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THE ROLE OF SMALL AND MEDIUM-SCALE ENTERPRISES
IN THE ECONOMIC DEVELOPMENT PROCESS*

Introductory comments

by

J. Libert
UNIDO consultant

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I. INTRODUCTION

The purpose of these introductory comments is not to propose a theoretical study, but rather to suggest an outline for reflection that will be as operational as possible and should, in the course of the discussions to follow, provide a framework within which to focus on a number of factors capable of serving as a basis for specific proposals aimed at enlarging the role that small and medium-scale enterprise (SME) ought to be playing in the development process.

The literature on small and medium-scale enterprise is particularly extensive. There have been countless conferences, meetings, action programmes, etc., that have taken as their theme the modest-sized enterprise. The experiences, both positive and negative, with SME in both the industrialized and developing countries have furnished many valuable lessons.

It would no doubt be of little use to devote too much consideration to the theoretical approach, which has in any case already been explored in considerable depth. Rather, the purpose should be to focus attention, on the one hand, on the specific features of SME and on the particular driving role that these enterprises are capable of performing within the cumulative development process and, on the other, on the conditions required by these enterprises if they are to emerge and grow stronger so as to respond, as they appear and through a mechanism involving a kind of spontaneous generation, to the needs of the economic establishment.

An effort will be made in these introductory remarks to summarize briefly the main elements in this range of problems.

The purpose will be to contribute to the formation of a broad conceptual consensus to serve as a platform for the definition of priorities and the identification of a small number of practical questions to be examined at the expert level. It is hoped that in this way it will be possible to focus the discussions during the Consultation on concrete issues so as to lead to the formulation of action-oriented recommendations that are as specific and realistic as possible.

II. PRINCIPAL ASPECTS OF THE PROBLEM OF SMALL AND MEDIUM-SCALE ENTERPRISES

II.1. Difficulty of definitions and delimitations

It should first of all be noted that in the view of most specialists there is no one simple definition of a small or medium-scale enterprise. In the relevant national legislation that has been enacted in some countries, definitions have been adopted for the purpose of permitting the application of one or another legal provision, to certain types of economic activity, primarily in the light of the national economic context; the result is a considerable diversity in the criteria selected for the definitions. If the criteria are concerned with the number of personnel employed, they will differ greatly according to the structural composition and size of the economy of the country in question, varying in a highly arbitrary manner so as to establish, at the lower end, a minimum threshold distinguishing craft production activities from small-scale enterprise and, at the upper end, a maximum threshold above which an enterprise should in theory no longer be regarded as being of medium scale, but must be classified as large.

Criteria based on sales volume or equity capital also fail to provide a valid basis for a general approach to the role of SME in development.

It would thus appear that - without necessarily taking the extreme position, as some authors have, that the definitions vary according to the purposes of the persons proposing them - the definitions in use should be considered as having in fact been formulated to meet the needs of a specific policy intended by the authorities to apply to the area of either economic or social legislation.

Of greater interest to the subject of our inquiry are the studies which, while recognizing the difficulty and even impossibility of applying quantitative criteria, seek as it were to approach the reality of the small enterprise from within, an effort that immediately makes evident the real complexity of the existing array of SME.

The fact is that when one considers the internal dynamics of an enterprise, its market policy, its strategy, its investments, its adaptability and its vulnerability, one is confronted with the inadequacy of the three quantitative criteria commonly used and is made aware of the degree to which the delimitations established are at odds with the actual situation.

In the face of these facts, some observers, in their efforts to define small and medium-scale enterprise, have gone over to qualitative criteria based on the observation of particular characteristics that in their view distinguish SME from enterprises of larger size: the management is independent, the enterprise often being identified with a single person; there is a personalized character to the enterprise; the entrepreneur deals directly with third parties; the complexity of the management function is limited. Even if these criteria are hardly likely to stand up to a careful analysis (for the reason that small enterprises may find themselves in substantially different situations), they do have the merit of highlighting the fact that, while the SME concept cannot obviously be confined within a rigorous theoretical construct, it does reflect a reality that is alive, complex, multifarious and in motion, but also dynamic and infinitely malleable and adaptable.

Moreover, these SME characteristics are reflected in many cases in the existence of a variety of legal forms assumed by these enterprises, in their particular organizational structures, and in the relationships that exist between the ownership and the management.

Other theoretical questions have been raised in the search for a definition of the SME concept, specifically: (1) the question of the distinction between the small-scale craft production sector and the SME sector, and (2) the question of whether the notion and study of SME can or cannot be applied to all sectors of economic activity.

Here too, it would seem desirable to resist overly Cartesian temptations and to look at the reality for what it is and what it has been in the historic evolution of development and industrialization. It would be simplistic and caricatural to recall that today's giant enterprises began as craft initiatives or small-scale enterprises. It is clear, however, that the process triggered by a single person's "entrepreneurial" will is frequently accompanied by a gradual shift on the part of what is initially an individual or family production unit towards a larger unit that for some time will retain its original characteristics or at best relinquish them only slowly. The boundaries here are indeed unsharp and their determination is accordingly subjective and even arbitrary.

It thus seems that, in studying the role of SME in development, it would be useful to consider all the forms of "small and medium-scale" activities associated with what has traditionally been referred to by the terms "small-scale craft

production" and the "small and medium-scale enterprise sector", whatever the legal framework adopted, including such enterprises as are the result of various forms of associations, groupings or co-operatives.

This is in fact the approach that was recommended by the European Economic Commission during the European Year of Small and Medium-Scale Enterprise and the Craft Production Sector in 1983.

The second question raised is surprising. The past and recent experience gained with development mechanisms has made evident the profound interpenetration of the different sectors of economic activity and most specifically of agriculture (in the broad sense), the service sector and industry. There hardly appears any justification, in this area, for the application of theoretical distinctions, even if, because of the reality of the situation, differences exist in the nature of the problems to be addressed.

