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**PROMOTION OF SMALL- AND MEDIUM-SCALE ENTERPRISES AND HANDICRAFTS INDUSTRY  
IN THE UNION OF SOVIET SOCIALIST REPUBLICS\***

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\* The views expressed in this paper are those of the author and do not necessarily reflect the views of the Secretariat of UNIDO. This document has not been edited.

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## INTRODUCTION

1. Small- and medium-scale enterprises as well as the handicrafts industry have been the subject of numerous studies in many countries. UNIDO and other international organizations have repeatedly dealt with this topic.
2. This paper, therefore, aims at discussing the optimum size of productive units. An enterprise has reached optimum size when investment and production costs per unit are at a minimum.
3. In industrialized countries more emphasis has recently been put on small-scale enterprises. This development is due to changes in the economic structure of these countries, and especially to the increased growth of the services sector.
4. In developing countries small-scale enterprises have traditionally played a prominent role as they are better suited to perform under conditions caused by limited capital supply and other problems hampering the development of industry.
5. In the Union of Soviet Socialist Republics the role small-scale enterprises played in industrial development was underrated for a long time. Strategies were geared towards the development of large-scale, in particular heavy industries. Production and investment planning concentrated on mass production of standard products requiring minimum investment costs. Emphasis was placed on heavy industries.
6. Thus, little attention was paid to small- and medium-scale enterprises which often did not have access to capital and could not train their personnel. Consequently, industrial development of certain branches and regions was hampered. Also, accumulation of the means of production in the hands of the State did not always produce positive results.
7. Today, in view of the reduced economic growth rate, shortages in the supply of consumer goods, especially food, and other problems, economic policies as well as the industrialization concept have been reviewed.
8. In 1985 the Union of Soviet Socialist Republics started to implement economic reforms and restructuring. It became clear that development of small-scale enterprises was a necessity and must not be impeded by continued support of large industrial complexes.
9. One advantage offered by modern technologies, in particular micro-electronics, is the promotion of co-operation between small- and medium-scale enterprises and large industrial concerns which help to decentralize industrial processes and operations and thus foster the development of the small-scale sector.
10. This report attempts to:
  - Identify the role of small- and medium-scale enterprises in the economic development of the Union of Soviet Socialist Republics;
  - Summarize the experience of these enterprises in the Union of Soviet Socialist Republics;

- Examine problems encountered in the development of small- and medium-scale enterprises and crafts at the sectoral and regional levels; and
- Make recommendations for further development of the sector.

## I. THE ROLE OF SMALL- AND MEDIUM-SCALE ENTERPRISES IN THE INDUSTRIALIZATION STRATEGY OF THE UNION OF SOVIET SOCIALIST REPUBLICS

### Definition of small- and medium-scale enterprises

11. It is difficult to give a definition of a small-scale enterprise. Some experts talk about a "small-scale" enterprise, others about "small-scale" production. The definition varies from one country to another and depends on the level of industrialization and the criteria used. Nevertheless, there is a common approach which includes the following elements:

- amount of capital invested;
- number of personnel; and
- value of annual production.

12. In the Union of Soviet Socialist Republics a fourth criterion is used, i.e. the annual amount of energy consumption. Small-scale enterprises are sometimes defined as those having 50 to 100 employees, fixed capital of up to Rbl 100,000 and an annual production value of Rbl 1 million. The upper limit, however, may be 200 workers, and Rbl 200,000 and Rbl 5 million respectively.

13. In determining the overall number of small- and medium-scale enterprises, there is one difficulty: statistics do not distinguish between small- and medium-scale and large-scale enterprises. They also lack data on crafts.

14. Services are usually performed by the small-scale sector. In the Union of Soviet Socialist Republics it is the responsibility of the public sector. Handicraft usually produces skilled craft articles; it is sometimes industrialized.

### Advantages and disadvantages of small-scale enterprises

15. In discussing the development of small- and medium-scale enterprises, a number of questions arise. What is the basis for their functioning? Do they constitute an effective economic mechanism? What are the differences to large-scale enterprises?

16. Historically speaking, economic policy in the 1920s was geared towards the rehabilitation of the national economy which was destroyed as a consequence of two wars. In the 1930s, industrialization was promoted on a large scale, with small- and medium-scale enterprises playing a complementary role only. Currently, the emergence of new technologies and of the human factor encourages the development of small-scale enterprises.

