of programmes for rural industrialization.

Prime Minister's Department - the Economic Planning Unit.

97. The Small-scale Enterprise Sub-section of the Industries Section in the Economic Planning Unit (EPU) is to ensure that the strategies implemented for small-scale industries are consistent with the over-all strategies of the manufacturing sector in particular and other sectoral strategies in general.

98. As the small-scale industries constitute a major component of the manufacturing sector and, with the emphasis being laid on this sector, it is one of the major responsibilities of this Sub-section to identify the strategies, programmes and projects for the small-scale industries.

99. In other words, this subsection has a key role to play in shaping the appropriate policies and programmes for the small-scale industries to be approved by the Government, although still details at project level have to be identified and prepared by respective agencies concerned.

100. The contribution of this subsection towards generating a comprehensive set of strategies for the small-scale industries until now, however, cannot yet be regarded as satisfactory, as most of the efforts have been done rather haphazardly or in an adhoc manner without sufficient consideration being given to whether they really consistently fit into the over-all strategies for the manufacturing sector. This situation results partly from the lack of necessary information on the small-scale enterprises.

Efforts are now being undertaken to review the current situation which hopefully will lead to the formulation of a policy for the development of small-scale enterprises.

Credit Guarantee Corporation (CGC).

101. The CGC was set up to encourage commercial banks to provide more loans to small enterprises. The Credit Guarantee Scheme provides guarantee cover for credit facilities made available by commercial banks to small enterprises for financing their fixed capital and operational requirements.

MARA.

102. MARA established in 1966 as a statutory body is under the Ministry of Public Enterprises. The objective of MARA is to motivate, guide, train and assist especially the rural population to participate actively and progressively in the commercial and industrial activities. MARA has implemented the entrepreneurial development programme, the objective of which is to develop and increase the number of Bumiputera entrepreneurs and to upgrade Bumiputera small industries. MARA is involved in four main activities, namely, (i) project development, which involves identification and feasibility studies on lucrative commercial and industrial projects for small-scale investment by Bumiputeras; (ii) entrepreneurial development and consultancy services, which covers both training and advisory services; (iii) credit infrastructure and other incentives which include not only loans but also other facilities, such as, buildings and common services.

103. In view of the fact that so many government departments and agencies are concerned with the administration and supervision of the policy relating to the development of small-scale industrial enterprises and to rural industrialization, the tasks of coordination of the powers which have been decentralized among various bodies become extremely important.

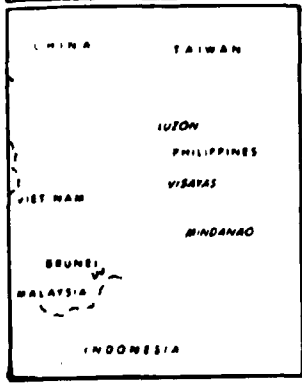
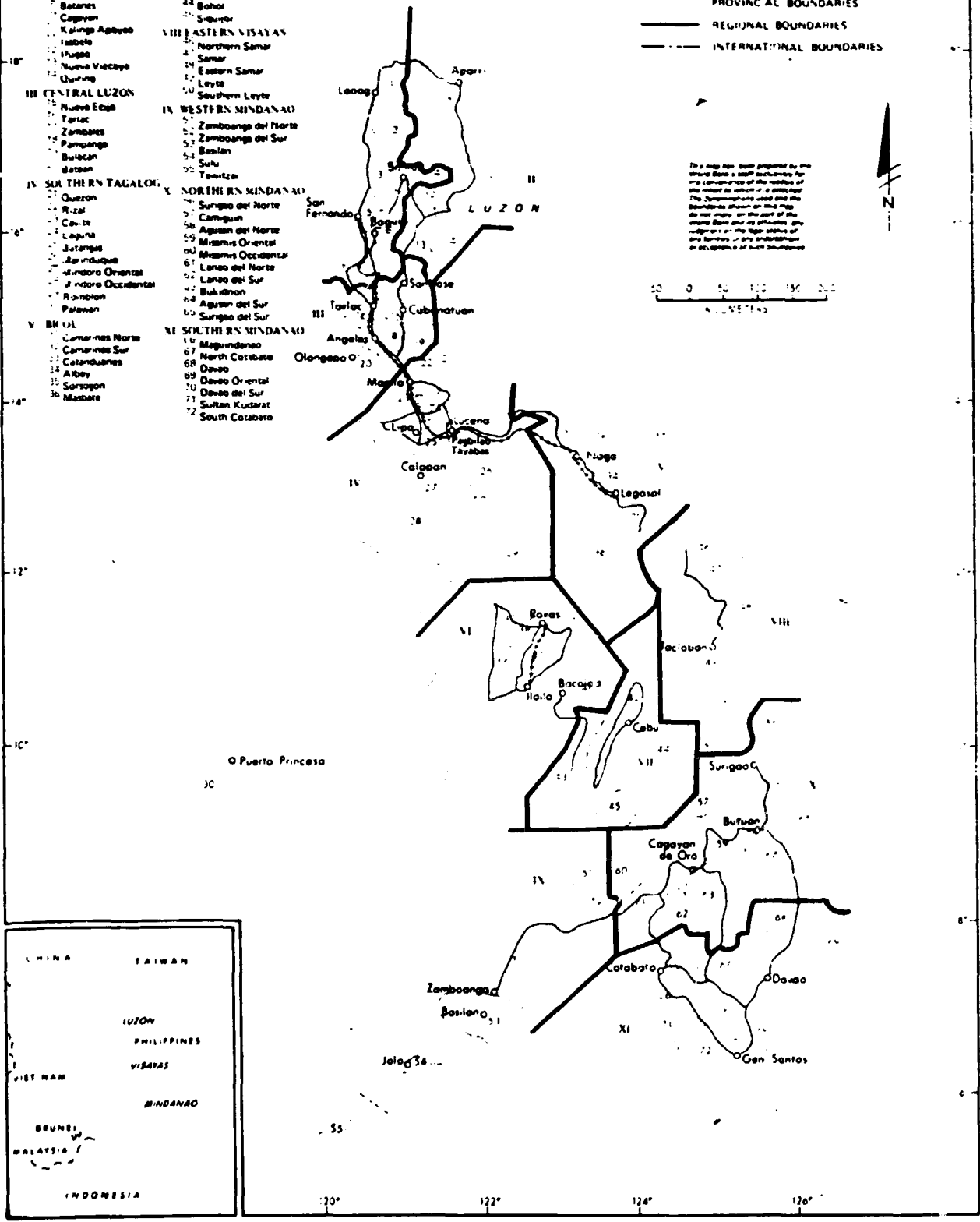
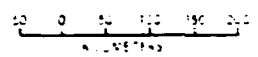
CLASSIFICATION OF PROVINCES BY GEOGRAPHICAL REGIONS

- I. ILLUS**
 - 1. Abra
 - 2. Ilocos Sur
 - 3. Ilocos Norte
 - 4. La Union
 - 5. Pangasinan
- II. CAGAYAN VALLEY**
 - 6. Batanes
 - 7. Cagayan
 - 8. Kalinga-Apayao
 - 9. Isabela
 - 10. Ifugao
 - 11. Nueva Vizcaya
 - 12. Quirino
- III. CENTRAL LUZON**
 - 13. Nueva Ecija
 - 14. Tarlac
 - 15. Zambales
 - 16. Pampanga
 - 17. Bulacan
 - 18. Bataan
- IV. SOUTHERN TAGALOG**
 - 19. Quezon
 - 20. Rizal
 - 21. Cavite
 - 22. Laguna
 - 23. Batangas
 - 24. Marikina
 - 25. Mindoro Oriental
 - 26. Mindoro Occidental
 - 27. Romblon
 - 28. Palawan
- V. BIOL**
 - 29. Camarines Norte
 - 30. Camarines Sur
 - 31. Catanduanes
 - 32. Albay
 - 33. Sorsogon
 - 34. Masbate
- VI. WESTERN VISAYAS**
 - 35. Aklan
 - 36. Capiz
 - 37. Antique
 - 38. Iloilo
 - 39. Negros Occidental
- VII. CENTRAL VISAYAS**
 - 40. Cebu
 - 41. Negros Oriental
 - 42. Bohol
 - 43. Siquitor
- VIII. EASTERN VISAYAS**
 - 44. Northern Samar
 - 45. Samar
 - 46. Eastern Samar
 - 47. Leyte
 - 48. Southern Leyte
- IX. WESTERN MINDANAO**
 - 49. Zamboanga del Norte
 - 50. Zamboanga del Sur
 - 51. Basilan
 - 52. Sulu
 - 53. Tawi-tawi
- X. NORTHERN MINDANAO**
 - 54. Surigao del Norte
 - 55. Surigao
 - 56. Agusan del Norte
 - 57. Misamis Oriental
 - 58. Misamis Occidental
 - 59. Lanao del Norte
 - 60. Lanao del Sur
 - 61. Bukidnon
 - 62. Agusan del Sur
 - 63. Surigao del Sur
- XI. SOUTHERN MINDANAO**
 - 64. Maguindanao
 - 65. North Cotabato
 - 66. Davao
 - 67. Davao Oriental
 - 68. Davao del Sur
 - 69. Sultan Kudarat
 - 70. South Cotabato

PHILIPPINES

- ROADS
- RAILWAYS
- PROVINCIAL BOUNDARIES
- REGIONAL BOUNDARIES
- INTERNATIONAL BOUNDARIES

This map has been prepared by the United States Coast and Geodetic Survey for the convenience of the public. The Department does not assume any responsibility for the accuracy of any information or data shown on this map.



