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

Manila, Philippines, 14-17 November 1988

REPORT*

50

* This document has not been edited.

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I. ORGANIZATION OF THE MEETING

1. The Expert Group Meeting on Small- and Medium-Scale Enterprises including Co-operatives for the Asian region was held at Manila, Philippines, from 14 to 17 November 1988. The Meeting was organized by UNIDO in co-operation with the Department of Trade and Industry and the University of the Philippines Institute for Small-Scale Industries.

2. The Meeting was opened by Mr. Ceferino Follosco, Under-Secretary, Department of Trade and Industry, who invited the participants to explore non-traditional areas in small- and medium-scale enterprise development. Among the "new" and "innovative" approaches cited were: a system of reserving certain products for the exclusive manufacture by small- and medium-scale enterprises; the setting-up of common service facilities in production as well as in marketing; streamlining of the bureaucracy, including decentralization moves, to better facilitate entrepreneurial initiatives. Mr. Follosco referred to some of the measures being implemented by the Philippine Government to provide encouragement and incentives to the sector. He informed the participants that a Magna Carta for small enterprises was to be discussed in the Congress with the purpose of encouraging the underground economy to surface and join the mainstream of economic activities.

3. The Director of the System of Consultations Division welcomed the participants on behalf of the Director-General of UNIDO. He apprised the delegates of the primary objective of the System of Consultations programme which is to raise the share of developing countries in world industrial production through the promotion of new forms of international co-operation based on the analyses of the problems and potentials of specific industrial subsectors at the national and regional level. He underscored the concern for small- and medium-scale enterprises as a breeding ground for unleashing latent entrepreneurial talent and as a critical constraint to the industrialization of developing countries. He urged the participants to: (i) assess the effectiveness of macro-economic and institutional support policies to small- and medium-scale enterprises in terms of creating a dynamic entrepreneurial base for industrialization; (ii) analyze past experience concerning instruments used to promote the sector and recommend the most suitable forms of support assistance considering the various stages of development; and (iii) identify the crucial constraints and considerations for promoting and developing an industrial culture conducive to entrepreneurial development.

Election of officers

4. The following officers were elected:

Chairman: Joel Mari Yu (Philippines), Assistant Secretary,
Department of Trade and Industry

Vice-Chairman: T.D.J. Vitharana (Sri Lanka), Senior Assistant Secretary,
Ministry of Industries and Scientific Affairs

Rapporteur: Amer A. A. Zaid (Yemen Arab Republic), Manager, Small
Enterprise Unit, Industrial Bank of Yemen

Adoption of the agenda

5. The Meeting adopted the following agenda:

- Opening of the Meeting
- The role of small- and medium-scale enterprises in economic development and employment creation
- Institutional infrastructure conducive to the promotion of small- and medium-scale enterprises
- Industrial extension services to promote small- and medium-scale enterprises
- Financing of small- and medium-scale enterprises
- Marketing of small- and medium-scale enterprises - subcontracting/national and international co-operation with other industries
- Micro enterprises (informal sector) - co-operatives
- Presentation of recommendations and their adoption by the Meeting
- Closure of the Meeting

II. SUMMARY OF DISCUSSIONS

The role of small- and medium-scale enterprises in economic development and employment creation

6. The Meeting underlined the role of small- and medium-scale enterprises in contributing to the achievement of national economic objectives, particularly in employment generation, eradication of poverty, redistribution of income, reduction of regional imbalances, promotion of vertical integration, and in saving or earning of foreign exchange. Small- and medium-scale enterprises provided a breeding ground for the development of entrepreneurship which was recognized to be a key factor for industrialization in developing countries. The potentials of profitable investments was continuously expanding as a result of economic growth and the on-going restructuring process in several developing countries.

7. On the other hand, strategy and policy formulation for the development of small- and medium-scale enterprises tended to be the result of broad perceptions of the role of those enterprises in economic development rather than of rigorous analysis specifically focused on the sector. The Meeting recognized the conceptual and definitional difficulties, but urged that industrial planning methodologies and procedures be devised to integrate small- and medium-scale enterprises with the overall economy in general and the industrial sector in particular. In the view of some of the participants, macro-economic policies have built-in biases towards large-scale industries, particularly towards the use of capital-intensive technologies. There was a perceived need for coherent, consistent and equitable policy measures as these varied with the sizes of target groups, and for spelling out the components of policy to facilitate the access of small- and medium-scale enterprises to scarce economic inputs.

