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CO-OPERATION BETWEEN SMALL- AND MEDIUM-SCALE INDUSTRIAL ENTERPRISES
IN DEVELOPING COUNTRIES AND SMALL- AND MEDIUM-SCALE ENTERPRISES
IN INDUSTRIALIZED COUNTRIES*

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INTRODUCTION

The status of small- and medium-scale enterprise (SME) and the role it can play in the development of the economies of the third world have in past years been the subject of numerous studies and seminars and of a variety of proposals at the governmental level.

It will not be far from the truth to estimate that this sector accounts for some 75 per cent of the gross national product and of employment in these economies.

This is an indication of how important it may be to propose an overall approach to the development of the SME Sector through the use of a range of instruments, which have, moreover, already demonstrated their effectiveness in a number of developing countries.

Accordingly, after a discussion of the instruments normally used in this area, this paper will suggest a phased plan of action.

I. BRIEF COMMENTS ON A NUMBER OF INSTRUMENTS THAT MAY BE USED TO FURTHER THE DEVELOPMENT OF SMALL- AND MEDIUM-SCALE ENTERPRISE AND THE CRAFTS SECTOR

Without intending to present an exhaustive list of all the means that may be used to ensure the best possible development of SME, we shall discuss below, with a minimum of description, a certain number of selected instruments.

A. Plan-SME Liaison Commission

The first instrument, tested in France during the fourth, fifth and sixth Plans, represents an essential element.

It consists in the establishment, at the Plan level, of a "Liaison Commission" between the Plan authorities and the agencies representing small- and medium-scale enterprises. This Commission is composed of an equal number of Government and private-sector representatives; its chairman is an industrialist, and its rapporteur a high-ranking official. The Commission provides a channel for maintaining a constructive dialogue between the public authorities and professional SME circles, for reviewing such problems as may arise, and for proposing solutions for subsequent examination by the leadership of the country.

b. Self-improvement groups

The first essential step is to make available greater information on the means available for assisting small- and medium-scale enterprises in their efforts to apply modern management methods.

There is one instrument that has been tested in France and has produced excellent results. It consists in establishing what have been called "self-improvement groups". These groups bring together from 12 to 15 professionals, industrialists or businessmen, who - under the guidance of a specially trained moderator - meet twice a month for three hours over the period of a year in order to study modern enterprise management methods (the programme, it will be seen, does not require much time).

The results have been spectacular, particularly in the distribution sector, where a considerable effort had to be made. In a few years, thanks to the proliferation of these self-improvement groups, there has been a radical transformation in the mentality of the small- and medium-scale business community.

Several thousand of these groups have been established every year and have made a significant contribution to the evolution in the attitudes of business people and to the elevation of their knowledge to a desirable level.

France today has a corps of 850 "Technical Commerce Assistants (ATC)". One unique aspect characteristic of the type of teaching involved may be seen in the fact that the ATC are supposed to express themselves using a vocabulary of only some 2,000 words.

From the commerce sector, this technique was extended to the crafts sector, for which a corps of "Technical Trade Assistants (ATM)" has been set up along the same lines.

In 1969, a programme of the same nature was introduced for the industrial sector. Responsibility for the teaching function lies with the Agency for the Promotion and Development of Industry (APRODI).

At present the corps of "Industrial Management Assistants (AGI)" comprises 500 technicians.

C. Mutual guarantee societies

The mutual guarantee society is one of the financing instruments best geared to the needs of small- and medium-scale enterprise. 1/

There societies exist in two types: (a) that known as the "Article 8" type, to which the State furnishes the funds and whose origins go back to a law enacted in 1936; and (b) the type created by the "People's Banks", which are of private origin and operate according to the co-operative model.

The first kind have now been regrouped within the SME Equipment Credit Agency (Crédit d'équipement PME), with which the General Confederation of Small- and Medium-scale Enterprises maintains close links, as reflected in the fact that the president of the Equipment Credit Agency has successfully held the offices of president and (his current position) one of the deputy vice-presidents of the General Confederation.

