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**CONTRIBUTIONS TO  
'MAJOR EMERGING TRENDS AND ISSUES OF INDUSTRIAL  
DEVELOPMENT IN AFRICA:  
IMPLICATIONS FOR UNIDO'**

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2 July 1993

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## Bilateral agencies

The amount of DAC bilateral disbursements to Sub-Saharan countries was US\$ 5,157 million (at 1990 prices and exchange rates)<sup>1</sup> in 1980 and US\$ 11,453 million in 1990. By adding up the Arab and other countries' outlays, the amount was US\$ 8,531 million in 1980 and US\$ 11,979 in 1990.

The ratio of bilateral development cooperation to the total ODA disbursements directed to Sub-Saharan Africa in the years 1980-1991 increased from 58 per cent in 1980 and 1981 up to 64 per cent in 1990 and 63 per cent in 1991, if we consider only the DAC bilateral. Meanwhile, if we consider the whole bilateral cooperation including the Arab and other extra DAC countries' disbursements which at the beginning of the 1980s were relevant and now have shrunk to nearly zero, the ratio reduced from 69 per cent in 1980 and 1981 down to 66 per cent in 1990 and 64 per cent in 1991.

The five major bilateral donors according to the amount of their contributions during the period 1980 - 1991 were the following:

**The DAC bilateral five major donors to Sub-Saharan Africa**  
(US\$ million at 1990 prices and exchange rates)

1980	1985	1990	1991
France (1491)	France (2150)	France (3129)	France (2973)
Germany (967)	USA (1566)	Germany (1396)	Germany (1371)
USA (891)	Germany (1218)	Italy (1090)	USA (935)
United Kingdom (657)	Italy (982)	USA (1002)	Japan (757)
Netherlands (510)	United Kingdom (623)	Japan (830)	United Kingdom (710)

The Arab countries, with an outlay of US\$ 1090 million at 1990 prices and exchange rates.

The role of France in bilateral cooperation is clearly very significant. Not only does it continue to be the major donor in Sub-Saharan Africa, but it has also doubled its outlays with an increase much higher than all other major DAC donors - with the exception of Japan. The growing role of Japan is noticeable. It has become one of the major five DAC bilateral donors to Sub-Saharan Africa as a result of the new leading role its government decided in 1988 to play in the development cooperation, including more attention to countries outside Asia, where Japanese foreign aid had been concentrated up to then. In 1989 indeed for the first time although not in subsequent years toward Sub-Saharan countries, Nigeria and Kenya, ranked among the ten major recipients of Japan's ODA (ninth and the tenth).

As regards the contribution of bilateral donors to Sub-Saharan industry specifically, detailed data for the region are not available. However, one indication is given in the Annual Report of the main bilateral financing institution, the French Caisse Centrale de Coopération Economique. In the years 1987 - 1991 in all countries where the CCCE is present (among which the most are African countries) on average 10.8 per cent of total outlays went to industry, mines and tourism, while in the same period rural development accounted for 26.7 per cent and public works and infrastructure 25 per cent.

<sup>1</sup> All the data on bilateral agencies, if not otherwise pointed out, are taken from OECD, Development Cooperation - 1992 Report, Paris, 1992. The data refer to the net disbursements.

The problems concerning the interventions of bilateral cooperation through bilateral agencies are well known. The disputed questions of tied aid related to the fact that bilateral cooperation activities can sometimes have a business content. So the bilateral agency can be more prone to accept to finance and implement a project, if it is required by the government for its internal political reasons, despite it not being economically convenient. It can be enough that the government asks for a project, and that the implementation of the project is a business for some donor country's firms. So the bilateral agency can be more prone to accept whatever proposal is made by the Ministry of Industry, provided that the supply and implementation of the project fit the interests of the donor country's industry.

At the same time, due to the interest of bilateral donors in Africa, there should be scope for more cooperation with the bilateral agencies. Firstly, they are usually major contributors to UNIDO's regular budget, and ought to have an interest in seeing their contribution used most effectively. Secondly, they may themselves lack the necessary staff and expertise in the industrial sphere, and could perhaps be persuaded to use UNIDO facilities. Joint missions, which have sometimes taken place, would be a very desirable means of involving the bilateral agencies in UNIDO activities.

In this connection, Japan, with its expanding role in development cooperation is encountering staffing difficulties with regard to the implementation of its aid programme, including in the areas of project evaluation, selection and formation; aid-related research and training; detailed country- and actor-specific and policies; and expanded policy dialogue with recipients. Given Japan's greater involvement with Sub-Saharan African countries, UNIDO should be in the position to offer very collaboration, enjoying of its many years of experience with those countries.

A new initiative by Japan is of particular significance. The Tokyo International Conference on African Development (TICAD) will take place in Tokyo from 4 to 6 October 1993. The six main themes are: political and economic reforms, Asian experience and African development, the role of the private sector in African development, emergency relief in Africa, regional co-operation and integration, and the Tokyo Declaration on "African efforts and international co-operation for sustainable development". UNIDO is not one of the United Nations agencies involved in preparing the conference, but it is very important to ensure some monitoring of it and in particular to see that the Mauritius Declaration (see 5.1.2.4 below) is reflected, and that the role of UNIDO is recognized in the recommendations of the Conference, and in follow-up to it.

#### **Multilateral organizations**

In 1990, multilateral organizations allocated to Sub-Saharan African countries US\$ 6,048 million,<sup>2</sup> 59 per cent more (in real terms) than ten year before. In 1991, the amount was slightly less (US\$ 5,961 million) in real terms, but the relative size did not change: multilateral institutions' disbursements amount amountd to 55 per cent of the DAC bilateral ones; ten years earlier it was 53 per cent.

In the Sub-Saharan African countries, the trend for multilateral aid to increase slightly more than bilateral aid is confirmed by their average rates of growth, which in 1980 - 1991 was 4.20 per cent for multilateral and 3.53 per cent for bilateral aid. It has been found that ODA flows from multilateral agencies are distributed in a more equitable manner than bilateral disbursements

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<sup>2</sup> All the data on multilateral agencies, if not differently pointed out, are taken from OECD Development Cooperation 1992 Report, Paris, 1992. The amount data refer to the net disbursements.

from major DAC donors,<sup>3</sup> and for less developed countries, such as some in Sub-Saharan Africa, such equitable distribution of aid can be crucial.

