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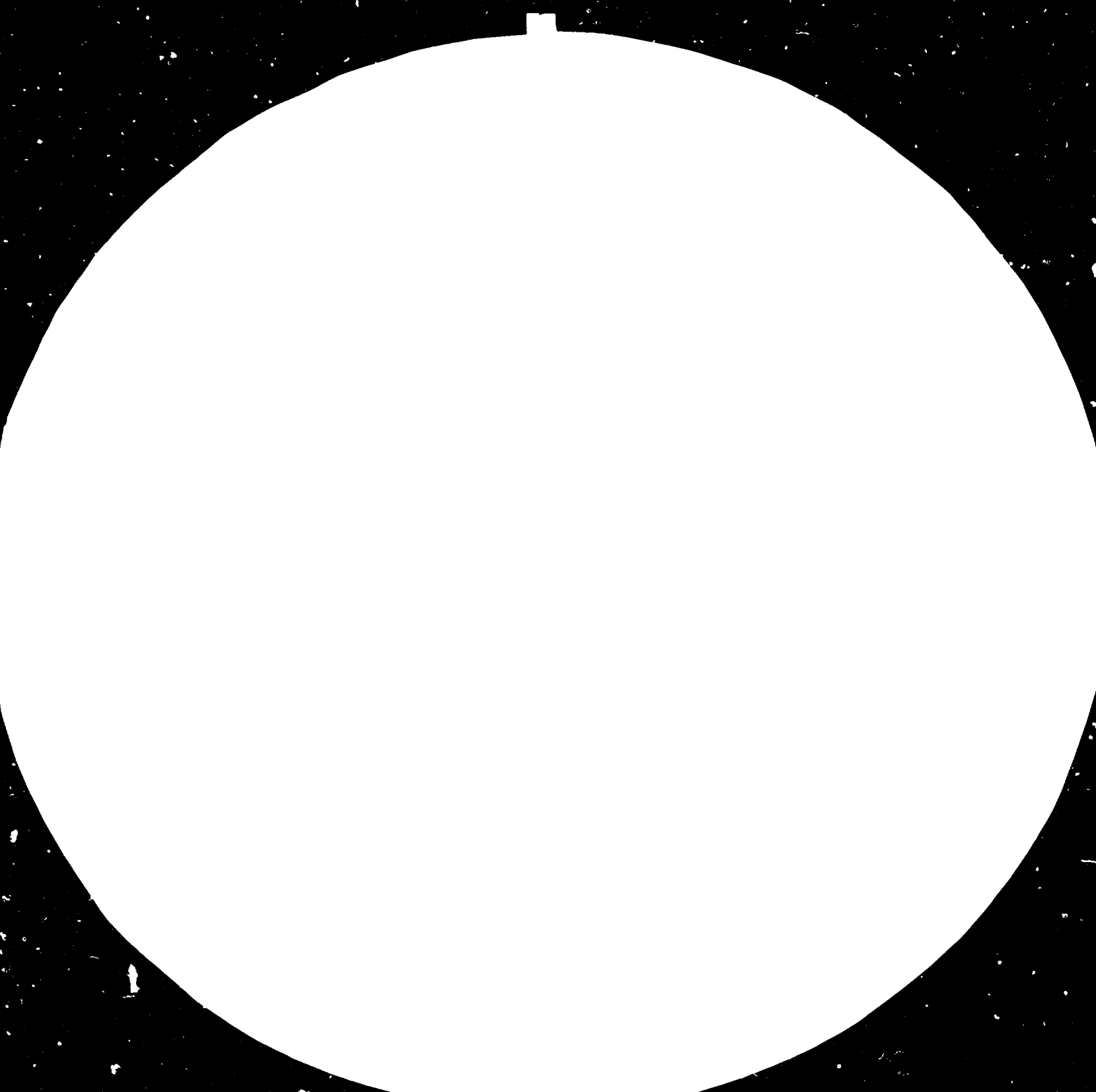
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SMALL INDUSTRIES DEVELOPMENT PROGRAMME *