The fundamental purpose of the mutual guarantee societies, which are particularly common in Switzerland, is to provide bankers with additional guarantees. They make it easier for their members to obtain credit by granting a surety bond guaranteeing their undertaking. Since they extend this facility only after a detailed study of the relevant documentation, they are able to furnish the lender every assurance as to the solvency of the entrepreneur.

These societies are subject to very strict requirements:

- They must have sufficient financial standing in order to be able, should the need arise, to assume the responsibilities of a defaulting debtor and make payment in his place.
- Their quick assets consist of their capital plus their guarantee funds.
- Their administrators must be persons of irreproachable reputation having the kind of professional background and experience that will enable them to

1/ In November 1970 the author was commissioned by UNIDO to prepare a study on this subject, which appeared under the title "Le leasing et le cautionnement mutuel en France", ID:NG.65/6, 1 July 1970.

evaluate impartially the merits and requirements of those seeking a guarantee. They must be independent enough to be able to reject undesirable applicants.

- Their financial and administrative management and accountancy practices must be of the highest possible level.
- At present there are nearly 70 mutual guarantee societies in France, of either a professional or multiprofessional nature, which every year guarantee a total of about 30 thousand million francs in loans to small- and medium-scale enterprises.
- If one were required to make a judgement as to the type of financing machinery best suited to the needs of SME, one could state without much fear of error that the mutual guarantee procedure, at least with respect to medium- and long-term credit, is unquestionably one of the best available.
- The existence of the mutual guarantee societies provides a means of developing a thorough familiarity on the part of both finance officers and entrepreneurs with proper financial management procedures. If after 10, 20, 30 or 40 years there is found to be less of a need for the mutual guarantee approach, because the financial institutions have reached a stage of technical maturity and have completely mastered the full range of financing mechanisms, this system may then give way to one under which the major deposit or investment banks, strengthened in the course of the years, can take up this function.

D. Diagnostic studies of potential technological change at enterprises, of accessible technological levels by professional branches, and of improvements in national technological competence

In the modern age, enterprises unable to keep pace with the most advanced technological developments are predestined to pass from the scene. There is a need, therefore, to have available the proper instruments with which to prepare the required preliminary analyses and to carry out the necessary diagnostic studies regarding the technological level attained not only by individual enterprises but by the various industrial branches in a given country so as to be able to recommend for both these categories (enterprises and branches) the most appropriate technical means with which to raise them to a predetermined level of technological competence.

These instruments are the following:

- In the first place, that which is used for enterprise analysis and under which the techniques developed by the Agency for New Technologies for Small- and Medium-scale Enterprise (ATN-P4E) make it possible, on the one hand, to measure, by equipment unit and by shop section, the technological improvements that need to be introduced and, on the other, to indicate the kinds of new equipment that need to be acquired.
- In the second place, that which is used for the study of professional branches and which, by referring to the average comparative degree of evolution in the same branches in developed countries, makes it possible to estimate the effort at technological modernization required locally in the sector in question.
- In the third place, an evaluation at the overall national level designed to identify - within six families of increasing technological complexity - those industrial sectors that the country is capable of promoting, given its level of technological competence.

The second and third evaluation employ the method of technological complexity analysis (ATC) that has been successfully used by UNIDO in a number of countries. 1/

E. Rational organization of sub-contracting; the sub-contracting exchange

The sub-contracting exchange (SCE)

The basic idea consists in attempting to introduce an element of rationality in the regional sub-contracting relationships that exist in the metalworking-and-engineering industry and in allied branches and that have thus far been left to pure chance.

The term "exchange" generally indicates an agency designed to centralize supply and demand. It has been deemed useful to use it in this context in order to indicate that what is involved is an office set up to provide centralized handling of the supply of and demand for available machine time at enterprises.

The first sub-contracting exchange was established at Bordeaux in 1959. During the years that followed, more of these agencies were established until there were about 20 of them. At present, following the necessary shake-down period, some ten survive.