That the small-scale craft production sector and SME are present and play an active and often primary role in all economic structures is a well-attested fact. For example, more than 90 per cent of all enterprises within the European Economic Community fall within the craft or small and medium-enterprise sector.

II.2. Specific and characteristic features of the small or medium-scale enterprise

While, as noted above, the efforts to propose a generally applicable definition of the small or medium-scale enterprise have been unsatisfactory, it is none the less true that in an empirical sense the concept is today universally accepted, though far more in the form of a kind of "physical" perception of the phenomenon than of any theoretical appreciation. It might almost be said that the difference between the SME and the larger enterprise is "felt" rather than that it can be rigorously demonstrated.

The fact is that in the mind of everyone - researcher, decision-maker, man in the street - the size of the small or medium-scale enterprise is thought to be "more humane" than that of the large enterprise. One is thus inclined to attribute spontaneously to the SME a particular dimension that is essentially qualitative, even incorporeal, in character, a "state of mind" that confers on the SME a specific property of its own.

The principal factors reflecting this specific quality are frequently summarized in the following points:

- A simple, personalized management style that dispenses with complex and hence slow and unresponsive decision-making channels;
- A limited social group united through direct human contact;
- The essential role performed in the enterprise by dynamism and imagination;
- An acceptance of risk and difficulties.

The SME is seen as a type of economic activity unit at which human, professional and, in some cases, family factors predominate and where particular attention is paid to personal relationships whether within the enterprise, between managers and workers or towards the outside world of customers and suppliers.

The many studies and surveys that have been made on the basis of past and current experience in the development of the industrialized countries as well as on the more recent experience of the developing countries - particularly in those

among them that have now come to be regarded as the new industrialized countries - support the conclusion that the SME and small-scale craft production enterprises offer a number of characteristics that without question make them a valuable and irreplaceable driving force in economic life.

Considering only the most essential, we might cite among these characteristics, which have been widely if not unanimously acknowledged, the following:

- Flexibility and adaptability;
- Contribution to growth and competitiveness;
- Tendency to generate employment;
- Innovative capacity;
- Rapid accessibility to markets.

It is specifically these characteristics that are adduced to explain the fact that in the industrialized countries which since the early 1970s have been affected by the economic crisis it is the small and medium-scale enterprises and the craft producers that have best managed to maintain their flexibility at the production level and their ability to adjust rapidly to changing market conditions. It is generally believed that their capacity for innovation is comparatively greater than that of many large enterprises, and that the small and medium-scale enterprises create more employment and provide training for a larger number of young persons.

II.3. The handicaps of the small and medium-scale enterprise

As valuable to economic growth as are the qualities that the SME are generally credited with having, there is a reverse side to these characteristics that entails a certain number of handicaps. Only the most important of these shortcomings will be touched on in the discussion below.

With their managers surrounded by small teams mainly involved in production activities and consisting of personnel often trained on the spot, the SME faces the internal problem of a lack of specialized functions. This is particularly true in certain specific areas, such as accounting and financial management, market studies and research, etc., the need for which has become increasingly acute.

This occasionally even applies to the management function itself. The managing entrepreneur, while he may have the indispensable technical qualifications, has not always been trained in management, a factor that may well lead to problems and even catastrophe when there is an increase in the size or the activities of the enterprise.

Another handicap experienced by the SME is its limited financial capacity, whether in the form of starting capital or the funds required for the operation of the enterprise. In general terms, access to financing is unquestionably the essential means all too often lacking in the case of the small or medium-scale enterprise. In many instances, the planned formation of a small-scale enterprise will not prove feasible unless the entrepreneur can draw on personal or family savings or succeeds through his own efforts in obtaining the necessary capital from lenders from among his immediate circle of acquaintances. Moreover, the growth of the enterprise may be seriously impeded if not altogether prevented by the impossibility of securing supplementary funds from public or private financing channels.

Numerous factors have been cited in this connection, among them a certain lack of confidence on the part of the financing institutions, the inability to present sufficient guarantees (occasionally due specifically to accounting inadequacies), difficulties in making contact with the financing institutions and in meeting the required administrative conditions, the physical as well as psychological distance separating the entrepreneur and these institutions, etc.

Also mentioned as significant obstacles to the development of small and medium-scale enterprise are the difficulties encountered in gaining access to information in the many areas in which such information is becoming increasingly indispensable. These difficulties may develop into a major problem when the activities of an enterprise depend on rapidly changing data, such as market fluctuations, raw material prices, manufacturing processes, administrative regulations and credit opportunities.

Access to technology represents another serious handicap frequently cited in different works on the subject of small and medium-scale enterprise. To be sure, a capacity for technical innovation is one of the qualities generally associated with the SME; skilled craftsmen and small-scale enterprise heads in the industrialized countries have countless patents and applications to their credit. Nevertheless, given the rapid rate of technological change, the SME is finding it increasingly difficult to keep pace, either because it lacks the requisite financial resources or qualified personnel, or because it has trouble integrating certain new processes into its management system, or simply because it is uninformed about technical developments.

There must be an awareness that, by itself, the SME cannot succeed in overcoming these various handicaps (of which only those regarded as having the most serious implications have been cited). These shortcomings must be compensated by an appropriate environment, which at the same time however must not jeopardize the very characteristics that are in fact specific to the small and medium-scale enterprise and those irreplaceable qualities which it contributes to the economic fabric.

