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UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
Vienna International Centre, P.O. Box 300, 1400 Vienna, Austria
Tel: (+43-1) 26026-0 · www.unido.org · unido@unido.org

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Development of Rural Small Industrial Enterprise

Lessons from experience

DEVELOPMENT OF RURAL SMALL INDUSTRIAL ENTERPRISE

Lessons from experience

Joint study by:

United Nations Development Programme

Government of the Netherlands

International Labour Organisation

United Nations Industrial Development Organization

Vienna, 1988

EXPLANATORY NOTES

References to dollars ($) are to United States dollars, unless otherwise stated.

Annual rates of growth or change refer to annual compound rates, unless otherwise stated.

The following symbols have been used in tables:

Two dots (. .) indicate that data are not available or are not separately reported.

A dash (—) indicates that the amount is nil or negligible.

A hyphen (-) indicates that the item is not applicable.

The following abbreviations are used:

United Nations Secretariat

UNDP	United Nations Development Programme

Specialized agencies and other organizations in the United Nations system

ILO	International Labour Organisation
IMF	International Monetary Fund
UNCDF	United Nations Capital Development Fund
UNFDAC	United Nations Fund for Drug Abuse Control
UNICEF	United Nations Children's Education Fund
UNIDO	United Nations Industrial Development Organization

Other organizations

ADB	Asian Development Bank
AEPRP	African Economic Policy Reform Programme (USAID)
BIPIK	Bimbingan Proyek Industri Kecil (Small Industry Support Programme, Indonesia)
BKK	Badan Kredit Kecamatan (Sub-district Credit Institution, Indonesia)
BRI	Bank Rakyat Indonesia (People's Bank of Indonesia)
BSCIC	Bangladesh Small Cottage Industries Corporation (Bangladesh)
CAMARTEC	Centre for Agricultural Mechanization and Rural Technology (United Republic of Tanzania)
CBE	Community and Brigade Enterprise (China)
CCC	Central de Credito Cooperativo del Peru (Co-operative Credit Centre of Peru)
CFP	Corporación Financiera Popular (Small Enterprise Development Finance Corporation, Colombia)
CINSEYT	Centro de Investigaciones Socio Económicas y Tecnológicas (Centre for Socio-Economic and Technological Research, Peru)
CNPAR	Centre National pour la Promotion des Artisans Ruraux (National Training Centre for Rural Artisans, Burkina Faso)
CORPIURA	Corporación de Desarrollo de Piura (Piura Development Corporation, Peru)

CUSA	Credit Union and Savings Association (Zambia)
DANIDA	Danish Agency for International Development Assistance
DAT	Dirección General de Asesoramiento Técnico (Directorate General for Technical Assistance, Regional Development Authority, Argentina)
FENAPI	Federación Nacional de Asociaciones de Pequeñas Industrias (National Federation of Small Industry Associations, Peru)
GTZ	Gesellschaft für Technische Zusammenarbeit (TCA agency, Federal Republic of Germany)
IADB	Inter-American Development Bank
IDA	International Development Association
IRDP	Integrated Rural Development Programme (Zambia)
ISSI	Institute for Small-Scale Industries (Philippines)
KfW	Kreditanstalt für Wiederaufbau (financial assistance agency, Federal Republic of Germany)
KIE	Kenya Industrial Estates (Kenya)
KIK-KMKP	Kredit Investasi Kecil/Kredit Modal Kerja Permanen (Small Investment Credit/Working Capital Credit Scheme, Indonesia)
KUD	Koperasi Unit Desa (Village Co-operation Unit, Indonesia)
KUPEDES	Kredit Union Pedesaan (BRI-operated rural credit scheme, Indonesia)
LBK	Lembaga Belajor Keliling (Mobile Training Unit, Indonesia)
LP3ES	Lembaga Penilitian Pendidikan dan Penerangan Ekonomi dan Sosial (Organization for Economic and Social Science Education and Extension, Indonesia)
MASICAP	Medium and Small Industry Co-ordinated Action Programme (Philippines)
NACIDA	National Cottage Industry Development Association (Philippines)
NORAD	Norwegian Agency for International Development
NVTS	National Volunteer Training Service (Nepal)
PDP	Provincial Development Programme (Indonesia)
PEKERTI	Pengembangan Kerajinan Rakyat Indonesia (People's Handicraft Foundation, Indonesia)
PRODERM	Programa de Desarrollo en Microregiones (Programme of Microregional Development, Peru)
PROEXPO	Fondo de Promoción de Exportaciones (Export Promotion Fund, Colombia)
PSIC	Punjab Small Industries Corporation (Pakistan)
SBAC	Small Business Advisory Centre (Philippines)
SEFCO	Small Enterprise Finance Corporation (Kenya)
SENA	Servicio Nacional de Aprendizaje (National Apprenticeship Service, Colombia)
SENATI	Servicio Nacional de Adiestramiento en Trabajo Industrial (National Industrial Training Service, Peru)
SICATA	Small Industrial Counselling and Training Assistance (United Republic of Tanzania)
SIDA	Swedish International Development Agency
SIDB	Small Industries Development Board (North-West Frontier Province, Pakistan)
SIDERPERU	Empresa Siderurgica del Peru (Steel Company of Peru)
SIDO	Small Industries Development Organization (United Republic of Tanzania, Zambia)
SISMAR	Société Industrielle Sahélienne de Mécaniques, de Matériels Agricoles et de Représentations (Producer of agricultural tools and equipment, Senegal)
SNV	Stichting Nederlandse Vrijwilligers (Organization of Netherlands Volunteers)
SODIDA	Société du Domaine Industriel de Dakar (industrial estate, Senegal)
SODIZI	Société du Domaine Industriel de Ziguinchor (industrial estate, Senegal)
SONEPI	Société Nationale d'Etudes et de Promotion Industrielles (Senegal)
TRUGA	Training for Rural Gainful Activities (ILO—Nepal, Bangladesh)

TVIE or TVE	Township Village (Industrial) Enterprise (China)
USAID	United States Agency for International Development
VIS	Village Industries Services (Zambia)

Economic and technical abbreviations

GDP	gross domestic product
GNP	gross national product
IADP	integrated area development programme
NGO	non-governmental organization
NIC	newly industrialized country
PAN	programme advisory note
PDAS	project data and assessment sheet
PVO	private voluntary organization
R and D	research and development
RSIE	rural small industrial enterprise
SLA	savings and loans association
SMIDA	small-industries development agency
TCA	technical co-operation assistance

The description and classification of countries and territories in this study and the arrangement of the material do not imply the expression of any opinion whatsoever on the part of the sponsoring organizations concerning the legal status of any country, territory, city or area, or of its authorities, or concerning the delimitation of its frontiers or boundaries, or regarding its economic system or degree of development.

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Mention of firm names and commercial products does not imply the endorsement of the sponsoring organizations.

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Foreword

Rural Small Industrial Enterprise (RSIE) is a dominant feature of the industrial structure in many developing countries. Past experience has shown that attempts to further the development of this subsector have only met with limited success. In order to determine the potential and problems of RSIE and to establish the most effective means of promoting its development, the Government of the Netherlands, the United Nations Development Programme (UNDP), the International Labour Organisation (ILO) and the United Nations Industrial Development Organization (UNIDO) decided to carry out a thematic evaluation of Technical Co-operation Assistance to RSIE.

Within the framework of this evaluation, a team of core consultants—James Keddie, Subrahmanyan Nanjundan and Roger Teszler—desk-reviewed 56 projects dealing with RSIE, studied the experience of RSIE in nine developing countries, to six of which missions were fielded, and by the end of December 1987 prepared and revised this final report.

In five of the six field missions, donor and agency staff or consultants also participated: Hermine Weyland, Netherlands—Pakistan; Frieda Panis, UNDP—Senegal; Jan Versluis, ILO—Zambia; Adrie de Groot, UNIDO—Indonesia; and Oscar Gonzalez-Hernandez, UNIDO—Peru. In three missions there was also a national consultant: Khalid Aftab—Pakistan; Teobaldo Pinzas—Peru; Sidate Gueye—Senegal. The mission to the United Republic of Tanzania, the first one of the series, was undertaken by the three core consultants as a team.

Based on the findings of this report, a programme advisory note (PAN) will be prepared to facilitate the application of the major conclusions and recommendations of this study to the design and appraisal of RSIE-related projects and programmes.

Summary

Origins and purpose of the study

The United Nations Development Programme (UNDP) has embarked on a series of thematic evaluations of areas in which important amounts of external assistance have been channelled to developing countries. This study is the eighteenth in the series. The aim of these studies is to provide policy and project officials with a series of manuals for the improved preparation, implementation and follow-up of programmes and projects in a number of areas. These manuals or programme advisory notes (PAN) are based on desk and field research.

In order to broaden the scope and the usefulness of such studies, UNDP requests the collaboration of a bilateral donor and of one or more executing agencies actively involved in assisting the area to be reviewed. Thus, towards the end of 1984, the Government of the Netherlands, UNDP, the International Labour Organisation (ILO) and the United Nations Industrial Development Organization (UNIDO) began preparations for a thematic evaluation of rural small industrial enterprise (RSIE). This study was to use projects implemented or funded by the sponsors as entry points for the analysis of policy and institutional environment of RSIE and of the significance of external assistance in this context. The aim was to arrive at conclusions and recommendations for future activities in this field.

The choice of RSIE as a subject was guided by certain considerations. The promotion of large-scale industry, which had earlier been advocated by policy-makers in developing countries and by providers of external assistance, had not provided the momentum essential for development. As a result, small industry, which had previously been somewhat neglected, came increasingly to be considered as a viable alternative or at least as an essential ingredient of an integrated industrial structure, which in turn would promote economic development. The rural context derived further importance from two additional considerations; *(i)* small industry is less dependent on the urban locational amenities which are a veritable life-line for large-industry development, and *(ii)* the development of small industry in rural areas can assist in stemming the migratory flow to already overcrowded urban areas.

Many small-scale industry and RSIE programmes were mounted or expanded from the mid-sixties onwards, assisted with funds and technical expertise from external donors and agencies, including considerable contributions from the sponsors of this study. With the passage of years, the experience of such programmes and increasing knowledge of RSIEs themselves indicated the need for the type of reassessment attempted in this thematic study.

This study begins by analyzing the nature and significance of RSIE and its economic environment (chapter II). This is followed by a review of three categories of intervention in RSIEs; *(i)* demand-side macro-policies (chapter

III), *(ii)* supply-side institutional support (chapter IV), and *(iii)* external assistance from donors and agencies (chapter V). Chapter I aims to set the scene by establishing the rationale for the study and the *modus operandi* of its authors. Chapter VI highlights some conclusions and recommendations and the annexes provide some additional information on the methodology used and data obtained during the course of the study.

After some preparatory work at the headquarters of each of the four sponsors during the first half of 1986, a core team of three consultants was assembled and the study was under way by August 1986. In the first phase (August-September 1986) a total of 56 projects and other relevant information (files, published materials, interviews) were reviewed. This resulted in a second phase involving the study of RSIE in nine countries of which six were visited (Indonesia, Pakistan, Peru, Senegal, the United Republic of Tanzania and Zambia) and three were "desk-studied" (Colombia, Kenya, the Philippines). The nine country studies (March-September 1987) constituted the core input into this study (phase three, October-December 1987), which also benefited from interviews and published sources from donors and agencies (funding as well as executing) and from other—mainly scientific—sources.