Within a few months, the exchange made it possible to preserve for the region's industry about one million machine-hours that previously had had to be contracted outside the region. It was later found that a sub-contracting exchange serving 150 to 200 enterprises is capable, on the average, of saving two to three million machine-hours for the region.

Such countries as Spain, Belgium, the Scandinavian countries, Great Britain and, at a later date, certain third world countries (India, Argentina, the Philippines, etc.) have taken up this idea. At present there are probably anywhere from 200 to 250 such exchanges throughout the world.

It rapidly became clear that the sub-contracting exchange can play a twofold role.

The sub-contracting exchange: an instrument of technical harmonization

The basic purpose of a sub-contracting exchange is to bring together, in the most rational way possible, someone with a job for which he is seeking a sub-contractor with someone else who is capable of performing that role.

In order to accomplish this task, the sub-contracting exchange uses a double file: an enterprise file and an equipment file. Each enterprise is required to furnish the exact nomenclature of the machines in its possession, together with their specifications.

As an instrument of regionalization, the sub-contracting exchange may also assume the functions of an advisory service regarding regional equipment and investments.

Because the exchange has a list of the equipment pool available in a given region, it is extremely easy for it to identify, by family of metalworking machines, any under- or over-capacity that may exist and, therefore, to provide guidance either to enterprises or to territorial expansion or development authorities.

1/ Notably in Tunisia and Brazil, among others.

Nevertheless, it is important to emphasize the point that a sub-contracting exchange is nothing more than an agency designed to bring together a supply capability with a particular requirement. In no case should it be regarded as an extension of an enterprise's sales service.

The sub-contracting exchange: an instrument of economic development

The various studies that have been made in this area, particularly one prepared by UNIDO in 1967, ^{1/} show that an essential element of regional economic development consists in the density of inter-company relationships within a region.

The more closely knit this fabric of inter-company relationships, the more propitious are the conditions for economic development. The support given to regional growth by the sub-contracting exchange operates at several levels:

- The opportunity available to an SME to seek the exchange's assistance strengthens its economic position by expanding its range of customers.
- The SME is no longer so dependent on the larger enterprise that may formerly have been its principal and, perhaps, even sole customer.

Moreover, studies carried out in a number of regions for the purpose of ascertaining the volume and pattern of the sub-contracting flows existing between the various cities of a region have made it possible to collate numerous items of information that can be used to provide guidance for decision-making regarding equipment policy and regional economic development.

There are also studies that can help in better defining the elements involved in regional replanning by permitting an understanding of the factors that influence the selection of the enterprises to be responsible for carrying out the plant relocation operations either in the decongestion zones or in the decentralization areas.

By way of example, we might mention a study that was prepared for the south-eastern quarter of the Paris region, and that made it possible, inter alia, to uncover new facts that can be used to guide enterprises faced with the need to choose between a strategy of decongestion in an outlying Parisian district or a decentralizing move towards a more distant province.

Moreover, this policy can provide the basis for the initial steps leading to more rigorous quality control at the enterprises.

As a practical suggestion, a quality control department might be established as part of the services offered by the sub-contracting exchange.

Finally, one should not fail to mention at this point that there is a direct link between the rational organization of sub-contracting and activities to promote maintenance. We might take note, in this connection, of UNIDO's work in the area of agricultural equipment, in particular the last conference organized on this subject, in September 1986 at Belgrade, by the System of Consultations Division.

^{1/} By the author of this paper.

F. Market access insurance

The effort to open up to foreign trade that every country must undertake in all areas implies an increase in the volume of exported products.

In this connection, market access insurance, a public service instituted in France by the French Foreign Trade Insurance Company (COFACE) and widely taken advantage of by that country's small- and medium-scale industrial enterprises, may be of significant benefit to exporters.