Republic of the Philippines

Introduction

104. The Republic of the Philippines is an archipelago composed of 7,107 islands. Only one thousand of the islands are populated and only 11 of them account for 95 per cent of the country's total land area. Today there are about 47 million Filipinos living in these scattered islands, having a birth-rate of 2.9 per cent which is perhaps the highest in Asia.

105. The Republic consists of 12 regions as shown in the map.

106. The development of regions and sub-regions is a declared objective of the Government of the Philippines. The objective is to ensure the equity of opportunity for each region to exploit its full potential with respect to its demographic, economic, social, political and environmental resources. The objective is also to make the development of depressed and lagging regions grow at rates faster than the relatively more developed regions in order to reduce regional inequalities without unduly hindering the growth of the latter regions or slowing down total national development. Regional development will proceed through a concerted programme of integrated rural development expressly designed to hasten the pace of growth of lagging areas. The approach focuses on the integration and coordination of development activities aimed at achieving the desired end of socio-economic progress for backward areas by strengthening and mobilizing popular participation in planning and project execution both at the regional and local levels.

107. The Philippine local government system is composed of

the political and administrative sub-divisions of the country which are provinces, cities, municipalities and barangays. Cities and provinces are corporate political bodies with governmental powers. Provinces are further sub-divided into cities and municipalities; the chartered cities are more independent than the municipalities. Cities are headed by city mayors and have legislative bodies. Municipalities have municipal mayors as the local executives and local legislatures. Barangays, the smallest territorial and political sub-divisions, form the municipalities and have their councils.

108. The government and the people of the Republic have been striving to achieve what has been called the "New Society" aiming at various reforms. The national government continues to assume the major responsibility in the planning and the implementation of the development programmes. The local governments have been given more autonomy under the strategy of decentralizing responsibilities from the national government.

109. The province consists of some municipalities, some chartered cities and a large number of barangays. Provincial governors, city mayors, municipal mayors and barangay captains are elected. The Province headed by a governor has a provincial development council (PDC) and provincial development staff is engaged in work in fields like planning and programming, research and statistics, administration and public information. The provincial development council in the province consists of the provincial governor as chairman and heads or chiefs of government offices, agencies and entities in the province and representatives

from various organizations in the province as member.

110. The province which may be regarded as forming a compact geographical unit for economic and social development should regard rural industrialization as one of the components of its coordinated or integrated development programme. In the light of the resources of each province, physical and human, and depending on the available skills, requirements and the potentials, a rural industrialization programme on an area basis still needs to be developed.

Industry and agriculture.

111. While, in view of its importance, considerable support is given to agriculture (accounting for 25.9% of the country's GDP in 1979, as compared with 28.9% in 1970 at constant prices) the Government has intensified its efforts at promoting greater industrialization (manufacturing accounting for 25.3% of the country's GDP in 1979, as compared with 23.2% in 1970 at constant prices). Agricultural development must proceed hand in hand with industrial development in an integrated manner. This policy is needed to provide jobs not only to those who are presently under-employed but also to the large and progressively increasing numbers joining the labour force in the future.

112. The drive towards raising agricultural productivity will release workers from the agricultural sector for employment in industry which must grow more rapidly and dynamically. With the development of agriculture and agricultural incomes, the demand for industrial products can be expected to increase giving an

impetus to the establishment of manufacturing industries not only for domestic but for also for international markets. Apart from generating employment opportunities industrial development will enable the country to earn and save foreign exchange needed to support overall national development. The country will gradually move from the finishing stages to the earlier stages of production thus becoming less dependent on foreign supplies, particularly in respect of intermediate inputs based on domestically available raw materials. The country attaches an increasing importance to industrialization programmes so as to raise the importance of manufacturing to the same level as that of agriculture in GDP by 1987.

113. Industrialization, however, will not be pushed at the expense of agriculture which will supply food and raw materials, generate effective demand for industrial goods and provide additional employment opportunities. The main thrust of the country's industrialization programme will be towards the development of labour-intensive, small-and medium-scale industries, side by side with a few strategic large-scale, capital-intensive industries. Industries using domestically available raw materials and resources will be given particular attention. The dispersal of industries to different regions of the country, will be actively encouraged. Investments both domestic and foreign, will be promoted in the development of manufacturing industries particularly in areas of high priority.

Industrial development objectives, strategies and policies.

114. A number of features of the industrial development objectives,

strategies and policies of the Government of the Philippines are very relevant to regional, local or rural industrialization. Firstly, in the Philippines, in view of a marked disparity in industrial development in favour of the Metro Manila Area (MMA) sharing about 44.7 per cent in the total industrial output in 1975 as compared to 29.1 for the rest of Luzon, 17.1 per cent for the Visayas and only 9.1 per cent for Mindanao, efforts are being made to disperse industries among the various regions. The promotion of small and medium-scale industries in the countryside is being actively pursued by various government agencies. Secondly, the growth of the industrial sector is geared to the creation of employment for the under-employed and unemployed in the agricultural and rural areas. Thirdly one major industrial strategy is the establishment of cottage, small-and medium-scale industries outside the Metropolitan Manila. In conformity to this strategy, in addition to the role the private sector has played and will continue to play, the Government will offer concerted assistance (e.g. institutional finance, intermediate technology, and market schemes) for the establishment of cottage, small-and medium-scale industries in the countryside, including the adoption of an industrial estates development programme and other policies.^{10/}

115. The above elements of the strategies and policies are consistent with rural industrialization with a view to improving

^{10/} Five Year Philippine Development Programme, 1978-1982, p. 126

the conditions of the poor in the rural areas by creating non-agricultural activities, in addition to the adoption of such measures as land reform, the establishment of rural cooperatives, food production, the provision of technical assistance, credit, financing and marketing facilities which will benefit not only the farmers but also the small traders and handicraft producers in the rural areas. The development of industries or non-agricultural occupations of varied types must be adopted as an integral part of an integrated rural development programme, whether the latter is adopted on an area development basis or a sector development basis. Although the appropriate geographical area for rural industrialization should be flexibly determined, in the case of the Philippines, the province may be a sizable enough area for this purpose, as already stated.

116. The industrial development programmes of the Philippines in the coming years are geared to the development of small-and medium-scale industries and the encouragement of useful large-scale projects. The following map shows the opportunities for the development of small and medium-scale industries by region. Sectoral programmes for such industries aim at the utilization of the region's available and potential resources and the removal of bottlenecks in a particular region.

