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Round-Table Discussion on the Restructuring
of Small- and Medium-Scale Enterprises with
Special Focus on African/Asian Co-operation
New Delhi, India, 29 September - 2 October 1992

REPORT*

* This document has not been edited.

INTRODUCTION

The Round-Table Discussion on the Restructuring of Small- and Medium-Scale Enterprises with Special Focus on African/Asian Co-operation was held in New Delhi, India, from 29 September to 2 October 1992. It was jointly organized by the United Nations Industrial Development Organization (UNIDO) and the World Assembly of Small and Medium Enterprises (WASME) and attended by 64 participants from 19 countries and 2 organizations of the United Nations system (see annex I).

I. ORGANIZATION OF THE MEETING

Opening of the meeting

All statements underlined the importance of small- and medium-scale enterprises as an integral part of overall economic development and their specific role in employment generation and distribution of income.

After he had welcomed the delegates, Mr. Ki-Jung Ryu, President of WASME, said that growth in world population mainly in the poorer countries will increase disparity in wealth between developed and developing countries. This will be a global issue in the years to come. The interrelated world economy and mutual dependency of the nations and regions call for joint efforts of the rich and the poor to narrow the gap in incomes. Recalling the motto of "diligence, self-help and co-operation", which was the motor of development in the early 1960s in his own country, the Republic of Korea, he was of the opinion that the same slogan should be applied in small- and medium-scale enterprise development and publicized through WASME by its members and associations in 80 countries, 29 of which are in African countries and 21 in Asian countries.

The Resident Representative of the United Nations Development Programme (UNDP) in India, Mr. E. Dessau, felt that the meeting was a timely follow-up to the First Consultation on Small- and Medium-Scale Enterprises including Co-operatives held in Italy in 1989. He underlined the co-operation between organizations of the United Nations system dealing with the sector. In addressing the needs and problems of the small-scale enterprise sector, he stressed the four following points in particular:

(a) A clearly formulated policy for the development of the sector which should also consider the potential of exports;

(b) Inadequate resources for training, extension services, capacity building and export marketing;

(c) Problems faced by small units in obtaining funds for financing their activities;

(d) Lack of research, especially in trade promotion, and in the identification of potential outlets, particularly the feedback on the customers' acceptance of the style and design of the products for the domestic and foreign markets. In addition, more techno-economic research work is required in the field of technology adaptation and innovation for advancement of production and increase in efficiency of the small-scale sector.

The Development Commissioner (Small-Scale Industry), Mr. C.K. Modi, cited some impressive figures relating to the sector. It provides employment in India for more than 12 million people working in about 2 million enterprises. Its contribution to exports is over 40 per cent. The scope of production comprises more than 7,500 products ranging from simple consumer goods to high technology products in the field of entertainment electronics and computers. Average growth is expected to be 8 per cent per annum providing additional employment for 2.5 million people.

The definition of the small-scale industry in India is based on investment in plant and machinery not exceeding US\$ 0.2 million with no limitations on the number of employees or turnover.

Since 1991, the new policy package has brought about deregulation and debureaucratization of the system to allow units to become more independent and to compete worldwide.

The Director of the System of Consultations welcomed the participants on behalf of the Director-General of UNIDO. He said that the meeting was greatly honoured by the presence of His Excellency, Mr. Manmohan Singh, Minister for Finance of India, which underlined the importance his Government has been giving to the small-scale industry sector. He thanked WASME and its Secretary-General, Mr. Chakradhari Agrawal, for his work and commitments to the small- and medium-scale enterprise sector in the world. In particular, he thanked him for his efforts in organizing the meeting setting an example of the new trend in industrial development through private sector participation. He continued by stressing that since the Consultation in 1989, economic changes have transformed policy orientation of many African and Asian countries. They have launched restructuring programmes and accorded major prominence to market forces and private initiative. These liberalization measures have not always had positive effects on the small- and medium-scale enterprise sector. In addition, technological development has provided more opportunities. The need for analysing these trends and their impact on the sector were the reasons for organizing the meeting.

The expected results of the group's discussions should serve as recommendations and guidelines for enterprises, non-governmental organizations (NGOs) and governments and give orientation to each partner's role in the new economic setting.

The Minister for Finance of India mentioned that most developing countries are poor countries. Poverty can be eradicated only on the basis of rapid expansion of employment. These employment opportunities should not be concentrated in large cities, but should be distributed to all regions of the country. The creation of mega cities with unsurmountable infrastructure problems and social, economic and political tensions should be avoided through an even spatial distribution of income. India still considers the small-scale enterprise sector as a stepping-stone and encouragement for a new class of entrepreneurs. Therefore, the Government had given many incentives to small- and medium-scale enterprises. However, the fiscal system has become over-extended and the Government's capacity to invest or subsidize is under great strain today. Fiscal consolidation and reduction of fiscal deficits prevent the Government from engaging in industrial activities. Thus, there is more room for private initiative in development.