RSIE and its economic environment (chapter II)

As regards the role played by RSIE, in general about one-fourth of rural primary employment in developing countries is accounted for by non-farm activities and about one-tenth by manufacturing. The share of total manufacturing employment located in rural areas decreases with the degree of industrialization, from 65-85% in least developed countries, to 45-60% in somewhat more developed, and to 10-30% in the newly industrialized countries (NICs). RSIEs provide secondary employment for 10-20% of the rural male labour force. The share of non-farm income in total income is higher for households with small land holdings. The income share from rural manufacturing is usually substantially larger than the employment share. In order for RSIE to be able to contribute to economic development, it must have the ability to link up with other sectors and activities. Five major focal points in RSIE development are reviewed here:

(a) Interlinkages of industry with other sectors of the economy are crucial for promoting RSIE, since the nature of rural development involves attention to several sectors, embracing a wide range and mix of activities, including projects to raise agricultural output, to improve health and education, to expand communications and to improve housing. In this multisectoral approach, industrialization is a means of raising productivity and incomes in all sectors by providing forward and backward linkages between the various markets for goods, services and factors of production (especially labour). In addition, there are the very important "final demand" linkages between increases in rural incomes and the stimulation of RSIE. Linkages are stimulated by economic development and growth in incomes and by the development of infrastructure and markets. In an underdeveloped subsistence rural economy, linkages are few and limited to barter or informal arrangements within the village. The less developed an economy, the less the effects of linkages in stimulating RSIE. Available evidence (*inter alia* from India and Sierra Leone) indicates that final demand linkages are probably the most important for RSIE;

(b) As far as foreign trade is concerned, import linkages of RSIE are severely restricted in most developing countries due to foreign exchange shortage and inaccessibility of imported inputs. Export linkages are important in such sectors as handicrafts, garments and leather goods in the Asian countries studied. Sub-contracting to rural artisans takes place through a trading nexus linking urban to rural areas. On the other hand there is also a tendency for artisans to migrate nearer to urban areas;

(c) With agricultural development, final demand linkages for consumer goods through increase in rural incomes become far more important than forward production linkages of agricultural processing or backward production linkages of manufacture of farm tools and equipment. Where subsistence farming is still important and agricultural growth is slow, RSIEs are involved in forward linkages of grain and oil-milling, wood-processing etc., and backward linkages of blacksmithing, forging etc., rather than in the manufacture of a range of consumer goods. With more developed agriculture, large-scale agro-processing shifts to urban areas, but small-scale processing of staple foods to meet local demands continues in rural areas.

(d) Linkages of RSIE to large-scale industries through sub-contracting or trade channels exist to a limited extent in the Asian countries surveyed. The development of such linkages will depend on the one hand on the expansion of rural markets and of the capacities (including engineering skills) of RSIEs and, on the other hand, the development of infrastructure and communications resulting in a rural-urban continuum. Government initiatives and incentives may accelerate the development of linkages, but they have to be sustained on the basis of competitive advantages in the production costs of RSIEs for the sub-contracted items. In this context, the positive experiences of sub-contracting exchanges in Peru are worthy of attention;

(e) The development of rural infrastructure, both physical (transport, electrification) and social (education, health), is crucial for rural development. RSIE growth is stimulated by access to markets and inputs through road development and the lower cost of production, higher quality and diversification of products made possible by electrification. Social investments improve the quality of labour and skills and make rural areas attractive for non-farm occupations. Infrastructure development should go hand in hand with macro-economic and sectoral policies favourable to RSIE growth. (The latter are reviewed in chapter III.)

As regards the rural environment, its characteristics, rather than a rigid separation of urban from rural areas, delineate the location and scope of RSIE. Variations in agricultural prosperity, population density, degree of urbanization and development of rural infrastructure all have effects on RSIE. Location- and size-spread of RSIE increases with development, but the weight of rural industry declines at high levels of urbanization and industrialization.

The target group of RSIEs considered for evaluation includes micro-enterprises (0-4 employees) and small enterprises (5-25 employees) located in villages and towns where the population is at least up to 20,000 (UN definition), but is often higher in cases where larger urban areas retain the characteristics of smaller towns.

There are varying definitions—administrative and statistical—of RSIE in the countries studied. Analysis confirms that this study's own definition of 0-25

workers per enterprise in locations up to 20,000 or more population is in line with broad official usage.

The overwhelming bulk of RSIEs are household and micro-enterprises employing less than 5 persons. Less than 10% of RSIEs employ 5-25 and very few indeed employ over 25. In terms of the numbers of persons employed, RSIEs account for between hundreds of thousands and millions in different countries. In terms of value added by manufacture, RSIEs' share ranges from 5-50% in different countries. With the increase of industrialization, urbanization and economic development, the share of RSIE in total manufacturing gradually declines. Nevertheless, in most of the developing countries there still remains considerable scope for the expansion of RSIE in rural areas and small towns.

Whereas products catering to local markets and services remain in rural areas, others move to small towns. In the latter category there is a shift to higher value-added types of manufacturing, e.g., in metals, wood and other materials. However, the main branches remain much the same; food, wood, textiles, building materials and metal.

Dominant characteristics of RSIEs include their small size, their private (or family) ownership, providing a source of supplementary income to agriculture, and their dynamic response to agricultural and rural development. New RSIE entrepreneurs originate mainly from the farming community, obtain on-the-job training, obtain capital from personal (or family) savings and prove responsive to technology changes arising from rural electrification (and other infrastructure) and improvements in farming methods. New entrants to RSIE include traders and artisans, but also professionals and civil servants.

There is evidence that the role of women in RSIE ownership and employment is more important than in urban industry. For about half the women in rural areas it provides a supplementary source of income to farming. Women predominate in the food, garment and craft industries.

To sum up on RSIE's strengths and weaknesses:

RSIEs are mostly small, dispersed in area and concentrated in a few branches. They themselves marshal inputs and organize production. While usually passive with regard to innovation, they are good at exploiting market and technology opportunities once these are introduced to them.

The policy environment of RSIE: the demand-side approach (chapter III)

Successful rural industrialization presupposes a favourable economic environment in the rural areas engendered by a high agricultural growth rate and the development of infrastructural and social services. Such an environment has been more favourable in the Asian countries studied during the evaluation than in the African or the Latin American ones.

Country studies and other available research point to two sources of demand-side policies:

(a) Agrarian reforms and the more equitable distribution of land,

(b) Price and market incentives to farmers.

Both can lead to aggregate increases in disposable rural income and as such they appear to have been more effective stimuli for RSIE development

thar the (supply-side) provision of inputs to RSIEs themselves, because increased rural income is largely spent on consumer goods produced by RSIE. In the absence of increasing demand for rural non-farm products, supply-side measures may fall flat on their face.

Demand-side or macro-policies should include: *(a)* investment in infrastructure and social services in rural areas, *(b)* price policies to ensure favourable terms of trade for the farmer, *(c)* wide distribution of benefits in rural areas so as to generate sufficient effective demand, *(d)* agricultural investments in irrigation, extension and research and provision of credit to farmers.

Other macro-policies, particularly industrial and commercial, in developing countries have generally affected RSIE adversely by favouring large-scale and capital-intensive industrialization and discriminating against small-scale industry and RSIE. Costs of production and product prices of small-scale industry and RSIE are adversely affected by higher costs of inputs, credit and marketing, compared to large-scale industries. Overvalued exchange rates diminish rural incomes arising from exports. Structural adjustment programmes in some countries (e.g., United Republic of Tanzania) have been favourable for RSIE growth, although, to take full advantage of liberalization, RSIE should be able to adjust to changes in pattern of demand through measures for improved productivity and efficiency. Agricultural prosperity has a favourable effect on RSIE and vice versa. However, there is no conclusive evidence on effects of business cycles. There is evidence from country studies that macro-policies relating to agriculture and the rural sector are more beneficial to RSIE than macro-policies relating to industrialization and trade, unless the general economic distortions created by the latter are severe. Serious distortions created by macro-policies for industry (the Philippines and Zambia) and for virtually every sector (United Republic of Tanzania) led to economic crises, which stunted the whole economy, including RSIE and agriculture.

Specific countervailing measures of assistance to RSIE could benefit only a very few enterprises. There seems to be considerable scope for promoting RSIE development through sub-contracting from large industries, which has been successful in a small number of RSIE products in Indonesia, Pakistan, Peru and the Philippines through technological upgrading and trade links. Discriminatory measures in favour of RSIE, e.g., differential taxes, may compensate for benefits accruing to large industry, but in the long run RSIE should stand on competitive strength in the market. Supply-side measures (further discussed in chapter IV) while more difficult, are important for upgrading skills and technology in RSIE. The effectiveness of supply-side support to RSIE is largely determined by the extent that macro-policies create a favourable environment for RSIE.

Institutional support of RSIE: the supply-side approach (chapter IV)

Institutional support of RSIE can be justified as a complement (or palliative) to the influence of the broader demand-side policy environment discussed in chapter III. Within this, another important objective is to give Governments, donors and agencies a better idea of what, and what not, to expect from various types of institution and activity.

Institutional support has largely been mounted to correct the perceived weaknesses of RSIE. Although weaknesses exist, they have been over-

emphasized, as has the institutional support given, which has frequently become a supply-side palliative to unfavourable demand-side policies, or has resulted from the failure to recognize the role of RSIE in overall rural and industrial development.

Neither planning bodies nor small-industry development agencies have generally had an imaginative approach to RSIE policy formulation and transmittal. Small-scale-industry and RSIE policy has focussed on supply-side, direct-input support and has not been well-integrated into macro-policy-making. There are signs that this may now be gradually changing.

For this study, the following classification of supply-side institutions supporting RSIE has been devised:

(a) Policy and general-purpose institutions

- Policy-forming bodies (including policy-research bodies, and policy-transmittal mechanism);
- General-purpose small industries development agencies (SMIDAs).

(b) Functions and functionally based institutions

- Marketing or raw material supply schemes;
- Publicly-controlled RSIE or rural production centres;
- RSIE co-operatives (i.e. production and marketing co-operatives, *not* savings and loan associations);
- Industrial estates, with or without common service facilities;
- Financial services institutions or programmes, including
  - commercial banks
  - development banks
  - savings and loans associations or credit unions
- Business advice extension services
- Technical service facilities located with RSIE, technical extension services, mobile or on-location technical training
- Formal vocational training centres
- Technology development and diffusion centres

(c) Other institutions

- Area authorities and development programmes, programmes for special target groups (e.g. women);
- Small industry or trade associations;
- Non-governmental organizations (NGOs), private voluntary organizations (PVOs).

(a) Policy and general purpose institutions have in general not been effective at promoting RSIE. This is particularly true for the SMIDAs, the archetypal mechanisms for supply-side, direct-input support. SMIDAs tend to be over-centralized, with a resulting urban bias, and to over-emphasize hardware inputs to RSIE. Individual SMIDAs appear to be progressively distancing themselves from this approach, but reforms are long and difficult;

(b) Functionally based institutions in the countries and projects reviewed appear to have a mixed record. Public intervention in the supply of raw materials to RSIEs and in marketing their products generally has a better chance of success if aimed at stimulating private enterprise to perform these functions. The same principle of self-reliance also applies to sub-contracting.

Public-sector RSIEs are few and far between and usually form part of a larger institution that combines, for example, training with production. The record of such RSIEs was not found to be impressive.

While successful examples exist of RSIE-promotion via co-operatives, co-operative organization is best seen as a complement to RSIE private proprietorship in particular circumstances. Clear-cut benefits to members and careful preparation are essential.

Industrial estates in general are not effective as RSIE-promoters. They may be useful in areas with a thriving small-to-medium industry sector.

Traditionally-run commercial and development banks have not been effective promoters of RSIE, nor have RSIE-financing programmes initiated by non-financial institutions. Savings and loans associations (SLAs), or SLA-type programmes run by rural offices of banks, offer more promise, but are multi-sectoral, not focussed on RSIE. Their effectiveness increases *pari passu* with their local outreach.

Business advice extension services may be effective in support of some other useful promotional effort such as SLAs. RSIE business advice is not much valued in its own right.

Training centres have, with some exceptions, been ineffective promoters of RSIE. The centres are often urban-based and -oriented, with little or no rural outreach and usually attract, with doubtful results, new entrants rather than those engaged in existing RSIE.

On-location technical facilities, extension and training programmes are very often well-received and effective. They must, however, offer realistic new commercial opportunities to their RSIE clients. Also, not all institutions are effective in delivering these programmes.

Technology development and diffusion centres have generally been remote from RSIEs and ineffective at promoting them. A few have effectively served agricultural implement firms by developing close field contacts with them;

(c) The final category of institutions has provided mixed results.

There is little evidence that area-based institutions and programmes are effective at consciously promoting RSIE. They mostly pursue other sectors, such as infrastructure and agriculture.

Small industry and trade associations are observed to perform a useful range of services for regional-town RSIEs in some developing countries. They take time to build up, but could be a promising target for more external technical co-operation assistance (TCA).

NGOs perform a range of RSIE promotional functions to a still-limited extent, but usually efficiently and with good rural fieldwork. Their special strengths are the promotion of RSIE self-reliance through organization, and their emphasis on autonomous local operations. Their weaknesses have been over-emphasis on welfare concerns, and under-emphasis on technical input and upgrading.