(Within the context of UNIDO's Institutional Infrastructure Branch,
Division of Industrial Operations)

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SMALL INDUSTRIES PROGRAMME OF UNIDO'S IO/INFR

I. UNIDO's Mandate

1. The organization of technical services and facilities for the development of small industrial enterprises and their promotion is an important, pressing and enormously complex problem in most of the developing countries. Considering that large industries are better organized, tend to be self-sufficient and have greater access to foreign collaboration and assistance, there is general agreement among development aid agencies that special attention and collaborative effort are urgently required for developing the institutional mechanisms and support to cater to the needs of small industries.

2. As the body primarily responsible within the United Nations system for co-ordinating all activities designed toward accelerating industrialization in the Third World, UNIDO provides promotional assistance, advisory services, technical facilities, and training to support the efforts and requirements of its member-states in developing the small industries sector. This programme is part of a larger framework of technical assistance designed to facilitate and foster the implementation of national development plans and strategies for industrialization. Since its establishment in 1967 and specially following the 2nd General Conference in 1975, pursuant to the Lima Declaration and Plan of Action, UNIDO has intensified its programmes in this sector which is recognized not only to have greater need of support than larger industries but also as having far reaching implications for the development of industry in general. Moreover, there is ample evidence that many developing countries assign high priority to the political, social and economic worth of developing small industries thereby fully justifying the allocation of appreciable resources to build appropriate, permanent and effective institutional machineries through relevant and sound development programmes.

II. Small Industries: Concept and Focal Points

3. The term "small industry" can be defined in various ways according to the circumstances in which it is being used; invariably it is applied to all types of establishments operated on a small scale. Different criteria, e.g. number of employees, capital investment, volume of sales or consumption of power, are used in different countries to define the size of industrial establishments. In the U.S., many Business Schools define small business as having an annual turnover of less than US\$ 10 million; in many developing countries, almost all business enterprises are small by this definition. Ceilings on fixed capital or investment set by governments in developing countries vary from US\$ 10,000 to US\$ 200,000. Enterprises can also be classified by the number of employees and maximum numbers of fifty, hundred, or more people have been used to define the point at which a business ceases to be small. The way in which decisions are taken is yet another method of describing business size. While it is neither possible nor desirable to establish uniform international criteria to define this sector, it is necessary to clarify the focus of the programme described herein. What follows is an attempt to arrive at a general idea as to the type of industries the programme is designed to serve.

4. As used here, small industry refers to any small manufacturing concern in which a relatively small amount of capital is invested, whether or not it employs factory methods or production. Factory industry can generally be distinguished from non-factory industry by the degree of specialization and division of labour. Non-factory industry includes both traditional and modern artisan establishments as well as village industries forming an integral part of village economy. Small manufacturing enterprises can be generally distinguished from large ones not only by the smaller amount of capital and people employed, but especially by the absence of a board of shareholders or supervisors as well as by the lack of middle management groups. In most cases, small enterprises are "managed" by owners who are not specialists in management but are chiefly occupied in carrying out the main functions of the business. Indeed, more often than not the decision-maker is the only person who works in the business at all; the greater number of industrial

enterprises in the rural areas and poorer parts of cities in developing countries operate on this basis. So-called familiarity with Third-World needs has often glossed over this fact and has resulted in programmes of assistance directed toward the most successful or those enterprises least in need of help.

4 a) Defining what constitutes small industry ultimately rests with the Government requesting technical assistance which has the responsibility for identifying that segment of the industrial structure entitled to special benefits and support. UNIDO recognizes that different criteria and ceilings can be followed for different programmes of assistance, e.g. lower capital ceilings for receiving loans and a higher one for admission to industrial estates or for enjoying technical services and facilities of small industries. The adoption of a good definition, i.e. precise and clear without being rigid, is one of the first steps any Government should take in the development of the sector. UNIDO's role is merely to ensure that scarce resources are to be utilized toward optimizing expected outcomes.

