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17248-E

Distr.  
LIMITED

IPCT.76(SPEC.)  
15 December 1988

ORIGINAL: ENGLISH

UNITED NATIONS  
INDUSTRIAL DEVELOPMENT ORGANIZATION

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Expert Group Meeting on Small- and  
Medium-Scale Enterprises including  
Co-operatives

San Juan, Puerto Rico, 8-11 December 1987

REPORT\*

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\* This document has not been edited.

V.88-31638

## PREFACE

### The System of Consultations

The Second General Conference of the United Nations Industrial Development Organization (UNIDO), held at Lima (Peru) in March 1975, recommended that UNIDO should include in its activities a system of continuous consultations between developed and developing countries with the aim of increasing the participation of the latter in world industrial production by means of enhanced international co-operation. Subsequently, the United Nations General Assembly, at its seventh special session in September 1975, supported this recommendation.

In May 1980 the Industrial Development Board decided to establish the System of Consultations on a permanent basis and in May 1982 approved the rules of procedures (The System of Consultations, PI/84) stipulating its principles, objectives and characteristics, in particular:

"The System of Consultations shall be an instrument through which the United Nations Industrial Development Organization (UNIDO) is to serve as a forum for developed and developing countries in their contacts and consultations directed towards the industrialization of developing countries.

The System of Consultations shall seek action-oriented measures towards increasing the share of developing countries in world industrial production and creating new industrial facilities in developing countries contributing to the establishment of a New International Economic Order. To that end, the problems associated with the industrialization of developing countries shall be considered on a continuing basis from a policy, economic, financial, social and technical point of view.

The System of Consultations shall relate to co-operation between developed and developing countries and among developing countries themselves.

The System of Consultations would also permit negotiations among interested parties at their request, at the same time as or after consultations.

Participants of each member country should include officials of governments as well as representatives of industry, labour, consumer groups and others, as deemed appropriate by each Government.

Each Consultation Meeting shall formulate a report, which shall include conclusions and recommendations agreed upon by consensus and also other significant views expressed during the discussions."

Consultation on small- and medium-scale enterprises including co-operatives

1. At its second session in October 1986, the Industrial Development Board decided to include a Consultation on small- and medium-scale enterprises including co-operatives in the programme of Consultations for the 1988-1989 biennium.

2. In accordance with this decision the First Consultation on Small- and Medium-Scale Enterprises including Co-operatives will be held in 1989. Preparatory activities for this Consultation have already begun and include the composition and compilation of relevant studies as well as the convening of this Expert Group Meeting on Small- and Medium-Scale Enterprises including Co-operatives. This Meeting for the Caribbean and Latin American region was organized by UNIDO in close co-operation with the Economic Development Administration of Puerto Rico (FOMENTO).

3. The objectives of the Meeting were:

- To examine the current situation of the small- and medium-scale enterprise sector in the region;
- To identify joint and individual constraints hindering the development of small- and medium-scale enterprises in the region;
- To examine and propose national and international measures to overcome such constraints;
- To suggest specific subjects for further studies in preparation for the Consultation.

ORGANIZATION OF THE MEETING

4. The Expert Group Meeting on Small- and Medium-Scale Enterprises including Co-operatives was held at San Juan, Puerto Rico, from 8 to 11 December 1987. The Meeting was attended by 14 experts from countries in the region, United Nations organizations, non-governmental organizations as well as from the Inter-American Development Bank. The Secretary-General of the Group of African, Caribbean and Pacific States (ACP) also attended the Meeting. The list of participants is attached as an annex. Moreover, a large number of observers from Puerto Rico participated at the Meeting, presented their views and the experience of Puerto Rico in this field.

Opening of the Meeting

5. At the opening session the Meeting was addressed by Mr. L. Morell, Deputy Administrator for Puerto Rican Industry, Economic Development Administration (FOMENTO). He welcomed the participants and underlined the importance of the small- and medium-scale sector for the entire region. In spite of the existence of a large-scale industry in Puerto Rico, the small- and medium-scale enterprise sector plays a crucial role since it is much less exposed to fluctuations caused by outside sources than large industries. He emphasized that Puerto Rico and FOMENTO believed in an integrated development of the Caribbean region.

6. The Director of the System of Consultations addressed the Meeting on behalf of the Director-General of UNIDO. He outlined the activities undertaken by UNIDO within the framework of the System of Consultations and

stressed the importance of the small- and medium-scale enterprise sector specifically for small island countries in the Caribbean region. He drew attention to a particular operation entitled "boot straps" whereby Puerto Rico had demonstrated to the world how a poor island with little agricultural development could progress to an industrialized island if leaders with initiative and drive were to create the environment to increase the entrepreneurial initiative of its hardworking population. Puerto Rico is now a country ready to share its development experience with other countries. He went on to say that small- and medium-scale enterprises had received support in many developing countries all over the world but had encountered mixed success. The First Consultation on Small- and Medium-Scale Enterprises including Co-operatives and this Expert Group Meeting should recommend how the development of small- and medium-scale enterprises could be enhanced. He invited the women delegates to actively participate in the discussions since women played a major role in the development of small- and medium-scale enterprises in many countries of the world.