Although general rural growth is not an absolute pre-condition for any supply-side RSIE support activity, it does provide an environment in which

such institutional support can be used to full advantage. Leaving aside considerations of inadequate management of an institution etc., it would appear that successful supply-side intervention in RSIE is best achieved by only a narrow range of institutions and programmes. This range increases with the size of RSIE. Thus, the smallest RSIEs, the bulk of the sector, are best served by marketing schemes, savings and loans associations, on-location technical facilities, training and extension. If these RSIEs are located in rural towns and regional cities, small industry and trade associations may be added to this list. The larger RSIEs, finally, may also reap some benefits from interventions by SMIDAs and formal banks.

A strong local presence of the intervening institution and a strong involvement from the community (village, town, small industry association, co-operative etc.) greatly enhance the effectiveness of the intervention. At present such support is best supplied, usually, by NGOs and PVOs. Highly centralized organizations are not effective RSIE promoters. Strong field links, based on local presence and local autonomy of action are essential. The need is for changes in public institutional policy, away from centralization, hardware, "centres", would-be comprehensive institutions, and subsidized credit. The crucial issue for RSIE institutions is not whether they are public or private, but whether they support mechanisms which will involve the beneficiaries themselves and make possible transfer of technology, market opportunities, and development of viable credit.

Localization and geographical spread of effective types of institutions is to be encouraged, but the setting-up of new institutional types is not. Relatively few RSIE support institutions are financially self-sustaining. For many institutions, the issue is mounting effective programmes which can secure the loyalty of staff and outside funding. Cost-effectiveness can only be assessed impressionistically, but the likely benefit-versus-cost per recipient should nevertheless always receive cool prior assessment.

Self-monitoring by RSIE support institutions is not generally impressive. In any case, supervisory and planning agencies have an external monitoring responsibility, the execution of which will keep them in closer touch with sectoral problems, linkages and broad policy options.

The list of institutions that can provide effective support to RSIE is relatively short and the effectiveness of this support is determined more often than not by the extent to which existing macro-policies favour RSIE.

External assistance to RSIE (chapter V)

External assistance to RSIE (as to any other sector) has been provided at three levels; *(a)* policy support (demand-side intervention) has only occasionally been provided, *(b)* most emphasis has been laid on institution-building (supply-side intervention) and the disappointing results thus achieved have led certain donors to emphasize *(c)* direct support to RSIE.

External assistance for macro-policies is potentially the most effective level for assistance to RSIE because it can then be directed towards the creation of an RSIE-friendly economic environment and can reach all RSIEs more or less equally. Such assistance could cut across bureaucratic barriers at the top. Unfortunately, many countries consider such interventions as an unwarranted intrusion and will probably continue to do so if TCA policy is not handled as a mutually-persuasive dialogue.

Donors and agencies have a marked preference for external assistance for institution-building, because, if such assistance helps an institution to take off, the latter can then continue its activities without outside support. Many institutions never reach that stage and just survive on outside sustenance, whereas already effective institutions make good use of external support. RSIE-specific institutions are few and far between as are new institutions established via external assistance.

Few external assistance projects to RSIE are dedicated exclusively to direct assistance. The combination of direct assistance and institution-building is more effective than either of these approaches separately. Donors have been known to opt for direct assistance because they feel that host-country agencies are inadequate or because the duration of the required intervention does not justify the establishment of an institution.

The mechanics of project preparation, implementation and follow-up are project- and not RSIE-specific. From an RSIE angle, special importance is accorded to the complexities of design (rural and industrial), the intricacies of management where assistance to RSIE is but part of a larger project, and the need to develop models of external assistance that become expendable in due course. Donors and agencies have not developed a unified approach and field co-ordination leaves much to be desired.

Many problems of project management and follow-up can be reduced to errors in project design, but good project design in itself must not be considered as a guarantee of successful management and follow-up. Good project design is rather a precondition than a guarantee of success. An analogous line of reasoning is less valid for the project document. Whereas inadequate identification and (pre)feasibility studies will certainly result in a poor project document, good groundwork in identification and feasibility analysis account for 90% of a good project document.

The diverse and multifaceted nature of the RSIE sector and its problems makes co-ordination and project management particularly difficult. Problems encountered arose from this complexity rather than from the nature of RSIE. Monitoring was only found in the more successful projects.

Excessive donor or agency intervention stimulates donor dependency, throws up a barrier against future host country take-over and hence against sustainability and replicability in general. External assistance to RSIE is no exception. The potential to carry over external assistance experiences will be greater if cost-effectiveness is higher.

Donors and agencies have different approaches and procedures in external assistance. There is some indication of an increasing preference among donors and agencies for policy assistance, although only few—mostly recent—projects provide assistance at this level. Differences are found in approaches to RSIE, but these mainly concern ways to bypass ineffective institutions.

Responsibility for field co-ordination of donor activities is, in theory, shared by the Resident Representative of UNDP who reviews external assistance efforts annually. As co-operation in this exercise is voluntary, coverage is far from complete and co-ordination results are usually not impressive. Donors might well agree to formalize the pivotal role of UNDP in field co-ordination. In the United Republic of Tanzania, the UNDP Resident Representative recently took the initiative in setting up monthly informal donor and agency meetings. This could be a first step towards the co-ordination of field efforts for a specific subsector.

Recommendations (chapter VI)

The final chapter reviews some findings and recommendations that have resulted from this study, but do not always figure prominently in the text. Some of the major recommendations now follow.

1. Macro-policy favouring the growth of rural income should be given priority in RSIE development strategies and should preferably precede supply-side measures of support to RSIE.

2. The development of an agricultural surplus is a precondition for the stimulation of non-farming activities such as RSIE in rural areas. If no such surplus exists, efforts should be primarily directed towards achieving such a surplus.

3. Because RSIE provides a supplementary source of income for on average 50% of rural women engaged in agriculture, emphasis might be placed on expanding and adding value to this activity. Attention should be given to reducing drudgery and manual work and to training for new types of RSIE work (electrical wiring, electronic assembly etc.).

4. Policies for the support of RSIE should concentrate on maximizing the linkages of RSIE with other sectors.

5. In order to stimulate RSIE, more emphasis should be given to favourable macro-policies and general strategies aimed at economic diversification.

6. Sub-contracting from larger industry to small-scale industry and RSIE should be promoted through policies for upgrading technical skills and special training and extension programmes for small-scale industry and RSIE. Sub-contracting information exchanges are more effectively operated by industry associations than by extension agencies.

7. Purchase, reservation and tax-incentive schemes for small-scale industry and RSIE should only be introduced as temporary measures.

8. SMIDAs should concentrate on the functions which they can perform most effectively and adjust their organizational structure accordingly. This usually involves decentralization and hiving off certain operations (industrial estates, provision of credit).

9. Common-services facilities should be hived off from industrial estates and be transformed into technology centres providing services to nearby small-scale industry and RSIE.

10. Credit for small-scale industry and RSIE should be made available in as decentralized a form as possible. The role of non-bank financial intermediaries in this context should be enlarged.

11. Because on-location, branch-specific technical upgrading programmes are often effective RSIE promoters, especially in more remote areas (mobile training units), they should be stimulated.

12. In the promotion of RSIE development, increasing use should be made of NGOs and PVOs as agents of change because they tend to have a better grasp of the local demands of RSIE than national institutions.

13. In order to optimize its effectiveness, supply-side institutional support for RSIE should be framed in a macro-policy which enhances the growth of disposable rural income. Comprehensive intervention should be limited to situations where RSIE has to be built up from scratch.

14. Donors and agencies should focus on persuading host countries to adopt appropriate macro-policies that favour grass-root and small-enterprise development in rural areas or insist on these macro-policies as a precondition for supply-side assistance.

15. Every effort should be made to make use of existing institutions rather than bypassing them (direct assistance) or setting up new ones. National institutions of the SMIDA variety might be streamlined through external assistance (cf. recommendation 8).

16. Donors and agencies should make every effort to harmonize their external assistance procedures and co-ordinate their field activities. This is especially important when it comes to enterprises which are often located in remote areas, as is the case with RSIE.

I. Introducing the Study

This introductory chapter has three main sections. The first outlines the significance of attempts to assist rural small industrial enterprises (RSIE) in developing countries. With this as background, the second section states very briefly what the study tries to do. The third section summarizes how it was carried out. A final section recapitulates the chapter, setting the scene for what follows. The appendix to this chapter defines some of the terms used in this study.

I.1 RSIE and RSIE assistance

Although the speed of development tends to be outstripped by the speed of urbanization in developing countries, many people in developing countries—especially the poorer and least developed ones—are still "rural". They live in villages and homesteads in the countryside, or in small- or medium-sized towns which have strong connections with the countryside. This pattern at one time prevailed all over the world. With the Industrial Revolution—and the great growth in agricultural production that preceded and paralleled it in Europe and North America—the pattern was broken over much of the Northern Hemisphere. Cities grew and multiplied, based on expanded manufacturing and trade. Vast numbers of people left the land and found urban industrial employment. The countries thus industrialized, ceased after a time to depend much on agriculture as a source of employment or driving economic force.

By and large, the developing countries of the South remained overwhelmingly rural and agricultural. After the Second World War, however, the South as a whole began to look on Northern large-scale industrialization as a model to be followed for prosperity.

Behind protective barriers, developing country Governments and businessmen attempted to duplicate many of the industries of the North, and thus to transform their economies. Where agriculture or technical skills were strong, they sometimes achieved some success, e.g. in Brazil, Mexico and the Republic of Korea, all of which started industrialization based on protected domestic markets. In most developing countries, however, the large-scale industrial sector was stunted by low incomes, low demand and a relatively low level of skills. Moreover, with capital-intensive techniques imported from the North, manufacturing employment grew even less than production. High protective barriers permitted high industrial costs and prices, which still further restricted demand. The developing economies were mostly not transformed.

Nevertheless, with improved public health programmes, populations grew very rapidly. People moved off the land much faster than could be absorbed by the slow growth of large and medium industry. The migrants found employment in small "informal" firms—manufacturing, trading, services—in

the cities, whose population began to increase at alarming rates. Existing physical and social infrastructure quickly proved wholly inadequate and new construction was undertaken on a far too limited scale. Large-scale modern industry was only able to absorb a fraction of the rapidly swelling pool of urban labour.

The result was—especially in the larger cities of Asia and Latin America*—a girdle of shanty towns around the big cities where informal economic activities have much in common with already established small firms, which already provided most manufacturing employment.

Moreover, a large proportion of the small firms and their employment were outside the big cities, and their industrial activities were a significant source of employment for the rural population at large. One survey has noted that in 13 of the 14 developing countries covered, small-scale firms accounted for more than 50% of total industrial employment (the average was 71%). Furthermore, within the small-scale sector (taken by the survey to comprise enterprises of 1-49 employees), very small firms of 1-9 employees comprised two-thirds of all manufacturing enterprises. The survey also found that in most developing countries the vast majority of small industries are in rural areas. Moreover, in 13 countries covered, 63% of all manufacturing employment was rural (almost certainly predominantly in small enterprises).[1]

Much of this rural enterprise had achieved these results with little or no outside intervention. Often, it was considered not to form part of the national economy (the so-called modern economy) and, hence, was either neglected or approached via the occasional institution, specifically established for that purpose. Small rural industry did not qualify for bank loans at low interest rates, nor for foreign exchange, import licenses, investment licenses, tax incentives, buildings, industrial training, export bounties, indeed for none of the privileges accorded to larger industry in the industrialization drive. However, if the small-scale industry sector could be expanded, employment gains would probably be very significant, and a large part of them might be in rural areas, in the RSIE sector. This might reduce the disturbingly high flow of migration into the cities, and augment the incomes of the rural poor.

So, starting roughly in the middle 1960s, developing country Governments—followed and sometimes prompted by the community of development donors and agencies—developed a heightened concern for promoting and assisting small-scale industry, and within that sector, RSIE.

Programmes to assist small-scale industry and RSIE were elaborated. Divisions or units responsible for small-scale industry or RSIE were set up in planning agencies and ministries of industry. Banks were directed or cajoled, or even specifically established, to make loans to small-scale industry and RSIE. Vocational training programmes were mounted. Small-scale industry industrial estates were built, often in smaller cities and rural towns. Publicly-owned handicraft marketing agencies were formed. Small business advisory services were set up. Rural technology development centres were established. Sometimes, various endeavours were united within a general-purpose small-scale industry development agency. In short, a wide range of measures were set in motion to promote small-scale industry, with RSIE receiving more or less emphasis as a subsector.