The five major multilateral agencies in Sub-Saharan Africa, according to the amount of their disbursements have been the following:

**The five major multilateral donors to Sub-Saharan Africa  
(US\$ million at 1990 prices and 1991 exchange rates)**

1980	1985	1990	1991
EDF (990)	IDA (1439)	IDA (1902)	IDA (1839)
IDA (663)	EDF (1183)	EDF (1555)	EDF (1557)
UNDP (306)	WFP (590)	AfDF (592)	AfDF (573)
WFP (276)	UNDP (376)	WFP (435)	WFP (421)
Arab agencies (235)	UNHCR (349)	UNDP (384)	UNDP (371)

The most striking point is the emergence of the African Development Fund as third multilateral donor. The second element which comes to the fore is that UNDP has fallen to the bottom of the scale. The size of the amount of its contributions remained constant over time, (it even increased slightly) but its share is shrinking more and more, due to the large increase of other agencies' contributions.

As regards World Bank group's lending<sup>4</sup> to Sub-Saharan Africa, the following table shows the data for 1983 - 1992.

<sup>3</sup> D.P. Clark, "Distributions of Official Development Assistance among developing country and recipients", in *The Developing Economies*, xxx-3 (September 1992).

<sup>4</sup> The World Bank data refer to commitments and are taken from the Annual Reports of the last years.

**Composition of World Bank lending to Sub-Saharan Africa, 1983-1992**  
(US\$ million)

Sector	Annual average 1983-87	1988	1989	1990	1991	1992
Agriculture and rural development	481.2	562.3	754.8	997.4	504.9	697.5
Development finance companies	186.2	232.5	311.6	127.6	138.8	419.9
Education	100.2	178.2	88.2	350.7	265.9	402.9
Energy						
Oil, Gas and coal	46.4	0	31.2	0	300.0	48.5
Power	147.2	88.0	138.4	230.0	155.0	76.0
Industry	67.8	150.5	81.4	105.1	0	406.0
Non-project	295.7	535.0	1,019.0	271.6	832.6	895.0
Population, health and nutrition	45.7	121.4	81.3	232.7	432.8	100.3
Public-sector management	18.3	165.0	0	45.6	5.7	76.7
Small-scale enterprises	20.4	0	270.0	130.0	0	0
Technical assistance	58.5	95.7	144.6	56.0	81.9	88.0
Telecommunications	33.8	0	103.3	225.0	12.8	0
Transportation	311.9	618.6	248.7	543.6	309.5	242.8
Urban development	95.7	146.5	414.0	360.4	98.3	222.6
Water supply and sewerage	71.9	45.0	238.2	257.2	256.0	297.4
<b>TOTAL</b>	<b>1,980.8</b>	<b>2,928.7</b>	<b>3,924.7</b>	<b>3,932.9</b>	<b>3,394.2</b>	<b>3,973.6</b>
IBRD	795.8	725.1	1,560.6	1,147.0	662.9	738.4
IDA	1,184.9	2,203.6	2,364.1	2,785.9	2,731.3	3,235.2
Number of operations	79	80	81	86	77	77

If we take together industry, small-scale enterprises and technical assistance (which is often intended to improve industry's performance), they account for on the total as follows:

Industry and related branches in the total World Bank lending to Sub-Saharan Africa						
	Annual average (%) 1983-87	1988	1989	1990	1991	1992
Industry	3.42	5.14	2.07	2.67	-	10.22
Small-scale enterprises	1.03	-	6.88	3.31	-	10.22
Technical assistance	2.95	3.27	3.68	1.42	2.41	2.21
<b>Total</b>	<b>7.40</b>	<b>8.41</b>	<b>12.63</b>	<b>7.40</b>	<b>2.41</b>	<b>12.43</b>

Despite the downturn in 1991 - when nothing at all was allocated to industry and small-scale enterprises, may be on account of a strong concentration on Structural Adjustment Programmes (Non-project) and basic needs (Population, Health and Nutrition) - the share of industry and related branches in the World Bank lending to Sub-Saharan countries displays an increasing trend, going from an annual average 1983-87 of 7.40 % on the total to an annual average 1988-92 of 8.72 % of the total.

In the following table the cumulative lending operations of IBRD and IDA Sub-Saharan Africa by 30 June of each year 1988-1992 are displayed. They are registered according to the agency donor (IBRD and IDA) and to the industrial sectors, which allow for the agriculture-related branches of industry, such as agro-industry, fisheries and forestry, as well as for the small-scale enterprises and technical assistance.

The resource-based sectors, such as agro-industry, forestry and mining together with technical assistance have been the core of the intervention of the World Bank in Sub-Saharan Africa industry, while in the last years more diversified policies seem to have taken place, with growing disbursements to small-scale enterprises and industry sector loans. Two large IDA loans, each of them amounting to US\$ 200 million were given in 1992 to Zambia and Tanzania, to help to foster private sector development and long-term industrial growth, in the framework of structural adjustment programme and policies aiming at the creation of a system operating on the basis of market-oriented principles.

Another important flow of resources allocated to industrial sectors in Sub-Saharan Africa by the World Bank group is that of private finance for the private sector through the International Finance Corporation, IFC. Even though the amounts are not comparable to those directed to other world's regions, particularly East Asia, they are however growing. In the last years, as known, four Sub-Saharan African countries have been the region's largest recipients of foreign private investment, namely Zimbabwe, Mauritius, Tanzania and Malawi. The loan syndications signed by IFC in 1992 in Sub-Saharan Africa amounted to \$ 64.5 million, 7.06 % of the 1992 total. The projects approved in the region by the IFC in 1992 were 50 in number, with a total financing of \$441 million and \$ 284 million of financing for IFC's own account.