17. The advantages offered are the following:

- (i) Maximum utilization of available natural, manpower and financial resources. While it may be profitable for a small-scale enterprise to e.g. exploit a mineral deposit of secondary importance, a large-scale enterprise may not find it worthwhile to do so. Likewise, small-scale enterprises may employ women having small children,

pensioners, school children and students which large enterprises would never do. Thus, small-scale enterprises take better advantage of human potential available.

- (ii) Regarding financing, funds are made available from local budgets of independent entities such as local governments, cities, villages and public associations, i.e. Communist Youth Association (KOMсомол).
- (iii) With respect to technology, small- and medium-scale enterprises can fully utilize available technologies and modify them according to their local or personnel requirements and to the needs of the different nationalities in the various Republics.
- (iv) With regard to marketing, small- and medium-scale enterprises are more flexible than large ones and can thus more easily respond to market needs based on seasonal and other demands. Also, they are less afraid of taking commercial risks than large enterprises.
- (v) Small- and medium-scale enterprises do not burden the economy as much as large-scale enterprises since they often utilize existing infrastructure. Also, they often manufacture consumer goods from by-products and wastes of large-scale enterprises, e.g. wood products.
- (vi) Another advantage is the possibility of leasing entire enterprises or parts thereof, and the possibility of establishing co-operatives.

## II. SMALL- AND MEDIUM-SCALE ENTERPRISES IN THE NATIONAL ECONOMIC DEVELOPMENT OF THE UNION OF SOVIET SOCIALIST REPUBLICS

### Development of small- and medium-scale enterprises during the foundation of the Union of Soviet Socialist Republics

18. In carrying out its socialist industrialization programme, the Union of Soviet Socialist Republics started to rehabilitate the economy after the First World-War. In 1920, industrial production accounted for only 13.8 per cent of the figure of 1913. The economy was multi-sectoral and consisted of public, semi-public and private sectors, co-operatives, "foreign concessions" (e.g. for mining), and "communes". All of these co-existed but were dominated by the public sector. Small enterprises and crafts were under government control and supplied with raw materials and financial resources.

19. From 1930s onwards, the Government controlled the entire economy and small-scale industries started to play a secondary role.

### Present position of small- and medium-scale enterprises

20. It is clear that concentration of production in large concerns should not hinder the development of small- and medium-scale enterprises which account for approximately 46 per cent of the total number of independent state enterprises in industry. This figure does not include power stations, electrical transmission networks and heat transfer stations. At the beginning of the 1980s, their share in fixed capital was 3.3 per cent and in the value of national industrial production 5.5 per cent respectively. Ten years ago, the number of enterprises employing 200 workers was 3 per cent higher than today. However, the number is increasing again.

21. Medium-scale enterprises operate in many regions and industrial branches producing different products and also engage in mass production. If well organized, they can be very efficient. Industrial branches producing a broad range of non-unified tools and equipment, such as electro-technical industries manufacturing machinery for food and other light industries and for road and building construction, are cases in point.

22. Consumer goods and services are other traditional areas of activity. Mention should also be made of food-stuffs (dairies, bakeries, fruit and vegetable processing) located near consumer markets, clothes, toys and musical instruments.

23. In various regions, subsidiaries of large factories are established to undertake work preparatory and complementary to large-scale industries, e.g. painting and varnishing of metal products etc.

24. Regarding handicrafts, workshops producing national costumes, engravings and carvings are important. The following regions are successfully producing the products listed:

<u>Estonia:</u>	embroidery, engravings, jewellery
<u>Lithuania:</u>	embroidery, ceramics, amber jewellery
<u>Russia:</u>	bone carvings (figurines and toys), miniature paintings from Palekh, Fedoskino, Mstera, Gjel and Khokhloma, laces from Vologda, malachite articles from the Ural
<u>North and Siberia:</u>	fur goods, bone carvings
<u>Caucasus:</u>	engravings, carpets and others
<u>Central Asia:</u>	carpets, engravings, musical instruments and ceramics
<u>Ukraine:</u>	wood carving, embroidery, ceramics and others

25. The network of craft industries is expanding and various craft industries begin to play a new role with the assistance of such factors as development of co-operatives, activities of different public organizations, in particular the Soviet Cultural Foundation and others. All this can happen only in the period of Perestroika, Glasnost and democratization.