*This process gained momentum in Africa some time later

[1] C. Liedholm and D. Mead, "Small-scale industries in developing countries: empirical evidence and policy implications" (Washington, D.C., United States Agency for International Development, 1986), pp. 14 and 19.

The development donors and agencies have substantially supported these developing country efforts with external assistance. External assistance may be pure funding, but usually includes technical co-operation assistance (TCA). TCA is the effort to transfer expertise direct to the small-scale industry and RSIEs themselves ("direct support TCA"), or to a developing country institution assisting small-scale industry and RSIEs ("institution-building TCA").

We may illustrate the extent of external assistance and technical co-operation assistance from the programmes of the present study's sponsors (see boxes).

The Evaluation Study's Sponsors

United Nations Development Programme (UNDP) is the funding and co-ordinating agency for TCA development in the United Nations (UN) system. Until recently it generally did not execute TCA projects itself, but left this to specialized "executing agencies". In the RSIE sector, the principal executing agencies are the International Labour Organisation (ILO) and the United Nations Industrial Development Organization (UNIDO). On the other hand, the Government of the Netherlands, as the representative of a sovereign people, is a "donor" in its own right. As with many donors, its external assistance contains a larger admixture of pure funding than external assistance from the UN system, which concentrates primarily on TCA.

The Sponsors' External-assistance Involvement in RSIE

What has been the sponsors' external-assistance involvement in the RSIE sector?

UNDP

Up to 1985 from the late 1960s, UNDP has funded 642 projects in the small-scale industry and RSIE sectors. These have amounted to a total of $277 million. Approximately two thirds have been completed, while one third were still in implementation in 1985. The data are based on descriptions in the projects' objectives and titles, as follows:

"Small business, small enterprises, small-scale industry, rural industries, cottage-industry."

The two largest UN programmes in the field are those of UNIDO ($98.85 million) and of ILO ($80.97 million). Their programmes cover such areas as rural and small industry development institutions, industrial estates, the enterprises themselves, entrepreneurial development, management and technical training, rural employment and co-operatives. More details of the UNIDO and ILO programmes are given below.

UNIDO

UNIDO's rural industrial development programme has the following basic themes:

- It is primarily to assist the decentralization of industry;

- It attempts an integrated approach, i.e. creation of appropriate institutions to assist entrepreneurs all the way through implementation of their industrial projects;
- It emphasizes training and upgrading of local promotional staff and entrepreneurs.

The target group for this programme is the rural population living in provincial towns or agglomerations of villages where minimum adequate infrastructure exists for industry to be developed.

Technical assistance provided under this programme to Governments includes:

- Formulation of policies and strategies;
- Identification of rural industrial projects and entrepreneurs to implement them;
- Assistance in establishing and strengthening appropriate promotional agencies, rural industrial estates or clusters, and extension services;
- Establishment of common service facilities (e.g. for repair and maintenance) connected with industrial processing;
- Assisting in the choice and use of appropriate technology;
- Designing training programmes to develop national capabilities required in rural industrialization;
- Conducting workshops and seminars on related matters.

ILO

ILO's involvement in RSIE started in the early 1950s with technical assistance to cottage industries and handicrafts. The scale of activities and the range of means used have since expanded considerably. With the launching of the World Employment Programme in the early 1970s, much research has been done on factors inhibiting RSIE development, notably with regard to policies, strategies and institutions.

ILO interventions in the sector range from improving institutional capacity and the policy framework, to grass-roots promotion of employment and incomes. Although ILO has generally worked with national Government institutions, NGOs such as craftsmen's trade associations and voluntary non-profit private agencies, have recently received increasing support.

The main types of assistance provided have been the following:

- Policy formulation assistance;
- Development of new, or expansion of existing, small industrial activities;
- Improving productivity through skill development and introduction of appropriate technologies;
- Infrastructure such as training and technology support institutions;
- Promotion of suitable organizations among RSIEs themselves.

Although ILO activities have generally focussed on the small enterprises, several recent projects have been targetted on people—the rural people, particularly women—to help them become self-employed in industrial activities.

Government of the Netherlands

In the 1960s, the Netherlands' contribution to industry was concentrated on medium-sized and non-rural, rather than small rural, industrial enterprises. Vocational training institutes were also supported.

The Netherlands' assistance to promotion of micro- and small-scale enterprises started in the early 1970s. Eventually, assistance came to focus on industrial micro- and small-scale enterprises, in both urban and rural areas. Netherlands NGOs and the Netherlands Development Finance Company (FMO) have also been important contributors.

Industrial infrastructure, development of skills, appropriate production techniques, and access to credit, have been stressed. The assistance has been seen as remedying deficiencies considered to prevent micro- and small-scale enterprises functioning successfully. Netherlands projects have included industrial service centres, often located on small-industry estates.

The Organization of Netherlands Volunteers (SNV) and Netherlands NGOs have concentrated on rural non-farm employment, aiming at stimulating village groups into productive self-help activities. FMO, on the other hand, has started small-scale enterprise credit projects with local development banks.

Within an integrated approach to rural development, including RSIE, the following elements have been considered vital:

- Commercial viability, which *inter alia* requires infrastructure;
- Access to capital;
- Management training;
- Emphasis on labour-intensive activities;
- Transfer of appropriate technology;
- Facilities for maintenance and repair of machinery;
- Access of potential entrepreneurs to project services;
- Use of local rather than imported resources.

Given the diverse sources of Netherlands assistance, it is extremely difficult to estimate any global total. Suffice it to state that the 13 Netherlands' projects reviewed in the desk phase of this study alone amounted to external assistance of $32.7 million.

It will be evident from the boxes that the sponsors have made a considerable effort in the sector, alike in terms of expenditure, numbers of projects, and range of programmes and approaches supported. Some of this effort has been directed specifically to RSIE-promotion, but much has supported small-scale industry or small-scale enterprises generally, with varying attention to RSIE in particular cases. In all these respects, the sponsors' external assistance has broadly resembled the developing country efforts it has aimed to assist.

In this sector as in most others, the sponsors have monitored their effort. They have evaluated their individual external assistance and TCA projects. They have compared notes, informally or formally, with other donors and agencies, and with developing country Governments and institutions. They have followed, and on occasion commissioned, general research into the workings of RSIE and the rural economy in developing countries. The box "Introducing RSIE" provides some insight into these workings, through brief profiles of three RSIEs visited in the course of the present study.

Introducing RSIE- -Three Profiles

This study is about when and how to promote RSIEs and the people who work in them.

So here, at the outset, are three of those people, each of them working partners or owner-managers of RSIEs. A brief glance at their enterprises should give a better idea than many statistics, of the range of people this study was commissioned to help. Names and a few details of the enterprises have been altered to preserve the anonymity of the firms, but the essential characteristics have not been changed at all.

1. Maruja Torres, wire netting, Peru

As if being the mother of nine children is not enough, Maruja Torres is also a small-scale industrialist in her own right. In the backyard of the family home, situated on the outskirts of a regional market town in northern Peru, her husband has designed and built a simple machine for transforming wire into wire netting of various types. Being a mechanic with the national oil company PETROPERU, jobs like that come easy to him. He has done wonders with the house that he built himself. Now he has turned his hand to capital goods. The machine, coupled to a small electric motor, is a marvel of simple ingenuity. Whenever one of the frequent power failures occurs, Maruja simply switches to manual operation.

Maruja runs a one-woman enterprise, which she has taken the trouble to formalize (two years, countless forms and signatures, much haggling and even some money under the table for the privilege of having a license, paying taxes legally and being allowed to produce in peace). She does her own buying, producing and selling and when her husband is not around she can even do minor repairs.

When business is brisk, the children—her own as well as the neighbours'—will lend a hand. But, lately, things have not been going too well. Basically it is all the fault of SIDERPERU (public sector steel producer and monopolist) that simply cannot produce enough to meet national demand, and what there is is grabbed up by the big national steel consumers and the smaller ones in far away Lima. "And when there is some steel you must buy it at once and pay cash", she says, "do not go to the bank for a loan; by the time you can see someone there, there is no steel left". So Maruja has to rely on quick and expensive informal credit, just like most of her colleagues.

Maruja's heroine is Rosa Galvez, the dynamic president of FENAPI, the Peruvian Small Industry Association, who has done so much to bring the plight of the Peruvian small entrepreneur to the forefront. Mrs. Galvez is now working on a bulk purchasing scheme for raw materials for small entrepreneurs like Maruja Torres.

2. Mr. Ali Harjono, woodworker, Indonesia

Mr. Harjono is in his forties. He is the sole owner of the woodworking business in which he works with eight other men and youths. His workshop adjoins his house in the village of Cisaat, near Sukabumi in West Java.

Even on Sunday, officially a holiday, Mr. Harjono and some of his employees are working. The workshop is rather ill-lit. The crude shutters put up each night are quite small. It is also rather cramped, about five metres by three metres. Tools and pieces of wood are all over the floor in apparent disarray. Along one side, run a couple of turning-axles. These are

electrically-powered, driven by a small generator in a sunken alcove at the back. Mr. Harjono's house is connected to the electricity grid, but only for 300 watts, not enough to drive his turning tools. In fact, his generator (bought second-hand with his own money) has barely enough power itself. One day, he will replace it. Why not get a bank loan? He has never tried, for that purpose or for anything else.

Mr. Harjono is a carpenters' carpenter. He grew up in the trade. He spent a time working for a bigger firm in Bandung. His main product is a traditional cooking implement carved from softwood. These he sells himself to shops in Sukabumi, Jakarta and Bandung (not to the big ones, too shy!). He is dressed in working trousers and T-shirt. Urged to dress up and try, he only smiles.

Of late, new business and products have come his way. A Jakarta organization has export orders to meet from an international charity. They are for toys which can be made with much the same skills as his traditional products. But won't exports require properly-dried wood? Mr. Harjono is working on that. He has his own design for a drying kiln, but hasn't yet built it.

In return for the business put his way by the organization, Mr. Harjono has agreed to give on-the-job training to some local youths. They will come later this month. One has to train people young in this business, or they won't take to it . . .

3. *Mpiza and Partners, farm implement manufacturers, United Republic of Tanzania*

Mr. Mpiza is in his thirties, and a mechanical engineer. He is one of five partners, all working in the firm, of broadly similar ages and professional qualifications. The firm, located a few miles from a regional town with about 50,000 inhabitants, was established in 1982, when it was desired to put idle public-sector metalworking equipment to use. This was made over to the new firm after rigorous screening and a probationary period. The partners had also to contribute start-up capital from their own pockets.

The firm has done well, rapidly expanding its sales, assets, employment and product range. It now employs about 30 people. When it started, there were just the partners and three other workers. It now has two buildings. One is old with lean-to extensions added by the firm. Here, all available space hums with the activity of hammers and small machine tools, mostly wielded by youngish men. Hardly any of them even glance up at visitors. Some were trained by the firm, some at local technical schools. Parts and odd-bits of steel are everywhere, on the floors and stacked against the walls.

The other building is new, soon to be opened. It was partly financed by a recent bank loan. The bank also gives credits for raw materials, but not overdraft facilities. Much of the expansion capital has come from profits.

The firm started with ox-cart wheels and frames, and this is still a major product. For near-by customers, the carts are delivered complete. Further afield, the firm delivers knocked-down sets. These are assembled and serviced by local mechanics, who have received special training from the firm. The ox-cart was originally developed by a local technology centre, but since then Mpiza and Partners has itself developed several successful products, among them a range of oil-presses. The new building will be used for expanded production of these presses.

The firm has started exporting to neighbouring Rwanda, Burundi and Uganda. Export sales are for hard currency, which can partly be used for raw-material imports, a very useful bonus.

It became clear that RSIE is an important manufacturing subsector with considerable development potential. It is also very complex and heterogeneous. Its dynamics and how to promote or assist it might be more complicated than had been thought. Many RSIEs are hard to reach and help, even given the wide range of institutions trying to assist them. It is possible that external assistance and TCA—whether "direct support" or "institution-building"—might not be achieving significant advances in RSIE promotion.