8. The Meeting exchanged views on some of those policy instruments used to stimulate small- and medium-scale enterprise participation in plan implementation such as the introduction of more effective incentive systems; the market reservation of specific products for small- and medium-scale enterprises; the provision of a wide range of promotional innovations such as

foster-father programmes;^{*/} and public investments in infrastructure and research and development. The Meeting underlined that assistance measures should have a fixed time-frame since the ultimate objective was that small- and medium-scale enterprises should attain self-reliance and viability. Small- and medium-scale enterprises stood to contribute efficiently to national economic objectives if their ability to be responsive to the signals of the market place were developed as a result of the support measures extended to them.

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

9. Based on the experience of their countries, the delegates emphasized the need for institutional support in the development of small- and medium-scale enterprises. It was felt that at the early stage of development of the sector, the government has to play a catalytic role in providing the necessary institutional support. However, with the gradual development of this sector, private initiatives by way of institutional support from federations, associations and co-operatives could be stimulated to play a more prominent role in the development of the small- and medium-scale enterprise sector. The stage of development of this sector was identified as the determining factor as to whether there should be a single-window or multiple-window for institutional support. With the development of the sector it would be necessary to establish specialized institutions for providing the required support services, thereby necessitating a multiple-window approach. It was also pointed out that the support offered by the institutions should be promotional and not protective, since the latter does not help to bring about a sustained and healthy environment of small- and medium-scale enterprises.

Industrial extension services to promote small- and medium-scale enterprises

10. The Meeting felt that integrated entrepreneurship development programmes which include comprehensive extension services have a critical role to play in the development of the small- and medium-scale enterprise sector by creating an environment contributing to the growth of the sector. Experience gained in this area in various countries was discussed. It was also felt that institutes for training of trainers for entrepreneurship development programmes which exist in some developing countries should be utilized for training of trainers from other countries, thus contributing to economic co-operation among developing countries. The Meeting emphasized that UNIDO's programmes in this area should be intensified.

11. The question of effectiveness in delivery of extension services in different countries was also discussed at length. There was unanimity that at the initial stage of development of the small- and medium-scale enterprise sector, extension services and technical common facility services should initially be fully funded by the government, but the subsidy could be reduced over time, and the private sector as well as other non-governmental initiatives be allowed to grow as the development of the sector advances.

^{*/} The foster-father programme has been developed in Indonesia and goes beyond the normal subcontracting arrangements between large- and small-scale enterprises. In addition to the market outlet, it offers advice on technology, training, finance etc. to small-scale enterprises on a long-term basis.

12. The problem of rehabilitation of the small- and medium-scale enterprise sector evoked considerable interest. It was felt that extension service capabilities should be strengthened for effective trouble-shooting and necessary corrective measures with the view to preventing the need for rehabilitation. It would be appropriate to strengthen institutional capabilities for carrying out diagnostic studies to determine causes of poor utilization of capacity in the small- and medium-scale enterprise sector. Based on the findings of these studies, a package of remedial measures could be developed for rehabilitation.

Financing of small- and medium-scale enterprises

13. Most of the participants expressed concern about the inadequate flow of finance to the small- and medium-scale enterprise sector. On account of the higher risks and administrative costs involved in lending to small- and medium-scale enterprises, it was felt that policy and operational measures should be sought to improve access of small- and medium-scale enterprises to finance. It was also noted that experience of some countries in setting up special financing institutions such as development banks or financial corporations for small- and medium-scale enterprises, coupled with instituting credit guarantee schemes, had shown a reasonable measure of success.

14. The delegates strongly felt that innovations were required with regard to collaterals for loans to small- and medium-scale enterprises. The practice of treating assets like equipment and factory building created out of loans as a collateral, through the system of supervised credit, should be increasingly adopted by the development bankers who need to move away from their conservative attitude of harsh and rigorous collateral practices.

15. The participants also felt that in order to improve the flow of funds to small- and medium-scale enterprises, the entrepreneurs should be given extension service support in identifying viable projects and preparing bankable project reports.

Marketing of small- and medium-scale enterprises - subcontracting/national and international co-operation with other industries

16. The Meeting stressed the importance of policies and programmes for strengthening institutional capabilities to assist the small- and medium-scale enterprise sector in marketing. It was felt that the modernization of the sector with a view to improving quality, productivity and reducing costs is crucial for widening the size of domestic and export markets. While recognizing the role played by UNIDO, the participants felt that the Organization's global efforts must continue.

17. The participants appreciated the role of subcontracting in the modernization of the small- and medium-scale enterprise sector leading to the expansion of domestic and export markets. The setting-up of subcontracting exchanges should take place at different levels. Regional and international subcontracting have a vast potential for the modernization of the sector. Appropriate policy and operational measures should be developed to create an environment conducive to the growth of subcontracting.