5. In many developing countries, there are concentrations of particular types of industry in one place. This phenomenon occurs in rural areas as well as in densely populated urban centres. These may take the form of production areas specializing in one type of industrial product for export purposes or subcontracting enterprises of big specific industries. Thus groups may converge to take advantage of abundant local supplies of raw materials or because the various enterprises perform different tasks toward a final product. As a group, they may make up a fairly large industry, employing some hundreds of people; however, each unit within the industry is independent and has to be treated as a small enterprise since each owner usually makes decisions as to the conduct of his own affairs. The need for co-ordination and joint activity often calls for a high degree of sensitive management which can be effective only if each owner-manager is recognized as running an autonomous enterprise.

6. At the outset, it needs emphasizing that this programme is primarily concerned with people rather than with money, i.e. if an industry is the main occupation of at least one person, it deserves attention and assistance however small its turnover may be. It must also be noted that this programme recognizes the specific role of women and young people in industry and that special attention must be directed to their needs and problems. It is a fact that in many developing countries, business provides a route whereby women can break out of their traditional restricted roles in society. It is also well known that in many places where the men leave to seek jobs elsewhere, women and young school-leavers make do by setting up small production units purely on the basis of enterprising intuition and the need to survive. It is well worth underlining that small ventures such as these are seedbeds of industrial and economic growth and therefore deserve full support.

III. The Role and Importance of Small Industrial Enterprises

7. A word of caution: society needs a range of different-sized enterprises and it may be useful to state that arguments in favour of small industries are not necessarily arguments against large industrial enterprises.

8. Even in major economies, the contribution of small industry to industrial growth and employment is now widely recognized. In the U.S., small industry accounts for 97 % of all non-farm business and provides 58% of business employment. In the Japanese economy, small manufacturing enterprises (defined as employing less than 20 people) occupy a high position and are seen as playing a dynamic role by flexibly adapting themselves to changes in the needs of the Japanese people and quickly responding to transformations in the industrial structure. As of 1978, small enterprises accounted for 81% of the total number of business establishments in Japan and 32 % of the total number of workers in the private-sector's non-primary industries. In Ireland, eight out of ten manufacturing companies are small (1979), employing up to 50 people and accounting for one quarter of the total employees engaged in manufacturing. In the FRG, about 2/3 of total employment is provided by the small industries sector.

9. Likewise, in most developing countries, small industries have assumed a critical role in industrialization and economic development. On account of the low capital requirements per employed person in small enterprises and the narrow markets of most of these countries, setting up small manufacturing and service enterprises is a means of stimulating local industry and initiative, providing productive employment, utilizing indigenous resources, mobilizing domestic capital, and ultimately increasing net national product and income. The promotion of small industries is therefore regarded as a way of enabling the local population to participate actively in the country's economic and social rhythms and is in fact increasingly used as a means of decentralizing industry thereby not only accelerating rural development but especially stemming urban immigration and the consequent problems of congestion in the cities.

10. Enormous obstacles and difficulties have to be faced in promoting small industries, particularly in the least developed countries (LDC's), e.g.: the dearth of effective industrial entrepreneurs, the inadequacy or lack of physical infrastructure, the narrowness of markets and the poor investment climate, the shortage of financial or capital requirements, the lack of certain raw materials, the blind adherence to traditional ways of life, and lack of skilled manpower as well as experience in industrial administration. In the more developed of the developing countries (MDC's), the same problems exist but are generally considered less acute. Existing facilities are usually inadequate to cope with the tasks of assisting modernizing small industries, dispersing these to take into account rural development needs, and promoting subcontractual arrangements.

IV. Specific Needs and Requirements of Small Industries

11. A programme of assistance for the development of small industries might be appreciated in the light of problems such as those above-mentioned. However, it is possible to justify the provision of comprehensive and integrated types of assistance only by reference to specific needs of specific businesses. This is a critical part of any technical assistance scheme especially as experience suggests that the requesting parties do not always need what they believe they need.