Cumulative Lending Operations to Sub-Saharan Africa by 30.06.										
	IBRD					IDA				
	1988	1989	1990	1991	1992	1988	1989	1990	1991	1992
<b>Agro-industry</b>	30.0	30.0	30.0	30.0	30.0	333.4	333.4	361.4	361.4	361.4
<b>Fisheries</b>	-	-	-	-	-	46.9	46.9	46.9	55.7	55.7
<b>Forestry</b>	255.0	255.0	349.5	349.5	349.5	272.3	311.7	338.7	358.6	391.0
<b>Industry</b>										
Engineering	-	27.7	27.7	27.7	27.7	16.7	16.7	16.7	16.7	16.7
Fertilizer and other chemicals	-	-	-	-	-	35.0	35.0	35.0	35.0	35.0
Industry sector loan	0.6	0.6	15.3	15.6	15.6	158.9	212.6	302.7	302.7	702.7
Iron and steel	20.0	20.0	20.0	20.0	20.0	40.0	40.0	40.0	40.0	40.0
Mining, other extractive	533.5	533.5	533.5	533.5	533.5	20.9	20.9	29.0	13.9	19.9
Paper and pulp	48.4	48.4	48.4	48.4	48.4	50.0	50.0	50.0	50.0	50.0
Textiles	63.0	63.0	63.0	63.0	63.0	20.0	20.0	20.0	20.0	20.0
Tourism sector loan	54.5	54.5	54.5	54.5	54.5	18.0	18.0	18.0	18.0	18.0
<b>Total</b>	<b>720.0</b>	<b>747.7</b>	<b>762.7</b>	<b>762.7</b>	<b>762.7</b>	<b>359.5</b>	<b>413.2</b>	<b>503.3</b>	<b>496.3</b>	<b>902.3</b>
<b>Related Branches:</b>										
Small-scale enterprises	170.7	440.7	440.7	440.7	440.7	98.7	98.7	228.7	228.7	228.7
Technical assistance	124.8	124.8	138.8	138.8	138.8	484.3	628.9	670.9	737.7	836.3
<b>Grand total</b>	<b>12,656.4</b>	<b>14,217</b>	<b>15,364.0</b>	<b>16,026.9</b>	<b>16,765.3</b>	<b>14,737.9</b>	<b>17,102</b>	<b>19,887.9</b>	<b>22,619.2</b>	<b>25,854.4</b>



All the 1992 data show an increase over 1991, as it is pointed out underneath:

**IFC's project approvals  
(US\$ million)**

	1990			1991		
	No. of projects	Total financing	Financing for IFC's own account	No. of projects	Total financing	Financing for IFC's own account
Sub-Saharan Africa	50	441	284	42	319	194
Total	167	3,227	1,774	152	1,846	1,540

IFC has in Sub-Saharan Africa two important facilities for the development of local private enterprises, the African Enterprise Fund (AEF) and the African Project Development Facility (APDF). The first one is an IFC fund intended to provide financing of US\$ 100,000 to 1 million for projects costing between US\$ 250,000 and US\$ 5 million by companies wholly or mainly owned by African shareholders. In 1992 it had already financed 50 projects in 20 countries. In 1992 the small projects approved were 22 accounting for an amount of US\$ 14 million. The African Project Development Facility is an institution active in the Sub-Saharan Africa which carries out all the preparatory phases of an entrepreneurial investment, from the feasibility study up to finding financial instruments and sources. It has been founded as a programme UNDP, ADB and IFC for industrial investment ranging from US\$ 0.5 to 5 million. In its first five years of activity it has built up 101 small projects in 23 countries, with a value of US\$ 205 million and 10,000 jobs. The African Project Development Facility with three branches in Sub-Saharan Africa and a headquarter in Washington is able to meet on average only 5 per cent of the total proposals it receives yearly from small African private entrepreneurs accounting on average at 500 per year.

Such a large gap between demand and supply of specific services for the small-scale enterprises shows that no multilateral agency could ever afford the task of meeting the needs of extension services of a continent like Africa only through its own human resources. Perhaps the only way to come to grip with such needs would be for a multilateral agency to train local consultants and then supervise and monitor their local activities. What seems certain is that although initiatives and institutions tailored for the development of local private industrial investment are multiplying as well as cooperation between institutions, e.g. between APDF and EEC's Centre for Development of Industry, they cannot keep pace with the increasing demand of technical and financial assistance rising from existing and would-be entrepreneurs in the new market-oriented context of Sub-Saharan countries.

As regards EDF, the data for the sixth EDF (1986 - 1991) of the amount of financing directed to industry and tourism in the Lomé Sub-Saharan African countries are ECU 682.2 million for industry and ECU 43.3 for tourism. With the seventh EDF, starting in 1991, the data were at 31912.91, with 6.5 million for industry.

Cooperation of UNIDO with multilateral agencies should develop in many fields, mainly where UNIDO can take advantage of his technical experience and expertise. So in the industry loans given to governments and banks in order to rehabilitate their privatized industries and to put them in

the conditions to face the market, UNIDO could offer its technical assistance for the supervision of strategic guidelines and for the solution of technical key problems.

### Regional development banks

The role of the regional development banks in Sub-Saharan Africa is growing more and more as is shown by the emergence in the last years of the African Development Fund as the third major multilateral donor. Among the 15 African regional development banks and funds registered in 1991 (excluding the World Bank and IFC) the most relevant are by far the African Development Bank and the African Development Fund. BADEA or ABEDA (Arab Bank for Economic Development of Africa) and the Preferential Trade Area Bank are also very active. ABEDA is a bank founded in 1974 with the aim to encourage the participation of Arab capital in the non-Arab African countries development thereby strengthening friendship and solidarity between Arabs and Africans. Its activity is directed more towards infrastructural and social needs than towards industry. Among other things in the last years it signed a loan to Lesotho, for the capital's sewerage and another of US\$ 6.5 million to Mozambique for the rehabilitation of tea cultivations in the country. BADEA has signed from 1975 to 1992 loans for US\$ 80 million with Mozambique. Another important Arab bank whose main activity is outside Africa but with an important presence also there is the Islamic Development Bank which often co-finances projects with BADEA. Although the bank's main activity is foreign trade financing it took part in 1976 - 1992 in Sub-Saharan Africa to 198 projects accounting for an amount of US\$ 577.75 million. Out of these projects 35 per cent related to industry. In 1990, the Islamic Development Bank co-financed three projects with BADEA: a coffee and cocoa plantation rehabilitation in Gabon, a road rehabilitation in Gabon and a power station in Guinea-Bissau.