In the past, production has grown within high protection walls without any regard to costs or quality. Now, the world economy has slowed down and through protectionistic pressure from the developed countries, world trade has also slowed down. Therefore, there is need to change the production pattern and strategy and subsequently the development strategies. Tariff levels are to be reduced and greater domestic and outside competition should be strengthened. In the long run, this trend should be considered as a new challenge for greater efficiency in production, new production patterns and greater exploitation of the international division of labour. However, in the short run, it can create problems, since competition is a two-edged weapon. It helps those who are strong, but creates severe problems for the weak.

In this context, the Minister underlined the scope for exchange of experience between Asian and African countries which have undergone structural changes to find new markets. The Indian Government has offered tax concessions to the small-scale industry sector. While the sector's contribution to industrial production is between 30 to 35 per cent, the Government's income on tax revenue from small-scale units is insignificant.

The banking system is under great strain including problems of health of portfolios and of inadequate profitability. In order to remain a well-functioning system, rethinking on direct lending, the terms of lending and on the role of concessional finance should take place, because there are limits to which the banks can become instruments of a "grant" economy.

The Minister continued by pointing out that there is still genuine need for small-scale industry. Sixty-four per cent of the industry operates in rural areas and provides income to those who most need it. These small units are required for balanced regional development. However, the capacity of a modern State to subsidize the ever growing segment of the society becomes increasingly limited. Therefore, emphasis should shift from the provision of subsidies to the supply of services in e.g. the field of financing, market information, access to new technologies, quality control, and access to information on new standards. This move will definitely take place. Some transitional measures might have to be taken to mitigate the negative impact. The sector should be aware of this trend in development.

He further stated that UNIDO and other international organizations have made valuable contributions in promoting the awareness of interlinkages that exist between development processes in various countries. Furthermore, he suggested that financial institutes such as the Asian Development Bank devise modalities in which exchange of experience on the development of small- and medium-scale enterprises is given firm institutional underpinning to guarantee joint ventures between such African and Asian enterprises, including support mechanisms by various regional financing entities.

The opening session concluded with a vote of thanks by Mr. Arun Agrawal, Secretary-General, National Alliance of Young Entrepreneurs.

Election of officers

The following officers were elected:

- | | |
|----------------|---|
| Chairman: | R.S. Agrawal (India), Managing Director,
Small Industries Development Bank of
India |
| Vice-Chairman: | S.K. Jain (India), Adviser, Chairman,
Programme Committee, WASME |
| Rapporteur: | Jennifer Riria-Ouko (Kenya), Managing
Director, Kenya Women Finance Trust Ltd. |

Adoption of the programme

The meeting adopted the following programme:

- (a) Opening of the meeting
- (b) Election of officers of the meeting
- (c) Policy changes relating to small- and medium-scale enterprises
- (d) Trends in development of the small-scale industry and enterprises: Presentation by each participant on the present situation in his/her country
- (e) Strategies and programmes for small-scale industry development with special reference to African countries to meet the challenges of the 1990s and beyond
- (f) Impact of changes in general economic development and technological changes on the growth of the small- and medium-scale enterprise sector
- (g) The importance of the micro-enterprise and the rural industry sector
- (h) Changes in institutional requirements
- (i) The role of NGOs and private voluntary organizations (PVOs) in the process of restructuring of small- and medium-scale enterprises and their potential for institutional and interregional co-operation among themselves
- (j) Co-operation of all development agents at national, regional and international levels
- (k) Conclusions and adoption of recommendations
- (l) Closure of the meeting

II. SUMMARY OF DISCUSSIONS

During his introductory statement, the Chairman of the meeting reported that in his view the challenge of small- and medium-scale enterprises in the years to come is in the field of technology and in opening up new markets. He underlined that too much support in form of subsidies and protection could jeopardize the well-functioning of any enterprise irrespective of its size. The policy package for small-scale and tiny enterprises issued in India in August 1991 was expected to promote not only technology, human resource development and identification of market niches, but also an adequate flow of finance for the proper functioning of small-scale enterprises.

The Director of the System of Consultations requested the participants to be specific and at the same time practical. In today's world of deregulation and restructuring, the slogan is "no subsidy, no protection", and "small-scale enterprises should be competitive". He suggested a dialogue between chambers and governments to find solutions for the transitional period. The role of the government to facilitate competitiveness should be reviewed by the meeting.