7. Finally, he pointed to the importance of increasing bilateral and multilateral co-operation. Technical co-operation should not be a statistical game; available resources should be used more effectively to achieve positive results as in the case of the Caribbean Basin Initiative (CBI).

8. The Secretary-General of ACP, in his address to the Meeting, mentioned that in all ACP countries small- and medium-scale enterprises have played an important role in employment creation and small- and medium-scale enterprises contributed to an essential part to the industrial development of these countries. At present 45 per cent of all employment in the ACP countries is provided by small- and medium-scale enterprises. These enterprises have become the seed-bed for industrial development since they provide stimulus to industrial entrepreneurs; to employment creation in urban and rural areas; to mobilization of indigenous financial resources; and to development of indigenous technologies.

#### SUMMARY OF DISCUSSIONS

##### The role of small- and medium-scale enterprises in employment generation in the Caribbean

9. Two speakers from Puerto Rico introduced this item. One of the speakers gave an overview of the employment situation in Puerto Rico with special focus on small- and medium-scale enterprises. The sector offered steady employment opportunities with small seasonal changes or changes resulting from fluctuations in the economy. The trend indicated that there will be a continuous growth in job creation in this sector.

10. The second speaker explained the different training opportunities provided by governmental and other institutions for general training, specific training and retraining of people employed in the small- and medium-scale enterprise sector. Many of the training programmes were partly subsidized by the Government in the form of partial payment of salaries for the trainees or of payment of fees for instructors. The Meeting was of the opinion that skilled human resources have now become a very important element in economic development and form a competitive edge vis-à-vis the local competitor or manufacturers in competing countries. Discussions centred on the comparison of training facilities in the different Caribbean countries with those in Puerto Rico.

Institutional infrastructure conducive to the promotion of small- and medium-scale enterprises

11. In introducing this item the UNIDO Secretariat stated that a smooth development of small- and medium-scale enterprises required a conducive industrial environment as well as an efficient institutional infrastructure to make available a number of services to this sector. There was no need to give preference to a multi-purpose institute which provided all the required services to small- and medium-scale enterprises. Those comprehensive services could as well be provided by a number of specialized institutes offering jointly the same kinds of service provided they co-operated effectively, operated efficiently and in a service-minded manner. In practice there were sufficient good and bad examples for both types of institution.

12. Following the statement of the Secretariat a number of speakers from Puerto Rico explained the activities of their institutes and the services they offered to the small- and medium-scale enterprise sector.

13. In the course of the discussions the question of the definition of small- and medium-scale enterprises was raised and it was agreed that it should be left to the individual governments to determine their own definition suitable for the country.

14. Moreover, it was the view of the Meeting that it would be advantageous for small island countries if one institute was to look after all the needs of small- and medium-scale enterprises. However, the reality was different. In some countries services were rendered to those types of enterprise by a few institutes whose services were often badly co-ordinated.

15. Many participants expressed the view that the institutional infrastructure existing in Puerto Rico could be taken as a good example for a smooth development of small- and medium-scale enterprises through the provision of the necessary facilities.

Extension services to promote small- and medium-scale enterprises

16. In introducing that item the UNIDO Secretariat and speakers from Puerto Rico underlined the importance of extension services to small- and medium-scale enterprises. Rendering essential services to small- and medium-scale enterprises would enable them to compensate for their sectoral weaknesses. The Meeting stressed the necessity for considering two ways of counselling small- and medium-scale enterprises: by lectures to teach groups of people certain techniques and abilities; and advising entrepreneurs on how to overcome their specific and individual problems. Views were expressed on the most suitable legal status of the institutes providing such services (governmental, semi-governmental or private) and on the costs to be charged for services rendered. A discussion took place as to whether or not development assistance should be provided by the same institute as financial assistance.

Financing of small- and medium-scale enterprises

17. Statements on the subject were made by representatives of local commercial and development banks as well as by the Inter-American Development Bank. The following major points were raised:

- Small-scale enterprises were often under-capitalized and it was not easy to obtain loans due to insufficient collateral security.

- Banks charged high administrative and operational costs in handling small loans.

18. Close co-operation between the development institutes and the banks was therefore recommended. Development institutes should bear the costs as well as the responsibility of project appraisal and the provision of necessary extension services. The banks should look after the granting of loans. Another hampering factor in obtaining loans was the long space of time for receiving loans. The availability of funds within a reasonable time was more important than the interest rate.

19. The statement of the representative of the Inter-American Development Bank focused on the financial requirements of micro and family enterprises. In that sector 30 to 40 per cent of entrepreneurs were women. The disbursement of loans was often effected through non-governmental organizations and other financial intermediaries. This programme of the Inter-American Development Bank was very successful, almost every country in Latin America was now implementing a scheme of supporting micro enterprises. Those programmes concentrated on the provision of training and mini loans. The repayment rate for the very small loans was very satisfactory (90 per cent).