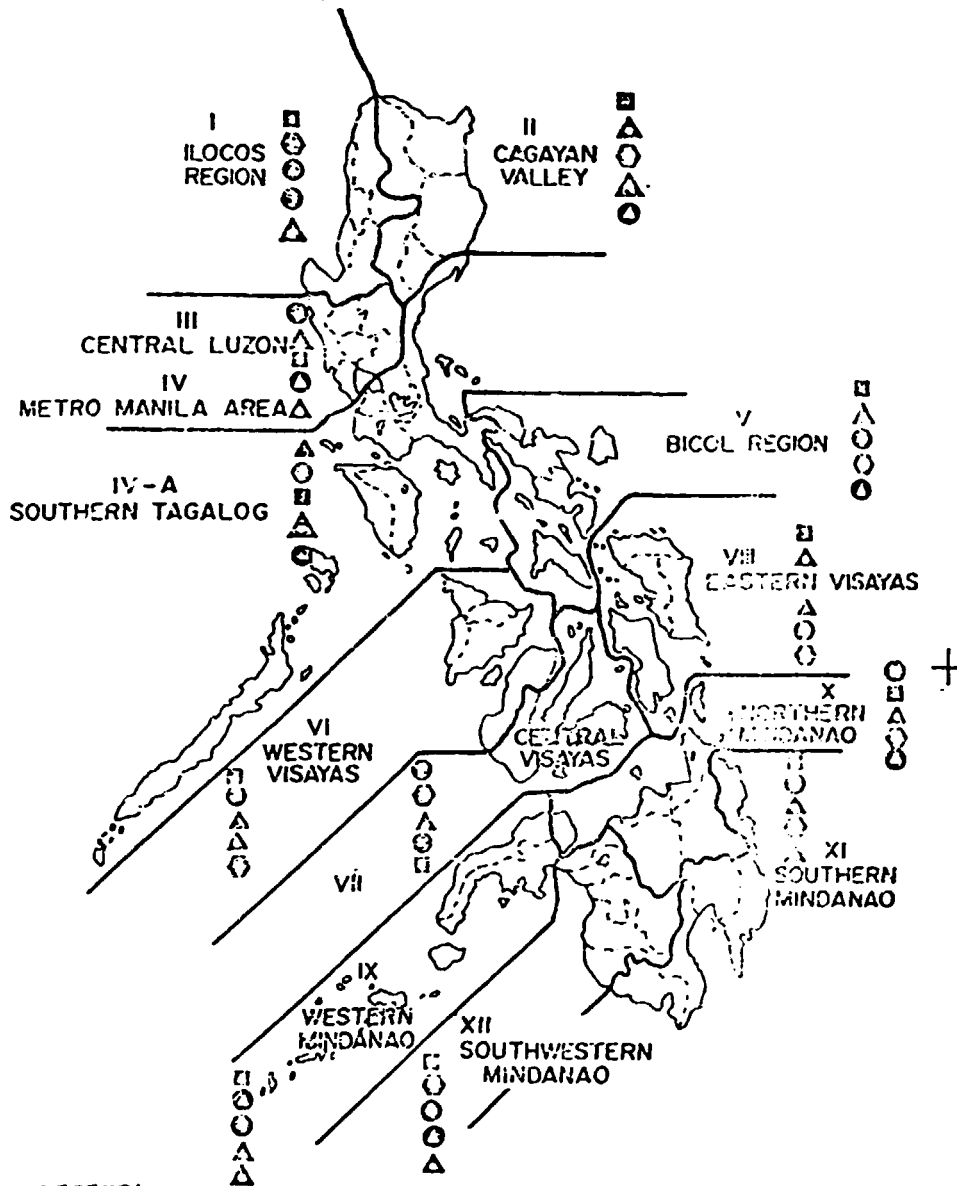
117. The Five Year Philippine Development Plan, 1978-1982, sought to establish, by 1982, about 35,000 small and medium scale firms employing 960,000 workers. Based on 1975 figures, this programme would mean an additional 10,000 new firms employing some 250,000 new workers during the five year period. An additional

191,000 workers were to be employed in the cottage sector.^{11/}

118. The Philippine programme for the small and medium scale industries is prepared on the basis of well-defined geographical regions. By 1982, the target is that the aggregate number of small and medium-scale industry projects in Regions I, III, IV and VII (Northern Luzon, Central Luzon, Southern Tagalog and Central Visayas) would collectively approach that of Metro Manila. Metro Manila would account for 27 per cent of total small and medium-scale industries, particularly the non-traditional, labour-intensive export products due to its advantages in shipping facilities and contact with foreign markets. Regions I, III, IV and VII would constitute 28 per cent. These regions would experience the growth and development of small, labour-intensive industries identified on a priority basis. The balance of 45 per cent will be distributed among other regions with Regions VI, X, and XI getting a bigger share than Regions II, V, VIII and IX. The small and medium-scale industry sector in the Philippines consist of wood and wood products including pulp and paper, engineering goods, food and food products including beverages and tobacco, textiles and wearing apparel, non-metallic mineral products and services. The accompanying map shows the development potential of the small and medium scale industries by region.

^{11/} Five-Year Philippine Development Plan, 1978-1982, p. 132.

SMSI POTENTIAL BY REGION



LEGEND:

- △ - Wood and wood products including pulp and paper
- - Engineering goods
- ◻ - Food and food products (incl. beverages and tobacco)
- △ - Textiles and wearing apparel
- - Nonmetallic mineral products
- - Services

Descending order shows priority ranking based on resources availability, proximity to market, growth prospects, etc., of industry by region.
 Sources: DI, ISSI, RDS-NEDA.

119. In programming the development of small and medium-scale industrial sector, the Government has attached importance to a number of important factors such as promoting better and wider linkages between industry and agriculture, a wider degree of complementation between the small and medium industry sector and the large manufacturing enterprises, establishment of forward and backward linkages, particularly among intermediate and capital goods industries, mainly through the promotion of sub-contracting opportunities intended to provide a market for small firms to utilize their excess capacities, the setting up of small service workshops involved in the production of equipment parts, components, sub-assemblies, and pieces of machines in the regions to support industries in the major cities and population centres and the conscious design of the local content programmes to facilitate the participation by small and medium industries, the creation of more extension service units for rendering technical and management services and skills and entrepreneurship development in strategic points in the regions to encourage the growth of the small industry sector.

120. The Government of the Philippines aims at an integrated approach to area development in support of the objectives of regional development, industrialization, export promotion and human settlements. Such areas or sites considered for industrial estates development include the Mactan Export Processing Zone (MEPZ) in Lapu-Lapu city to serve light export industries such as the manufacture and/or assembly of electronic products, precision instruments and garments. Large estates will be developed as

forward and backward linkages are set up near about the major products to be located in Batangas, Laguna Surigao, and other places. Further, the nation-wide industrial estates development programme has identified a number of industrial sites for feasibility and possible implementation by the end of the Five Year Development Plan, 1978-1982, as shown in the following map. These potential industrial estates are much smaller in area than the Bataan and Mactan Export Processing zone or the PHIVIDEC Industrial Estates and are general mainly for small and medium-scale industries.

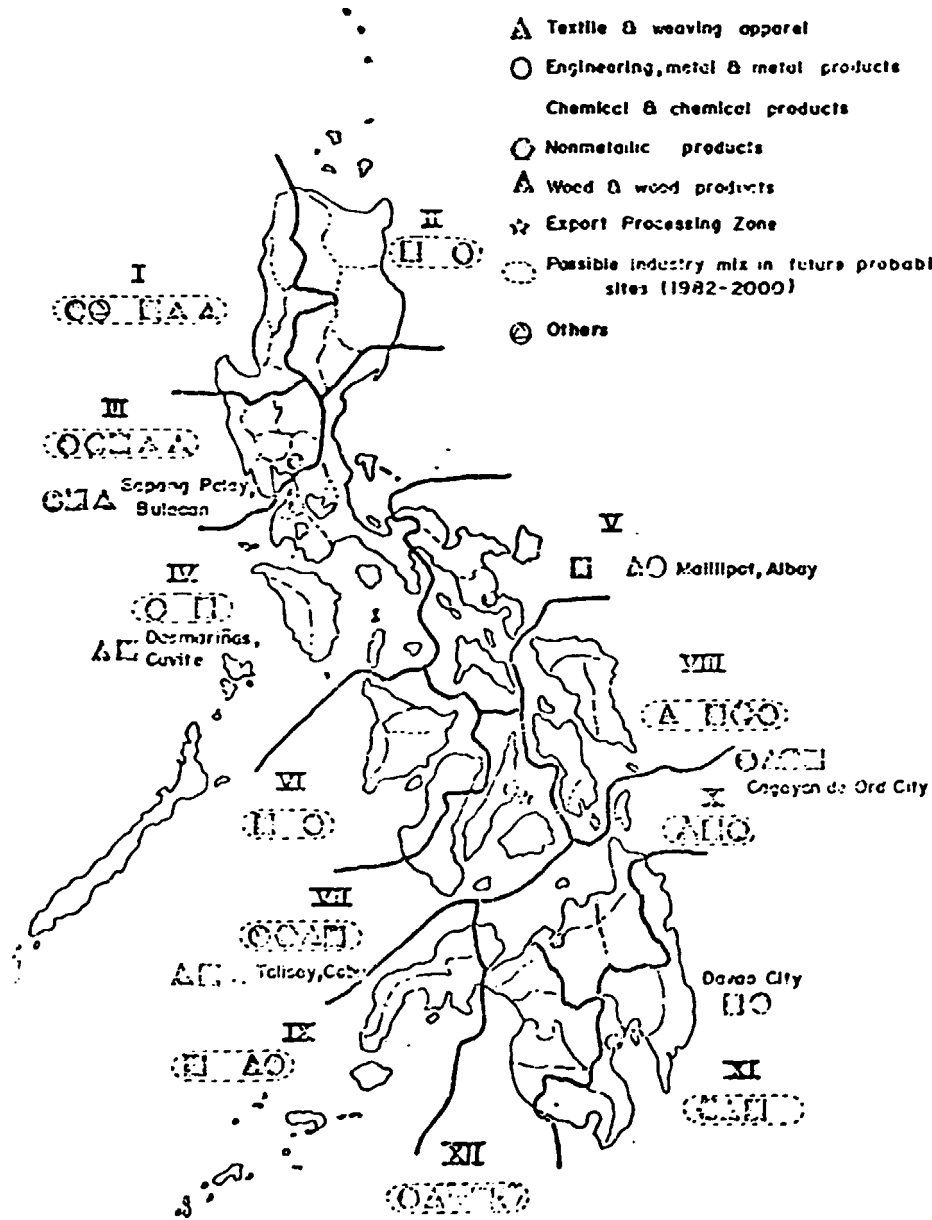
121. The Philippine government has the broad policy of encouraging private participation in the industrial development of the country, particularly in small-scale, rural and cottage industrial sectors. In conformity to this policy, industrial estates projects might be sponsored and developed by private entities. Additional industrial estates have in fact been set up and planned for establishment in various parts of the country. There is surely a case for their further development on a provincial basis which will have an important impact on rural industrialization for which facilities and essential infrastructure need to be created at many points.