The conditions of access to loans and interest rate are an important issue in the context of the financing of small- and medium-scale enterprises. Banks in developing countries receive loans from the World Bank or regional development banks at preferential interest rates of 6 or 7 per cent with the conditions that loans to the small-scale industry are not granted to the entrepreneurs below the commercial rate. It is expected that commercial rates will stop the misuse of loans. But would the abuse cease if the bank were to pay the bills on behalf of the enterprise instead of providing the loan in cash? Grace periods for loans of generally 6 to 9 months are now normal practice. This would mean that the first repayment is more or less due at the time the funds are made available. Consideration should be given to applying flexibility in the repayment schedule. The first instalment should only be requested when the factory goes into production and after its products have been sold and paid for. In reality this time-span is often much longer than bankers estimate. Subsequently, a realistic time-frame for grace periods should be granted. In answering the question whether the government should support small- and medium-scale enterprises, one should also think in practical terms. In the past, experience has not always been positive. The bureaucracy in a number of stagnant organizations works against small-scale enterprises rather than in their favour. One should be realistic in that respect. How can the government assist? How could one help those enterprises to import the right quantity of raw materials? How can they sell their goods on the local and international market? How can they produce goods at constant and/or high quality level? Governments should not regulate the

sector, but direct its development and inject promotional measures if the need arises. The government should certainly coordinate international assistance, multilateral from UNIDO and the International Labour Organisation (ILO), or bilateral in order to give guidance to the sector which has a large potential for employment creation. Government efforts and funds invested in small-scale enterprise development may well save some expenditure on social matters.

General debate

At the beginning of the general debate, the participants confirmed that the small- and medium-scale enterprise sector is not only recognized as an important sector for employment creation but has also gained significance in view of the tendency to give more priority to private sector activities in economic development.

The following problems have been encountered as major obstacles in development:

(a) Physical infrastructure including regular and sufficient supply of water, electricity, telecommunication etc.;

(b) Information on and transfer of technology;

(c) Although training of entrepreneurs is important and generally accomplished, trainees should be further motivated to become successful entrepreneurs;

(d) It was emphasized that the sector's access to financial sources is of primary relevance, but interest rates should be kept low. Supervision of loans supported by an extension service is essential in order to improve the performance of enterprises, increase their profitability and subsequently enable them to repay the loans.

The trend in almost all countries has been to reduce or discontinue the granting of direct subsidies to the sector. Therefore, a transitional period is required to avoid a sudden collapse of too many small- and medium-scale enterprises. Transitional measures should be provided to allow time for defining the required services to the enterprises by semi-governmental or private parties while at the same time reducing subsidies.

Furthermore, any government investment in small- and medium-scale enterprise development should be looked at in a broader context. These funds would save expenditure in social sectors, especially in rural areas or less developed or underdeveloped pockets or areas of a country.

During the discussion on the several items of the agenda, it became apparent that there is no uniform pattern of development. Each country has its specific problems and comes up with country-specific solutions. Moreover, this uneven development is accentuated by the fact that the economic restructuring process in various countries has reached different stages. Some countries have just started. Others have made progress and have developed measures to "live with" the restructuring process. Therefore, measures taken by the government differ and so do measures or reactions of the public and private sector including small- and medium-scale enterprises.

A summary analysis made by the meeting is shown in the conclusions and recommendations. Some interesting cases or examples for solutions which were discussed among the participants are given below:

Ghana

The economic restructuring process started some years ago. It had a rather severe impact on the structure of manufacturing enterprises. The small-scale enterprise sector was also affected and many individual units had to close down or change their production programme. On the whole, the small-scale enterprise sector has been able to maintain its share in the economy.

As a result of liberalization and decreasing impact of the Government on the economy, it has withdrawn from directly influencing the sector but has established the National Board for Small-Scale Industries (NBSSI) to ensure the well-functioning of small- and medium-scale enterprises. From the side of the private sector they took the initiative to organize themselves. The small-scale units created sectors or branch-specific associations, arranged training activities needed by their members, supplied them with information on and orientation of the markets, and endeavoured to solve their sector- or branch-specific problems.

Nigeria

The participants from Nigeria very much welcomed the choice of the subject. The economy of the country had undergone a structural adjustment programme and the small-scale enterprise sector had some "painful" experience. However, the country has benefitted from the positive effects, especially on the small- and medium-scale enterprises which are taking advantage of the current deregulation exercise.

Access to finance remains to be a major problem. Due to the deregulation of interest rates, commercial bank loans are beyond the reach of most small-scale enterprises. Moreover, the high administrative costs of loans for small countries make lending to

the sector unattractive for commercial banks. Sometimes it takes a whole year to appraise and decide on a loan application.