12. The following scheme may help towards identifying particular needs and specific requirements of small industries to which technical assistance will be directed:

13. a) Capital: The tendency for most small entrepreneurs is to think that their main or only problem is shortage of capital; this thinking is not always correct. However, there are particular reasons why small entrepreneurs believe this to be so and indeed find it difficult to raise capital. For one thing, banks may be anxious to help but it often takes as long to assess a loan application from

a small business as from a large one. It may cost more to administer the loan and since the bank's profit depends on the amount of money lent, large loans to big businesses will obviously be preferred, if the demand for loans exceed the supply, as is often the case. Depending on one's own and the family's resources to put up the capital is not always a good prospect as this can be easily exhausted and therefore puts the prospective small-industries entrepreneur at a clear disadvantage against large competitors. While the government may attempt to solve this problem through soft loan programmes or specially created lending institutions, the conditions that have to be met might appear insurmountable to those needing the loans.

14. b) Markets: Small entrepreneurs generally find it particularly difficult to sell enough of their products to justify their activities as lucrative on-going industrial concerns. They cannot afford to hire salesmen, advertise and take advantage of modern marketing tools. Rural and village-based industries are often at a disadvantage as multinationals and big companies penetrate remote rural areas. While governments can help by protective mechanisms and ensuring that small entrepreneurs obtain their share of public contracts, the entrepreneur must take the major responsibility by learning marketing know-how and gimmicks as well as by combining resources with others to reach a larger public.

15. c) Technical know-how. Largely owing to business size limitations, small industries cannot afford to avail themselves of technical facilities and services which large industries have as integral to their set-up or can have easy access to in various ways. The responsibility of government and aid-agencies in this regard cannot be over-emphasized. Common service facilities and R and D centres can help the small industrial entrepreneur go a long way in understanding the suitability of modern methods and technological processes towards improving productivity and product quality.

16. d) Information. In general, small entrepreneurs are not able to take advantage of facilities and services provided by the government and other organizations simply because they do not know about them, much less know how to acquire that knowledge. Also on account of such ignorance, the law is infringed upon and business people are not really aware of their rights. But on the same grounds government and aid-agencies are very often ignorant about the numbers, location and problems of small industries. There is need for a dynamic communications network which ensures that information is effectively conveyed in both directions.

17. e) Collaborative ventures. Small industries are in a better position to obtain assistance and to compete with large industries for reliable and economical sources of supply, for markets and for government attention by joining forces through co-operative activities. Under certain circumstances, it may be even advisable to combine into joint industrial ventures. This may require initiatives from the more experienced individuals who have the time, courage and ability to organize group effort. When government and outside organizations are relied upon to undertake this function, care must be taken so that the basic decisions are made by the industrial entrepreneurs themselves.

18. f) Management. Entrepreneurs of small industry must compete with managers of large industries who have easy access to management techniques that have been tried and tested elsewhere. Since it is not economical for small industries to employ full time managers, the owners usually have to learn for themselves how to manage whilst carrying out other normal jobs demanded by the business. In many developing countries, small industries are owned and managed by indigenous first-generation entrepreneurs; there has been no opportunity to learn from business elders or through a system of apprenticeship. Therefore, some form of training is needed to make up for this disadvantage. Considering that small industries are unable to organize this for themselves,

outside assistance is especially called for. Those from whom this help is forthcoming will need to keep in mind that the management of small companies is a very different operation from that of managing large industries.

19. g) Self-reliance and Entrepreneurship. Finally, and most importantly, whatever help is given to the small industrial entrepreneur, care is taken so as not to stifle basic strengths upon which the whole business venture stands: self-reliant and entrepreneurial capabilities. If anything, the assistance is given such that these are fostered and private initiative is not stifled. Noting especially that the effectiveness of the assistance lies in the strength of the taker, any technical assistance programme would be self-defeating unless it promotes indigenous capacities for self-help and self-sustained growth.