Micro enterprises (informal sector) - co-operatives

18. The Meeting appreciated that the role of the informal sector in employment creation in developing countries was increasingly recognized. However, it was felt that integrated entrepreneurship development programmes were needed to upgrade artisans and craftsmen into viable industrial producers.

19. The delegates expressed concern about the need for appropriate training programmes in different trades and activities in the informal sector. It was noted that to a large extent financing of the informal sector was provided by private money lenders and through other non-institutionalized financial sources, thereby depriving it of its fair share of earnings.

20. In this context the participants felt that associations and industrial co-operatives could act as institutionalized channels for the flow of funds to the informal sector. These institutions should also provide the required support to their members in procuring raw materials and marketing assistance etc. The Meeting concluded that while governments should offer policy support for the promotion of this sector, the programme as such should be left to associations, co-operatives, non-governmental and private voluntary organizations and other social groups.

III. CONCLUSIONS AND RECOMMENDATIONS

The role of small- and medium-scale enterprises in economic development and employment creation

21. The Meeting affirmed the important role and substantial contribution of small- and medium-scale enterprises to the achievement of national economic and social objectives aimed at the creation of employment opportunities, redistribution of incomes, elimination of poverty, redressing regional imbalances and promotion of intersectoral and intra-industry linkages. Sustained economic development required a strong entrepreneurial base to overcome current problems and to face future challenges arising out of technological advances influencing patterns of production and trade.

22. Strategies and policies should be tailored to the specific needs of small- and medium-scale enterprises to allow these enterprises to play their assigned role in economic development. Planning methodologies and practices were generally deficient in directly addressing this issue, thus hampering the translation of broad policy pronouncements into operational instruments. The coherence of macro-economic policies with promotional measures in small- and medium-scale enterprises was vital for creating an environment in which small- and medium-scale enterprises could thrive. This would also bring about a much needed transparency in the scope, limit and time-frame of support measures, the target groups for which they are intended to serve, and the respective responsibilities and functions of the public authorities and private groups.

23. A small- and medium-scale enterprise-specific policy formulation in the macro-economic content is also basic to striking an even balance between equity and efficiency considerations.

24. The Meeting recommended that:

(a) Current planning procedures and practices, which in terms of analysis and policy prescription generally focused on production and allocation of scarce resources to overcome broadly-defined constraints, should introduce

methodologies which could help formulate small- and medium-scale enterprise-specific strategies and policies as well as targets;

(b) Planners and policy-makers should devote efforts to elaborate conceptual and definitional issues to facilitate analysis and formulation of assistance measures specific to the target groups in the small- and medium-scale enterprise spectrum;

(c) Criteria should be established to foster a common understanding and broad consensus of what constitutes a small- and medium-scale enterprise in developing countries to facilitate international comparison and international co-operation.

(d) Support measures should be consistent with the specific target groups addressed, the specific stated policy objective and overall macro-economic policy. Such support measures should have a specified time-frame to foster an environment of efficiency conducive to stimulating a dynamic supply of entrepreneurs;

(e) Mechanisms and procedures should be introduced where they do not exist or streamlined where such are already in place to translate broad sectoral objectives into operational guidelines together with the incentive measures offered to stimulate the timely entry of small- and medium-scale enterprises;

(f) International co-operation should be sought with regard to exchange of experience in plan and policy formulation and plan implementation; incentive systems; market information to stimulate specialization and complementarity; sources of financing; and supply of technology and capital equipment;

(g) Universities and economic research institutions should create departments which cater specifically for the development of policy issues of small- and medium-scale enterprises and monitor their performance in the context of evolving patterns of national and international economic relationships.

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

25. The Meeting recognized the critical importance of institutional infrastructure in creating an environment leading to the growth of small- and medium-scale enterprises. Accordingly, it recommended that:

(a) At the early stage of development of the small- and medium-scale enterprise sector the government should play a catalytic role, but private sector and other non-governmental initiatives should be allowed to grow and provide institutional support after a certain stage of development has been reached.

(b) The degree of the development of the small- and medium-scale enterprise sector must be the determining factor for the issue whether there should be a single or multiple-window for institutional support. In reaching a higher level, specialized institutions would be required for the development of the sector.

(c) Institutional support measures to be provided to small- and medium-scale enterprises should be promotional rather than protective. This

would lead to a steady development of the small- and medium-scale enterprise sector.

Industrial extension service to promote small- and medium-scale enterprises

26. While appreciating the important role of integrated entrepreneurship development programmes, including comprehensive extension services, as an instrument for reaching individual small- and medium-scale enterprises, the Meeting recommended that:

(a) Ways and means should be continuously sought to improve the effectiveness of integrated entrepreneurship development programmes in the delivery of extension services to small- and medium-scale enterprises.