Being aware of this unfavourable situation, the Federal Government has taken some corrective measures to assist the small-scale enterprises in having access to loanable funds:

(a) Currently, N 55 million per annum have been made available to the development banks for onlending to small-scale enterprises;

(b) The Central Bank of Nigeria has compelled the commercial banks to grant at least 20 per cent of their loans to small- and medium-scale enterprises;

(c) The Ministries of Commerce and Industry of the different States provide loans to small- and medium-scale enterprises through their development finance institutions.

In addition, several banks have been involved in servicing the small-scale enterprise sector, e.g. the Nigerian Bank for Commerce and Industry (NBCI), the People's Bank, community banks and the Nigerian Industrial Development Bank (NIDB).

Moreover, the Federal Ministry organized the First National Consultation on the Financing of Small- and Medium-Scale Enterprises in early 1992. After intensive deliberations, a number of conclusions were made to cope with the situation, among others, the establishment of the Small and Medium Industries Development Agency of Nigeria (SMIDAN) - an umbrella organization for small- and medium-scale enterprises - has been proposed. Its objective would be to:

(a) Co-ordinate the activities of the various governmental and non-governmental organizations responsible for the promotion and development of the sector;

(b) Negotiate financial support from both national and international sources to small- and medium-scale enterprises;

(c) Organize seminars and training programmes for entrepreneurs to enhance their managerial capacities and skills for the successful and profitable operation of their enterprises.

All legislative arrangements had been made for launching the new scheme by the end of 1992.

It has been for the first time that the Government had made a step towards a coherent development policy for the sector which should cater for the most needed requirements: access to financing (through the banking system), infrastructure facilities (roads, water, power etc.), and training and advisory services in

economic and managerial matters (through government inputs and private sector activities).

Sri Lanka

Small- and medium-scale enterprises of the country have experienced difficulties due to the economic liberalization policy. Some programmes have been developed to counterbalance these negative effects. One of these measures is intended to help the villagers. The Government supplies the infrastructure to the rural areas and banks grant small loans to these groups in order to pave the way for small industries to locate their production and create income in rural areas. Moreover, large enterprises (manufacturing as well as trading companies) seek subcontracting opportunities with the small-scale industry sector in the villages. The Small Industries Chamber has played an active role. It has established a subcontracting promotion programme and an information centre to facilitate this development. A levy fee of 2.5 per cent is charged for subcontracts initiated by the Chamber.

Thailand

The country accomplished a tremendous increase in industrial production mainly through an expansion in exports. Consequently, the industrial production process became more sophisticated and generated more linkages with related industries. Advanced technology required a higher level of skills and subsequently a higher degree of specific training not only in manufacturing skills but also in related activities such as trade and services.

Parallel to the general increase in income, income disparity between rural and urban areas has risen to an alarming extent. Therefore, there was need for a special strategy for the small-scale industry at the regional level to achieve decentralization of industries away from the capital and around the region. These measures focus on:

- (a) Entrepreneurship development;
- (b) Identification of investment opportunities in rural areas;
- (c) Quality improvement of products in accordance with market requirements;
- (d) Improvement of competence and presence of the Ministry of Industry at the regional level;
- (e) Provision of sufficient credit facilities;
- (f) Improvement of necessary infrastructure;

(g) Granting of the same investment promotion privileges for the small-, medium- and large-scale industry.

Malaysia

The policy "package 2020" recently introduced by the Government is the programme for Malaysia to become a developed country by the year 2020. The package also contains a new strategy for the small-scale industry. The National Entrepreneurship Corporation Ltd. was established by the Government about six months ago with the objective of testing the new strategy with existing entrepreneurs. Its target is to review 50 enterprises in 1992 and 100 in 1993. To date, 100 applications have been received; 2 requests have already been approved and 20 are being appraised and should be approved within 3 months.

The programme is based on an exact time-frame for each enterprise and includes a number of control and appraisal mechanisms.

Every selected entrepreneur has to establish a 5-year plan for his/her business in co-operation with the National Entrepreneurship Corporation. The entrepreneur must sign a contract for a 3-year training programme and will have to contribute 20 per cent of his/her own funds to cover fixed capital assets. 80 per cent will be provided by the National Entrepreneurship Corporation in form of equity which will be sold later to the entrepreneur. Business performance will be appraised monthly and every six months a staff performance appraisal will take place. This tight programme will operate for 5 years as it is expected that the employees by that time would be fully trained. In exceptional cases, this period will be extended up to 10 years. The strategic issue of this programme is to create a culture of entrepreneurs. It is an interesting experiment which could be of interest to other countries with similar economic conditions.