The Eastern and Southern African Trade and Development Bank, better known as the PTA Development Bank, was established in 1985 as a financial wing of the PTA economic arrangements. Two thirds of its authorized capital (KAPTA 400 million; 1 KAPTA = 1 SDR) are reserved for subscription by PTA member states while the other third is reserved to external institutions among which the ADB which joined the PTA Bank in 1991. The PTA Bank is perhaps the only African regional development bank financing industrial manufacturing investment with a priority which up to 1992 has been 100 per cent. Particularly from 1990 - 1992 the project investment commitments were ten, three of which in 1992, related to textile, sugar, mechanical and footwear sectors, for a total amount of KAPTA 17.6 million. The involved countries were Zambia, Ethiopia, Uganda and Kenya. The selection choices of the PTA bank are on projects which are export-oriented, private-sector sponsored and utilize raw materials. In the future the bank declares its interest to diversify the sector and to try to attain a fairly extensive geographical distribution in project investment.

The ADB group includes, as known, the African Development Bank, the African Development Fund and the Nigerian Fund. Their loans and grants to industry in the year 1967 - 1992 were 211 in number for a total amount of US\$ 3712 million, 14.66 per cent of the total allocated by the group. The African Development Bank on her side lent UC 1563 million<sup>5</sup> to the Sub-Saharan African countries, while UC 286.89 million was the cumulative amount 1976 - 1992 given to countries from the AfDF. For ADB that amount accounted for 21.66 per cent of the 1967 - 1992 total disbursed to Sub-Saharan African countries. For the AfDF it accounts only for 3.44 per cent of the total channelled to Sub-Saharan Africa.

Hence the importance of industrial activity in the ADB financing policies is confirmed, while industry for AfDF plays a very secondary role, according to the crucial emphasis given by the Fund to agriculture, infrastructural and social investment. In 1992, three large industrial projects have been

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<sup>5</sup> 1 UC = 1 SDR.

approved by ADB in Sub-Saharan Africa. The first one in Gabon, for UC 22 million of ADB financing and of the total cost of UC 68.94 million, refers to a plant producing salt and by-products, and is co-financed by the Ministry of Industry and Trade of Japan with other donors. Another project in Lesotho refers to a plant producing glass ceramics. Its cost is UC 13.59 million and ADB will finance the 60.8 per cent of the total costs, while other American and local institutions will co-finance the project. The third project is a loan of UC 1.2 million to the Bank of Credit and Savings of Mali. Through this loan the Bank of Mali is expected to finance the creation, the rehabilitation and the revival of small- and medium-scale enterprises.

Among the projects with industrial content financed by the African Development Fund in 1992 in Sub-Saharan Africa, one in Burundi for UC 4.6 million refers to agriculture and fishery, while the others are a master plan for tonsisine development (Gabon), a feasibility study and preliminary mining works for a fertilizer plant (Madagascar), a feasibility study for a bauxite deposit (Malawi), and a feasibility study for a free enterprises zone (Tanzania).

### **Industrial associations**

In African countries, industrial associations are not always very representative. It can happen that the Industrial Association can, more easily in Africa than in a developed country, grow as a bureaucratic reality, with its own philosophy and logic of conservation and enlargement, in a way that does not really reflect the basic interests of the members. In such cases, it can happen that cooperation projects are promoted, which only in name, are at the service of the industry, while in reality they do not fulfil a priority need of the industry as such, as much as they contribute to increase the strength and the prestige of the association itself (e.g. by increasing the number of its officials, or its equipment, or its fields of activity etc.).

Another situation which may arise is that of an industrial association only representing a part of the sector industry involved - the oldest, well-established, more traditional and large firms. In such cases, since one of UNIDO's main goals is to contribute to the enlargement and diversification of local industry, the industrial association can feel threatened, even if it not admit this openly. Indeed new ventures will mean, at least initially, more competition on scarce resources such as foreign exchange, credit and skilled labour.

Therefore, when undertaking cooperation with industrial associations, a very careful analysis of its composition, the role it has played in the past and is playing at present in the economic situation of the country can be useful. In addition attention should be given to internal conflicts in the implementation of the cooperation, and generally speaking, an analysis should be made of which are the forces which will gain from the cooperation and those which will be disadvantaged, and how these forces are present or connected to the industrial association.

Nevertheless, industrial associations will have to be a particular focus of attention for UNIDO in the future, since the possibilities for reaching individual enterprises will always be limited. The industrial association, if it receives the right kind of help from UNIDO, can create multiplier effects by improving the range and quality of the services it offers to all its members. These services can be in a wide variety of activities, and most of UNIDO's existing services could be channeled through private sector organizations in the future, if these organizations can be helped to develop the necessary absorptive capacity and if UNIDO can tailor its services accordingly, making sure that what we offer can be multiplied and passed on.

## Enterprises

Direct assistance to enterprises will be an essential element of UNIDO's re-oriented programme for African countries, and will take quite a more substantial part of its action than in the past, when the direct counterparts were local governments and public institutions. As already noted, the policies pursued in industry in many African countries, where the state-owned enterprises were regarded as the main thrust of industrialization efforts, have led to a skewed perception of industry and a lack of communication between UNIDO and the industrial enterprises themselves. This communication has to be restored and efforts have to concentrate on small-scale entrepreneurial activities, which better fit the African culture and entrepreneurship. Past experience, for example, has taught that in Africa productivity improvements can be attained with much more difficulty in a large plant than in a small one, where the final result of the activity can be more easily perceived by the workers involved in the production process, and by the managers themselves, who often are the same owners of the plant. So the motivation to produce more and better, which is one of the essential requirements for the industrial activity, can more easily hold up in a small plant.

The philosophy of UNIDO's cooperation should therefore be to promote those industrial enterprises which are more manageable by local people, allowing for the possibilities and the difficulties which could arise, once the technical assistance is withdrawn. This is another expression of the importance of sustainability, and also of demonstration effects. As noted already, the risk of distorting competition, as well as the need for multiplying resources, means that UNIDO's counterparts are more likely, together with the local public institutions which have been created for the industrial development - often with the cooperation of UNIDO itself - the private associations of enterprises and most of all the Chambers of Commerce and Trade.

On this point, it has to be stressed how useful it can be to promote exchanges of experiences and of information among small enterprises of different countries, such as Asian and African countries. Another very effective way to promote the introduction of an industrial mentality is through subcontracting. In this field, UNIDO has already important experience in the development of subcontracting exchanges, which could be enlarged and spread much more. On this point, all involvement through UNIDO of entrepreneurial sector associations of developed countries, which are interested in subcontracting to African countries, could be effective. The triangulation through UNIDO should guarantee to the enterprises of developed countries willing to subcontract, the right choice of the region and of the subcontractors firms. This guarantee could be important mainly for groups of small subcontracting firms which have few bonds with other continents' industrial realities.