A number of potential pitfalls have been noted in this connection, particularly the great sensitivity of the SME to all forms of intervention capable of being interpreted as excessive State or administrative interference, and also the individualism of the SME, a factor that complicates the establishment of a socio-professional organization sufficiently structured so as to provide, in combination with other actions on the part of the public authorities, the various elements of support indispensable to the growth of small enterprises. Added to this is the relative lack of enthusiasm for schemes which by bringing together a number of enterprises into a group or association make it possible to pool certain functions that the individual SME cannot efficiently provide by itself - this despite the considerable advantages of these arrangements, which can be designed to safeguard the autonomy of the individual enterprise.

The task, therefore, is to achieve a delicate balance between the need to preserve the specific characteristics of the SME and its urgent need for the kind of environment, public and private, that will provide it with the various forms of support required for its emergence, proliferation and development.

In addition to the handicaps in management, training, information, access to financing, etc., discussed above, there are in the life of an SME certain particularly strategic moments at which it must take decisions and make decisive choices. This is especially true of the crucial phase represented by the transition from small-scale craft production to a more elaborate enterprise form, with all the legal and organizational implications that this entails. It is also

true of certain key moments when the policy and direction of the enterprise must be set: specialization or versatility; danger of an overly excessive dependence, whether in sub-contracting or in markets; compatibility between the kind of flexibility often regarded as a major SME strength and participation in an integration process necessarily involving certain elements of rigidity; the occasional need to adopt rapid and far-reaching decisions in order to counter an enfeeblement of innovative capacity or to cope with the vulnerability of the markets for the enterprise's products or services.

Another area in which small and medium-scale enterprises are required to make important choices for which they need information and advice concerns the application of data-processing systems for various enterprise functions, given the fact that recent technological advances are placing within the grasp of small enterprises new and efficient facilities for both production- and service-related processes as well as for management, accounting and administration.

In studies on small and medium-scale enterprise and also at meetings between representatives of economic and social circles and concerned public authorities the following have been identified as essential areas of action for the support of SME:

- Training of enterprise heads and of workers;
- Information, advisory services and assistance;
- The establishment of socio-professional organizations;
- The legal, fiscal and administrative environment;
- The economic and social environment;
- Financial support;
- Association and horizontal or vertical co-operation.

III. THE ROLE OF SMALL AND MEDIUM-SCALE ENTERPRISE IN THE ECONOMIC DEVELOPMENT PROCESS

III.1. Contribution to the achievement of development objectives

There appears to be a broad consensus in ascribing to the SME a number of advantages for the achievement of development objectives: efficient utilization of resources, generation of employment, mobilization of national savings and investment, training of key personnel and workers, development of local assets, greater balance in the distribution of income, and production growth aimed at meeting population needs.

In general terms and in the light of the experience drawn from the industrialization process pursued in a number of developing countries and patterned on the so-called dualist model - expansion of a modern industry in co-existence with the traditional sector - it seems that the mobilization of production factors has not been accomplished as satisfactorily as anticipated and that one of the reasons for this lies in the failure to create an adequate economic fabric within which, because of its diversified elements and multiplier effects, the linkages between production factors and development would be sustained through a wide range of production units of modest size located as close as possible to the local populations.

It is undoubtedly this failure that can explain in particular the delay and slow pace of rural development, a problem that weighs heavily on a number of developing countries, with all its derivative consequences in terms both of overall growth and of the persistence and even the exacerbation of the imbalances between different regions of a given country.

It is necessary to note that in many cases there continue to exist in a number of developing countries large territorial areas that have contributed only marginally to the development of the other areas of the same countries, even though they offer human resources and material assets that could be put to effective use if an appropriate economic fabric were established. An example may be seen in the peripheral zones surrounding the middle-sized towns; these zones should be making a greater contribution, in a wide range of areas connected with the service and agro-food sectors and also with small-scale industry, to the emergence of growth poles gradually expanding outward from their urban centres. In many respects, it is through the multiplication of modest local initiatives that this objective should be addressed.

One frequently finds, in the studies and research on this subject, efforts to establish comparisons - based on various parameters, such as capital intensity and productivity - between SME and larger enterprises. While discussions of this kind may provide useful information on the theoretical plane, their practical value in understanding the concrete dynamics of development seems limited, for they largely ignore an entire series of indirect effects that are difficult to measure and relate specifically to the qualitative mechanisms through which individuals are motivated.

III.2. Employment

A point frequently stressed is that small enterprises tend to be less capital-intensive and are relatively less dependent on the need to build a physical infrastructure. On the other hand, they are more labour-intensive, which represents a positive factor in an economy beset with underemployment, even if from a macro-economic point of view their contribution to overall growth is smaller than that of a larger-scale activity in which investments and the organization of labour make possible manpower savings and increased productivity. Consideration must be given in this connection not only to the direct effects produced by the creation of employment, but also to the secondary effects generated by the creation of income and the impact of the interrelations called into being with other production units.

The employment problem in the developing countries would clearly seem to require an approach fundamentally different from that applied in the industrialized nations, although here too one needs to bear in mind the lines along which the development process evolved in those nations in the past, a past which, moreover, in the case of a number of European States, is not all that remote.

In those countries, as in the developing countries today, an observer of the past would find, alongside a relatively limited industrial sector with what was still a fairly modest employment-generating potential, a large spectrum of activities of all kinds located in a sense between the emerging industrial sector and a situation of non-employment. A point that needs to be clearly stressed is the degree to which this spectrum of activities has played and continues to play an important and even paramount role in every developing country, the reason being that these non-structured activities provide many jobs - and consequently much revenue - through a large number of small production units, services and commercial businesses.

It is on the basis of just such activities, which in most cases have emerged spontaneously and as a result of the remarkable imaginativeness, craftsmanship and entrepreneurial talents of the local populations, which can never be sufficiently emphasized, that an economic fabric consisting of small and medium-scale enterprises should be gradually put into place, a fabric that could contribute significantly to the absorption of the growing manpower pool in the urban and rural zones.