Malawi

The Government expressed its support to small- and medium-scale enterprises in its statement of development policies for 1987-1996. Subsequently, within this framework, the small-scale industry unit at the Ministry of Trade and Industry was established which directly promoted a number of schemes for small- and medium-scale enterprises. In addition, the Government assisted the sector indirectly through a chain of specialized institutions to supply finance, commercial, technical and marketing advisory services, training etc. These support measures resulted in massive government expenditures. Due to the present budget decrease, there are very few funds available for operating these many institutions. Moreover, these institutes

are not headed by managers but by government civil servants who do not act in a business-like manner. Even external donors are reluctant in further supporting the sector. A credit guarantee scheme is operational, but it is hard to obtain loans.

A solution has still to be found. Entrepreneurs look forward to a dialogue with Asian partners to identify some ways for a suitable settlement.

Côte d'Ivoire

The representative of the Côte d'Ivoire, an entrepreneur, regretted the lack of finance and training for small- and medium-scale enterprises. There is need for employment creation, but incentives and a specific development policy for the small- and medium-scale enterprise sector are not up to date. Commercial banks are not keen on granting loans to small units because of the high handling charges for small loans and the perceived high risk involved. So far the Government has not yet responded to improve the situation.

Kenya

The two participants from Kenya represented the Women's World Banking (an NGO in Kenya) and a commercial bank.

In the early 1970s, the Government introduced a policy to support small- and medium-scale enterprises. However, the current high demand for creating non-farm employment to cope with the increase of population calls for additional measures to utilize the small- and medium-scale enterprise sector's potential for job creation.

The commercial banks have not yet understood the pertinence of small- and medium-scale enterprises as future clients of banks and as pillars for economic growth. One of the banks, however, is changing its attitude and a representative of the bank attended the meeting.

Women form a growing number of entrepreneurs of the small-scale enterprise sector and Women's World Banking has developed an active programme for their support.

Senegal

The Société nationale d'études et de promotion industrielle (SONEPI) is one of the early "classic" governmental institutes for supporting the small-scale industry. It renders services in management, marketing and technological, legal and fiscal matters as well as financing. SONEPI has been able to maintain a permanent dialogue between the Government on the one hand and the entrepreneurs on the other. It has adjusted its services to the

changing needs of their clients. For instance, when the demand became apparent it established a network of data exchange for the benefit of the entrepreneurs. Information offered by Senegalese institutions and similar ones in some other African and Asian countries is made available through this network. Moreover, there are plans to further expand the network at national and international levels.

Madagascar

The country's new orientation came into effect in 1990 only. The Government is now paying more attention to the small-scale industry than before. The policy developed has still to be applied in practice and prove its usefulness in order to ascertain its impact on the sector's development.

Viet Nam

In recent years, the Government of Viet Nam has placed much emphasis on small- and medium-scale enterprise development. At present, the sector provides about 60 to 65 per cent of gross national product (GNP) and is able to create employment at a large scale. Currently, the Government is still dominating its influence on the sector. However, it aims at developing a practical policy through loans, tax incentives, support in technology and management skill transfer. The most difficult task is to identify the market. Since the Government believes that the small- and medium-scale enterprise sector is a promising sector, there is great interest in co-operating with institutions of other countries in order to gain further experience.

World Assembly of Small and Medium Enterprises

The Secretary-General of WASME underlined the increasing potential of NGOs in playing a more active role in small- and medium-scale enterprise development. Associations of small- and medium-scale enterprises have been created in only a few African countries. There is room for more. The existing ones have not yet advanced to strong partners in the development process.

NGOs should play an active role and be flexible in their work in supplying services to their members according to their priorities. NGOs should be independent from government authority and at the same time not excessively reliant on bilateral or multilateral donors. Funding of their activities has always created problems. To solve this problem, some NGOs try to cover part of their operational costs by charging fees for services.

WASME has been ready for co-operation with NGOs in other countries to exchange experience and services. To this effect, WASME/Services of Technology Promotion and Exchange Centre (TPX) was founded. Currently, TPX provides access through a network of

member institutions or associations in 75 countries and through WASME's linkages with international and intranational organizations. The TPX programme renders a comprehensive package of advice, guidance and practical help to small- and medium-scale establishments. Moreover, the Secretary-General of WASME called for and offered assistance in increased subject-oriented co-operation among NGOs, for instance with regard to training of African entrepreneurs in the Republic of Korea, India or Turkey or exchange of information on technology and identification of suppliers of technology. He further called for more horizontal co-operation between, for example, African and Asian development banks, research and development institutes or universities as well as vertical co-operation for the benefit of the small-scale enterprise sector.