The RSIEs themselves were increasingly perceived as very numerous and diverse, often widely dispersed, operating independently of any institution, subject to pressures of markets provided or denied by developments in other sectors (including agriculture), and frequently in direct competition with one another. In short, the picture glimpsed was of "the entrepreneur who goes it alone".

With these four elements of concern; *(a)* that RSIE is an important sector, *(b)* that there is a major developing-country and external assistance and TCA effort to promote it, *(c)* a sense that the sector and its promotion are still imperfectly understood and handled, and (d) doubts about the effectiveness of the sponsors' own external assistance and TCA contributions, the case was made for this general "thematic" study or evaluation of RSIE-promotion in general, and of external assistance and TCA contributions in particular.

I.2 What this study tries to do

The aim of this study is to provide systematized information and guidelines (based on research and field experiences) for developing country Governments and private institutions, together with development donors and agencies (including the study's sponsors), to improve the planning and implementation of RSIE promotion.* It tries to do this at the levels of policy, of institutions, and of activities in direct support of RSIE (although direct RSIE support will normally be the province of the developing-country institutions, not of the donors and agencies).

The study aims to do this by linking practical experience of specific RSIE-promotional activities to the increasing knowledge of RSIEs (how they actually work, where they are, what they do, what drives them, how they are affected by economic trends etc.).

This explains the outline of this report. Chapter II examines RSIEs themselves; their numbers, size, nature, locations, practices, linkages with the rest of the economy, strengths and problems. This is absolutely essential if one is to understand the effect of policy and other interventions on them.

Chapter III then evaluates the effect of broad economic policies—financial, industrial, agricultural—on RSIE. Since RSIEs are agents in, and linked to, the economy as a whole, the influences of broader policies may well be profound.

Following on this, chapter IV outlines the policy for RSIE which has thus far predominated in most developing countries, i.e. that of supplying inputs and services to RSIE via a range of institutions. It considers the RSIE-promotional effectiveness of the several types of these "supply-side" assistance

*For the United Nations system, the first step in this process will be the preparation of a programme advisory note (PAN) on RSIE promotion, addressed to UNDP representative offices in developing countries and project officers at headquarters of UNDP, UN executing agencies and bilateral donors.

institutions and programmes. This complements chapter III, which highlights "demand-side" policies and interventions and gives Governments, donors and agencies a better idea of what—and what not—to expect from various types of institution.

Chapters II-IV thus deal with the RSIEs themselves and the effects on them of the whole range of developing-country policies, intervention and specific assistance. Chapter V examines the role and effectiveness of donors' and agencies external assistance and TCA in assisting these developing-country activities. This chapter is of course the most immediately relevant to the study's sponsors; who however feel that neither they nor any other interested party can properly plan RSIE-promotion activities without first considering the issues raised in chapters II to IV. Finally, Chapter VI summarizes some conclusions and recommendations.

I.3 How this study was carried out

It would not be appropriate to give here any more than a bare outline of the study's development and methods.

UNDP has embarked on a series of thematic evaluations of areas in which important amounts of external assistance have been channelled to developing countries. The aim of these studies is to provide policy and project officials with a series of manuals for the improved preparation, implementation and follow-up of programmes and projects in a number of areas. These manuals or programme advisory notes (PANs) are based on desk and field research.

In order to broaden the scope and the usefulness of such studies, UNDP requested the collaboration of a bilateral donor and of one or more executing agencies actively involved in the subject matter to be reviewed. Thus, towards the end of 1984, the Government of the Netherlands, ILO and UNIDO began preparations with UNDP for a thematic evaluation of external assistance to RSIE. This study was to use projects and programmes implemented or funded by the four sponsors as entry points for the analysis of policy and institutional environment of RSIE and the significance of external assistance in this context in order to arrive at conclusions and recommendations for future activities in this field.

After some preparatory work at the headquarters of the four sponsors of the study during the first half of 1986, the study was effectively launched in August of the same year. This was accomplished by bringing together and briefing a team of three "core consultants" (the authors of this report) providing them with a background paper* (jointly produced by the sponsors) governing the objectives and conduct of the study, and arranging for a series of meetings at intervals of a few months between the core-consultant team and a Steering Committee of representatives of the sponsors.

This achieved, the study fell into three main phases; *(a)* desk review, *(b)* field missions and their preparation, *(c)* synthesis and finalization of reports. These spanned respectively August-December 1986, February-September 1987, and September-December 1987.

The desk review covered two kinds of material. First, a survey was made of the research literature on small-scale industry, with particular reference to

*The terms of reference for the thematic-evaluation study, excerpted from this background paper, are given as annex V.

RSIE. The literature included published books and articles, and reports and surveys of particular topics conducted for (and by) donors and agencies interested in policy for, and promotion of, small-scale industry and RSIE. Most of the literature focussed primarily on small-scale industries and RSIEs themselves, their practices and place in developing-country economies. However, some of it dealt with institutions involved in policy-making and assistance for small-scale industry and RSIE.

Secondly, to emphasize practical experience of RSIE promotion, the desk review covered the files of 56 of the sponsors' external assistance and TCA projects in the sector. About half of these projects were in the six countries subsequently visited in the field missions (Indonesia, Pakistan, Peru, Senegal, United Republic of Tanzania, Zambia). The remainder were drawn from 12 further developing countries and a number of regional projects involving more than one country (in Africa: Botswana, Burkina Faso, Ethiopia, Kenya, Liberia and Nigeria; in Asia: Bangladesh, Nepal and the Philippines; in Latin America: Argentina, Colombia and Haiti). Care was taken in selection to emphasize projects with a strong rural component, to focus as far as possible on projects which were neither long-past, nor too recent to have yielded much useful experience, to cover the functional range of RSIE-promotion activities, e.g. strategy, training, credit programmes, industrial estates etc., and to achieve a wide spread of geographical location, developmental level and project size. The list of the 56 projects is reproduced as annex III.

Each project was reviewed through the headquarters files at the Hague (Netherlands Government), at Geneva (ILO) and Vienna (UNIDO), supplemented where possible by discussions with project staff and backstopping officers. The reviews focussed on such matters as project design and implementation, performance of the host-country institution and of the donor or agency, and lessons to be learnt about RSIE promotion and external assistance of such promotion. Each review was recorded on a standard format, the project data and assessment sheet (PDAS), which is reproduced as annex IV.

The literature survey and PDAS were synthesized into an interim report in December 1986, presenting tentative findings and issues to be further investigated in the field missions of the second phase. (For a summary see annex II.)

Preparations for these missions began in February 1987. They centred on surveys of the literature available on RSIE, policies and institutions in each country to be visited, summarized as "country briefs" for the field mission teams. Also, the question of effectiveness criteria for RSIE promotion and supporting external assistance or TCA was extensively examined. It was concluded (and confirmed during the field missions) that quantitative assessment of economic benefit or cost-effectiveness was not to be expected. The range of impinging factors and promotional activities was too wide to permit it, nor would the necessary base-line data be available.

Field missions were mounted to Indonesia, Pakistan, Peru, Senegal, United Republic of Tanzania and Zambia. Each of these countries contained some of the previously desk-reviewed projects. The field mission strategy was to use these projects as points of entry for a survey of the broad range of RSIE conditions and practices, relevant macro- and sectoral policies, institutions, and external assistance and TCA in each country. This involved field observations (but not formal surveys) of operating RSIEs and discussions with policy-makers, private and public institutions, and donors and agencies (including, but

by no means restricted to, the study's sponsors). Many of these bodies provided materials on their operations, which were also often observed in the field.

The field strategy was tested and found satisfactory by the core consultants as a team on the first mission to the United Republic of Tanzania in May-June 1987. The core consultants then split up to lead the remaining five field missions during June-September 1987. These missions always included a staff member or representative of one or other of the sponsors, and in three cases included a national consultant from the country concerned.

Each mission wrote a country report on RSIE conditions and RSIE promotion and experience of external assistance and TCA. These reports were for later use as material in writing the present report. They were not intended to yield recommendations specific to the country concerned. Three further country reports—on Colombia, Kenya and the Philippines—were also written by one or other of the core consultants. These were desk reviews based on written sources, but followed as far as possible the same outline as the field mission reports. A summary of the data and findings of these nine country reports is given in annex I.

All nine country reports, together with the interim report of December 1986 and the PDAS and literature on which it was based, were then synthesized into the present report by the core team in September-December 1987. During that period, the core team had helpful comments on drafts from the sponsors' Steering Committee. They also had useful discussions with headquarters specialists at the Inter-American Development Bank (IADB), the Organization of American States (OAS), the United States Agency for International Development (USAID) and the World Bank. These dicussions were particularly valuable on the subject of TCA at the policy level, and provided access to further, mostly very recent, written materials.

Thus, this study owes much to many sources at many levels all over the world, with RSIEs themselves not least among them. It is hoped that the study's design and the blend of its sources will have produced two particular contributions.

The first is the linking of practical RSIE-promotional experience to knowledge about RSIEs themselves and how they operate in the economy. In other words, the viewpoint of the enterprises is brought together with the viewpoint of those who are trying, from the outside, to promote them.

Second, by focussing on RSIE, the study will hopefully introduce a group rarely considered or addressed separately. There are many programmes for, and studies of, small and medium industries generally, small-scale industries (urban and rural) generally, urban micro-enterprises, non-farm rural activities generally, and rural artisanal micro-enterprises. It may be that some of these programmes and studies have been too broad, some too urban-focussed, and some too narrow, for realising the full potential of RSIE-promotion. In short, RSIEs have not been notable as a specific development topic or as a focus of concern for policy and assistance. The treatment of them in this study may therefore be helpful to policy-makers in Governments, donors and agencies, and to RSIEs themselves.

Appendix

DEFINITION OF SOME TERMS USED IN THIS STUDY

The following definitions are working definitions only for the purpose of this study. Though not official, they would not appear to contradict any official definitions established by UNDP, ILO, UNIDO or the Government of the Netherlands.

"Small" and "rural"

The target group has been defined for the purpose of this study as micro-enterprises with 0-4 employees and small enterprises with 5-25 employees, located in the countryside and in villages and towns. All these enterprises are regarded as RSIE, provided they are "industrial" (see below).

While the United Nations defines the term "rural" to include locations with up to 20,000 population, the practical definition will vary from country to country. Where transport infrastructure and the marketing and trade network are well-developed, or where general urbanization is very marked, larger urban areas may be regarded as locations for RSIE, as long as such areas provide a comparable environment to small towns.

"Industrial"

"Industrial" indicates manufacturing, the transformation of materials into finished or intermediate physical products. It also includes a few activities, such as metalworking repair shops, which use much the same equipment and skills as their counterparts in pure manufacturing (production and repairs are often carried out by the same RSIE). Drying of raw agricultural produce—e.g., of grains and tobacco—has been excluded.

"Enterprise"

"Enterprise" means an organization primarily for production and commercial sale of industrial products, in almost all cases for the pecuniary or other material benefit of the enterprise's owner or owners (the proprietor, partners, or members of a co-operative).

"External assistance"

The transfer to developing countries, of financial, physical or technical resources to assist those countries' development. To qualify as "assistance", such transfer is made on terms which are generally agreed to be concessionary.

"Technical co-operation assistance" (TCA)

A form of external assistance (see above) concentrating on the transfer of technical (or other relevant) expertise, accompanied by such physical assets (e.g., equipment) as are necessary for the effective transfer of that expertise.

"Institution"

A developing-country organization (public or private) whose activities—usually by design—affect or attempt to affect the fortunes of the target group. (It is assumed that conscious attempts to affect such fortunes, are beneficially-intended.)

"Institution-building project"

An external assistance or TCA project that aims at establishing, developing or strengthening institutions in order to further a development objective (in this case the development of RSIE).

"Institution-sustenance project"

Institution-building project where the maintaining of the institution concerned has for all practical purposes become a long-term objective.

"Programme"

A well-established activity (or complex of activities), relevant to the target group, of an institution.

"Project" (almost invariably in this study an external assistance or TCA project)

An undertaking designed to achieve certain specific objectives within a given budget and within a specified period of time. In this study, such objectives are (or should be) related to the promotion of RSIE or the strengthening of institutions attempting to promote RSIE (or some closely-related target group).