122. The foregoing statement has given the main ideas about the programme and policies in regard to the development of small-scale industrial enterprises and rural industrialization in the Republic of the Philippines. In the present plan nearing its end, the development programme for the small-scale industries and rural industrialization on an area basis have not been suitably or properly integrated with rural development and have not been

**POSSIBLE INDUSTRY MIX IN PROBABLE
INDUSTRIAL ESTATE SITES**

LEGEND:

- For feasibility study & construction (1977-82)
- Food & food products including beverages & tobacco
- △ Textile & weaving apparel
- Engineering, metal & metal products
- Chemical & chemical products
- Nonmetallic products
- △ Wood & wood products
- ☆ Export Processing Zone
- Possible industry mix in future probable sites (1982-2000)
- ⊙ Others



Source: Five Year Development Plan, 1973-1982.

adequately emphasized. The need for doing so has been discussed in Part I of the paper.

123. The main features of the small and rural industrial development policies and programme in the Republic of the Philippines have been touched on. It is useful now to look at the various types of institutional infrastructure that exist in the country to support the implementation of such programmes and policies.

The Ministry of Industry.

124. Assistance is provided by the Ministry of Industry in a number of ways. In the Ministry of Industry, there is the Bureau for Small and Medium Scale Industries (BSMI) which provides consultancy services to small and medium scale industries (SMIs) in the countryside through its 12 regional Small Business Advisory Centres (SBAC). The SBAC programme was established in 1975 and consultancy services are being offered in the following fields:

Marketing management;

Production management;

Financial management; and

Preparation of feasibility studies for the establishment of new or the expansion of existing industries.

125. The BSMI promotes the transfer of technical know-how and expertise which are available in Metro Manila-based Technical Resource Institutions (TRIs) to small and medium scale industries in the rural areas through its Small Business Advisory Centres (SBACs). The Commission on Small and Medium Scale Industries (CSMI) within the Ministry was created in order to develop and

execute an effective and comprehensive national programme to encourage, assist and develop small and medium scale industrial enterprises especially in rural areas. The BSMI and most TRIs are affiliated to the Commission as its members. Perhaps the services of these organizations need to be organized on a provincial basis so that their impact on rural industrialization becomes more effective.

The National Cottage Industries Development Authority
(NACIDA).

126. The Authority provides both financial and technical assistance. The Cottage Industries Guarantee and (CIGLF) provides financial assistance to cottage industries which are deficient in collateral but economically viable. The branches of the Development Bank of the Philippines (DBP) and the Philippine National Bank (PNB) grant under the recently established ₱800 million fund, loans up to ₱100,000 to rural cottage industries. Each loan bears an interest rate of 12 per cent per annum.

127. The maximum term is three years for working capital and ten years for fixed asset loans. Collateral in the form of a co-guarantor or a letter of credit is required rather than the customary form of real estate or mortgage. The Fund has an expeditions delivery system so that loans are released in 21 working days. The CIGLF is a supervised credit system involving regular supervision of financed projects by the NACIDIA through its regional and field offices with the assistance of the SBACs. Both the NACIDIA and the SBACs provide technical assistance to the NACIDA registered producers participating in the loan programme. The

first loan under the CIGLF was granted, in June, 1981.

Technical Assistance.

128. NACIDA provides the following technical assistance to SMIs:

- (i) Linkages with TRIs and market assistance through its regional offices;
- (ii) Services of its Technology Development Centre in Marikina, Metro Manila; and
- (iii) Basic skills training programmes in the countryside through mobile training units;

At the same time NACIDA is planning to set up:

- (a) a Cottage Industry Technology Centre (CITC) for every region in the Philippines within the next three years;
- (b) warehousing facilities for critical raw materials such as rattan; and
- (c) raw materials processing centres to cover the cost of raw materials preparation.

The Medium and Small Industries Coordination Action Programme (MASICAP).

129. The MASICAP programme, initiated by the Development Academy of the Philippines in November, 1973, aims at stimulating investment in small and medium scale industrial enterprises in regions outside Metro Manila. This objective is achieved by assisting SMI entrepreneurs in the preparation of projects. The staff of MASICAP consists of senior year students with outstanding academic records recruited for a fixed term of two years. Students are usually assigned to regions away from their home provinces.

The Metal Industry Research and Development Centre (MIRDC).

130. MIRDC is actually a Technology Resource Institution which provides technical services in research, testing and training for the mining and metal working industries. However, MIRDC also directly provides technical assistance to SMIs in the rural areas through the operations of its Mobile Testing Unit, which involves:

- (i) testing and inspection of metals;
- (ii) training and conducting of seminars; and
- (iii) consultancy services.

The National Manpower and Youth Council (NMYC).

131. As mandated by the Philippine Labor Code, the responsibility for a national manpower plan rests with NMYC which was established in 1969 and falls under the responsibility of the Office of the President. To develop manpower in rural areas for the support of the cottage, small and medium industries in these areas, NMYC provides the following services in the areas outside Metro Manila:

- (i) conducting of in-plant training and mobile training programmes; and
- (ii) the services of eight regional Manpower Training Centres (RMTCs) in the countryside

NMYC also provides basic skills and skills upgrading services to industries in the region through its Centre in Manila.

Ministry of Trade (MOT).

132. The Ministry of Trade, through its regional Trade Assistance Centres (TACs), provides market information services to firms located outside Manila.

The Development Bank of the Philippines (DBP).

133. The Bank which established its regional branches in almost all key cities and municipalities has liberalized its lending policy for small and medium scale industrial enterprises. Under its Countryside Development Programme, DBP provides major financing assistance to these enterprises in rural areas. However, DBP loans financed partly by the World Bank require at the moment high collateral and high interest rates ranging from 14% for a loan covered by real estate to 16% for one covered by chattel mortgage; a grace period can be obtained from one to three years, depending on the nature of the project and the debt/equity ratio which is 80/20.

134. Obtaining a loan from DBP is a lengthy process. The processing time for a DBP loan may take from 4 months to a year and at least 3 more months are needed before the funds are released. Loans over ₱150,000 or above cannot be approved by DBP branches. Furthermore, from 10 to 16 supporting documents as well as a project feasibility study are usually required for a SMI loan application.

135. About 10% of the loans granted so far by DBP can be considered to be industrial loans. From 1 July 1972 to 31 December 1979, ₱9.9 billion were loaned out to borrowers whose projects (agricultural, real estate and industrial) were situated in the countryside.

Industrial Guarantee and Loan Fund (IGLF) Programme.

136. The IGLF programme, under the supervision of the Central Bank (CB), and National Economic and Development Authority (NEDA)

and financed partly by the World Bank loans, provides financing to SMIs. It operates through 15 commercial banks and 10 other financial institutions. IGLF loans are somewhat quicker than PNB loans, but the average time for obtaining one is still three months. IGLF provides loans (₱150,000 minimum) to a maximum of ₱2.5 million to SMIs which are deficient in collateral but regarded as risks worth while taking.

137. The maximum unsecured portion of an IGLF loan is 40%. The grace period is one year and the basic annual interest 12% plus a 2% guarantee fee. One major private developing finance institution, the Private Development Corporation of the Philippines (PDCP) has a policy of making through IGLF loans above ₱350,000 with a minimum transaction cost. PDCP's loans given reached ₱104.1 million as of September 1980. These supported industrial projects related to food production, metal products and miscellaneous manufacturers. High arrears and defaults occur both under the DBP and IGLF programmes, the major reasons being poor evaluation of projects, inadequate supervision and delays causing the evaluated data to be out of date by the time the project is implemented. However, IGLF granted a total of ₱93.9 million loans to 96 small and medium scale industrial enterprises during the first six months of 1981, representing an increase of around 80% over the total loans granted during the first half of 1980. The increase in IGLF financial assistance is attributed to the raising of the loan ceilings to ₱2.5 million and to the increase in lending outlets.

Venture Capital Co-operatives (VCC) Programme.

138. One important joint effort of the Government and the

private banking sector in improving economic conditions in the countryside is the VCC programme. A VCC assists SMIs in the rural areas by providing long-term capital for rural projects as well as serving as conduits for the purchase of raw materials and marketing of finished products of these industries. At the moment 14 VCCs have been established. A VCC is formed through equity contributions from the National Development Corporation (NDC), which participates to the extent of 20% and supervises the programme. The Human Settlements Development Corporation (HSDC) also participates to the extent of 20% and the commercial banks to the extent of 60%.