During the closing session, His Excellency, Mr. P.J. Kurien, Minister for Industry and Commerce, said that having looked at the conclusions and recommendations of the meeting, he is convinced that global integration and co-operation of the small-scale enterprise sector are urgently required on a continuous basis. Many countries experience the same problems and mutual co-operation will save time and funds for research work and experiments.

He further mentioned the need for co-operation between small- and medium-scale enterprises operating in developing and developed countries. He suggested that UNIDO should be the vehicle for bringing together these industries of different countries.

He stressed that the small-scale industry sector is an integral part of the industry and economy. The restructuring process will equally affect the small units. He underlined, however, that the Indian Government does not want a shock therapy but rather a gradual process. The new industrial policy of July 1991 aims at deregulation and debureaucratization. Therefore, almost all manufacturing sectors, with the exception of certain defence-related industries, are open for private investors. He further said that a major policy decision has been to allow equity participation (up to 24 per cent) of large or medium local and foreign companies in small-scale industry. This move is expected to strengthen efficiency of the small-scale sector through transfer of know-how in technology, support in investment and marketing assistance. In addition, it would improve the quality of products and enhance subcontracting arrangements and specialization which has been successfully applied in Japan and other countries of that region.

He assured that his Government would continue to watch closely the development of the small-scale industry sector because of its potential for employment creation and generation of income in rural areas. Since the policy of liberalization

implies free entry, the system of reservation will be reviewed. (In India, a number of products are reserved for the exclusive production by small-scale industries.) The timely availability of loans to small-scale industries at reasonable interest rates will remain a commitment of the Government. However, he assured that ailing small-scale industries will be analysed in depth. Chronically-ailing or non-viable units should be closed down. Units which have experienced temporary difficulties should be restructured and assisted through technology and financial support to turn into profitable enterprises.

III. CONCLUSIONS AND RECOMMENDATIONS

Impact of changes in general economic development and technological changes on the growth of the small- and medium-scale enterprise sector

Over the last decade or so, there has been considerable impact of global developments on the growth of the industrial sector, particularly that of the small- and medium-scale industry, in developing countries. Globalization of manufacturing, trade and finance and development of new technologies economizing on factor use and accentuation on knowledge, skills and information have turned the comparative advantage even in traditional industries in favour of the developed countries. Many of them have moved from mass production to flexible manufacturing methods through the use of information technology (micro-computers and telecommunication channels). This has enabled flexible responses to changes in market demand which has been characterized by differentiated rather than standardized products. In this process, the role of small- and medium-scale enterprises has been somewhat enhanced in the developed countries.

On the other hand, the developing countries - except for newly industrializing countries (NICs) - have suffered a deterioration in their economic growth. There has been a cumulative chain of crises, i.e. balance of payments crisis, production crisis and fiscal crisis. Structural adjustment programmes assisted by the World Bank/International Monetary Fund (IMF) have been designed to remedy this situation. Macro-policies of liberalization and tighter monetary and fiscal policies on the whole adversely affect in the short term the profitability of existing industries. However, realistic pricing, availability of imports and introduction of competition have in the medium term benefitted the most dynamic of the industrial enterprises which could link up with the growth sectors and undertake export efforts. The response of the small-scale sector and particularly the informal sector in some countries has been very encouraging. They often filled the gap created by the decline of large enterprises. In some countries,

they have organized themselves into self-help groups, associations etc. to obtain the advantages of co-operation in marketing, financing, supply of raw materials etc. Such co-operation has, in turn, stimulated the growth of NGOs to assist in the development of small-scale industries.

Insufficiency of flow of financial resources due to tight fiscal and monetary policies has been countered to some extent through mobilization of savings, forming savings-loans groups to obtain financing from development or commercial banks which, in turn, have secured funds from bilateral/multilateral agencies. As the financial situation improves in the countries under structural adjustment, it is essential that a greater flow of funds be assured for such innovative and viable small businesses. More work should be carried out to perfect the saving procedures.

There are considerable difficulties, particularly in African countries, in responding to new technological developments. Since the level of skills is relatively low, it is often difficult to absorb the rapidly changing technologies. In this connection, the need for upgrading technological skills was emphasized. Technology transfer usually took place through joint ventures; however, it was felt that the progress of such ventures was often too slow. There is considerable scope for introduction of micro-computers, computer-aided design (CAD) and computer-aided manufacturing (CAM). It was also felt that there is a need for training in negotiation of contracts with foreign companies and, in this connection, assistance by UNIDO was effective. The policy of divestiture of public sector enterprises has been of benefit to the private sector and small-scale enterprises in some countries through making available skilled personnel, engineers and managers. It was endorsed that the information services on technology being set up by WASME be urgently put into operation so that other countries can utilize them.