III.3. Internal savings

The mobilization of internal savings is another important aspect of development for which it is essential to seek approaches tailored to the conditions of the developing countries, which not only do not always possess the appropriate financial structures at the local level, but whose populations have received little encouragement to adopt behavioural patterns conducive to the productive investment of their savings. Beyond this, because of the relatively modest amounts involved there may be a failure to devote to this question the attention it deserves.

In reality, these countries are faced with two different problems. The first has to do with the contribution of national savings to the financing of development; even if limited in amount, these savings represent an extremely useful supporting factor.

The second problem is psychological in nature: How is a saving mentality to be inculcated and cultivated in the minds of local populations, even if the actual savings volume is extremely modest? Without venturing to assert, following a number of development economists, that the essential point is not the amount saved and invested but the acquisition of the proper mentality, this latter aspect should not be neglected, quite the contrary. It is certainly of great importance to inquire pragmatically and realistically into the possible attitudes towards saving on the part of local populations, particularly in rural or semi-rural zones. There is no doubt that, at least during the initial phase, there is much to be gained in having the distance between the saver and the investor as short as possible, if only in order to bridge the psychologically significant gap between the stage when the roles of saver and investor are combined in the same person or the same family unit and the stage at which the saver entrusts his savings to an outside institution for their investment. Because of their proximity and their limited size, local small and medium-scale enterprises are in a good position to play an important role in this process.

Investment in SME, whether directly or through local financial institutions, can certainly represent for recipients of relatively modest incomes a possibility of investing their personal savings that would otherwise not be available to them.

III.4. The participation of the population

Another major aspect of development that also appears not to have always received all the attention it merits is that of the participation of local populations in growth. This concern applies particularly to the rural populations, which make up an extremely large proportion of the total populations of the developing countries, ranging between 60 and 80 per cent in many of them, but it also applies to a sizeable part of the urban and suburban populations.

Without entering into the complex problems of development, it is no doubt useful to keep in mind a number of points that have gained recognition over the years in the light of the experiences of the developing countries.

The first of these considerations is certainly that development is a multifaceted process that can only proceed satisfactorily where it triggers growth

in the various components of the total national entity and contributes to the gradual building of a balanced and coherent economy deriving maximum advantage from its intersectoral driving forces.

The second point is that in many cases the development process may usefully be grafted onto rural development, the latter entailing the putting into place of an entire network of activities of all kinds and scales. We shall return to this point later on.

Finally, a third consideration is that without a close and conscious involvement of the population in the development effort and in the return from this effort in the form of income and advancing prosperity, all expectations for the establishment of a self-sustaining growth process that will gradually enlarge the economic base and broaden its range of activities will inevitably be in vain.

There seems little doubt that it is largely through the proliferation and consolidation of initiatives in the area of small-scale enterprise that this participation of the population in national economic growth can be pursued most effectively.

To all of this we may add the fact, which is of no small consequence, that, spontaneously conceived and born as it were within the population itself, small-scale enterprises are good at finding ways to meet directly the specific needs of local consumers and do so most often, and necessarily, within a price structure compatible with the demand available. It is well known that in order to accomplish this, they have an incentive to make the most effective possible use of local resources, whether in the form of material inputs or human assets. The fact that in the context that generally prevails in the developing countries this quite often involves a real challenge only adds to what is in many respects the stimulating and formative character of small-scale enterprise. A point to be particularly emphasized in this connection is the irreplaceable role of these enterprises in the dissemination and distribution of income within the least advantaged and, in proportional terms, numerically largest strata of the society, in the satisfaction of the demand for inexpensive goods and services on the part of low-income consumers, in the training process, and in the introduction of technologies appropriate and adapted to local resources and conditions.

III.5. Areas of activity of small and medium-scale enterprise

The range of areas in which SME has a role to play is extremely extensive and diversified; it represents a spectrum that is at the same time quite fluid and intimately linked to the local context. It covers the entire array of traditional pursuits, but it is also increasingly opening up to the numerous activities introduced by changing needs and evolving technologies.

While somewhat different from that of the larger enterprise, the range of industrial activities pursued by the small and medium-scale enterprise in a developing country frequently overlaps with the former. As a general observation it may be observed that SME engage in operations more closely associated with the consumer, operations that are less suitable for large-series manufacturing or are in response to specific orders or, finally, that are designed to produce goods more accessible to low-income consumers. On the other hand, one can also find SME that operate in high, specialized areas, in small-scale craft and artistic production, or in the precision manufacture of items to be incorporated into the products of large national enterprises or companies located abroad (e.g., electronic components).

The area of industrial repair, rehabilitation and maintenance, which has today been assigned priority importance, represents a major field of activity in which SME should become considerably more involved, the same also being true of the area of renewable energy sources.

The service sector has traditionally been the preferred area for small-scale entrepreneurship, whether in the area of commerce with its many forms and applications, of transport in its different modes, or in countless other activities involving the provision of all sorts of services to enterprises, the authorities and private persons.

Another very special area of activity for SME is the building sector, whether for construction as such or for the broad spectrum of supplies and services needed for housing and non-residential structures, not to mention a whole range of public works activities.

In fact, apart from basic industry, where the imperatives of scale, investment, mechanization and technology require larger units, there are few areas in which small and medium-scale enterprise cannot operate. What is more, numerous tasks can be usefully entrusted to SME through sub-contracting, a practice that is in fact becoming increasingly common.

III.6. The mobilizing and multiplying role of small and medium-scale enterprise in rural development

A point to be particularly emphasized is the mobilizing and multiplying role that small-scale entrepreneurship can play in rural development and, within the latter, in the upgrading of intersectoral relations and the building of a diversified economic fabric capable of internally generating new activities.