Another essential task of UNIDO as regards enterprises is to identify the industrial situations more in need of financial support where the financial institutions do not dare to take risks because of the smallness of the enterprises and the lack of guarantees. For these situations, UNIDO has to design and promote through the financial institutions, with the cooperation of local associations and Chambers of Commerce and Trade, financial devices (such as rotation funds, collective guarantee funds, etc.), allowing the financial institutions to channel their investments towards small enterprises in profitable ways for both the enterprises and the financial institutions themselves.

There will also be scope for direct support to individual enterprises, but these will tend to be the larger ones. The trust fund mechanism has already been used for this in Africa as elsewhere and will continue to offer scope for expansion. This will be constrained, however, by the limited number of enterprises in Africa with financial resources to enter into such arrangements, as well as by the availability of UNIDO staff resources for backstopping.

## **Financial institutions**

Industry has never been a sector of great interest for the financial institutions in African countries. They have rather concentrated their efforts and resources on real estate investments, which are highly profitable, owing to the high rate of growth of African towns. Now, with the privatization and the restructuring of the industrial sector, many initiatives are taking place, with the involvement of the financial institutions in the risk capital of the enterprises. In addition, although these initiatives are often promoted or supported by international financial institutions, it is still too early to evaluate their qualitative and quantitative impact on the great need for capital which oppresses the African private enterprise, particularly the small and medium ones. What seems to be clear is that African financial institutions have up to now been working according to behaviour patterns which fit more to developed countries. They have not tried to adapt their behaviour to the needs and the culture of a developing country, where private savings, mainly rural, often exist, but keep themselves outside the formal credit channels, and prefer to go through the informal channels, such as "tontines" in Senegal.

Many small and medium industrial enterprises therefore prefer or are compelled to address themselves to the informal financial institutions. However, in this way, the cost of capital is often much higher. Credit mechanisms which are more necessary for the growth of the small and medium enterprises and of rural ones, are very scarce in Africa. On the other hand, the small private savings stay outside the official financial circuits and there is no contact between the two sides. These small private savings prefer to finance informal activities, which can be used for the mere survival of people involved in it, but are of little use to the general economy of the countries who have, most of all, the problem of optimizing the use of their scarce resources in order to attain more adequate levels of income for their populations.

UNIDO's role in this field can be an important one, by bringing together experience from different parts of the world and assisting financial institutions in devising mechanisms (and implementing them) that mobilize existing small capital and encourage the flow of financial resources to small and medium enterprises.

## **Consultancy companies**

The autonomy of consultancy companies as actors of technical cooperation is limited. They appear on the international cooperation stage generally at the request of their clients, who entrust them to prepare a feasibility study or to project an initiative.

Their strategic endowment is the technical and professional competence, but it happens rarely that they promote by themselves important cooperation initiatives. As a matter of fact, their role is only a preparatory one, and they have neither the financial nor the implementation capability to carry out a project. This absence of financial and/or implementation strength often gives them little authority promoting an initiative by themselves, despite the fact that the initiative could have been identified very carefully by the consultancy company with its own technical experience and capability.

Despite these limitations, the consultancy companies can play a crucial role in the preparation of a project, and still as before, in its identification, which is often the decisive one.

In technical cooperation with African countries, different kinds of consultancy companies have been active, from the small independent ones to the large multinationals up to those belonging to conglomerates, which contain companies interested in being entrusted with the implementation of projects.

This last type of consultancy company, which frequently appears in the oil and public works industries, but can also be found in the equipment and machinery sector, is regarded as the least independent of all, since most of the time its job is directed from the beginning to help its sister or mother companies secure the implementation of the project.

There seems little scope for direct cooperation between UNIDO and consultancy companies, apart from subcontracting certain work to them. In this, however, there is certainly room for identifying the most effective and knowledgeable companies, so that their capabilities are well understood and their services can be used on a recurrent basis. This kind of closer supplier relationship might help in improving the quality and speed of response.

### **Potential strategic partners for UNIDO**

From the above, it is clear that there is some scope for UNIDO to cooperate with partners at all levels, enterprises, industry associations, and development banks. But it is not enough to identify the potential strategic partners. It is fairly obvious that financial institutions are desirable allies, from UNIDO's point of view, but what have we to offer them? Focus on this question will provide some guidelines as to how a strategic alliance can be developed: financial institutions have financial resources but they almost certainly lack technical knowledge and expertise. UNIDO has technical knowledge and expertise but it lacks the mechanisms to deliver a credible package quickly and efficiently. Take the example of a proposed investment project in textiles or clothing: its appraisal and implementation needs a wide variety of skills and experience in technologies, market information, management, human resource development, design, etc. UNIDO cannot provide all these from staff resources, but it knows where to find them. UNIDO should be able to put the appropriate package together and to transfer the experiences from other countries to the new situation. Potentially, UNIDO's international character and manufacturing sector mandate give it an extraordinarily significant role, and partners should not be hard to find. In practice, however, lack of communication within UNIDO and the lack of focus on technical issue mean that the advantages of cooperation are not immediately obvious to the potential partners.

### **Approach to change**

Initial approaches to a re-orientation of UNIDO programmes in Africa have already been made. A document entitled "The Challenge of Africa's Industrialization and the UNIDO responses" presented to the eleventh CAMI contained a ten-point programme and some amplification thereof. Further work on these will be necessary. The main points are given in Box 1. Most of these points are also to be found in the African Common Position for the General Conference of UNIDO, and its main themes are reflected in the Mauritius Declaration, both of which documents were adopted at the eleventh CAMI.

During the course of the eleventh meeting of the Conference of African Ministers of Industry in Mauritius, bilateral discussions were held by the Director-General of UNIDO, with Ministers and Heads of Delegations of a number of countries attending the meeting.<sup>6</sup> The national industrial priorities of the African countries, declared in the course of these bilateral discussions, outline a potential demand for technical cooperation which is to some extent different from the past. Priorities refer more and more to the industrial private sector, its creation and its enhancement.

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<sup>6</sup> Based on "Report on Bilateral Discussions by the Director-General and Mr. Alexandrenne, Deputy Director-General with Ministers and Heads of Delegations attending the eleventh meeting of CAMI", S. Ndam, 23 June 1993.