V. Programme Elements and Technical Services

20. UNIDO's programme to promote the small industries sector is a response to needs as stated in policy objectives of developing countries and is therefore undertaken with the full recognition that the responsibility to develop the sector lies in the respective governments themselves. While several countries have set up one or more agencies to carry out measures of promotion and development, it is generally acknowledged that whatever is being done is not enough. Since small industries need guidance and assistance in all aspects of establishment, management and operation, measures to assist them should be integrated in a comprehensive development programme.

21. A typical feature of all developing economies is the absence or inadequacy of promotional, technical, and servicing institutions required by the small industries sector. There is in general a greater urgency and awareness on the part of governments to create, expand and strengthen such institutions as a pre-requisite for any progress in assisting small industries to become competitive. In this light

UNIDO offers a technical assistance development programme which governments are encouraged to avail of in accordance with their priorities, specific requirements and capacities for absorption. The elements of UNIDO's programme can be divided into three main areas as follows:

22. a) General Consultancy and Promotional Assistance.

Activities in this area include direct advisory services to governments such as:

- Advise in the formulation of appropriate policies and strategies;
- Formulation, expansion and implementation of sectoral development plans at different levels;
- Identification of industrial requirements and preparation of viable small industries projects. These may involve surveys and techno-economic studies;
- General evaluation studies, technical counselling, and industrial extension services;
- Promotional measures and inducements supported by legislation; developing networks of advisory services; providing access to financial sources; seminars, workshops, and the like to raise awareness and concern for action among all those whose assistance to the small industries is deemed valuable;
- Fostering joint activities amongst small industrialists, assisting in organizing collaborative efforts through associations and co-operatives, and developing ancillary industries to encourage sub-contractual exchanges.

23. b) Institution-Building.

UNIDO assists in establishing and strengthening of institutional mechanisms that can provide a wide range of technical services and facilities to small industries:

- Small Industry Development Agencies: multi-purpose bodies catering to various needs of different types of small industries and advising the Government in the formulation and implementation of complementary programmes. They are usually government entities and can be autonomous or semi-autonomous. In some cases, these are located in industrial banks and credit institutions or form integral parts thereof.
- Common Service Facilities: provided in areas of concentration of small scale industries to serve a variety of needs aimed at improving productivity and product quality which small industrialists cannot afford to set up or run themselves. These include testing and quality control laboratories, toolrooms for the manufacture of tools and equipment, workshops where finishing or complicated operations using specialized machinery are performed, and services for the maintenance of equipment.
- Industrial Estates: a form of stimulating entrepreneurships in new undertakings or of inducing small industries to relocate in specially designated areas where land, infrastructure and standard factory accommodation are offered at favourable conditions. The setting up of industrial estates is usually combined with complementary measures such as are required in developing entrepreneurships as well as in setting up and operating common service facilities.
- Industrial Extension Services and Research: in most developing countries these are synonymous with small industry development agencies; in some others, they may have the same functions but the services are confined to certain sectoral areas, e.g. textiles, leather or metalworking industries. Industrial extension officers provide a wide range of technical, managerial, marketing, and promotional assistance in a dynamic two way traffic, i.e. to government-agencies involved in small industries development and directly to the entrepreneurs themselves,

both potential and actual. The organization of these industrial extension units can range from government-sponsored agencies to semi-autonomous or even private bodies.

24. c) Specialized Institutional Support and Decentralization Programmes:

- Entrepreneurship Development: intensive promotion campaigns to seek out prospective entrepreneurs and to develop entrepreneurial traits and capacities through special motivation and internship programmes and such measures of assistance as pre-investment studies, technical counselling, and obtaining supporting facilities and benefits from various sources toward setting up the industrial enterprise.
A second aspect of this programme is directed to assist already established entrepreneurs in expansion or diversification of the enterprise.
- Financial Assistance: small industrialists encounter difficulties in obtaining credit since, for various reasons, they are often unable to present proofs of credit-worthiness. Such obstacles need to be overcome and special programmes can be arranged with industrial banks, corporations and credit institutions toward this end and resulting in more liberal lending policies, concessionary terms and credit-guarantee schemes.
- Marketing and Export Promotion: this may include detailed market surveys and specific information on certain products, information on public tenders, export opportunities and other aspects of trade such as the importance of quality assurance and control, and participation in trade fairs and exhibitions.