One of the characteristics of rural development and its principal advantage is the fact that a primary task in this area is to achieve the optimum use of all locally available resources, such as manpower, raw materials, capital, knowledge and experience.

The fundamental constituent element of rural development is of course agriculture, understood in the broadest sense and as a central sector acting as a driving force for other industrial or service sectors.

An extremely wide range of activities must conspire to produce this result: small-scale craft production, commerce, light industry, and the various services associated with the infrastructure, transport, the maintenance and repair of machinery and equipment, etc.

The development of agriculture requires infrastructural facilities, services, small-scale craft production and industrial support activities located both upstream and downstream in respect of the agricultural activities as such.

Upstream one finds specifically the producers of the implements, machinery and materials required for the various agricultural activities, as well as the suppliers of a whole range of products and services indispensable to this sector. Downstream is located an entire chain of activities involving the transport, processing, packaging, storage, preservation and marketing of products, with implications both for agriculture as such and for its related activities. In addition, agricultural development often requires a whole range of efforts in the form of engineering works, irrigation and drainage, well drilling, and the building of roads, hangars, warehouses, energy production and distribution facilities, etc. There is also a need for the performance of countless tasks involving maintenance and repair.

In short, there is every evidence that the rural development process offers a nearly unlimited number of opportunities for contributions, of a direct or supportive nature, by small and medium-scale enterprise, the reason being that development in this sector involves not only industrial activities in which agricultural or agriculturally based products are used and processed, but also small-scale industrial enterprises or craft production units in a supporting function, as well as a diversified service sector.

In a number of these areas, group, associative or co-operative schemes can contribute to the establishment of SME with responsibility for activities indispensable to the producers and to the local economic community as a whole.

In all rural development projects particular attention should be paid to the appropriate role that can generally be performed by small and medium-scale enterprises. The latter have the necessary flexibility to adapt themselves to specific local conditions and to make optimum use of all the assets and resources available. Furthermore, they are a useful instrument for promoting the geographical distribution of the benefits of economic development among the population, and in this way they help to prevent a breakdown in the socio-economic equilibrium of individual regions, a phenomenon frequently found accompanying the establishment of large industrial complexes. Because of the "snowball" effects they produce, SME may provide the basis for a self-generating development process.

III.7. Small and medium-scale enterprises as the essential framework of the economic structure

While without question particular attention must be focused on the role of SME in rural development as the foremost generator of a number of growth effects, it is also true that the large industrial enterprise sector and the major urban centres must also be exploited with a view to sustaining the development of small and medium-scale enterprise.

Numerous manufacturing and service activities in support of the industrial sector can often to good effect be decentralized and turned over to small production units, with the advantage, on the one hand, of multiplying and spreading the locomotive effects and, on the other, of combating the economic isolation to which large enterprises are sometimes confined.

This encouragement for the involvement of SME in the activities of larger enterprises, upstream and downstream, may in addition provide an incentive to small-scale craft production activities to develop themselves into more efficiently structured enterprises.

For their part, the urban centres offer major possibilities for the development of SME. To be sure, the urban development problem is especially difficult, in the final analysis almost certainly more difficult than rural development, one reason, among others, being the considerable masses of low-income town dwellers and the relative scarcity of local resources to which value may be added. The inadequacies of rural development, which have contributed heavily to the exodus towards the cities, have in many cases led to a rupture in the linkages between the countryside and the urban centres.

An economic structure based on small enterprises can contribute to the indispensable recovery of this lost equilibrium, simultaneously profiting from the impulses emanating from the urban growth poles and the valorization of heretofore unutilized rural resources.

The decisive role that the small and medium-scale enterprise can play in the development process may be summarized in a few essential points:

- The mobilization of human resources in a variety of areas;
- The development of local resources;
- The creation and expansion of the economic fabric;
- An essential contribution to rural development and to the extensive service sector;
- The generation of employment;
- The generation and distribution of income; and finally
- The direct participation of the population.

IV. CONDITIONS OF GROWTH FOR SMALL AND MEDIUM-SCALE ENTERPRISE IN THE DEVELOPING COUNTRIES

IV.1. A sustaining environment

From the preceding review of the many potential contributions of small and medium-scale enterprise to the support, strengthening, expansion and balancing of economic development, and also from the brief survey of the specific characteristics of SME given in chapter II, it follows that SME are extremely sensitive to a number of factors, both positive and negative, capable of facilitating their emergence and success or, on the contrary, of impeding and even preventing their development. A positive environment conducive to the release and encouragement of a country's growth forces, to the launching of initiatives that can then be implemented and sustained along a path cleared of obstacles, and finally to intervention combining flexibility and the absence of useless constraints is an absolute condition if SME are to be allowed to play the essential and even decisive role that can be theirs in the development process.

The question is not a simple one, nor should it be disguised as such: first of all, because, by its very nature, the complex and fluid world of the small-scale enterprise largely defies the theoretical constructs of organization and planning; secondly, because, while SME clearly require support of many kinds, they are as it were congenitally reluctant to subject themselves to economic or other constraints or to tolerate any kind of imposed restrictions. These observations, to cite only a few, are sufficient to show how delicate a task it is to determine the latitude for action in this area and how carefully any intervention must be gauged.

To recognize this situation is not to admit powerlessness; rather, it should be a challenge to endeavour, within a realistic, pragmatic and undogmatic approach, to identify the essential means through which, in concrete circumstances, a fresh impulse can be imparted to the development of SME in the developing countries. To be sure, this concern is not a new one, since for several decades there have been repeated indications of interest in the role that SME might play in the development of the developing countries, numerous studies on the subject have been prepared, and efforts have been undertaken at the national and international levels to this end. While certain successes, even substantial ones, have been achieved, it remains a fact that there is a general view - clearly expressed moreover at nearly all the recent international meetings that have brought together representatives of the industrialized and developing countries - to the effect that it is essential to

find concrete ways of moving to a more advanced stage in the more systematic and generalized exploitation of the immense potential contributions that SME can make to the development of the developing countries.