This insurance covers a part of the expenses involved in researching and seeking to penetrate foreign markets. The French system would appear to represent a well-conceived assistance model geared to the needs of SME in that it guarantees the enterprise up to 50 or 70 per cent of the total amount of the costs involved in seeking market opportunities abroad. This arrangement not only covers a portion of the risks of failure in the market access effort, but in addition provides a solution to the problem of how to finance these outlays. This insurance contract can be presented to a bank, thus enabling the enterprise to acquire the funds required for its efforts to study, and gain access to, foreign markets.

G. Regional service for market and motivation studies

The tactical effectiveness of an enterprise's marketing activities depends on the availability of effective instruments for the exploration and evaluation of its markets.

It is just as much of a paradox to undertake a sales promotion campaign without having first conducted the necessary motivation studies as it would be to plan to produce without taking account of the intended consumers' real needs.

In this area, the small- and medium-scale enterprise, whether operating in the industrial, crafts or commercial sector, is at a grave disadvantage vis-à-vis the large enterprise. It has available neither the specialized services nor the funds required to enable it to carry out the preliminary studies under the proper conditions.

It is for this reason that it was thought useful in France to provide certain regions (notably the south-west and the south-east) with a service capable of preparing market or motivation studies for regional enterprises on terms that firms of this kind can afford.

H. Development of partnership in all its forms

For a number of years now, new techniques for assisting the development of small- and medium-scale enterprise have been in existence and have come to be known under the collective term of "partnership":

- Partnership between large enterprises, on the one hand, and small- and medium-scale enterprises, on the other, for the purpose of taking advantage of the economies of scale;
- Partnership between SME located in two different countries for the purpose of pooling the co-operating enterprises' technological, commercial or financial capabilities.

A developing country can derive great benefit from a partnership policy. In France, a specialized body, the Agency for the International Promotion of Small- and Medium-scale Enterprises (API-PME), can call on a tested methodology in this

area and is able, in co-ordination with a local development agency, to undertake activities along these lines, involving a systematic operation to identify and select French small- and medium-scale industrial enterprises desirous of entering into a partnership with their SME counterparts in a given country.

In view of this possibility, it would be well to ascertain the professional sectors in which an initiative of this kind might usefully be promoted, as well as the number of firms, by sector, that would be involved in this undertaking.

II. COMMENTS ON THE POSSIBLE POLICY TO BE APPLIED: SELECTION OF INSTRUMENTS AND IMPLEMENTATION TIMETABLE

To be sure, an overall policy for the development of small- and medium-scale enterprise represents a single whole, and any attempt to isolate one or another of its components introduces an element of disharmony in the application and performance of the total programme. One cannot escape, however, from the need to select from among these instruments those that are to be first applied, even if this means having to complete this initial approach at a later point.

First phase

This corresponds to the preliminary deployment of three instruments regarded as basic.

A. Training of "Industrial Management Assistants"

No in-depth activities can be carried out unless there is first available a team of persons properly trained in the specific techniques of teaching for the purpose of upgrading the qualifications of SME executives.

It is for this reason that APRODI, already mentioned, has been entrusted with the task of training a team consisting of about ten industrial management assistants.

B. Establishment of an appropriate financing structure

As past developments have shown, the "multiprofessional mutual guarantee" mechanism may represent an optimum instrument for accustoming the market to the availability to enterprises of medium- and long-term financial assistance.

The French SME Equipment Credit Agency, which can draw on more than a half-century's experience in this area, may be requested to prepare a plan for the possible setting up of a mutual guarantee institution of this kind in a particular country.

It will then be the responsibility of the local authorities to decide whether this financing agency should take the form of a specialized department within an existing financial institution, or whether, in line with French experience in the case of the "Equipment Credit Agency", a new and autonomous institution should be established, even though one might easily imagine, as in the case of the training body (see the preceding section), certain linkages in the form, for example, of the presence on the new institution's board of directors and loan authorization committee of representatives from the public financing institutions, the employer associations and other public departments (ministries of Economic Affairs, Finance, Industry, etc.)

C. Elevating the technological level of the enterprise

Increased productivity and competitiveness along with a more complete mastery of modern technologies by the enterprise are essential factors for the growth of SME.