Accredited Trading Corporations (ATCs) Programme.

139. Relatively little information about this programme has been made available. The aim of the programme is, however, to set up subcontracting arrangements with regional SMIs for export-oriented products. So far 12 ATCs have been established.

National Science Development Board (NSDB).

140. Several Technical Resources Institutions (TRIs) which conduct researches for dissemination particularly to regional end-users through regional government offices are incorporated in NSDB which is a ministry. The most important TRIs belonging to NSDB are:

- (i) Forest Products Research and Industries Development Commission (FORPRIDECOM);
- (ii) National Institute of Science and Technology (NIST) conducting researches in the fields of food processing, ceramics, plastics, and leather; and

(iii) Philippine Textile Research Institute (PTRI).

One TRI which does not belong to the NSDB should also be mentioned: The University of the Philippines Institute for Small-Scale Industries (UPISSI), which is a training institute. Training programmes are directed towards improving the level of competence of entrepreneurs, managers, supervisors and technicians of SMIs, especially aiming at increasing the entrepreneurial and managerial supply in the countryside.

Productivity Development Centre of the Development Academy of the Philippines (PDC).

141. The main objective of the productivity Development Centre is to promote and improve the productivity of the small and medium scale industrial enterprises based in rural areas. With this end in view, PDC offers the following services:

- (i) Regional training programmes and consultancy services geared towards productivity improvement;
- (ii) Research on productivity measurement techniques and surveys of the productivity of individual firms and industry groups; and
- (iii) Export services as part of a programme being implemented with the Asian Productivity Organization (APO).

Bagon Lipunan Improvement of Sites and Services (BLISS)

Livelihood Programme of the Ministry of Human Settlements.

142. The BLISS programme is a major component of the Government's development strategy to build unified, self-reliant and self-sustaining communities in the rural areas. The programme enhances rural industrialization by providing technical management, marketing and raw materials support to the livelihood centres once established.

143. In this connection it is pertinent to refer to the Kilusang Kabuhayan at Kaunlaran (KKK)/national livelihood programme of the Ministry of Human Settlements. The Ministry has identified man's eleven basic needs, namely, water, power, food, clothing, livelihood, medical services, education, ecology, sports, shelter and mobility for a fulfilled existence and has used the human settlements approach to development. This approach seeks to develop comprehensive programmes with one focal node integrating all basic needs. The Ministry has identified livelihood as its priority concern and has sought to provide livelihood opportunities to the people to enable them to earn and procure services for themselves.

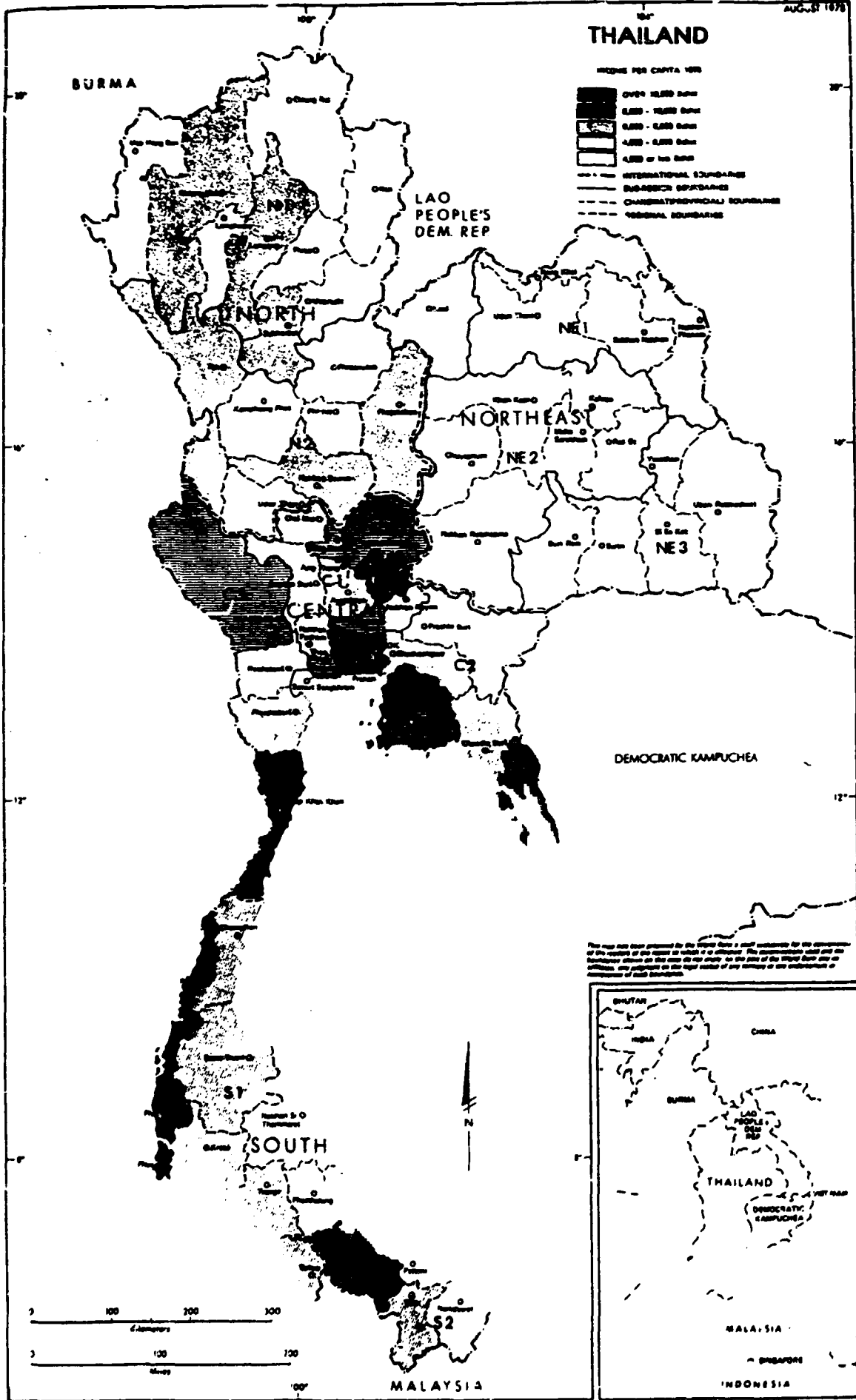
144. The Ministry has set up Settlement Action Centres (SACs) in municipalities all over the country to install and monitor profitable activities in these areas. These centres are in turn coordinated by a Provincial Action Centre (PAC). At the regional level, an Area Coordinating Centre (ACC) coordinates a cluster of PACs. Thus there is a network created for a national movement of increased activity and productivity. By March 1981, 133 livelihood centres were constructed and 111 livelihood projects become operative.

Further, there are 448 rural BLISS communities where the residents are making full use of their skills and local resources through a variety of activities ranging from gardening to commercial scale activities like weaving, cutlery production etc. For the urban BLISS, the thrust is on labour-intensive manufacturing activities. The BLISS livelihood programme including both urban and rural areas, is an integrated national development programme, with industrial development as one of its necessary components.^{12/}

145. The Technology Resource Centre (TRC) also established under the same Ministry aims at promoting indigenous technologies and dissemination of information about technologies from other countries.

146. The foregoing review shows that the Government of the Philippines has placed considerable emphasis on the development of small-scale as well as cottage industries and rural industrialization and has set up various institutions for the implementation of such programmes. However, neither the space nor the availability of the achievements of the programme in the present paper.

^{12/} FooKien Times Philippines Year Book, 1981-82, p.40-41



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THAILAND

Introduction

147. Thailand consists of 514,000 sq. kls. in land area with some 48.5 million people with an annual population growth rate of 2.3 per cent in 1981. According to the census of 1970, the vast majority of the population (86.8%) was rural, but this percentage must have come down considerably during the last decade, although the overwhelming proportion of the population must still be rural. The country consists of 73 administrative provinces each headed by a provincial governor. Each province is divided into a number of districts with a district officer at the head of each district administration. Each district is again divided into a number of sub-districts or tambons, each with its local administration or authorities. Each tambon consists of a number of villages.

148. In Thailand in general each district, containing a number of tambons, would perhaps form an appropriate geographical unit for rural industrialization.

149. In 1970, agriculture accounted for 32.2 per cent of GDP; in 1979 that share had come down to 25.8 per cent at constant prices. Manufacturing which accounted for 15.5 per cent of GDP in 1970 increased its share to 20.9 per cent in 1979. Significant structural changes in the economy of the country have taken place during last decade or so, although these were not adequate to fully alleviate economic and social problems of the country.

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Some major problems and objectives.