Potential of small- and medium-scale enterprises: the example of Uzbekistan

26. Industrialization in the Republic of Uzbekistan was historically based on certain raw materials, i.e. cotton, silk, jute, kenaf (sisal) and fur production (karacul). Processing of raw cotton, other raw materials and manufacture of food products accounted for 90 per cent of industrial production before the revolution. Processing facilities were mostly traditional, privately-owned and of small scale. They were not subject to private planning. Later on, between 1930 and 1940, large-scale industrial complexes were built for cotton processing and for food industries. Additional small- and medium-scale production units were set up for chemical industries, machine tools, food and consumer goods close to raw material sites and consumption centres.

27. Industrial output grew 2.4 times over this period. In small towns and rural areas, hundreds of small workshops and production facilities were established. Over the period 1976-1986, 550 units were set up in various economic branches. Consequently, small-scale industry employment increased up to 100,000.

28. In Uzbekistan small- and medium-scale production of consumer goods and food products was very successful. The increase in the production of fruits and vegetables, meat and milk products as well as canned food is mainly attributable to the development of the small-scale industry sector.

29. The rapid growth of the population required increased generation of jobs, and the development of the small-scale industry sector helped to alleviate the unemployment problem. Along with the improvement in the standard of living, the educational and cultural level of the population was raised.

30. Low mobility of the population in Uzbekistan is another argument in favour of small- and medium-scale enterprises in small towns. Also, the relatively short period of time required to establish small- and medium-scale enterprises, as well as small investment involved and the specialization of production, are other advantages of such enterprises.

31. At present, there are more than 120 small- and medium-scale enterprises operating successfully under the supervision of the Ministry of Light Industries in Uzbekistan. Most of them are branches or workshops of the Fergana or Buhara textile mills.

32. A study of 60 small- and medium-scale enterprises located in the Fergana valley was undertaken by the Uzbekistan Labour Research Institute. The study proved the considerable social effect of small- and medium-scale enterprises, especially in the field of secondary education and employment of women. Of the total labour force working for the small-scale industry, 12.6 per cent were secondary school graduates; the number of women employed ranged from 58.1 per cent to 93.4 per cent in the leather, silk, cotton and textile subsectors. 80 to 100 per cent of employees in small- and medium-scale enterprises were Uzbeks.

33. A large part of Uzbekistan is desert. Thus, the small- and medium-scale industry tries to fully utilize all available land, even if not irrigated or of bad quality. Main products are cotton and other sub-tropical products such as fruits and vegetables. Small-scale industries make optimum use of the available land and raise the living standard of the population by creating employment and providing consumer goods, especially food-stuffs, to the population. In addition, Uzbekistan has a strong local tradition regarding employment of women. Small- and medium-scale industries are therefore very well suited to provide work for women.

34. The example of Uzbekistan shows that small- and medium-scale industries are ideally located in small towns or rural areas near the sites of raw materials and where there is an abundant labour force. Most of the facilities could be expanded into agro-industrial complexes providing jobs to the rural and urban population and thus contributing to solving the unemployment problem, especially for women. In addition, small-scale industries in small villages produce 75 per cent of all consumer goods in Uzbekistan.

35. Job creation is very important for small towns where people move from big cities like Tashkent, Samarkand or Buhara. Over the period 1970-1975, 81 new towns appeared on the map of Uzbekistan and urban population amounted to 42 per cent of the total population. To create employment, 242 small- and medium-scale enterprises were set up between 1981 and 1986 in the Republic of Uzbekistan.



36. The above shows the contribution of the small- and medium-scale sector to social and economic development in Uzbekistan.

### III. INCREASING PRODUCTIVITY OF SMALL- AND MEDIUM-SCALE ENTERPRISES

#### Sectoral aspects

37. Over the last few decades, small- and medium-scale enterprises have encountered problems which have as yet not been solved. They were unable to avail themselves of technological advances due to lack of capital and skilled personnel. Also, workers did not take much interest in their work. Therefore, the problem has been examined at the national level. Issues such as outdated equipment, lack of co-operation, and working and living conditions inferior to those of large industry workers need to be tackled on a regional and sectoral basis in order to raise productivity. Specialization has also to be further increased.