- Training of Small Industry Extension Officers and Managers:
For obvious reasons, this is considered a major task of any programme to develop small industries and needs to be given appropriate attention. Special learning-techniques and training methods have to be considered with a view to serving the special needs of those who are expected to act as catalysts, change agents and facilitators of change in a dynamic and problem-ridden sector of industry. While there is a need for training of large numbers to make up for the lack of the professional manpower needed, selection procedures must be designed with care to ensure effective use of scarce resources.

- Industrial De-centralization Programmes: special measures are needed to develop small industries on a decentralized pattern against the strong and self-perpetuating tendency for industrial growth in urban centres where prerequisites for development are concentrated. These efforts must be particularly integrated with industrialization programmes in rural areas where there is urgent need to arrest urban migration caused by heavy pressures of rural unemployment and economic distress. Assistance must be stepped up in both the modernization of the small industries sector as well as the development of traditional and village industries. The healthy expansion of such rural industries depends on a number of factors and pre-requisites whose provision must be carefully concerted. The role of indigenously established and locally based groups like co-operatives cannot be stressed strongly enough. Considerations should be given to providing special facilities like training-cum-production centres for managerial and technical personnel; pilot and demonstration plants where experience can be gained in the latest appropriate technologies and various industrial operations; extension centres fully conversant with the peculiarities of installing and running rural industries; and mobile facilities which bring technical assistance to where problems need solving on-the-spot.

VI. Some Leading Guidelines

25. To be fully effective, there is need to underscore the importance of co-ordinating the work of all institutions designed to serve small industry development as well as ensuring that institution-building is pursued as a means to an end rather than an end itself. UNIDO is guided by the following general principles:

- a) Decisions on such issues as to the appropriateness of one system over the other or on how a country divides the functions among institutions must be taken in the light of every country's unique experience and circumstances.
- b) The number of institutions should be kept to a manageable size to ensure consistent planning and effective co-ordination as well as to avoid duplication of efforts and the negative consequences of inter-institutional competition for scarce resources. Efforts could be directed toward enhancing the efficiency of existing institutions and establishing useful linkages.
- c) Care must be taken to ensure that each institution is part of a total and coherent system.
- d) In cases where institutions have to be multifunctional bodies, the main criteria for organization should be based on such considerations as simplicity in structure as well as client-needs and their satisfaction.
- e) There is scope for organizing assistance in co-operation with semi-public or private institutions (incl. business companies) as well as with bilateral and multilateral aid agencies.

VII. Programme Components

26. UNIDO's inputs to technical assistance projects may take any or a combination of components listed hereunder depending on the requirements of the requesting Government and the size of the project:

- a) Provision of long-term experts, international or local
- b) Provision of fellowships for individual training or for participation in group training programmes organized by UNIDO or other institutions
- c) Provision of equipment for demonstration and testing purposes
- d) Short-term (one month or less) exploratory or advisory missions by UNIDO Headquarters staff or consultants

In general, most of UNIDO's technical cooperation projects, particularly large-scale, are funded under the United Nations Development Programme. Some projects can be considered under UNIDO's currently limited resources, i.e. the Regular Programme or the U.N. Industrial Development Fund for assistance on a modest scale. Special sources of funding are tapped whenever appropriate.

VIII. How to Apply for Technical Assistance

27. In general, all requests for assistance from UNIDO should be directed through official channels, i.e. to the appropriate government department which transmits the request through the local UNDP Resident Representative to UNIDO. Originators of requests may, however, wish to have preliminary discussions about their project ideas with Headquarters staff or with Senior Industrial Development Field Advisers deployed by UNIDO in several developing countries.