There were considerable opportunities for growth of small- and medium-scale enterprises to undertake exports, both to international and regional markets. In this connection, programmes for inculcating a quality and productivity culture in the entrepreneurs' and workers' perception were emphasized. Training programmes as well as introduction of a quality and standardization programme, entrepreneurship development and organization of training were required.

The importance of the micro-enterprise and the rural industry sector

Within the small- and medium-scale enterprise sector, micro-enterprises and rural industries have not received adequate attention. Recent experiences in many countries have revealed the flexible response of informal enterprises to changing

circumstances. In the case of these tiny, micro- or very small enterprises, delivery of both financial and technical assistance has to be decentralized and carried to the enterprise. Clustering in one location enables intertrading. In regard to financing, the self-help type of organization (like the Grameen Bank of Bangladesh and the People's Bank of Nigeria) has proved more successful than banks located in larger towns and capital cities. As regards extension services, the change agent has to be a kind of barefooted stimulator. Specific attention is required to link such enterprises to the needs of the community around it and to provide the required infrastructure and services.

Regarding rural development, the success of industrial enterprises often depended on the size of the market. Chinese, Sri Lankan and Indian experience of locating enterprises in small towns on a massive scale (town-village enterprises) and providing them with infrastructure facilities has proved successful in generating jobs and increasing incomes. These enterprises often exported to larger urban areas.

With the development of agriculture, forward-linkage industries, processing of raw material to rural areas began to develop. As incomes grow and agricultural production expands, it is often more economical to locate processing in medium towns which are distribution centres.

In the process of industrialization, there should be a continuum of different sizes of enterprises. Rural-urban linkages are important, especially from village to small towns to medium towns to the metropolitan area.

Rural industrialization has to be an integral part of rural development and cannot be separated from the overall development of the area in any respect. The growth centre programme in some countries like India could be significant in this connection.

Strategies and programmes for small-scale industry development with special reference to African countries to meet the challenges of the 1990s and beyond

New strategies and programmes are required following liberalization of economies and rapid technological developments. The role of the government would be significant in creating a conducive environment for the private sector to grow and prosper. The creation of such an environment would include appropriate macro-policies, laws and regulations to encourage marketisation and competition; provision of infrastructure; transport, health and education facilities. Since upgrading of skills is a paramount need of developing countries, particularly in Africa, training programmes, not only through formal educational institutions, but also through associations of enterprises and

NGOs should be undertaken. Entrepreneurial and management training as well as subject-oriented training for upgrading engineering and accounting skills are required. Business culture has to be inculcated from school age onwards in order to create entrepreneurs.

The role of the State is pivotal in strategic planning, laying down goals and taking measures to enable the private sector to fulfil these goals. The government apparatus is not suited to carry out the tasks of public sector manufacturing. While the provision of extension services to enterprises by the government can be useful, self-help institutions formed by entrepreneurs themselves and other NGOs should be encouraged and assisted to undertake information and extension services including on-the-job training programmes.

There has been serious concern over the insufficiency of financial resources for small- and medium-scale enterprises. Innovative ways to meet the financial requirements of small- and medium-scale enterprises have been devised in some countries through savings-loans associations and other co-operative arrangements in purchase and marketing. Joint guarantee by such co-operative institutions enables additional financing to be obtained from banks.

There is, however, additional assistance required by new entrepreneurs, particularly technologically-oriented ones, through the provision of venture capital financing facilities. The experience of Malaysia recently in setting up the Entrepreneur Development Corporation Ltd. - a foundation to provide venture capital financing combined with training programmes to upgrade managerial capability - was considered to be interesting and useful for other countries. The Corporation has been set up with a grant from the Government, but is otherwise expected to be self-supporting. Assistance to enterprises is to be provided on a contract basis continuously for 3 to 10 years to make them self-sustaining at the end of the period.

Programmes specifically oriented towards the development and establishment of industries by women entrepreneurs ought to receive special consideration, since women constitute a significant proportion of the productive population in every country. In most countries, enterprises run by women could be especially important in promoting rural industrialization. In Africa, a number of countries have set up trusts for financing such enterprises and women entrepreneur organizations have taken the initiative and promoted self-help. It is important that women should not be ignored or discriminated against in the provision of training programmes, extension services, financing etc.

Changes in institutional requirements

Until recently, centralized government institutions or parastatals sponsored and supported by the government played the major role in providing promotional and extension services to small- and medium-scale enterprises. The experience has been that these institutions lacked resources and qualified personnel and were too bureaucratic. There was thus little aid reaching the small-scale enterprises. Only a very small number of enterprises benefitted from governmental programmes.