150. Rural poverty and rising income disparity are among the major problems facing the country. Rural unemployment in a number of forms (underemployment, seasonal unemployment etc) presents a considerable problem. Only small section of the rural population, living in the irrigated areas in particular, have benefited from economic development. Over ten million of the rural people living outside irrigated areas still live in "absolute poverty".^{13/}

151. The rural poverty problems may be aggravated due to a number of factors. First, there may be a decline in the trend of agricultural growth-rate. The agricultural growth rate which was 4 per cent during the Fourth Plan (1977-1981) may fall to an expected average of about 3.1 per cent per annum during the Fifth Plan period (1982-1986). Secondly, the trend of the non-agricultural sector, which has developed largely in the metropolitan area of Bangkok, is expected to enjoy a fairly high growth rate of 7-8 per cent per annum specially in the manufacturing sector which has located itself in and around Bangkok. Thirdly, the number of new entrants into the labour force is likely to be around 3.9 million people during the Fifth Plan period (1982-1986). Thus unemployment, particularly in the rural areas will rise to around 600,000 people in the last year of the Fifth Plan. Further there will be seasonable unemployment of around 4.4 million people per year. Fourthly, the further concentration and monopolization of the ownership pattern in economic, banking, manufacturing and trading activities will aggravate the

^{13/} National Economic and Social Development Board (NESDB):
Outline of the Fifth National Economic and Social Development
Plan (1982-1986), p. 1-2.

economic and social situation unless appropriate and strong measures are adopted and implemented to decentralize the ownership structure and promote more competition.^{14/}

152. In view of the above situation which is not easy to remedy, the capacities of the development authorities in the fields of rural development and poverty alleviation need to be enhanced and considerable responsibilities need to be delegated to the local government authorities for the implementation of rural development projects. In the Fifth Plan, priority has been given to the improvement in the quality of life of the rural population aimed at the eradication of absolute poverty instead of aiming only at the promotion of high rate of economic growth. Thus one of the major development objectives of the forthcoming plan is to reduce absolute poverty and accelerate rural development in backward areas and to improve the quality of life of the rural population by enhancing their capacity to help themselves in the long run. To achieve this goal special development priority will be given to high poverty areas and the rural population will be encouraged to cooperate and participate more actively in the self-help development schemes. The Government has emphasized the improvement of public absorptive capacity in agricultural development through the identification and preparation of rural agricultural development projects, management of rural credit, research and extension activities, and mobilization of additional financial resources for agricultural development purposes.

^{14/} Ibid: p. 2.

153. While a good deal of emphasis is on agricultural development and improvement, these are not sufficient by themselves to alleviate poverty and to improve the quality of life in the rural areas. Hence there is the simultaneous need to speed up the dispersal of manufacturing industry suitable for rural areas and to set up other non-agricultural activities there with a view to creating additional and non-farm employment and improving economic and social conditions of the low-income and landless labourers. In other words, an industrial or non-agricultural component of the rural development programme must be emphasized as advocated in Part I of the paper.

Small and medium scale industries and rural industrialization.

154. The recent and current development plans have rightly emphasized the growth of medium and small scale industries with the diffusion of entrepreneurial skill and ownership. A number of small scale industry measures have already been taken. A financial institution for the small scale industry is to be established in order to increase credit and technical assistance. Commercial banks' loans for the small scale industry would be increased and a credit guarantee scheme would be established. A sub-contacting system between the large scale industry and small scale industry will also be encouraged and the government will provide technical assistance to the small scale industry through the Industrial Promotion Department and other agencies.

155. Policy measures have been adopted to disperse manufacturing industry to the rural areas. The government has encouraged industrial investment outside Bangkok. Capital and manpower will be mobilized

to develop the Eastern sea-board into an industrial zone. Additional credit will be extended to industries operating in the rural area through the Industrial Finance Corporation of Thailand (IFCT) and commercial banks with the help from the Bank of Thailand. The government has also decided to develop five new major regional urban centres, namely, Chiangmai, Nakhon Ratchasima, Khon Kaen, Songkla-Haad Yai and Chonburi. These regions which are regarded as sizable economic regions will be designated as regional industrial bases.

156. In order to eradicate poverty in depressed areas, a spatial development policy will be pursued. Specific areas which seriously face the problems of absolute poverty and backwardness will be developed. Such areas included Tung Kula Rong Hai and the lower five border provinces in the South and other border provinces in the East. As already stated, five new major regions, namely, Nakhon Ratchasima, Khon Kaen, Chiangmai, Songkla-Haad Yai and Chonburi as new urban centres will be accelerated. These will act as bases to support regional industrial and commercial development.

157. The area development policy has thus an important role to play in the economic and social development of the country and, in this process, the promotion of small scale and rural industries has assumed and will assume an increasingly significant role.

Small scale industrial enterprises defined and their relative importance.

158. In Thailand, a small industrial enterprise is defined as an enterprise whose fixed assets do not exceed Baht 2 million (approximately US\$100,000). Industrial enterprises are grouped

under 4 categories, namely, manufacturing, servicing, handicraft and cottage industries. Table 3 show the distribution of industrial units, according to employment. Most industrial units belonged to the small scale category, although the larger groups of manufacturing enterprises employed more persons, as Table 3 would show:

Table 3. Thailand. Size of manufacturing enterprises in different employment groups, 1975

No. of employed			No. of employees	
	No.	Per cent	No.	Per cent
1-4	16,765	50.6	45,596	8.1
5-9	8,786	26.5	63,237	11.2
10-19	3,757	11.3	52,553	9.3
20-49	249	6.8	68,148	12.1
50-99	820	2.5	56,644	10.1
100 and over	784	2.3	277,221	49.2
Total	33,160	100.0	563,401	100.0

Source: Saeng and others: Development of Small and Medium Scale Manufacturing Enterprises in Thailand, Vol. 1, (1978), p. 12.

159. The distribution of value added in the cottage and small industry groups among different, sub-sectors, in 1975 in percentage is demonstrated in Table 4. These percentages would show the relative importance of the different sub-sectors in the cottage and small industry groups.

Table 4. Thailand. Value added by some industry-sectors in cottage and small industries, 1975, in percentage

	Less than 10 persons (per cent)	10-49 persons (per cent)
Food	-1.3	38
Beverage, tobacco	0.03	7
Textile, apparel, leather	5	10
Wood, paper	3	49
Furniture	16	
Chemicals	0.3	8
Manufacture of metal products except machinery	0.5	46
Manufacture of machinery except electrical machinery	4	74
Manufacture of electrical machinery, apparatus, applicances	9	36
Manufacture of transport equipment	-1.3	17

Source: Ibid (compiled from Table 2.6) p.16

Industrialization programme and policies for small-scale industries.

160. In Thailand, the main task during the First Plan (1961-1966) was to build public infrastructure and to collect information for further planning. In the Second Plan (1967-1971), more specific guidelines for industrialization were provided, namely, the generation of employment, human capital formation and the encouragement of joint-ventures between local and foreign investors. In the Third Plan (1972-1976), export promotion, decentralized industrialization and full utilization of existing capacity were emphasized. In the Fourth Plan (1977-1981) more emphasis was given to equal distribution of income between the urban and rural population and the acceleration of regional economic development. In the Fourth Plan, it was stated that "the government will encourage the development of small-scale industries which are important for generating employment. This will be done through the provision of credits, risk guarantees, the provision of investment opportunities, technological services and marketing services". Furthermore, the decentralization of industries from Bangkok to regional areas by accelerating the provision of infrastructural facilities in those areas was emphasized. The setting up of industrial estates in certain regions is an example.

161. In the Fifth Plan which just has been published, the major development objective is to restructure the production process both in agriculture and industry in order to accelerate the expansion of exports, reduction of imports, creation of additional employment and to decentralize economic activities and growth to various

target areas and regions. Within the industrial sector the development of small-scale industries especially in outlying regions will be emphasized. This is because the prospects of food and raw material processing for exports are very good. Rising transportation cost would also lead to production close to the source of raw materials.

162. The policy measures for the special assistance to the small industries in the coming plan-period are stated as follows:^{15/}

- (a) To establish a small industry finance corporation, which will provide loanable fund to small-scale industries at the market-competitive interest rate. This institution will also provide technical assistance to small-scale and cottage industries, using earnings made out of interest income.
- (b) To introduce a measure for commercial banks to lend to small-scale industries. A credit guarantee scheme for small-scale industries will be set up.
- (c) To improve the organizational set-up to define clearly authority and responsibility for the promotion of small-scale and cottage industries. Technical and operational assistance will also be provided by the Industrial Promotion Department of the Ministry of Industry in co-operation with other government agencies and the private sector.
- (d) To organize a system of subcontracting between large firms and small firms.

^{15/} National Economic and Social Development Board (NESDB): Industry Development in Thailand and Industrial Development Policy, 1982-1986 (November, 1981), p. 32.

Institutional support.

163. The government has participated in the promotion of small-scale and rural industrial enterprises in a number of important ways some of which are mentioned as follows:

(i) Technical assistance.