It is not possible, within the space of these preparatory remarks, to review the nearly countless facets of this entire range of problems. Instead, our aim will be to single out a few aspects that appear to be of critical importance in establishing a concrete and operational basis for action, in line with UNIDO's objectives and methods, and in this way to spark off a candid and realistic discussion.

IV.2. The importance of socio-professional structures

There is every evidence that one of the key factors in providing an environment favourable to the growth of small and medium-scale enterprise is the existence of dynamic socio-professional organizations established locally by the interested parties themselves.

If, as suggested above, the SME is a "state of mind", the association should be allowed to develop spontaneously; to be sure, it should be encouraged, but without seeking to propose ready-made structures, something that would soon be seen as an attempt to place it in a straitjacket and would block the process. In any case, the formulae of association or organization are very diverse and may be adapted to local conditions varying greatly from one place to another. In certain cases, the most effective approach will be through chambers of commerce or industry, in others through genuine organizations of the trade-union type, and in still others through the pooling of functions and interests.

Without wishing to suggest that a transfer of the experience is possible or even desirable, it might be well to recall the evolution in this area that has taken place in the European countries, in whose economies the SME play a considerable role as they do. In these countries, the professional organizations representing the modest-sized enterprises, the craft producers, the independent professions and the middle classes have gradually developed over a long period, while at the same time jealously safeguarding the independent nature and the element of personal relationships that distinguish this type of activity. It is also in order to preserve these relationships that many small and medium-scale enterprises in the agricultural, fishing, small-scale craft production, transport and commercial sectors have founded co-operative organizations so as to acquire together the necessary means of management, training, finance, investment, insurance or marketing, the end result being the gradual establishment of extensive networks of co-operative financing, distribution and insurance.

Whatever the formulae preferred in the light of local conditions, an association made up at the local level of economic agents directly concerned with economic development offers, among its many advantages, the possibility of a more specific approach both at the technical level in the broad sense as well as in terms of socio-economic relationships. In this way, a number of particular development aspects can be addressed that can only be effectively dealt with by persons who are confronted with these problems on a daily basis and are in the best position to assess the possibilities and overcome the difficulties.

Moreover, as they gradually take shape, these organizations or associations of small and medium-scale enterprises - a notion that, it should be recalled, often also embraces small-scale craft production and occasionally an entire range of middle class activities as well - may over time take their place as social partners at the local and national levels, where they can then play a useful balancing role vis-à-vis the other socio-economic agents, the authorities and other sectors of economic life, as in the case of a number of European countries.

Another point to be noted is the usefulness of having government work through the SME professional associations, whereby the latter can function as a kind of "transmission belt" between the enterprise and the authorities and, with a psychologically more acceptable impact than in the case of direct government intervention, implement a range of supporting measures on behalf of the SME.

IV.3. The behaviour of the public authorities

All of this leads us to another equally critical aspect in the establishment of an environment conducive to the success of small and medium-scale enterprise, namely, the behaviour of the public authorities. The use of this expression is justified, for underlying the role of the authorities is a set of attitudes and behavioural patterns whose impact, positive or negative, may be as decisive in realizing the potential contributions of SME to development as are actions and interventions determined by economic policy. The creation and maintenance of a climate favourable to the emergence and growth of entrepreneurship that is specifically and directly dependent, *inter alia*, on individual motivation is not as simple a matter as it may seem. A climate of this kind consists of numerous factors, sometimes of a highly subtle nature, and many official intentions or support programmes sponsored by national authorities may be compromised through the inept actions of the local representatives of these same authorities. The point cannot be made too strongly that SME require, perhaps more than anything else, an atmosphere of confidence and moral encouragement, knowledge that their efforts are appreciated, assistance and understanding on the part of the public officials closely involved with them, and finally the ability to operate in a climate free of economic insecurity or widespread scepticism as to their ultimate business success.

Before taking up the question of what are the possible ways in which the public authorities may act with regard to small and medium-scale enterprise, it will no doubt be useful to emphasize the baneful effects of negative measures, which may not only be extremely detrimental to the development of SME but also all the more dangerous to the degree that they may sometimes be inspired by considerations justified in the light of overall policy objectives. This is certainly true of such things as measures that may be experienced by the SME as State interventionism; excessive requirements regarding all manner of administrative formalities imposed on the enterprise; amendments - especially when they are of frequent occurrence - to legislation and to legal, financial and fiscal regulations; and abrupt disruptions or unexpected changes in economic channels, e.g., in the supply of materials or equipment.

According to a view that is becoming increasingly current in various countries and international circles, administrative costs in particular represent a serious obstacle to the development of SME. This awareness has reached the point where in a number of countries, both industrialized and developing, campaigns have been mounted and measures introduced with a view to reducing and simplifying the administrative costs facing SME and small-scale craft producers, costs that in some cases may be regarded as genuine administrative annoyances and which impose a severe burden on the management of these enterprises, forcing them to devote time and money to this area in amounts that are out of all proportion to their means. Here too, there may be a considerable gap between the authorities' stated intentions and their actual implementation locally by the public agencies.

There is a long list of areas that have been proposed for action by government authorities in support of the development of SME, whether by removing or reducing

the constraints and obstacles standing in their way or by introducing specific innovative measures on their behalf. Many studies, some of them of considerable depth, have been prepared on this subject.

It would seem that, in the light of the very nature and specific characteristics of small and medium-scale enterprise, in many areas the public authorities' support of SME should take the form of an almost "personalized" backing. Operating on their own and in isolation from one another, and engaged almost exclusively in an extensive range of production and management tasks, these enterprises need to be "taken by the hand", preferably by persons who know them well and have a good understanding of their problems. Hence the importance of working through their socio-professional structures, even if they are still in the embryonic stage, and - a point that should not be neglected - of entrusting this delicate function to officials having the necessary open-mindedness, coupled, as far as possible, with the proper training.