Structural adjustment programmes and the need to reduce fiscal deficits have shown many governments that they should no longer provide direct assistance and subsidies to small-scale enterprises. On the part of the small-scale enterprises themselves, the requirements have increasingly been for direct contacts between the entrepreneurs or enterprises and the assistance agency. It has also been felt that self-help organizations of enterprises themselves could do much of the work required.

Experience from developed countries as well as successful developing countries has indicated that there is a need to identify specifically the requirements of different categories of small-scale enterprises and to have an institutional structure of, by and for small-scale enterprises. Full involvement of small-scale enterprises themselves and close relationships with the change agent were emphasized.

The role of non-governmental organizations and private voluntary organizations in the process of restructuring of small- and medium-scale enterprises

It was recognized that there is a wide variety of NGOs ranging from community self-help groups to co-operatives, associations and chambers of commerce and industry. There is a specific role for each category of institution depending on the type of enterprise and the location. Micro-enterprises located in rural areas and small towns usually needed self-help groups which could co-operate in organizing their production activities as well as in raising funds through savings and joint guarantee schemes. Assistance is also needed in obtaining information on markets, technology and the mechanism for its transfer, training facilities etc.

Small-scale industry associations and chambers of commerce in larger towns and capital cities could provide training and extension services as well as guidance to the local self-help groups.

It was recognized that not all activities necessary for the development of small-scale industries could be undertaken by the

relevant association or NGO. Assistance of PVOs, non-governmental development organizations (generally supported by donor countries), universities and scientific and research organizations is required. Apex associations should be able to devise modalities for the effective delivery of such assistance.

In many African countries, economic recovery programmes and structural adjustment programmes assisted by the World Bank/IMF have necessitated grouping of small-scale enterprises into clusters, forming associations or co-operatives and even councils for different subsectors.

The need for the creation and strengthening of grass-root associations and NGOs was emphasized. Over-dependence on foreign supported NGOs and too much centralization by an apex association should be avoided, since they would defeat the purpose of providing effective and timely assistance to small-scale enterprises.

In many countries, proliferation of NGOs has taken place and they often work at cross purposes or duplicate efforts. It was felt that there was need for more effective co-ordination at the country level which could either be undertaken by the apex association of small-scale enterprises with the support of the government or by the government alone.

It was noted that while governments were rapidly delinking from assistance programmes for small-scale enterprises, the associations which were encouraged to undertake this task did not have sufficient institutional capability. There was need to build up the capacity of NGOs for assessing industrial needs, providing services to members and monitoring progress.

The importance of mutually beneficial intra-regional and interregional co-operation between small- and medium-scale enterprises in developing countries, specifically for technology transfer, cannot be underestimated. NGOs should be encouraged to build up capacity to form appropriate linkages with each other and also with their counterparts in developed countries.

Co-operation of development agents at national, regional and international levels

There were often several agencies at the national level providing some form of assistance to small- and medium-scale enterprises. Different departments had responsibility for industrial development and rural or regional development. Different kinds of bank provided long-term loans, equity assistance and short-term working capital loans. There were other agencies in many countries involved in research and development, training, standardization, export promotion etc. There were also NGOs engaged in financing, human resource

development, marketing and extension services. Effective co-ordination at the national level is crucial to avoid overlapping and to enable the optimum use of scarce resources. In many countries, such co-ordination is carried out at the level of the President's office, the Prime Minister's office or the cabinet. Working level co-ordination and co-operation among the various agencies involved was felt to be necessary and should be carried out according to the requirements of each country.

At the regional level, the regional economic commissions, regional banks and other regional and subregional economic entities often considered the problems of industrial development. It was felt that closer co-operation between the national agencies in a particular region could be useful for promoting exchange of experiences, trade and investment, as well as for taking advantage of training facilities.

At the international level, it was noted that the group of donors supported by the World Bank usually meets annually to review the problems of co-ordination amongst United Nations agencies, international NGOs and bilateral donors. In many developing countries, the World Bank and UNDP have called for donor co-ordination groups to focus, among other sectors, on small-scale industries.

In the spirit of South-South co-operation, it is the view of the meeting that the venue should now shift to Africa for the continuation of this highly desirable, beneficial and important dialogue.

Annex I

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Annex II

LIST OF DOCUMENTS

Small-scale industry development at the cross-roads: Strategies and programmes for the 1990s and beyond with special reference to Africa	ID/WG.527/1(SPEC.)
Structural adjustment programmes: Impact on small- and medium-scale enterprises	ID/WG.527/2(SPEC.)
The role of non-governmental/private voluntary organizations in African countries in the restructuring of small- and medium-scale enterprises with special focus on African/Asian co-operation	ID/WG.527/3(SPEC.)
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