38. In restructuring the small-scale sector, the following points should be kept in mind:

- Such enterprises may work in the same industrial branches as large-scale enterprises within the framework of established plans and programmes. Thus, they will supplement the production of large-scale enterprises which in turn will provide them with the technology required.
- Medium-scale enterprises may work in industrial branches related to those of large-scale enterprises, provide joint services and use equipment, storage and transport facilities jointly with the latter. Problems may also be solved jointly.

39. Light industries, in particular textiles, are suitable fields of activity for small- and medium-scale industries. While in 1985 15.3 per cent of all cotton spinning factories possessed 53.7 per cent of all spindles, and 12.5 per cent of all cotton-weaving mills almost 50 per cent of all weaving looms, productivity per machine used was far below that of smaller, less well equipped production units.

40. Due to the lack of manpower and the cumbersome administration, maintenance and repair is delayed, resulting in further production losses.

41. In view of these difficulties, reorganization of the internal structure of light industries was begun in 1987. Restructuring includes:

- The establishment of complex manufacturing units of a new type which covers all production processes from processing of raw materials to finishing of the final product; and
- The establishment of chambers of commerce, including research institutes, design workshops for women's clothes etc.

Such complexes are being established for all sectors of the light industry.

42. On this basis, expansion and decentralization of the light industry is promoted and small-scale enterprises will play an even more prominent role.

43. The Nairi industrial complex in the Armenian Republic is a good example of how the new policy works. The complex is composed of 28 factories with 50 to 70 workers each producing a shoe called "Masis". Every factory works according to its own production plan which determines the amount of raw materials to be processed. Factories are self-financed and wages depend on output. 20 per cent of Nairi's production is exported. The complex is highly profitable, and profits are used to purchase equipment and meet social costs.

44. Agro-industry is another field of activity where small- and medium-scale enterprises can operate more efficiently than large-scale ones. Priority is given by the Government to the development of this sector. Setting up a number of small food and agricultural produce processing plants located in agricultural areas requiring minor investment, reduction of losses, better maintenance of plant and equipment and improved transformation of agricultural products would help step up food resources by 15 to 20 per cent. Also, in order to combat the problem of food shortages, enterprises of all sizes will have to combine efforts.

45. Some Soviet economists feel that in planning future agro-industrial production capacity, the balance of market supply and demand is a very important issue. However, if available resources were fully utilized, and losses occurring during harvest and transportation reduced to a minimum, the establishment of medium- or even small-scale processing plants might often be sufficient and even more profitable than large-scale units.

46. Regarding technological advances, even small-scale enterprises should avail themselves of mechanization, automatization and other scientific and technological innovations.

#### Regional aspects

47. With respect to efficiency in small-scale enterprises, there are regional differences in the various Republics. Light industries are dispersed throughout the country and satisfy basic consumer needs. Consumer goods such as clothes, shoes, leather articles, furniture, certain chemicals and souvenirs are produced locally and designed in accordance with regional demand and traditions.

48. The promotion of industrial subsectors in various regions is important not only for the industrial but also for the social development of these regions. Therefore, in restructuring light industries, particular attention is paid to diversifying the industrial base of the regions/cities concerned. Areas dominated by heavy industries are therefore considered as potential sites, e.g. for small knitting, sewing or spinning units. Small cities and agricultural areas are especially well suited as locations for small light industry factories. In view of the geographical situation of the Union of Soviet Socialist Republics and its population density, the central part of its European region and the Ural seem to be especially suitable as sites for branches of large enterprises. Decentralization in the textile industry is a case in point, and the complex textile programme of the Russian Federation is already under implementation. Under this programme, branches are set up in small cities and districts.

49. In the Soviet Middle Asian Republics, branches and workshops of large enterprises are being established, thus alleviating the problem of unemployment in these Republics.

50. The granting of more rights and independence to the local authorities facilitates the establishment of small- and medium-scale enterprises and of workshops and other facilities. At present, more than 5,000 small enterprises and workshops fall within their jurisdiction. For example, the Leningrad Executive Committee and French businessmen are creating joint ventures of small or medium scale. Public organizations now have the right to establish their own independent enterprises which may also deal with foreign economic relations.

#### IV. PERSPECTIVE OF SMALL- AND MEDIUM-SCALE ENTERPRISES WITHIN THE PRESENT RESTRUCTURING PROCESS

51. The Soviet economy is now at a turning point, i.e. it is shifting from resource consuming to energy and labour saving modern technology. This process involves the tackling of complicated socio-economic problems which cannot be overcome without continuing improvement of national economic mechanisms in general and without efficient work of production complexes and units in particular. The main issue in this strategy is the rapid development of new technologies and also the improvement of the sectoral and regional structure of industry.