Such, it would seem, should be the guiding philosophy of government policy with regard to SME, i.e., to reach out to them rather than to wait for the enterprises to approach the authorities. This having been said, it does not appear desirable for the public authorities to embrace a policy of directly providing services and facilities. For the various reasons discussed above, government's role should rather be one of guiding, supporting and co-ordinating the activities of the different socio-professional organizations and, where necessary, of promoting the establishment of these organizations in particular cases. Its role should also be to assist local private structures in developing, through the use of analytical methods that are both simple and accessible to those directly concerned, as accurate an idea as possible of their potential as well as of their needs and the best ways to address them.

IV.4. Infrastructure

In considering the actions of the public authorities, particular attention must be given to the question of infrastructure.

The first point that generally comes to mind in this connection has to do with industrial premises and the provision of such utilities as electric power, water and telephone lines. It should be noted, however, that whereas medium-scale enterprises tend to rely as much as larger ones on public services and industrial buildings, small enterprises and small-scale craft production activities are able to adapt themselves more easily to existing situations in respect of sites and buildings, and even energy, as reflected in their ability to set up operations in small towns and villages. On the other hand, one of the more serious handicaps these enterprises frequently have to face is represented by the inadequacies of the transport network, which sometimes severely affect their procurement of supplies and the shipment of their products. Other shortcomings are encountered in the areas of storage, preservation and packaging infrastructure and equipment. At a number of UNIDO consultation meetings representatives of developing countries have had an opportunity to describe, in specific detail, highly alarming situations of this kind. It is obvious that there are many economic activities that cannot be satisfactorily performed unless the entire economic system, upstream and downstream, is operating properly, and that the absence or malfunctioning of a single link in the economic chain often negates the efforts that have been undertaken, breeds discouragement and can ultimately lead to the discontinuance of activities that may have been extremely difficult and very expensive to initiate. Of what use are such efforts if a given order of materials, a given component or a given unit of equipment cannot be shipped when it is needed, or if, for lack of reliable shipment channels, goods produced end up deteriorating or becoming totally

ruined? In this same context, it is also impossible to over-emphasize the importance of servicing and maintenance, an area in which small and medium-scale enterprises must frequently rely on public or external private sources.

In some cases, moreover, infrastructure may, for certain SME, actually represent a kind of minimum threshold, with its presence occasionally an indispensable condition for the formation or survival of these enterprises; the external economies from which an SME benefits through the availability of infrastructure may be decisive in a minimum return operation. In a more general sense, there is scarcely any need to stress the impulse that the establishment of certain infrastructural assets, especially in the communications area, may impart to the emergence and growth of economic activities in a given region, a fact well demonstrated by a wealth of experience in both the industrialized and developing countries.

IV.5. The need to identify specific constraints and obstacles

Various analytical studies are in agreement in pointing to the following as the principal handicaps facing small and medium-scale enterprise:

- Difficulties in financing and with starting or working capital;
- Management shortcomings; and
- Business incompetency and a lack of technical and administrative know-how.

Mention is sometimes also made of specific difficulties in obtaining the necessary qualified manpower, in product marketing and in bringing products up to the required quality standards.

In the development context these problems are crucial and complex, and major efforts have been undertaken to deal with them in the developing countries and by the international institutions and industrialized nations as part of their co-operation programmes. It is the responsibility of the representatives of the developing countries to propose an objective assessment of the results they have achieved and of the specific difficulties they have encountered in their work at the local level.

The first UNIDO Consultation on Small and Medium-Scale Enterprise might well focus on this pragmatic approach, possibly through the use of a relatively simple questionnaire designed to identify the specific problems currently encountered and, as far as possible, the causes for the failure of the efforts undertaken to produce the hoped-for results. The purpose of this inquiry would be to seek, through an analysis of the positive experiences recorded, the most effective procedures and methods.

As far as access to financing is concerned, attention should be directed to the way in which small-scale entrepreneurs can gain genuine and direct access, at their level, to public and private financing facilities. It seems essential to make available to these entrepreneurs "human-scale" financing channels, whether local or regional, from among the financing sources, the savers and the enterprises, rather than to force them to turn to anonymous and remote institutions.

The existence of a logistical support framework combining the initiatives of the socio-professional organizations with the interventions of the public sector, easily accessible, and characterized by a high degree of adaptability to the extreme diversity encountered in the requirements of SME is a condition that has been unanimously and urgently emphasized. In addition to the many services and

functions of an advisory and supportive nature that this framework must be capable of offering the small-scale entrepreneur in numerous areas, but most especially in project identification and preparation, management, training, research and in exploring the opportunities for the formation of associations and groups, it must also act as a driving force for local promotion so as to contribute towards the establishment of that climate of dynamism and confidence so necessary for encouraging the "entrepreneurial spirit".

IV.6. The encouragement of simple self-analysis at the local level

It also seems essential that the developing countries should not limit their concerns to the formulation and implementation of global development plans or programmes, but should also endeavour to ensure that this planning contributes to the support of local development schemes, which as far as possible ought to be designed by the various economic operators active in the region concerned.

There is no doubt that UNIDO can do much to encourage and support initiatives of this kind. For example, UNIDO might propose simple schemes to enable the interested parties at the local level to prepare regional studies (local self-analyses), which as uncomplicatedly as possible would provide a survey of the existing potential resources capable of being developed, both human and natural, and of the various economic factors and the linkages between activities of different type. An approach of this kind has been proposed in recent years within the European Economic Community by the Union of Industry and Employers' Confederations of Europe (UNICE).