20. The representative of the Department of Commerce of Puerto Rico informed the Meeting of its service scheme to satisfy financial needs. The services provided by FOMENTO, by the Commercial Development Corporation, as well as by the commercial banks were:

- Guarantee fund loans to small- and medium-scale enterprises;
- Micro enterprise loans (US\$1,000 to US\$10,000);
- Direct loans for artisans and craftsmen.

The Commercial Development Corporation also operated training schemes to meet the specific demands of the loan recipients. The training scheme included courses which had been very successful in transmitting managerial skills. Special courses of this nature had been set up for training of women.

#### Marketing opportunities of small- and medium-scale enterprises

21. The subject was introduced by the participant from the International Marketing Institute, Boston College. He stated that every enterprise whether small-scale or large-scale should determine its marketing concept in setting up a product strategy; a price strategy; a promotion strategy and a distribution strategy. The execution of such a concept would provide the enterprise with a comparative edge over the competitor. In addition, a difficult but important task would be to define the target market to determine a specific segment of the market which would offer the most favourable sales conditions for the product. Since the market was constantly changing, market research was required to detect the changes and react accordingly.

22. During the discussion it was emphasized that the small island countries of the Caribbean (5 million people living in 10 States) required a specific marketing strategy which should consider the local market as well as the export possibilities to other Caribbean countries including Puerto Rico and the United States' market.

23. Consensus was reached on the fact that marketing was not an easy task to be fulfilled by small- and medium-scale enterprises but that it was important for a well-operating business. Every entrepreneur should start an active marketing strategy in order to become more aware of the marketing requirements, using good marketing techniques and producing a product that satisfied the customers in the national as well as in the export market.

Lessons to be learned from Puerto Rico's experience in the promotion of small- and medium-scale enterprises

24. As can be drawn from the statements made by speakers from Puerto Rico, that country had made tremendous progress in turning a "poor house into a model" within 45 years. Much assistance had been given by the Caribbean Basin Initiative (CBI). Success was not reached by means of this act but by the people who used this tool effectively. The possibility to make available all the institutional and physical infrastructure facilities had helped to achieve this goal. Also the continuity and long-term development support to small- and medium-scale enterprises as well as the political stability had encouraged the hardworking people to reach their goal.

Recommendations made by the Meeting for UNIDO and governments

25. Based on the situation of small- and medium-scale enterprises in the Caribbean countries and the discussions held during the Meeting, the following recommendations were made for the promotion of small- and medium-scale enterprises in the region.

(a) The following services are required and each country should try to ensure that they are made available:

- (i) Preparation of pre-feasibility, feasibility and marketing studies, and assessment of business ideas;
- (ii) Business awareness education;
- (iii) Business development services (extension services) on managerial and economic matters such as economic counselling, market advice, information on financing, packaging, distribution channels etc.;
- (iv) Information on and advice (extension services) in techno-economic matters such as availability, source and cost of appropriate technology, machine and equipment, raw materials etc., including systems for quality control;
- (v) Promotional services to publicize information on services available to small businessmen, where it is available and how it can be obtained.

(b) In providing the necessary services, governments/countries should ensure participation of experienced technically-trained persons who can inspire confidence from both the private and public sectors. When the services are offered from a variety of different sources, provision should be made for collaboration between them.

(c) In some cases, common services may be arranged for a group of small businesses, e.g. accounting, joint purchasing, joint marketing; the provision of such services can also be made available by other businesses.



(d) UNIDO should consider a programme of institutional strengthening of agencies which collaborate with small businesses.

(e) UNIDO should facilitate networking, information-sharing and learning among countries and agencies which are consciously involved in promoting small businesses.

26. The Meeting recognized that availability of finance was the "number one need" of small- and medium-scale enterprises, but entrepreneurs face the following problems:

- Traditional banking institutes were often unwilling to assist the small- and medium-scale enterprise sector because of lack of adequate collateral;
- Lending institutes were reluctant to provide working capital loans;
- Venture capital was hardly to be obtained by small- and medium-scale enterprises.

27. Therefore the Meeting further recommended that:

(a) Efforts should be made at national and/or regional levels to create financial instruments to facilitate the provision of loans to small- and medium-scale enterprises in general and for working capital in particular.

(b) Since small- and medium-scale enterprises were often located outside capital cities, financial services should be provided on a widely dispersed basis, also covering less developed and rural areas in order to reach small- and medium-scale enterprise clients.

(c) Governments should guarantee loans for viable small- and medium-scale enterprises in priority sectors if the entrepreneur is not able to provide adequate security for loans to be granted by commercial banks.

(d) Requests for financing small- and medium-scale enterprises operated by women entrepreneurs should be given preference.

(e) Self-starter funds for school leavers and young adults should be established; in addition, business incubator services should be provided.

(f) The establishment of co-operatives including co-operative banking for small- and medium-scale enterprise clients should be encouraged.

(g) Training facilities in financial management for entrepreneurs of small- and medium-scale enterprises should be instituted.

ANNEX

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