II. The Economic Environment of Rural Small Industrial Enterprise

This chapter is concerned with the economic environment impinging on the development of RSIE, its role in the economic structure and its linkages with the rest of the economy. Firstly, evidence is reviewed—from both empirical studies and data gathered in the field—of the role played by RSIE in providing non-farm employment and manufacturing. This review is followed in the second section of the chapter by a consideration of the characteristics of the rural environment which delineates the location and scope of RSIE. The third section follows with an analysis of structure and trends of RSIE covering scope and definition, size, extent and types, women's role, and other characteristics. The fourth section of the chapter reviews the important issues of linkages for RSIE development provided by foreign trade, agriculture, large industry and urban areas, and growth of infrastructure. The final section of the chapter sums up the strengths and problems of RSIE in the light of the preceding analysis.

II.1 Role of RSIE in employment and manufacturing

In general about one-fourth of rural primary employment in developing countries is accounted for by non-farm activities and about one-tenth by manufacturing. The share of total manufacturing employment located in rural areas decreases with the degree of industrialization—from 65-85% in least developed countries to 45-60% in somewhat more developed and to 10-30% in the newly industrialized countries (NICs). RSIE provides secondary employment to 10-20% of the rural male labour force. The share of non-farm income in total income is higher for households with small land holdings. The income share from rural manufacturing is usually substantially larger than the employment share.

A recent review of the role of non-farm activities in the rural economy concludes that RSIEs constitute a significant part of the rural non-farm sector. They "productively absorb a large quantity of rural labour and provide a major source of income to a majority of rural households. Because they are the source of a particularly large share of sustenance to the rural poor, they have a substantial impact on reducing income inequality . . . Non-farm activities are not only efficient contributors to GDP but they stimulate agricultural growth through effects on income, farm productivity and marketing costs".[2]

Many developing economies have recently seen growth of RSIE both in numbers and in combined output, although the experience in different

[2] P. Kilby and C. Liedholm, "The role of non-farm activities in the rural economy", Paper prepared for the Eighth World Congress of the International Economic Association, New Delhi, India, December 1986.

countries has been uneven. This growth has occurred mainly in response to increased demand for manufactured goods, particularly within major concentrations of population. In some countries, small-scale enterprises collectively constitute a major share of total installed manufacturing capacity and of the total industrial work-force. A significant proportion of such activities is located in rural areas.

Many developing countries have had a tradition of artisan crafts and trades which thrived in pre-modern societies, but suffered a decline under pre-independence régimes due to concentration on commercial crops and mining for export, denuding rural areas of cheap labour for these export-oriented activities and the import of cheap manufactured products from the factories of the ruling country. After the Second World War, there was an emphasis on rapid modernization through promotion of large-scale industries resulting in accelerated urbanization. Rural crafts and manufacturing enterprises continued to decline until recently. It is only during the last decade or so that a serious concern has evolved to stop and, if possible, to reverse the increasing flow of rural-to-urban migration by providing employment opportunities in the rural areas through the development of agriculture and of non-farm activities.

The role of RSIE in rural development may be illustrated by data from selected developing countries on *(a)* share of manufacturing and of non-farm activities in rural employment (table 1) and *(b)* percentage of manufacturing employment in rural areas (table 2). These data are from published sources. The target group of RSIE for the purposes of this report is defined in the next section.

Table 1. Share of manufacturing and non-farm activities in selected countries

(Percentage)

	Proportion of the rural labour force engaged in	
Country (Year)	*Manufacturing*	*Non-farm activities*
Asia		
Bangladesh (1983/84)	7.7	33.5
India (1981)	6.5	19.0
Indonesia (Java) (1980)	9.5	37.9
Malaysia (1980)	10.5	49.3
Nepal (1977/78)	14.0	n.a.
Pakistan (1982/83)	9.4	32.3
Philippines (1982)	7.0	31.9
Sri Lanka (1981)	8.4	45.8
Thailand (1983)	5.4	n.a.
Africa		
Kenya (1970)	. .	28.0
Sierra Leone (1976)	7.6	19.0
Zambia (1980)	2.7	22.3
Latin America		
Colombia (1970)	7.6	23.0

Sources *Asia*: *R. Islam, Rural Industrialization and Employment in Asia* (New Delhi, ARTEP, 1987)
Others (except Zambia) Liedholm and Mead, *Small-scale Industries in Developing Countries: Empirical Evidence and Policy Implications* (Washington, D.C., USAID, 1986)
Zambia: Draft Third Five Year Plan, N.C.D.P. (Lusaka, Zambia, 1986).

Table 2. Percentage of manufacturing employment in rural areas[a]

(In descending order)

Country	*Year*	*Percentage*
Sierra Leone	1976	86
Indonesia	1976	80
Sri Lanka	1971	75
Jamaica	1980	74
Ghana	1973	72
Bangladesh	1974	68
Zambia	1985	64
Philippines	1976	61
India	1967	57
Pakistan	1975	52
Taiwan Province of China	1976	49
Malaysia	1970	46
Republic of Korea	1975	30
Colombia	1978	10

Source: Liedholm and Mead, as cited in table 1, except Colombia, which is from the evaluation team's country study on Colombia.

[a]Rural defined as all localities under 20,000 inhabitants.

The share of manufacturing and non-farm activities varies between countries depending on the degree of development, agricultural modernization and productivity, the extent of urbanization, the development of rural infrastructure etc. In general about one-fourth of rural primary employment in developing countries is accounted for by non-farm activities and about one-tenth by manufacturing, although there are country differences. Furthermore, in general the share of total manufacturing employment located in rural areas decreases with the degree of a country's industrialization and development. The range is from 65-85% in the least industrialized countries (e.g., Bangladesh, Sierra Leone), to 45-60% in the somewhat more industrialized countries (e.g., India, Pakistan), and only 10-30% in the so-called newly industrialized countries (e.g., Colombia, Republic of Korea). There are exceptions like Taiwan Province of China—which ranks as high as the Republic of Korea in the degree of industrialization—where, due to well-developed rural infrastructure, manufacturing employment in rural areas accounts for about half of the total. The influence of urbanization and rapid expansion of factory manufacturing may be seen in Colombia, where the share of rural areas in manufacturing employment has continuously decreased from over 60% in 1918 to 10% in 1978.*

Besides providing primary employment, RSIE also creates secondary employment over slack periods of the agricultural cycle. About 10-20% of the rural male labour force undertake small enterprise activities as a secondary occupation.[1]

RSIEs are particularly important for rural households with little or no land. As farms become smaller, the share of non-farm income in total

*Cf. Country Report on Colombia, chapter I. (The nine country reports are not yet published but may be obtained by interested parties from any of the sponsors of this study: Netherlands Government, UNDP, ILO, UNIDO.)

[1]*The Promotion of Small-Scale and Medium-Sized Enterprises* (Geneva, ILO, 1986).

household income becomes larger. There is an inverse relationship between size of land-holding and the share of non-farm income in total rural household income.[4]

The share of non-farm income in rural household income ranges from 28% in Northern Nigeria to 34% in the Republic of Korea, 36% in Sierra Leone, 43% in Taiwan Province of China and Thailand. The income share from rural manufacturing is usually substantially larger than the employment share.[5]

In order to achieve a good understanding of the objectives of and target groups for RSIE development, it is necessary to take account of the composition and character of the RSIE sector. This sector encompasses numerous heterogeneous types of industrial activities, displaying widely different operational characteristics, and responding to a wide range of market opportunities. This diversity makes it difficult to establish any system of universal categorization or ready comparison of performance between enterprises, subsectors or countries.

Any analysis of the problems of the RSIE sector is also complicated by differences in official definitions of small enterprises and ambiguities in the common terminology employed to distinguish the sector. Many authorities define the sector in terms of size of employment or amount of capital employed. Such arbitrary limits are used by Governments for regulatory or statistical purposes, as well as for establishing eligibility for official assistance. Elsewhere, other definitions are used for analytical purposes to measure performance etc., with reference to functional characteristics such as type of management, ownership, product specialization, production technique or even market orientation.

While RSIEs consist of numerous heterogeneous types, there is a lack of basic commonality and consensus between countries and agencies in the rationale for the definitions employed. The size ranges and types of RSIEs and their appropriate location for developing countries and different stages of development are considered in the following sections.

II.2 Rural environment

The characteristics of the rural environment rather than a rigid separation of urban from rural areas delineates the location and scope of RSIE. Variations in agricultural prosperity, population density, degree of urbanization and development of rural infrastructure all influence RSIE. The location- and size-spread of RSIE increases with development, but the weight of rural industry declines at high levels of urbanization and industrialization. The target group of RSIEs considered for evaluation includes micro-enterprises (0-4 employees) and small enterprises (5-25 employees) located in villages and towns with a population not exceeding 20,000. Often newly settled urban areas (shanty towns) retain many of the rural characteristics of the migrants from the countryside. SIEs in such an environment should also be considered as RSIEs, irrespective of absolute population figures.

The rural environment varies with *(a)* agricultural prosperity, *(b)* population density, *(c)* degree of urbanization, and *(d)* development of rural

[4] Kilby and Liedholm, *op. cit.*

[5] *Ibid.*

infrastructure, as can be seen from the basic d[illegible]n the above relating to the countries studied, which are included in ta[illegible] 3. These variations and consequent effects on RSIE are different for the African, the Asian and the Latin American countries studied.

Agriculture does not provide adequate sustenance for the rural population in Senegal and Zambia. To some extent this is due to the relatively greater importance of commercial agriculture and of industry and also a reflection of the degree of urbanization. In Kenya and the United Republic of Tanzania, the extent of urbanization is the least and the dependence on subsistence agriculture and non-farm activities the greatest among the countries studied.

The Asian countries reviewed—Indonesia, Pakistan and the Philippines—are similar in regard to high population density and high proportion of population living in rural areas. Rural non-farm activities and rural manufacturing are important in the three countries. Overall rural poverty is greater in the Philippines than in the other two countries, where the growth rate of agriculture as well as of GDP have been higher in recent years.

It has been noted in Indonesia that where agriculture can provide a reasonable living for most of the population—as in most of the settled areas of the outer islands—participation in other sectors is minimal. Where agriculture cannot do this—as in Java, Bali, and Lombok—more people make or supplement a living by intensive participation in non-agricultural sectors. It may be presumed that agricultural production in these areas has already reached the maximum levels that existing conditions will allow.

In Colombia and Peru, less than one-third of the population depends on a rural livelihood. Both rural population and RSIE have been declining in the long run. From the point of view of RSIE, an important characteristic of agriculture in these countries is the big difference between the modern agricultural sector (producing for national and international markets) and traditional agriculture that is basically self-sufficient and only manages to produce marketable surpluses on occasion. Modern capital-intensive agriculture is found mainly in or near urban areas. Traditional agriculture is mainly limited to highland Andean and jungle areas. It is characterized by low productivity which in turn is the result of climatic and cultural conditions. The major source of employment in rural areas outside agriculture is found in public works. Handicrafts are an important source of livelihood in the highland regions. At the same time many RSIE activities have sprung up in newly settled urban areas (shanty towns).

The less developed a country, the sharper the distinction between rural and urban. In Zambia there is a sharp distinction between the urbanizing "line-of-rail" provinces and the more remote rural provinces. Beyond 50 kilometres from the railway lines, everything has remained completely rural. In Senegal, everything outside the Dakar-Cap Vert area has rural characteristics.

With improvement in agricultural production and productivity and development of rural infrastructure, rural townships and small towns develop into market centres and rail and road junctions around which villages cluster or group together. The development of transport and rural infrastructure often provides employment opportunities in such towns and market centres for people living in nearby villages.

Thus the characteristics of the rural environment, rather than a rigid separation of urban from rural areas, delineates the location and scope of RSIE. The range of locations and sizes of RSIEs increases with development. Smaller sizes and more rural locations are seen in the African countries.