52. Another major issue is the rapid change of the role of the enterprise in juridical terms. Enterprises have been given greater autonomy by the Act on Public Enterprises (including those of small and medium scale).

53. Both economic and legal reform depend on the decentralization of the management of enterprises, i.e. central control has to be reduced. Ministries and other central bodies will control enterprises only in general terms. The governing principles will be self-financing, independent planning of supply, production and distribution, independent fixing of prices, independent marketing and free choice of suppliers.

54. The success of this process depends on the introduction of new methods of collective self-management.

55. In addition, the issue of state ownership is viewed differently today: the approach is changing. Consequently, entire enterprises may be leased by co-operatives or by the workers themselves. A step in this direction is the preparation of the Leasing Act which will be promulgated in 1989.

56. Another important point also being discussed in the Union of Soviet Socialist Republics within the framework of economic reforms is the issue of the establishment of new enterprises versus rehabilitation of existing ones. This applies to enterprises of all sizes. In each individual case the decision has to be made whether in view of the particularities of a given project it is economically and technically more feasible to set up a new factory than to rehabilitate an existing one. On this basis and in view of the technical and economic development achieved so far, co-existence and joint development of enterprises of all sizes are the most feasible approach.

57. Another change in industrial development is the reorientation of production towards an increased output of common goods which opens up new possibilities to small-scale enterprises. Speedy growth of the small- and medium-scale enterprise sector would permit to resolve some urgent social problems in specific areas, e.g. in the Central Russian Federation, where thousands of villages and small towns were depopulated due to migration to large cities.

58. The main instruments proposed to further the development in problem areas, including villages and small towns, are the following:

- (a) Establishment of an increased number of agro-industrial complexes comprising three ranges of production:
  - (i) industrial branches supporting agriculture such as the manufacture of agricultural machinery, fertilizers, pesticides etc.;
  - (ii) agriculture; and
  - (iii) agro-industries;
- (b) Development of workshops and co-operatives producing traditional goods for local demand;
- (c) Development of "art handicrafts" to generate employment;
- (d) Expansion of the services sector to cover local demand.

59. The above instruments should be applied throughout the Union of Soviet Socialist Republics to resolve the nationality problem.

#### V. CONCLUSION

60. The author feels that the positive and negative experience of the Union of Soviet Socialist Republics is of common interest, especially to developing countries. The new thinking adopted by the Soviet Government in the field of domestic and foreign policy is of great importance for the issues in this paper.

61. The concept and policies regarding small- and medium-scale enterprises must be based on the specific conditions and development plans of the countries concerned.

62. One of the most important steps in increasing the independence of enterprises in the Union of Soviet Socialist Republics is the granting of the right to participate in joint ventures. At the present time, there are 191 joint ventures registered and 500 projects are under study in this country.

Annex

Table 1: Distribution of small-scale joint ventures in the Union of Soviet Socialist Republics by branch of activity

(Percentage)

<u>Branch</u>	<u>Number of enterprises</u>	<u>Capital formation</u>
Consumer goods production and services	43.5	39.7
Scientific research and development	30.4	32.0
Machine tool building	8.7	8.0
Others	17.4	20.3
Total	<u>100.0</u>	<u>100.0</u>

Table 2: Distribution of small-scale joint ventures in the Union of Soviet Socialist Republics by product

(Percentage)

	<u>Number</u>	<u>Capital formation</u>
High technology industrial production	21.7	26.3
Computer software	21.7	18.0
Information and consulting services	17.4	14.2
Commercial services	13.6	13.0
Publishing and printing	7.1	8.7
Consumer goods and services	18.5	19.8
Total	<u>100.0</u>	<u>100.0</u>

Table 3: Area distribution of small-scale joint ventures in the Union of Soviet Socialist Republics

(Percentage)

	<u>Number</u>	<u>Capital formation</u>
Moscow	52.2	59.6
Leningrad	13.0	13.6
Baltic Republics	4.4	7.1
Ukrainia and Moldavia	13.0	12.1
Others	17.4	7.6
Total	<u>100.0</u>	<u>100.0</u>

Source: A. Shadrovski, *Joint Small-Scale Enterprises in the Union of Soviet Socialist Republics*, 1989.