In the discussions many countries, such as Botswana, Ghana, Mozambique, Nigeria, Lesotho, Zaire, Zimbabwe, touched upon the whole range of the country's industrial priorities - such as those of Botswana, Ghana, Mozambique, Nigeria, Lesotho, Zaire, and Zimbabwe. The emerging needs for technical assistance in such cases include the setting up of the conditions required for the development of a sound industrial private sector. These include assistance in human resources development - with a special emphasis on entrepreneurship development (Ghana, Lesotho, Zaire) - setting up of financial mechanisms for the industrial sector development (Mozambique), industrial project profiles for local entrepreneurs (Botswana), integrated programme of field services, including extension services centers (Botswana), establishment of an efficient information system for the private sector (Ethiopia), development of good relationships with the organized private sector (such as those declared by Zimbabwe's Ministry of Industry referring to the country's Industrial Associations and Chambers of Commerce), promotion of export processing zones and so on. Other services requested from UNIDO are competitiveness studies (e.g. Lesotho for textile industry) and studies on the industrial potential of a country (Mauritania). Some countries ask for UNIDO assistance in their working with the World Bank in reviewing their industrial strategy (Botswana) and their Industrial Investment Act (Sierra Leone). In this connection Ghana's Minister of Trade and Industry saw the need for closer co-operation between UNIDO and the World Bank and other donors. An indirect reference to this question can be seen also in the Nigerian Minister's view that in the development of investment project there has been a tendency in the past to eliminate projects which did not seem to meet all the stringent criteria required of bankable projects. On this point the Nigeria minister calls on the Director-General to ensure that the particular needs and characteristics of Africa are taken into account when developing UNIDO's activities in Africa.

Some questions referred to the technical assistance to be offered to the small-scale enterprises

Speaking of small entrepreneurs and of the technical assistance they need, it seems sometimes that they must be a sort of Pico della Mirandola, the famous Italian humanist and philosopher who was told to have knowledge of all arts and sciences in the world. The small entrepreneur should be trained in financial, technological and marketing management, should master accountancy and quality control, should take care of environmental questions related to his production process and the like.

It seems more realistic to take into account that in Africa - not differently than elsewhere - there are at least two types of small entrepreneurs, and that the question of which technical assistance can be more profitable to them is not settled once and for all. These two types of small entrepreneurs can be easily seen at work in the informal sector in the large town markets in Africa. The first one is a small entrepreneur who carries out the whole cycle of design-production-sale of his products. He buys the raw material (that can be wood for furniture, textile for clothes, leather for shoes), makes the design by himself (or with the help of some relatives or friends), makes the product and finds a client to sell it (or in other cases the client buys the raw material and the small entrepreneur makes the design and the product). He can work alone or with some workers and apprentices, but in any case, his enterprise will quite often be more like a craftsman workshop than a small industrial firm. It is unlikely that his market range goes beyond a very close area, in the town or in the nearby country, and frequently, it is just a district area. Its products quality is often poor and discontinuous and he can keep down his costs only by paying very low wages to his workers and apprentices and by not paying to himself his managerial and entrepreneurial services (not to speak of depreciation costs and the like) but just leaving to himself the remainder after having paid all its operational costs. In spite of compressing his costs in such a way, it more and more often happens that he cannot compete with the industrial garments, shoes and the like, pouring in the African markets from China, Taiwan and Korea. That is why he tries to find a niche by emphasizing his craftsman features, offering tailor-made and custom-made products.

The technical assistance this type of small or micro entrepreneur needs is training in accountancy, advising in improvement of his usually very simple production techniques, in the design modernization and the like. Financial and marketing questions - not to speak of technical innovation - are out of reach of this type of entrepreneur - except some basic information concerning relationships with the banks.

The second type of small entrepreneur, who also can be seen at work in the African town markets, is somebody who does not have to buy the raw materials, does not have to find a final client and often does not even design. He only makes the product, and is only responsible for the production. Somebody else has identified the right products and bought the raw materials, and when the products are ready, will take care of collecting and of selling them to the clients in the country or abroad.

This small entrepreneur frequently has a real small firm, where together with his family, many workers and apprentices are at work, and where timing, rhythms of work and levels of production are more regular, more planned and often also more stressing than in the first type's workshop. He has some targets to implement, given to him by the buyers who take care of the whole process upstream and downstream the phase of production. The buyers pay him only when he delivers the products to them, which have to be made in keeping with certain quality requirements, that if not respected, can give rise to penalties. This small entrepreneur operates in a context which is already industrial.



Although he is only in touch with one phase - the simplest one and the more convenient to be carried out in a country with a surplus of manpower - he is part of an industrial process competing with world prices, and its products are supposed to reach every country in the world.

His technical assistance needs are very specific and relate mainly to improving productivity and quality control. These topics include organizational aspects of a small mass production, and quality control techniques. In this way, the small entrepreneur is taught the principles of industrial organization and starts to approach his activity with an industrial mentality.

So technical assistance has to cope with different needs by the two sorts of small entrepreneurs. In the first case, the more frequent result to be expected is to help in keeping jobs - although badly paid - which is in any case a big result in countries such as African ones. In the second case, it can sometimes happen that the seeds of a real industrial activity are sown.

### The European experience in the technical assistance to small-scale industries

Europe has developed a long and rich experience in the technical assistance to small-scale industries, since they have always been one of the typical features of her industrial structure. French and British experiences are among the most known but Italian experience too is worth to be known, as Italy has the EEC relatively largest number of small-scale enterprises, and these are by far the most dynamic industrial sector of the country. Some data are enough to give an idea of the key-role these industries play in the Italian industrial structure: about 90 per cent to 95 per cent of the Italian industrial employment is in firms of a size up to 50 employees; the surplus of the Italian industrial balance of trade is due to mechanical, textile, footwear and other minor manufacturing sectors (furniture, jewellery, leather products, highly technological footwear for sports, frames and the like), which in Italy are typically small-scale enterprises dominated subsectors.

Finally the banks of the towns, frequently small and medium ones, where are located these small-scale enterprises, have the highest ratios of deposits pro capita in the country.