The ability to prepare "diagnostic studies on possible technological changes" at the enterprise and to identify the "technological targets" to be pursued in particular key sectors can be created if a decision is taken to train local consultants in these techniques.

As we have already seen, ATN-PME has experience in this area and is able, following a preliminary analysis 1/ prepared locally, to undertake the training of the first team of these technicians.

As to assessing the country's average technological level, the use of UNIDO's "technological complexity analysis" (ATC) method can, as we have already seen, provide valuable information.

D. Rational organization of sub-contracting (ROSC)

By applying the tools that have been described in the second part of this paper, it will be possible to place the organization of sub-contracting on a rational basis.

The experience gained in this area by UNIDO's Institutional Infrastructure Branch should provide a basis for proposing a possible programme for the implementation of the relevant instruments (sub-contracting flow studies, establishment of sub-contracting exchanges, etc.). 2/

A number of possibilities that become available through a more rational approach to and use of sub-contracting under the ROSC concept, mainly in the metalworking and engineering sector, 3/ and that have been discussed on pages 5, 6 and 9 of this paper, may be applied to Africa.

We might recall in this connection the activities that have been undertaken since 1985 by the UNIDO Institutional Infrastructure Branch as part of the "Arab regional sub-contracting project", whose purpose is - through the successive establishment of national sub-contracting exchanges in six Arab Mediterranean countries (Morocco, Algeria, Tunisia, Egypt, Jordan and Iraq) - to develop a network of regional transnational relationships aimed at promoting and developing sub-contracting in this region.

Three sub-contracting exchanges are already operating in Tunisia, Egypt and Morocco, and these are to be followed by three others in Jordan, Algeria and Iraq by the end of 1988.

The work begun by UNIDO is aimed at gradually turning over to the officials of each of the six countries the conduct and management of this regional operation through the intermediary of an "Arab Regional Sub-contracting Co-ordinating Committee". This Committee, established in 1987, is already operational.

1/ A proposal along these lines might later be made by the Agency.

2/ See, for example, the seven-country Arab regional sub-contracting project in the Mediterranean area.

3/ But also, to a lesser degree, in the building and in the chemical and textile industry sectors.

This first African initiative in the area of sub-contracting may well spark off other projects of the same kind in Sub-Saharan Africa.

Pilot operations could in fact be initiated in the two French- and English-speaking subregions of the continent on the basis of a selection in each of them of three countries whose level of industrial development is most advanced.

A similar project, along the lines of the UNDP/UNIDO "Arab regional project" in the Mediterranean, might be proposed for implementation with the assistance not only of international but also of Arab experts who, through their introductory work in this area (thanks to the Arab project), have acquired the necessary competence and experience.

By calling on this latter category of experts, a new type of South-South technical co-operation in Africa could be launched, given that the implementation of the Arab project under discussion requires the contribution of French- and English-speaking experts. The possible new mission to be undertaken in Sub-Saharan Africa would thus involve no particular language problems, since following their participation in the Mediterranean operation (consisting of about half English-speaking and half French-speaking international and Arab specialists), the team of 15 or so experts could easily be instructed to undertake a new mission in this zone.

E. Partnership

Different in nature in that it involves foreign economic agents, the partnership action must nevertheless be started during the first phase, because it is partially a condition for progress by local enterprises in three areas:

- Improving management methods;
- Raising the technological level;
- Expanding foreign trade.

In co-ordination with API-PME, the local Government will be able to determine the sectors for which interested French enterprises are to be identified and selected.

On pages 7 and 10 of this paper, mention has been made of the valuable contribution to the small- and medium-scale enterprises of the developing countries that might be made by partnership activities with SME of the developed countries or even with large enterprises located in the latter or operating locally.

Along the lines of the activities carried out in Europe and first begun in France by API-PME, 1/ pilot partnership activities might be initiated between European and African small- and medium-scale industrial enterprises in several countries of English- and French-speaking Sub-Saharan Africa.