Table 3. Basic data on rural development

Indicator (unit)	*Colombia*	*Indonesia*	*Kenya*	*Pakistan*	*Peru*	*Philippines*	*Senegal*	*United Republic of Tanzania*	*Zambia*
Rural population as percentage of total 1985 (%)	33	75	80	71	32	61	64	86	52
Population growth rate, 1980-1985 (%)	1.9	2.1	4.1	3.1	2.3	2.5	2.9	3.5	3.5
Population density per km² (number)	24.9	84.9	34.9	119.6	14.4	182.3	33.6	23.4	8.8
Labour force in agriculture, 1980 (%)	34	57	81	55	40	52	81	86	73
Annual growth of labour force, 1980-85 (%)	2.8	2.4	3.5	3.2	2.9	2.5	1.9	2.8	3.2
GDP annual growth rate, 1980-85 (%)	1.9	3.5	3.1	6.0	−1.6	−0.5	3.3	0.8	0.1
Agriculture annual growth rate, 1980-85 (%)	1.8	3.1	2.8	2.1	1.9	1.7	1.8	0.7	2.9
Agriculture share in GDP, 1985 (%)	20	24	31	25	11	27	19	58	14

Source: ***World Development Report 1987*** (Washington, D.C., World Bank).

Somewhat bigger sizes and location in small towns are seen in the Asian countries. In the more industrialized and urbanized Latin American countries, RSIEs are more similar to other small-scale enterprises and are located near big metropolitan urban towns, the overall importance of RSIE declining at that stage. An exception among developing countries of this category (NICs) is Taiwan Province of China, where the role of rural industry has not decreased with industrialization and development. This is due to structural changes in rural areas (land reform) contributing to more equitable distribution of rural income and accelerating rural demand, and the development of rural infrastructure (transport and electrification).

II.3 Structure and trends

Questions relating to scope and definition of RSIE (3.1), size, extent and types (3.2), role of women (3.3) and some characteristics of RSIE (3.4) are analysed below.

There are varying definitions, administrative and statistical, of RSIE in the countries studied. Furthermore, the differences in development, urbanization etc. between these countries do not permit uniform cross-country definitions (cf. box on "definitions").

The overwhelming bulk of RSIEs are household and micro-enterprises employing less than five persons. Less than 10% of the total are in the 5-25 employees category and very few indeed employing over 25. In terms of numbers of persons employed, RSIEs account for hundreds of thousands or even millions in different countries. In terms of value added by manufacture, RSIEs' share ranges from 5-50% in different countries. With industrialization, urbanization and economic development, RSIEs decline over a long period as a proportion of total manufacturing. However, in most of the developing countries there is and will be considerable scope for expansion of RSIE in rural areas and small towns.

Types of RSIE activities evolve with agricultural and infrastructure development and urbanization. Products catering to local markets and services remain in rural areas, others move to small towns. There is a shift to higher value-added types of manufacturing, e.g., in metals, wood and other materials. However, the main branches remain much the same: food, wood, textiles, building materials and metal.

There is evidence that the role of women in RSIE ownership and employment is more important than in urban industry. For about half of the women in rural areas, it provides a supplementary source of income to farming. Women predominate in the food, garment and craft industries.

Some dominant characteristics of RSIE are private or family ownership, small size, source of supplementary income to farming. RSIEs have proved dynamic in response to agricultural and rural development. New RSIE entrepreneurs originate mainly from the farming community, obtain on-the-job training, invest small amounts of their own capital and respond to technology changes arising from electrification and improvement of farming methods. Traders and artisans also become RSIE owners and so occasionally do engineers and civil servants.

II.3.1 Scope and definition

Statistically, the definition of "small-scale" varies from a maximum of ten workers in an enterprise to a maximum of between 20 and 50. For administrative purposes, the term is defined by numbers employed or capital invested or turnover of output or sales. "Small" is a relative concept, being largely dependent on a country's level of industrialization at any one point in time, thus leading to different threshold values of numbers employed or capital invested in different countries at different times.

The target group for the purpose of this study is micro-enterprise (0-4 employees) and small enterprise (5-25 employees) and locations in villages, small towns and those larger urban concentrations that still retain many rural characteristics.

Definitions of Small-scale Industry

Colombia: (official)	Cottage shop (0-9 workers) (before 1983: 0-4) Small industry (10-49 workers) (before 1983: 5-49) Medium industry (50-149 workers) (before 1983: 50-99) Small and medium are often considered together.
Indonesia: (official)	Cottage industry (1-4 workers) Small industry (5-19 workers)
Kenya: (official)	Rural or micro urban (1-2 workers) Medium and small-scale (3-50 workers)
Pakistan: (RSIE mission)	Small rural industry has been arbitrarily defined by the mission as units located outside towns of more than 50,000-75,000 inhabitants, that have less than 25 workers and use less than 50,000 rupees (approximately $US 3,000) worth of machinery and equipment per worker (although, typically, machinery and equipment per worker will be a fraction of this). While the large rural industries are to be found mainly on the trunk roads, small rural industries include; *(a)* household or cottage units, conducted within domestic walls, mostly employing between one and four workers, *(b)* visible small workshops, facing a road, employing between two and (say) 15 people—usually all male—including the owner, but most often between two and six people, *(c)* large workshops or small factories, usually built around an enclosed yard, employing 15-25 workers, less exclusively male than the small, visible workshops. Categories *(a)* and *(b)* are legion in numbers, both in urban and rural areas. Category *(c)* is far rarer as a rural industry, i.e. in towns below 75,000 inhabitants.
Peru: (official and RSIE mission)	Small-scale enterprises are defined as those employing less than 50 workers and micro-enterprises as those employing up to five workers. RSIE has been defined to include all small and micro-industry *(a)* outside the Lima-Callao area, and *(b)* in the "pueblos jovenes" (recently settled areas) of Lima and Callao.
Philippines: (official)	Cottage-industry enterprises are defined as those with four or less workers and assets of 250,000 pesos (approxi-

	mately $US 12,000) or less after financing. Small-industry enterprises have 5-99 workers and assets of 2 million to 5 million pesos (approximately $US 96,000 to $US 240,000) or less after financing.
Senegal: (official SONEPI)[a]	*(i)* *Artisanat* (often informal) with a workforce of one to five and an investment level of no more than 5 million CFA francs (approximately $15,000); *(ii)* *Small industry* with a workforce of 5-50 and an investment level between 5 and 25 million CFA francs (approximately $US 15,000 to $US 75,000); *(iii)* *Medium-sized industry* with a workforce between 50 and 250 and an investment level of more than 25 million but less than 250 million CFA francs (approximately $US 75,000 to $US 750,000).
United Republic of Tanzania: (various official sources)	*Small-scale industry has been defined differently for different purposes, viz:* • As units whose control is within the capability of the people (individually or collectively) in terms of capital and know-how required (starting definition of the Small Industries Development Organization (SIDO) in 1974) • As located in villages, with fixed assets not exceeding 1 million Tsh. (or 2 million Tsh. in urban areas) or $US 17,000 ($34,000) at the May 1987 rate of exchange (Bank of Tanzania definition) • In terms of employment; *(a)* non-factory small-scale industry (up to ten workers), *(b)* factory-type small-scale industry (10-50 workers) • Rural outside industrial estates; urban on industrial estates The last two are both used by SIDO.
Zambia (official)	A small-scale enterprise is defined as one having capital assets of less than 250,000 kwacha (350,000 Kwacha for ancillary enterprises) (approximately $US 30,000, and $US 42,000). Village industries are defined functionally, but capital investment is generally not above 150,000 Kwacha (approximately $US 18,000). For the purpose of granting loans under the Special Fund for Rural Development (SFRD), rural enterprises are those established 50 kilometres beyond line-of-rail locations. Small loans, presumably for RSIE, range from 500 Kwacha to 50,000 Kwacha (approximately $US 60 to $US 6,000). Large loans under the guarantee scheme, providing for small-scale enterprise in general, range from 5,000 Kwacha to 500,000 Kwacha (approximately $US 600 to $US 60,000). The 1985 country-wide survey of rural small-scale enterprises in Zambia defined small-scale to encompass enterprises with employment of up to 50 persons.

[a]SONEPI Société Nationale d'Etudes et de Promotion Industrielles.

Table 4. Size and numbers of RSIEs as defined in different countries

Country	*Size and location category*	*Number of enterprises, persons employed and date of information*
Colombia	5 persons or less (rural)[a]	143,000 persons (1978)
Indonesia	1-19 workers (rural)	1.1 to 1.2 million enterprises, 3 million persons (1985)
Kenya	1-2 persons (rural + urban)	14,000 enterprises (1986)
Pakistan	5 and less (rural)	500,000 enterprises, 2.35 million persons (1984/85)
Peru	5 and less (rural + urban)	30,000 enterprises (1980)
Philippines	Less than 5	907,000 persons (1976)
	5-10 workers	. .
Senegal	1-5 workers (rural + urban)	700,000 persons (. .)
United	Artisans (rural + urban)	150,000 persons (1978)
Republic of	5-9 employees (rural + urban)	4,359 persons (1978)
Tanzania	10-49 employees (rural + urban)	20,141 persons (1978)
Zambia	Up to 50 persons (rural)	170,000 enterprises (1985) 270,000 persons (1985)

[a]Adjusted officially to 10 persons or less in 1983.

II.3.2 Size, extent and types

As a result of industrialization, urbanization and economic development, RSIE in the long run gradually declines in numbers, employment and value added as a proportion of total manufacturing. In Pakistan, the percentage of the rural labour force engaged in manufacturing declined from 12% in 1968/69 to 9.4% in 1982/83.[6] In Colombia, employment provided by manufacturing in rural areas decreased from 18% in 1970 to 10.1% in 1978.

While the trend in the years to come will be towards a shift away from RSIE in rural areas and small towns to small-scale and medium-scale enterprises in urban areas and towards increasing the size of manufacturing enterprise with improvements in technology and productivity and product development, it should be noted that in most of the developing countries there is still considerable scope for expansion of RSIE *per se* in rural areas and small towns.

Types. RSIEs typically emerge from traditional artisan crafts involving either the use of local materials and resources, or the making of tools, equipment, and consumer goods (based to some extent on raw materials from outside the area) to meet local demand. The initial RSIEs range from blacksmithing, carpentry and pottery to food-processing, beverages, textile-spinning and weaving, garment-making, tanning and leather-working, carpentry and furniture-making, welding and metal-fabrication.

Traditional household activities progress to cottage shops and small workshops engaging some hired labour, having work premises, simple machinery and equipment and a formal organization (proprietary or family, partnership, co-operatives). Some of the artistic craft production moves from rural to urban areas—to the urban informal sector—to cater to the tourist and souvenir market. Some activities, e.g. blacksmithing, decline due to changes in agricultural technology from manual ploughing to animal-drawn ploughing

[6]R. Islam, *Rural Industrialization and Employment in Asia* (New Delhi, ILO, ARTEP, 1987).

and then to machine ploughing. Welding shops and tractor repair shops replace blacksmithies. Power-operated grain mills replace manually-operated mills. New products—furniture, building materials, garments, shoes, sheet-metal fabrication etc.—begin to receive more emphasis.

The composition of RSIE output and its evolution through different stages of development may be gleaned from the situation in the different countries studied. In the United Republic of Tanzania, four industrial branches—food products, textiles, wood products and metal products—accounted for 88% of the value added and 75% of employment in manufacturing enterprises with 5-10 workers in 1978. In Zambia, in 1985, the primary industrial group of enterprises in rural areas were forest-based (sawing, furniture, crafts, charcoal) and secondary enterprises included garments and foods (baking, brewing, food-processing). In rural townships and small towns, the forest-based enterprises came third after garments and food. In Senegal, 20% of artisans are in artistic trades (e.g., jewellery and weaving), 50% in utility trades (clothing, metal, wood and leather) and the remainder in a variety of services. Non-household grain-milling is a recent activity in which rural women are engaged.

Kenya is somewhat similar to Zambia. Data for the Central Province indicate that wood products accounted for 34.4% of non-farm employment in rural households and 14.2% in market centres. In rural households, food and beverages were next in importance (17.2%), followed by plant and animal fibre products and clothing (12.3%). The last category was the most important in market centres (33.9%), followed by repairs (22%), food and beverages (13.4%) and metal products (7.5%).

In Indonesia, according to 1974 data, five branches accounted for 85% of the total value added in RSIE: food (44%), wood, rattan and bamboo products (21%), structural clay products (9%), textiles and clothing (6%), and metals and machinery (4%). These proportions probably need some secular adjustment—food has almost certainly declined relatively, and textiles and clothing and metals and machinery advanced—with the intervening growth of prosperity.

In the Philippines, RSIEs predominate in products with local markets; bakeries, garment-making, furniture, fabricated metal, concrete products and rice-milling. Over the years 1961-1972, employment seems to have declined in food-processing, held steady in textiles, clothing and furniture, and increased in metal trades.