The Italian small-size enterprises are conceived by the students as well as by the policy-makers, always as a system - which is the way they do work, and the way they succeed in achieving important industrial goals, so as to be competitive on the world market. In Italy there is a well-known idiom "small scale enterprise is a system", which means that small-scale enterprises only work connected each others in a network of interlinkages and connections which emphasizes the synergic effects upon each other, so as to function really as a system does. That is the way which allows to small-scale enterprises, each one with a poor capital stock and faint financial strength, to face the world competition ( and to keep at European levels the Italian industrial unemployment, which, if it had to be trusted to Italian large firms, would be as high to compete with that of many African countries).

The two essential elements which make the small-scale enterprises work as a system are a spatial one and an organizational one. With regards to the spatial element, it must be pointed out that the Italian small-scale enterprises are located in "industrial districts" according to the subsectors to which they belong. The industrial districts, which were already present in the manufacturing industry of England in the first decades of XIX century, (Leicester, and the like) and which are widely treated by Marshall in its Principles of Economics, are agglomerations of many small-scale enterprises active in the same subsector, all located in the same town or in the same area. This sort of spatial specialization stems roughly from the same economic principle which drives the informal micro-enterprises in the town markets of the developing countries to place themselves close each other according to their types of activity. In Italy there are many industrial districts; in Toscana there are one textile district (Prato), three footwear districts, (Florence, Pistoria, Lucca) one marble district (Carraro) one glass district (Empoli), one leather district (Santa Croce Sult'Arno). The two biggest Italian furniture districts are in Lombardia (Brianza area) and in Marche (Pesaro). One very important textile district specialized in woolen high quality textile whose activity has been widely cut down was in Piemonte (Biella), another knitwear and garment very successful and advanced district is in Emilia (Carpi). Many other districts have recently come on the forefront of the Italian industry (for jewellery, for women stockings, for frames and the like) and some have appeared also in the South of Italy (Teramo for knitwear, Putignano for garment). A large mechanical district including the two provinces of Modena and Reggio is in the region Emilia.

The second essential element which makes a physical agglomeration of small-scale enterprise working as a system is the organization. The key-figure organizing the small-scale enterprises at the beginning is always the trader. In a more advanced stage, such as it is now in Italy, more frequently it happens that the organizer is just one of the same enterprises, the most successful and with the

steadiest market, that quite naturally takes on the organization of the weaker ones. The trader as organizer of the whole cycle of activity of the small-scale enterprises is a traditional figure, in the European industrial development, starting from the merchants who would organize the production of Prato and of Flanders textiles, up to the American buyers who till ten years ago every season went around Tuscany's districts ordering hundreds of thousand pair of shoes for the American department stores. The same organizing function is fulfilled in the African informal markets by Indian or Lebanese traders, in Indonesia by Chinese traders or in Senegal it was by Arabic traders from Mauritania, who recently have been driven away from the country.

The trader is a key figure for the small-scale enterprise for many reasons:

- a) It is a tool for getting information - about the market, the products, the activity of competitors, the technological innovation and the like - which the small entrepreneurs by himself is usually unable to get, not having the culture and the contacts and being too busy with the production;
- b) He gives the certainty of having a market for the small enterprise's production, by this way reducing drastically for the entrepreneur the risk inherent to borrowing the money for the operational costs;
- c) To the small enterprises, who being too small, cannot get enough credit from the banks, the trader offers also the financing;
- d) Finally it is the trader who collecting the productions of many small-scale enterprises, as if they came from different departments of the same firm, brings them on the market, let us say with the brand furnitures of Brianza, or marbles of Carrara, or else Department stores' shoes but never with the small enterprise brand.

The technical assistance directed to the Italian small-scale enterprises is a relatively recent experience, let us say going back to the middle of the seventies. It comes generally from small industry associations, Chambers of Commerce and in some cases also local Administrations. The central Administration, as well as the financial institutions (except in the most recent times some banks) have always been keeping away from the small-scale enterprises reality. Just in the last six or seven years the management of the ICE (Istituto per il Commercio Estero) of the Ministry of Trade, in an effort of modernization and recognizing the crucial contribution the small-scale enterprises give to the Italian export, has started to promote their products through the organization of exhibitions and trade fairs abroad.

The technical assistance relates to different aspects and takes different ways on. A basic form of technical assistance, very elementary, and the first one which was constituted is offered by the local small entrepreneurs associations to all his members. It refers to the legal and fiscal questions connected with their activity, and in many cases it includes the accountancy, and financial advising too.

A more complex form of technical assistance, arisen some years after the above quoted, and promoted by the same local associations of small entrepreneurs are the advises and organization to form a consortium. In such cases a number of small enterprises join either to buy the same inputs (raw materials, processing product) and so have prices more convenient, or to sell their products. In the second case the experience has taught that the probabilities of a consortium to be successful are as higher as more diversified is the production of the firms forming the consortium. When on the contrary the products are quite similar, the competition can easily bring the consortium to the failure.

Another form of consortium promoted by the local associations together with some local banks are the consortium of guarantee for credit. A third form of technical assistance, the most complete, is that offered by the centres of extension services. These too have as promoters the local entrepreneurial associations, but often the most active promoters and organizers are the local administration and Chambers of trade and industry. In Italy the most famous centre of extension service is perhaps in Carpi (province of Modena), the well known district of knitwear and garments. It gives an assistance encompassing all the aspects of the entrepreneurial activity, but its most qualifying performance refers to the continuous updating given to his clients about the change in the fashion - which in the type of women knitwear and garment made in Carpi are very frequent. Moreover the centre offers the services of designing (CAD). Other extension service centres offer the service of Computer Aided Manufacturing (CAM) employed for cutting and shaping raw materials (textiles, timber, leather and so on).

Finally it has to be quoted a particular form of technical assistance given to small-scale enterprises. The centre of services is called the subcontracting market and it collects from one side the requests of the firms demanding to give a work to subcontracting firms and from the other side the supplies of capability and prices of the subcontracting firms. Then the centres put them in contact. The most successful experiences in this form of technical assistance are to be found in France.

### **The projects of ILO in Africa**

The new projects approved by ILO in Africa in 1991 and 1992 are 42 and 46 resp. The relative amounts are US\$ 45 million in 1991 and US\$ 35 million in 1992. Africa accounts in both years for more than 60 per cent of total amounts of new projects approved.