164. Two Industrial Service Institutes - one in Bangkok and the other at Chiang Mai - both set up about a decade ago, with international support, are the centres for the technical assistance rendered to small-scale industrial enterprises. These institutes provide technical information, extension and advisory service as well as conduct seminars and organise courses on small-scale industries. They render services to them in respect of industrial engineering, industrial designs, packaging, furniture-making and wood-working, heat treatment, electroplating, machine shop practices, tool and die designs and low-cost automation. Further, they develop appropriate machines and equipments at low-cost import substitutes and undertake techno-economic surveys for the appraisal of the industrial sector in its technical, manpower and financial aspects.

165. The promotional privileges given to the industrial enterprises are based on the legal form of the establishments. The present investment promotion law stipulates that only incorporated enterprises, cooperatives and foundations, may apply for promotional status which entitles the enterprises to special tax and other privileges. The fact that smaller enterprises are largely unincorporated automatically disqualifies the majority of these enterprises for promotional privileges.

(ii) Financial assistance.

166. The Small Industry Finance Office (SIFO) provides financial assistance to small enterprises. The rule for the SIFO is that loans of less than Baht 500,000 can be given to firms with fixed assets not exceeding Baht 2,000,000. The loans are given by Krung Thai Bank, a commercial Bank with substantial government support. As the government does not charge interest on their shares, the loans can be given out at a rate of interest which is below the market rate. The loans can be used for establishing or expanding industrial enterprises. The amount of credit provided is only about Baht 20-46 million Baht a year. The Krung Thai Bank is responsible for the financial assessment and loan management. In addition, the SIFO renders consultancy services for preparation of small-scale industrial projects to their clients and renders a assistance and guidance to increase the productivity and profitability of their enterprises.

(iii) Institutional framework.

167. The National Economic and Social Development Board (NESDB) is the highest planning organization. It is under the Office of the Prime Minister.

168. The Ministry of Industry is the responsible organ through which the will of the government in respect of overall industrial development is expressed. The most important institution for the development of small-scale industries is the Department of Industrial Promotion (DIP) under the Ministry of Industry. The Department, in so far as small industrial enterprises are concerned,

has within its jurisdiction, such important activities as the supervision of the Industrial Service Institutes, handicraft promotion and planning, industrial productivity, cottage industries and textile industries. The above-mentioned Small Industry Finance Office (SIFO) which was, until recently, a division of DIP, has been removed from its jurisdiction and is now under reorganization. While there are some main institutions which directly deal with small industry development, there are several other ministries which deal partly with small industry development, for instance, the Ministries of Commerce, Finance, Interior and Education; but none of them has any special activity programme for small enterprises.

169. One autonomous private organization in relation to the promotion and organization of small-scale industries needs to be mentioned, namely, the Small Industry Association of Thailand. However, this organization has great difficulties in bringing together all the different small-scale entrepreneurs who have a wide variety of interests. As a result, the association cannot act as an effective body.

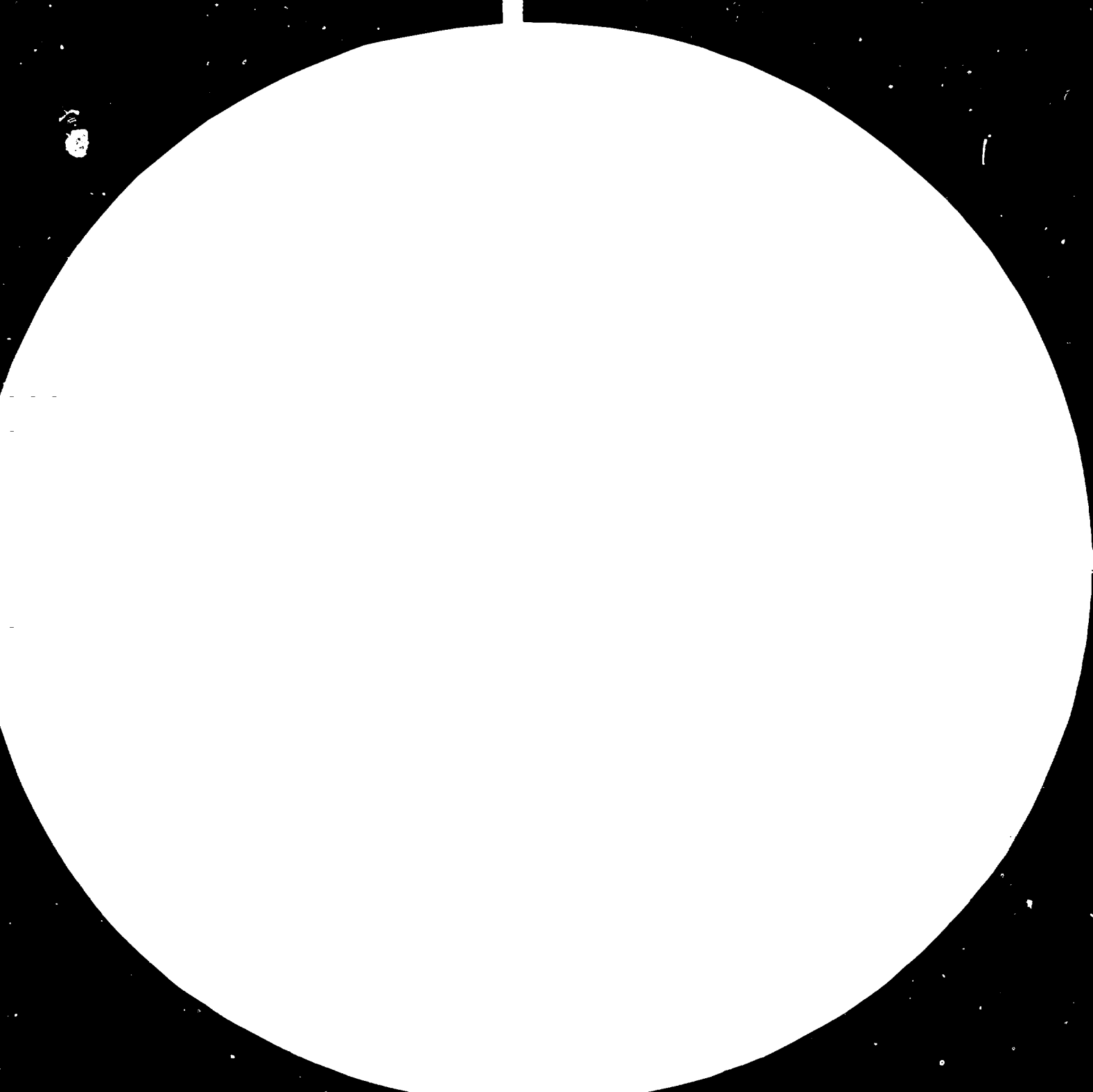
Some remarks.

170. In Thailand, there is a policy for the development of small-scale industries and rural industrialization, which has figured prominently in the development plans. But there is a need for the development of the programme in a more integrated manner and for coordinated efforts for the effective implementation of the programme through strengthened institutional arrangements and policy measures.

171. As the National Economic and Social Development Board has said, "the major problem of rural industrialization is the existence of government's policies and policy measures which facilitate industries in Greater Bangkok so much so that any special incentive given to rural industries are either ineffective or redundant. Industries will be set up in rural areas for two reasons: the existence of raw materials and of market."^{16/}

172. It is essential for the government to set up a more clearcut and coherent policy to emphasize the enhanced role of the small-scale industries and to reorganize the institutional framework. There are several institutional units already in existence, which deal with small-scale industries, but there is no co-ordinating and overall responsible unit to direct and follow up on their activities. There might be a case for the development of a small-scale and rural industries corporation in Thailand for the promotion of small-scale industrial development and rural industrialization.

^{16/} NESDB: Report 1981, op.cit. p. 19-20.





2.8 2.5



Visual acuity is measured in cycles per degree (CPD).

1.0 CPD = 1 cycle per degree = 1 pair of lines per degree.

Part III - Some issues for discussion

173. The country reviews have touched on various issues relating to the development of small-scale industries and rural industrialization in the light of the general considerations, as set forth in Part I. A number of issues in particular may be usefully considered.

174. First, small-scale industrial enterprises have been defined in different ways in the four ASEAN countries. Perhaps it is futile to attempt at a common definition of a small-scale industrial enterprise. However, there appears to be a good justification for using employment criterion to differentiate small-scale and cottage enterprises from large scale enterprises in view of the fact that one of the major objectives of small-scale industrial development in the four ASEAN countries, as in other developing countries of the ESCAP region, is the generation of employment. Moreover, the number of workers as an index of size has certain positive advantages in that (i) it is non-monetary and frees the comparison between countries and between periods from the complications of different monetary units, different standards of living and changing price levels, and (ii) that persons are more easily visualized as the unit of quantification than are values.^{17/} One can see in one's mind's eye and thus distinguish a group of five, of fifty or more, when one cannot easily see an output of a certain value.

^{17/} P. Sargent Florence: Investment, Location and Size of Plants, Cambridge, 1948.