(b) Initially, extension services and other technical common facility services need to be fully funded by the government, but the subsidy could be reduced over time, and the private sector as well as other non-governmental initiatives be allowed to grow as the sector develops.

(c) Institutional capabilities should be strengthened to enable trouble-shooting for evolving necessary corrective measures, thus preventing the need for rehabilitation. Institutions should also be equipped with the expertise to elaborate a package of rehabilitation measures based on a proper analysis of the situation.

Financing of small- and medium-scale enterprises

27. Noting the fact that the flow of funds to small- and medium-scale enterprises is inadequate on account of higher administrative costs and perceived higher risks in lending, delays in the appraisal of projects and disbursement of loans, the Meeting recommended that:

(a) Policy and operational measures be developed to improve the access of small- and medium-scale enterprises to institutional finance;

(b) Depending upon the requirements of a country, either a special unit should be located in the financial institution for the appraisal of projects and disbursement of loans to small- and medium-scale enterprises or, if need be, even a separate financial institution could be created.

(c) Credit guarantee schemes should be instituted to tackle the problem of perceived higher risk in lending to small- and medium-scale enterprises.

(d) Effective extension service support should be provided to small- and medium-scale enterprises in identifying viable projects and formulating bankable project reports.

(e) Innovations are required regarding collaterals in view of the prevailing practice of insisting on a higher value of collateral which is one of the major reasons for a poor flow of funds to small- and medium-scale enterprises.

Marketing of small- and medium-scale enterprises - subcontracting/national and international co-operation with other industries

28. While underlining the importance of policies and programmes for strengthening institutional capabilities to assist small- and medium-scale enterprises in their marketing efforts, it was recognized that modernization

of the sector with a view to improving productivity and quality and reducing costs is crucial for widening the domestic and export market. Therefore, the Meeting recommended that:

(a) The programme of enterprise-to-enterprise co-operation among small- and medium-scale enterprises (both in the North-South and South-South context) should be intensified.

(b) Appropriate policy and operational measures should be developed to create an environment conducive to subcontracting. This would include the setting-up of subcontracting exchanges at different levels, since regional and international subcontracting have a vast potential for the modernization of the small- and medium-scale enterprise sector.

(c) Subcontracting should be viewed as a long-term relationship so that continued technological, managerial and financial support to small- and medium-scale enterprises by the large industry ensure steady modernization of the sector.

Micro enterprises (informal sector) - co-operatives

29. While noting with satisfaction that the informal sector is being increasingly accorded a more important role in employment creation, the Meeting recommended that:

(a) Appropriate entrepreneurial development training and comprehensive support service programmes should be taken up to upgrade the micro enterprises into viable, independent industrial producers.

(b) Industrial co-operatives and other associations should act as institutionalized channels for disbursing mini loans on guarantees which the informal sector can afford to provide.

30. On the basis of the above conclusions and recommendations, the Meeting recommended that the following possible issues be considered:

Issue 1: Environment conducive to sustained growth of small- and medium-scale enterprises

- Strategy and policy formulation
- Linkages between macro-economic policy and promotional measures
- Planning methodology and procedures specific to small- and medium-scale enterprises in facilitating their participation in pre-defined areas and formulating appropriate incentive measures
- Formulating and implementing integrated entrepreneurship development programmes

Issue 2: Productivity improvement

- Institutional infrastructure and extension services
- Transfer and development of technology for small- and medium-scale enterprises
- Marketing for small- and medium-scale enterprises and quality improvement
- Programme of enterprise-to-enterprise co-operation
- Programme of subcontracting

Issue 3: Financing of small- and medium-scale enterprises

- Policy and operational measures to improve access to institutional finance
- Effective implementation of lending policies
- Innovations in collateral requirements

IV. CLOSURE OF THE MEETING

31. After the adoption of the conclusions and recommendations by the Meeting, the Vice-Chairman thanked the participants for their active and enthusiastic contributions to the discussions. In his concluding remarks, the Director of the System of Consultations Division expressed his appreciation to the Government of the Philippines, and especially to the Department of Trade and Industry and the University of the Philippines Institute for Small-Scale Industries, for having provided excellent support in the organization of the Meeting, as well as to the participants for the great interest shown in the activities of the System of Consultations Division.

Annex I

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Annex II

LIST OF DOCUMENTS

The role of small- and medium-scale enterprises in the economic development process	IPCT.60(SPEC.)
Marketing for small-scale enterprises in Latin America and the Caribbean area	IPCT.71(SPEC.)
Financing of small- and medium-scale enterprises	IPCT.72(SPEC.)
Small and medium enterprises - some basic development issues	UNIDO/PC.137
Small-scale and rural industry development programmes and schemes in South-East and East Asia - An analytical synopsis of selected case studies	