The major programme on enterprises and cooperative development was taken on by ILO in 1991, to promote the establishment and effective operation of enterprises in the formal and informal sectors, in both rural and urban areas. The programme aims at developing managerial and entrepreneurial resources at various levels and in various sectors of the economy. The new projects approved in this major programme in Africa in 1991 were 9, accounting for an amount of US\$ 7 million, while in 1992 were 14 with an amount of US\$ 11.3. In both years this major programme concentrates in Africa: 50 per cent of the projects, 54 per cent of the amount in 1991; 40 per cent of the projects and 58 per cent of the amount in 1992.

### **The share of Africa in financing of industrial projects by the World Bank**

The following table displays the data of the World Bank lending to industry, to agriculture-related branches of industry - such as agro-industry, fisheries and forestry - as well as to small-scale enterprises and technical assistance. The data are by region, by donor agency, and cumulative at 30 June 1992.

The share of Africa on IBRD loans, as known, is quite poor. Only 7.63 per cent on the grand total, shares by far lower in industry, small-scale enterprises, agro-industry. The parts of IBRD are, according to the characteristics of this bank and its loans, the more advanced regions, as Latin America, East Asia and now also Europe. Only African forestry and technical assistance have got an important part of total IBRD loans for the respective purposes, but both purposes account for negligible shares of the total IBRD loans.

The situation with IDA is different. Africa has got 36.38 per cent of the total, and therefore is the second major recipient, after South Africa, to which has gone 44.63 per cent of the total. African industry and small-scale enterprises keep up with the average, getting the 36.37 per cent and 36.50 per cent, respectively, while Africa is by far the major recipient of technical assistance, 77.5 per cent of which concentrates on that region.

## Cumulative lending operations to industry and related branches, by 30.05.1992

	I B R D							I D A						
	Sub-Saharan Africa	East Asia and Pacific	Middle East and North Africa	Latin America and the Caribbean	Europe and Central Asia	South Asia	Total	Sub-Saharan Africa	East Asia and Pacific	Middle East and North Africa	Latin America and the Caribbean	Europe and Central Asia	South Asia	Total
Agro-industry	30.0	295.2	224.2	1,228.4	894.1	61.4	2,733.3	361.4	53.0	45.0	16.5	0.0	716.9	1,192.8
Fisheries	0.0	92.7	41.0	16.2	7.0	14.0	170.9	55.7	88.2	67.3	0.0	0.0	199.1	410.3
Forestry	349.5	78.0	121.5	116.0	221.0	0.0	886.0	391.0	520.2	0.0	38.9	0.0	699.1	1,649.2
Industry	762.7	2,434.7	1,453.9	4,539.5	3,221.7	3,554.9	15,967.4	902.3	168.0	106.4	49.5	0.0	1,254.7	2,480.9
Small-scale enterprises	440.7	1,266.5	354.0	1,985.6	460.0	80.0	4,586.8	228.7	56.5	2.3	27.5	0.0	311.5	626.5
Technical assistance	138.8	95.0	57.8	335.0	26.2	0.0	652.8	836.3	80.7	32.6	38.5	0.0	125.5	1,113.6
Grand total	16,765.3	51,334.5	21,037.4	71,666.7	31,756.8	25,639.2	218,209.9	25,854.4	8,665.1	2,499.1	2,045.0	219.6	31,718.8	71,065.0

## ANNEX

## Notes on Chapter 4

What follows are just some hints and I regret it is incomplete. I had to prepare also the tables of World Bank and the note on ILO (I am sorry, but I had no time to look at UNDP).

What is lacking in chapter 4 is a strategy or the criteria to give priorities for the choice of the projects (while the requirements are all included). If you agree, I would propose the following considerations:

1. Africa has two resources: raw materials (widely exploited) and very cheap labour force. The last one is considered to be a burden more than a resource, but it can be a resource, as the industrialization of the NICs and of Japan and Italy confirm.
2. Indeed, the NICs have started with very cheap labour force, processing industrial products with a settled technology that developed countries did not want to produce any more. Only in the following times the NICs have started to aim at producing products with a high value added, and now Taiwan and Korea are investing more in R&D and HRD than all other countries in the world. But twenty or also fifteen years ago they only produced poor products, which have poured in all the world market, and in a large part in Third World markets. Now these countries are starting to locate the poorer productions in countries such as Indonesia and the like, where manpower is more cheap.
3. What are the obstacles that prevent Africa from following the same path? Indeed cheap consumer goods will be more and more required, and the developing countries are an increasing market for these products. What Africa is lacking is an investment conducive environment and industrial policies. Regarding the first question, WB with the structural adjustment plans is forming the basis. The question of the foreign exchange is the most crucial one, and it is a precondition to every effective industrial policy.
4. With regard to industrial policies, I am convinced that for many African countries, with very poor trade and exchange traditions (such as was the most part of Italy up to two generations ago) the only suitable form of industrialization lies in the small-scale enterprise.
5. But in the increasing complexity and worldwide competition, small-scale enterprises can survive and even become a development tool (as it was in the case of Italy and Taiwan, for instance), only if it is organized by external operators, who have the knowhow and the contacts, and are using also a highly sophisticated technology to collect information on the market, to organize the distribution of the products, to be acquainted with all the opportunities in the world. On this purpose, Italy has some successful experience, but the same have all other countries which have developed on small-scale enterprises.

So what I would suggest is to employ a very settled and ripened technology in the production phase using the available cheap labourforce (by this way also reducing imports of spare parts, since Africa is able to produce by itself the more simple spare parts and machineries), and to join it with a technologically highly developed organization of the phases which are downstream and upstream the production phase namely the marketing, the design, the packaging, the distribution. There are many examples of how this organization could work

and who could be the operators, ranging from traders or buyers to public institutions (like it was in Taiwan or in Japan). In this field UNIDO could offer many services.

6. These services could encompass: organizations of consultations and trade fairs for buyers and sellers; promotion of every sort of interchanges not among the producers, but among the organizers of the productions of small-scale enterprises: to inform South-East Asian or European entrepreneurs wishing to subcontract part of their productions on capabilities available in Africa; to give technical assistance to the small-scale enterprises from the most elementary technical assistance to the most complex one; to suggest to local institutions how to organize and develop their small-scale enterprises, and helping them in identifying the organizers, and so on.

(DTCD held an Interregional Workshop on perspectives from Asian experiences for the economic development in Africa in Kuala Lumpur on 27-29 August 1992.)

#### **Main sources of information**

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