A pioneering initiative of this kind was in fact undertaken in Morocco in the 1980s with the collaboration of the Renault Group, permitting the establishment, in co-operation with local SME, of a half-dozen enterprises operating as sub-contractors or suppliers of equipment or sub-assemblies for Renault.

1/ Followed, moreover, at a later date by the establishment of agencies of the similar kind in Great Britain, Portugal, Spain, Italy and Greece, ultimately leading to the grouping together of these agencies under a European Federation.

Similarly, in the textile industry sector, partnership programmes have been undertaken in Tunisia with Italian, Belgian or French partners.

On the basis of these models, pilot activities, either of European origin or of a co-operative nature, might be launched in Sub-Saharan Africa. The fact is, the experience gained in Morocco or Tunisia have led to new enterprises in North Africa. These enterprises have acquired the necessary industrial expertise in their respective sectors so that they may be able to transfer their technology to partners in Sub-Saharan Africa under a joint enterprise scheme, with or without a partnership arrangement with the European enterprise that originated the operation.

In this way, triangular partnership operations could be set up, bringing into association a European enterprise with a North African counterpart and a Sub-Saharan firm operating in the same sector.

Second phase

During the second phase, the following instruments might be gradually put into place.

A. Export promotion for products manufactured by small- and medium-scale enterprises

As indicated, there are a number of particularly effective export promotion instruments: market access insurance, specialized financing procedures, special assistance for the commercial or industrial establishment of firms abroad, etc.

These tools can be gradually put into place as the local SME gain better control over their internal markets. 1/ It is in fact - and the point is perfectly obvious - the responsibility of the enterprises to first master local marketing methods before committing themselves to the task - always difficult - of foreign trade promotion.

B. Market and motivation studies service

As already indicated, one of the handicaps facing the small- and medium-scale enterprise is that it is most often not easily able to estimate the potential of its market in terms of volume and value. Accordingly, the establishment in the home country of a service specializing in studies of this type could enable the local SME to form a more accurate idea of the kind of means necessary for the formulation of a plan to improve their marketing activities.

CONCLUSION

Such are the possible means and timetable of a comprehensive development programme for the small- and medium-scale enterprises of the third world countries.

One would be ill-advised, however, to believe that a policy of this kind can be implemented without co-ordinated assistance from the international organizations.

It is a regrettable fact that at the present time neither the agencies of the United Nations system, from the World Bank to the International Finance Corporation, the United Nations Development Fund, the International Labour Office, the United Nations Industrial Development Organization, the United Nations Conference on Trade and Development, etc., nor the Organization for Economic

1/ See, above, the comments regarding a "market and motivation studies service".

Co-operation and Development and the European Community, each of them with its own special procedures and funds, are able, in this area of assistance to the SME of the third world countries, to pursue a co-ordinated policy. By the nature of things, the financial resources which each of these bodies can mobilize are limited; by pooling them under a concerted policy, a budget of adequate size could be provided in each case. But is this merely a pious wish? One might hope, for example, that, thanks to the existence of a kind of specialized "Permanent International Secretariat for Small- and Medium-Scale Enterprises", the establishment of which might be decided and which would be capable of acting as a focal point for various assistance contributions received from the international organizations, this overall assistance - the subject of this paper - could finally be made available under the best and most effective conditions.

What is more, at a time when the international authorities 1/ are reposing a maximum of hope for the reinvigoration of third world economies in private investment and co-operation between the SME of the industrialized and industrializing countries, this desire for greater co-ordination and for a more systematic approach to the implementation of comprehensive SME development policies in the nations of the South can only add a fresh impetus to this new undertaking.

It is with this wish that the present paper ends, along with the hope that in a future discussion there may be an occasion for new and positive comments on this question.

1/ See, in particular, the conclusions of a recent ACP/EEC meeting of economic and social partners, organized in November 1987 by the Economic and Social Committee of the European Community in Brussels, and also the special research programme undertaken by the OECD Development Centre on the role and influence of small- and medium-scale enterprise in the realignment between the private and public sectors.