175. Secondly, rural industrialization must be seen as part of a general industrialization programme and should not be associated with only the development of cottage and small-scale industrial enterprises, as has been the traditional attitude in the ASEAN and other developing countries of the ESCAP region. Rural industrialization should really consist of a mix of industrial enterprises cottage or handicraft, small-scale, medium scale and large scale industrial enterprises. To look at rural industrialization from this angle is all the more important in view of the fact that the industrial policies of the four ASEAN countries seek to decentralize and disperse industries from the metropolitan to the non-metropolitan or rural areas.

176. As the UNIDO report "Industrialization and Rural Development" has summarized the position, "a variety of industries may contribute to rural development in several ways. The scale and form of production will be determined by the wider socio-economic environment of a country and the factor endowment of a particular locality, and by the orientation of production towards the sources of inputs required or the markets for a specific product. Given the more limited infrastructure and services available in rural areas and the more dispersed markets, it is likely that the scale of production in individual enterprises will tend to be smaller than in more urbanized places. The technology of the product and the production process will also tend to be simpler and more self-sufficient. Hence the capital-intensity of many rural enterprises should also be less, in keeping with the amount of resources available. Smaller enterprises are also more likely to be suited to the managerial and organizational ability available in rural

areas and be easier to incorporate within the rural economy.

177. "Direct public sector investment in production units has been attempted in some rural situations, largely for demonstration purposes when local entrepreneurs have been in short supply. However, by and large it is more common to find public sector investment that supports that of private or co-operative enterprise. In many developing countries existing rural industrial units are of the traditional artisan or handicraft type. While such individual units may be tiny, collectively this industrial activity may well be large in terms of aggregate output and employment, and it may sometimes be predominant in the local economy. Large-scale enterprises may also be viable in rural areas if they are oriented towards locally available raw materials, especially if there is a loss in weight or bulk in processing or, as with perishable products, a rapid deterioration after harvesting. Such operations tend to be more capital-intensive and employ higher level technologies, especially if they are export-oriented. Large-scale enterprises are frequently located in regions giving high priority (often for political reasons) within national development strategies and may be compensated by the Government for any locational disadvantages. They may provide important market opportunities for other small enterprises to supply secondary inputs, or their waste and by-products can form the basis of other industrial activities. Perhaps the greatest significance of such large-scale industrial development is the spin-off from associated improvements in rural infrastructure in the neighbourhood of these plants."^{18/}

^{18/} United Nations: Industrialization and Rural Development, New York, 1978 (ID/215) pp. 26-27

178. The mix of industrial enterprises promoting rural industrialization will naturally involve a mix of technologies - traditional, labour-intensive and capital-intensive - depending on the character and size of industrial enterprises.

179. Thirdly, while talking about rural industrialization, it is appropriate to think in terms of area development (which in reality forms part of regional development), an area being flexibly defined as a viable, compact, economic and social unit. This concept of area development approach to industrialization, being followed in the ASEAN countries in a limited and haphazard way, needs to be carefully looked into so that an appropriate spatial distribution of industry policy may be formulated.

180. Fourthly, the four country reviews have shown that, in every country, there are a large number of government departments and agencies necessarily concerned with different aspects of the small-scale industrial development and rural industrialization at the national, regional (within regions of the same country) and local levels. What might be needed is an effective body to coordinate the responsibilities of various authorities, at the national, regional and local levels. Not all of the countries reviewed have such an effective body to supervise the formulation, development and implementation of the rural industrialization programme. Further, the development of non-agricultural activities of varied types remains yet to be an essential component of the integrated rural development programme which concentrates almost wholly on agricultural development. Moreover, at present the organizational arrangements for the development of small-scale

industrial enterprises or rural industrialization at the field level is, in most cases, rather weak. It will, therefore, be instructive to review the organizational arrangements and the tasks of coordination in this respect in each ASEAN country.

181. Fifthly, the process of modern industrialization in the ASEAN countries has been associated, as in other developing countries, with the growth of a few urban or metropolitan areas as well as the continual flow of population from the rural areas to these few centres. This process has given rise to a number of well-known economic, social, political and environmental problems which are today agitating the minds of planners and policy makers. It has not been possible to discuss these problems in this paper for lack of space. Arising from these problems, however, is the need for a more active and stronger policy towards dispersal and decentralization through the creation of various incentive measures which the four ASEAN countries, like many other developing countries are following. In addition to the general measures to maintain high growth rates, the specific instruments used by the government in achieving a dispersal of industries include the following:

- 1) the establishment of new factories in the desired or designated regions, sub-regions or areas (within the country),
- 2) the control of new factory building through the operation of the building or industrial licensing procedures and the issue of the industrial development certificates or licenses;
- 3) the creation of factories on individual or collective sites or estates;

- 4) financial assistance to firms setting up their factories in the favoured regions, sub-regions or areas;
- 5) making the regions, sub-regions or areas suitable and attractive for industrial development by improving their basic services or infrastructure;
- 6) provision of research and dissemination of information bearing on the location of factories in the regions, sub-regions or areas;
- 7) clearance of derelict land in the areas;
- 8) the provision of housing for key and other workers in the desired areas;
- 9) financing transfers of some industrial undertakings to the regions or sub-regions or areas from the rest of the country;
- 10) facilitating the removal of workers and their resettlement in the designated areas or regions;
- 11) preferential treatment to the areas in the allocation of scarce materials and foreign exchange;
- 12) preference for the areas in the matter of allocation of government contracts and purchases.

182. While the above positive measures are helpful to dispersal, they are not sufficient by themselves. Hence there is the need for government to possess definite powers to prevent new industrial development in some areas, namely, the metropolitan areas. Action as yet in this direction has not been effective.

183. Broadly speaking, there are two types of measures that

may be advocated or adopted for influencing the location of projects. The first set of measures may be called positive measures to encourage the growth of certain areas by offering to the industrialists various inducements some of which have been listed above. The technique of setting up industrial estates and export processing zones has been widely used as a means of stimulating growth in certain areas.

184. The other set of measures to be adopted by the authorities includes negative measures to discourage the setting up of the projects in certain areas. The first set of measures refers to the various inducements extended to the industrialists to set up their projects in certain specified areas, whereas the second set of measures imposes restrictions on the location of projects in certain congested areas. In the actual operation of the policy, as experience suggests, both sets of measures are necessary for the purpose of an effective location policy. During a given period the total number of projects to be developed is limited. In other words, the resources available for investment in industrial projects, for instance, are limited. If more resources are invested in projects in one region, less resource will be available for investment in projects in other regions. It is, therefore, necessary to restrict the investment of resources in projects in some regions to make resources available for investment in projects in other regions of the country. Thus a combined use of both positive and negative measures is of importance.

The administrative machinery of the policy.

185. If a policy of industrial location with a view to achieving decentralization and dispersal is accepted on economic,

social, political and environmental grounds, then there is a strong case for setting up a machinery for the administration of the policy. The machinery should exist both at the central, regional and local levels to deal with the problems of regional or local industrial development. Naturally, the central ministry of industry which has most to do with industrial matters should be in charge of the overall administration of the policy. Various ministries and agencies are concerned with the problems of industrial development. Coordination, therefore, becomes extremely important. The ministry of industry in charge of the administration of the policy will be in a better position to coordinate the various aspects of the policy through an inter-ministerial or interdepartment panel competent to take decisions on the location of projects with speed and efficiency on sound economic and social grounds. There is the need for a similar organization at the regional and local levels to deal with the problems of industrial development in a particular region, province and locality. At the regional and local levels also, the responsibility for the administration of the policy should rest with the regional office of the department of industry. Here also a large number of departments and agencies will be concerned with industrial matters and the task of coordination may be achieved through an interdepartmental regional panel consisting of the senior officials of the departments and agencies concerned, which will act with speed and efficiency to promote regional and local industrialization.

Identification of areas for mutual assistance and exchange of experience.

186. Finally, the present Colloquium is an excellent opportunity for the identification of areas for mutual assistance and the exchange of experience concerning rural development in general, and rural industrialization in particular, among the four ASEAN countries. There are many matters relating to industrialization and rural development, such as, industry as an essential requirement for a more self-reliant rural development, appropriate technology for rural industrialization, surveys by local organizations or rural development agencies to identify and redefine rural resources, markets, and skills, development of methodology and expertise in the formulation, implementation and evaluation of industrial plans, policies and programmes consistent with overall rural development objectives, mobilization and organization of decentralized industrial services and institutions to support rural industries, establishment of rural industrial programmes and projects on a pilot demonstration basis, development and application of more appropriate training techniques both of officials concerned with rural industrialization programmes and of entrepreneurs and employees of rural enterprises, exchanges of information, experience and expertise through seminars, study tours, workshops, training courses, and other forms of consultation as an element of economic and technical cooperation among the ASEAN countries. It is expected that the participants of the Colloquium from the four countries will fruitfully deliberate on some of these matters. The deliberations may be fruitful in the promotion of cooperation among the four ASEAN countries in the field of rural industrialization policies and programmes.

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