The improved understanding of the local economic structure that would result from analyses of this type could be useful in launching initiatives and promoting closer ties between SME, in addition to helping to identify and direct the support and incentives to be provided.

This better understanding might also be of value in assessing the desirability of undertaking special efforts aimed at sustaining the SME development process through the creation of concentrations ("islands") of these enterprises capable of producing a "snowball" effect.

It will no doubt be possible, to this end, to draw on a series of studies and inquiries that have been carried out under the heading of regional analyses with a particular focus on the role of growth poles and the economic impulses they generate. By preparing simple regional studies of its kind, a two-fold objective can be pursued: on the one hand, the arousing of a local awareness of the possibilities for, and conditions of, development on the basis of a number of essential data and, on the other, the initiation or strengthening of local co-operation between the various categories of economic agents involved in development. The preparation of this kind of study implies the establishment, as it were, of a sort of "think tank" and the gathering together for this purpose of the representatives of all the local structures, professional organizations, chambers of commerce and industry, business associations, finance companies, banking institutions, educational establishments and local public authorities.

In addition, it would be most useful to involve in these regional studies the research potential and the knowledge available at the universities and educational institutions of the region, which in this way would find a kind of specific application and area of experimentation for their theoretical research.

**V. CONDITIONS AND POSSIBILITIES OF CO-OPERATION AMONG
THE SMALL AND MEDIUM-SCALE ENTERPRISES OF THE
INDUSTRIALIZED AND DEVELOPING COUNTRIES**

There is no question that a broadening flow of co-operation among the SME of the industrialized and developing countries would be of benefit to the development of the latter and to the world economy as a whole.

Expanding co-operation of this kind would offer a number of advantages, not the least of which would be the emergence, among the SME of the developing and industrialized countries, of an understanding of their respective problems, an exchange of experience and an awareness of certain similarities in their situation, despite the profound differences in their economic environments. This awareness might also extend to that extensive area of activities that would be placed within the reach of the SME if, to their mutual advantage, they were to make more effective use of their complementarities and potential.

It needs to be noted, however, that much remains to be done in order to open up the existing SME to greater international co-operation. This is true, first of all, because in the industrialized countries the SME, or at any rate most of them, have structured their operations largely if not entirely for the local or regional market or for a relatively limited geographical area in cases where they do reach out beyond their borders.

A second reason can be found in the very nature of the activities undertaken by the SME, many of which, at least at first sight, do not always lend themselves to economic relationships with similar enterprises in developing countries.

The need, therefore, in an initial phase, would be to identify the types of SME activities that could lead to economic operations with small and medium-scale enterprises in the developing countries to the mutual advantage of both sides. As recent UNIDO consultations have shown, quite a few opportunities still remain to be discovered and explored along these lines. More than is generally recognized, opportunities exist for the exploitation by these enterprises of their areas of complementarity, and these opportunities deserve to be highlighted and properly encouraged.

Nevertheless, it must be emphasized that mere information on opportunities for co-operation is not enough to generate such operations, for even if an SME is fully aware of the genuine prospects open to it, the sheer volume of the administrative and other procedures and steps required of it frequently exceeds the capacity of a small-scale enterprise.

The actual dissemination of the information must not be a purely passive process; there is a need for the organization of information channels designed specifically to meet the requirements of SME, and this is a task to which the socio-professional structures on both sides must devote the greatest attention. As for the various stages in the implementation of the operations, the SME, in both the developing and the developed countries, requires patient and continuous guidance and assistance. Here once again - and the point can never be sufficiently emphasized - the "taking in hand" of the SME represents an essential condition if it is to be able to carry out these co-operative operations successfully throughout all the various and numerous stages of the process. To whom should managers turn for information regarding the administrative steps to be taken; how are the projects to be formulated, the terms of the agreement stated, the conditions of the actual work defined; what guarantees should be obtained ...? These are only a few of the countless questions which an SME left to its own devices may soon give up trying to answer. Limiting the discussion to this point alone, it is rare to find an SME with the financial means and the trained personnel required for carrying out

locally the exploratory missions necessary for the definition of the project. Very often it is an essential condition for the success of an SME co-operation project that the enterprise concerned should be provided with detailed and timely information on various aspects of interest to it and, above all, with genuine support and constant and attentive guidance. These then are the eminently pragmatic guidelines that should govern the actions of national public authorities and the international institutions.

In addition to economic and commercial co-operation as such, there are extensive opportunities for co-operation among the SME of the industrialized and developing countries in the areas of training and the transfer of know-how and technology. This kind of co-operation may be linked to the former, but may also develop independently. In the training field, for example, substantial efforts are being undertaken by the industrialized countries and the international institutions. Particular mention should be made, in this connection, of the importance, as far as SME are concerned, of a special type of training that can undoubtedly be provided more effectively between counterparts and on the spot than through theoretical instruction, and which applies both to management as well as to technical processes and enterprise organization.

Similarly, personal meetings between counterparts can also prove advantageous in the transfer of knowledge and technology, which, in the case of small and medium-scale enterprise, is often mostly a matter of know-how and the ability to make skilful use of the resources available and to circumvent limitations through flexibility and ingenuity.

Once they have been initiated through relationships between officials of the socio-professional organizations, direct contacts between SME managers as well as between personnel at lower levels should be placed on a systematic basis. In the case of small enterprises "with a human dimension", these contacts are almost certain to generate understanding and a sense of solidarity.

A great deal is at stake in the development of co-operative ties between the small and medium-scale enterprises of the industrialized and developing countries, not only because of the importance of such co-operation to the economic development of the latter, but also because of the human implications involved in these relationships.

This objective deserves an imaginative and pragmatic effort on the part of Governments and international institutions in order that the proper formulae may be devised.