The changing effects of agricultural growth, development of infrastructure, trade and markets can be clearly seen in Pakistan. Over a 20-year period, the share of yarn and leather decreased from 58-10%, the share of clothing, footwear and leather products increased from 10-30%, that of wood products remained about the same (13-15%), food products increased from 1.4-7.9% and metal and engineering from 2.8-7.3%. RSIEs changed over time from producers of agro-based intermediates (yarn, leather, food, wood) to exporters of a variety of finished consumer and producer goods. Furniture was the first branch to develop, after which clothing and footwear took off. The most important change took place in the sixties, during the green revolution, when farm income and investment had a marked effect on production of consumer and producer goods. This pattern stabilized in the seventies when the share of intermediates was decreasing even further and rural industry continued to diversify. Metal-goods production then seems to have lost its impetus relative to the export-oriented activities (carpets, leather goods, garments).

In Peru, the range of RSIE is rather narrow, wearing apparel and furniture accounting for 70% of all establishments. The role of food-processing in micro-

industry has been continuously declining. In Colombia, on the other hand, food and beverages are more important than textiles and leather in the cottage-industry sector.

RSIE is thus an evolving and dynamic sector. Products catering to local markets and services (including repair) remain in the rural areas, other manufacturing, catering for wider markets, moves to small towns and market centres. There is a shift from food-processing and agro-based intermediates (which tend to be manufactured in small and medium enterprises and large-scale industry in rural towns and urban areas) to furniture, clothing, building materials, metals and engineering. Despite these trends, the main branches remain much the same; food, wood, textiles and clothing, building materials, metal and repairs.

II.3.3 Role of women

In view of the predominance of household and cottage industry in RSIE, female participation is high, both as owners and as employees. The share of ownership is perhaps greater in rural than in urban areas. Indeed, in rural areas the share of ownership may be greater than the share in employment, although country experiences differ. Women in rural households are also engaged in agriculture and, for about 40-50% of them, RSIE provides a supplementary source of income. In RSIE, female proprietorship tends to be concentrated in the food-related, garment and craft industries.

Projects for the development of women as rural entrepreneurs involve a number of activities in the rural sector ranging from pottery, basketware, tailoring, weaving, dressmaking to food-processing, palm-oil extraction and fishery-processing. In one project in Senegal, millet mills were introduced into villages on a co-operative basis, both to reduce drudgery and time devoted to home chores as well as to produce for the market. One hundred or more groups were equipped with machines and organized and trained to engage in profit-making activities.

In recognition of the important role of women in RSIE, emphasis might be placed on expanding and adding value to women's mainstream economic role (e.g., food-processing). On the other hand, agricultural mechanization and technological development may reduce the drudgery and manual work, especially harvesting and post-harvesting in which women have been involved. Education and training of women should provide opportunities in new types of RSIE, e.g., electrical winding, radios, electronic assembly etc.

The Role of Women in RSIE Differs From Country to Country

The RSIE country visits brought to light interesting differences with respect to the role of women in RSIE.

In *Indonesia* there is no lack of female participation in RSIE. Men were observed by the mission to dominate such sectors as wood-working, metal-working and rattan furniture, and women to predominate in weaving and food-processing, while some sectors like clothing had many of each sex.

In *Pakistan*, workshops are almost entirely the domain of men and cottages the domain of women. The earnings of trained male labour vary from 40 to 100 rupees a day (approximately $US 2.3 to $US 5.5) that of skilled female labour from 15 to 40 rupees a day ($US 0.9 to $US 2.3), depending

mainly on the degree of isolation, alternative job opportunities and personal aptitude (quality and speed). Where the demand for labour is increasing rapidly, women also enter into the more formal industrial units where their earnings are substantially higher than in isolated cottage industry. It may also be noted that the mission saw not a single enterprise which was headed by a woman.

In *Senegal*, at the artisan level a programme has evolved where—as already stated above—mills and decorticators for millet and other grains are provided via the Ministry of Social Development to women's pre-co-operatives in rural areas.

In *Tanzania*, the role of women is not very significant. Most enterprises are male-dominated and even in women's groups or women-owned enterprises, the men play key roles as accountants, foremen or managers.

In *Zambia*,[7] women constitute 37% of the working population in rural areas, as against only 19.1% in the urban areas. In the rural areas, women are dominant in the vending sector (71% of enterprises and 64% of employment) and in manufacturing (64% of ownership and 57% of employment). Within the manufacturing enterprises, garments, food, beverages and ceramics are all predominately female-owned. All these enterprise groups, except ceramics, are traditionally women-operated. Enterprises owned by women tend to be small; 65% of all enterprises in the 1-5 workers group, but only 44% in the group with more than 10 workers, are female-owned. It should be noted that small-scale-enterprise activity is only an additional source of income for two-thirds of the women (and one-half of the males). The principal income source is agriculture and related primary activities (crops, poultry, livestock etc.).

II.3.4 Some characteristics

Important characteristics of RSIE—some of which have already been referred to above—are:

(a) The overwhelming majority are in the micro-enterprise size range (0-4 persons employed per enterprise);

(b) The structure of RSIE as a sector changes over time (declining food-processing, increasing metalwork and carpentry);

(c) The great majority of RSIE are privately-owned, mostly proprietory, but also some partnerships and co-operatives;

(d) Owners and family-workers are the largest component of the labour force;

(e) In most cases the average person employed does not work full-time over the entire year, but is also engaged in farming and related activities, e.g., livestock, forestry, fishing etc.

According to a survey carried out in Zambia,[8] nearly 50% of the enterprises are operated from the home of the owner. Powered machines a.e

[7] Milimo and Fissela, *Rural Small Scale Enterprises in Zambia: Results of a 1985 Country-Wide Survey* (Michigan State University/USAID, 1986).

[8] Ben White, *Rural Development: Rhetoric and Reality* (The Hague, Institute of Social Studies, 1986).

not used by small-scale enterprises to any extent. More than half of the enterprises identified raw-material supply as a major problem for their operation. Problems related to transport were most frequently mentioned after raw materials. Other major problems related to tools, spare parts and machinery. The problems varied from total shortage to poor quality of available items. Finance was fifth among the problems mentioned. Fifteen per cent of the proprietors said they had no problems.

While sources of entrepreneurship for RSIE vary among countries and at different levels of development, in general it is the farmer or someone from his family who turns to RSIE, from a part-time to a full-time occupation. He obtains informal on-the-job apprenticeship training in a craft or trade, and either joins the unit which trains him or starts on his own. Other main sources of entrepreneurship are traditional artisans or traders, whose sons either carry on the same or related occupation or diversify, e.g., from blacksmith to welder, or from trader to processor or manufacturer. Some other examples found were of accountants, civil servants, engineers and trained mechanics, who set up RSIEs, after training or after accumulating savings. Women entrepreneurs, who also mostly originate from the farming sector, tend to concentrate on handicrafts, garment and food-related industries.

Most of the capital invested in RSIE originates from personal savings, and most of the remainder is borrowed from friends and relatives. External financing as yet plays an insignificant part, but as will be seen in chapter IV, there is definite scope for savings and loan associations—which in many countries increasingly finance small farmers—to provide capital and credit required for expansion and modernization of RSIE. In some countries of Asia and Latin America, where agricultural development has been rapid, rich and middle-income farmers are beginning to become an important source of RSIE entrepreneurship and capital, especially in agro-processing industries and agricultural equipment manufacture.

The extent of capital stock and its investment in fixed or working capital depends on the type of enterprise, its size and the technology employed. In general, hand tools and manually-operated equipment were predominant in African countries, power equipment and more modern machinery were beginning to be installed in areas which have been electrified and connected by road to small towns and other urban areas.

Besides infrastructure (transport and electrification), the improvement of agricultural technology (e.g., from manual to animal-drawn to machine-operated ploughing) has influenced the adoption of new technology in RSIE. These questions are considered in the next section on "linkages".

II.4. Linkages

Interlinkages of industrialization with other sectors of the economy are crucial for promoting RSIE. In this section, possible effects of such linkages through export and import, agricultural development, large and urban industry and infrastructural development are reviewed.

The nature of rural development involves attention to several sectors embracing a wide range and mix of activities including projects to raise agricultural output, to improve health and education, to expand communications and to improve housing. In this multi-sectoral approach, industrialization

is a means to raise productivity and incomes in all sectors by providing forward and backward linkages between the various markets for goods, services and factors of production (especially labour). In addition, there are the very important "final demand" linkages between increases in rural incomes and the stimulation of RSIE. Linkages are stimulated by economic development and growth in incomes and by the development of infrastructure and markets. In an underdeveloped, subsistence, rural economy, linkages are few and limited to barter or informal arrangements within the village. The less developed an economy, the less the effects of linkages in stimulating RSIE. The box below lists the policies required to enhance such rural linkages.

Policies for Enhancing Rural Linkages*

- Policies to promote agricultural production, including policies towards agricultural prices and credit, and investment in infrastructure
- Land reform
- Removal of any artificial encouragement of mechanization
- Encouragement of high-value, labour-intensive crops
- Development of rural infrastructure, both productive (electrification, roads and rail) and social (schools, hospitals etc.)
- A balanced provision of credit (in quantity and terms) as between urban and rural, large and small-scale activities
- Support for small-scale local companies for forward-processing activities, as against the large-scale integrated plants of the multinational corporations and Government. (This involves assistance in technological upgrading and technical information services, as well as policies towards infrastructure and credit.)

*Gustav Ranis and Frances Stewart, *Rural Linkages in the Philippines and Taiwan*, in F. Stewart, *Macro-Policies for Appropriate Technology in Developing Countries* (Boulder, Colorado, Westview Press, 1987), p. 167.

II.4.1 Export and import

Import linkages of RSIE are severely restricted in most developing countries due to shortage of foreign exchange and inaccessibility of imported inputs.

Export linkages are important in such sectors as handicraft, garments and leather goods, in particular in the Asian countries studied. Sub-contracting to rural artisans takes place through a trading nexus linking urban to rural areas. On the other hand, there is also a tendency for artisans to migrate nearer to urban areas.

RSIEs are mainly dependent on local markets and on direct contacts with local or domestic raw-material purchasers. Export and import linkages are generally low and when they take place they are indirect, via sub-contracting, or purchases by tourists, mostly for the supply of handicrafts. Moreover, the foreign-exchange constraint in many developing countries, together with the limited trade nexus, increases the dependence of RSIE on locally available raw

materials and inputs. For example, in the United Republic of Tanzania, some RSIEs shifted to the manufacture of wood-based items (from textiles which needed imported inputs) and in Zambia (north west) the use of iron nails, hinges etc., has been eliminated, minimized or replaced by wooden parts in the manufacture of wooden furniture, due to severe foreign-exchange constraints and the lack of access to imported inputs.

The export of handicrafts manufactured by RSIE depends on a nexus of trade links to urban areas and (via middlemen) to the souvenir and export markets. However, it has been noted in the United Republic of Tanzania and Zambia that rural craftsmen catering to the artistic craft trade have moved to shanty towns in urban areas, i.e. nearer to the markets. Partly this is a reflection of the underdevelopment of trade and communication links between urban and rural areas. The situation is somewhat different in the Philippines and Pakistan. In the former there are hundreds of thousands of rural women involved in the garment export industry through sub-contracting from urban traders and exporters. In Pakistan, rural craft centres have flourished and undertake manufacture for exports. Urban traders take care of the supply of high-quality materials and the marketing of the finished products. Furthermore, the liberalization of the economy and the export incentives provided during the last decade or so have facilitated the export of traditional handicrafts e.g. carpets and leather goods, and benefited rural cottage industry.

In Indonesia, RSIEs are beginning to develop linkages with the export sector in handicrafts, furniture and clothing, usually via larger companies who negotiate with foreign buyers and sub-contract work to RSIEs, although a few RSIEs graduate to the medium-scale and deal direct with the foreign customers. These patterns prevail in wooden and rattan furniture, baskets, batik and made-up clothing, principally in Java and Bali. Nevertheless, the extent of such business is still very limited.

In Senegal, most industry outside Dakar relies heavily on purchases in Dakar (though not necessarily of goods produced in that city). As far as smaller industry and artisans are concerned, they face a similar dependency on Dakar, but the bulk of their activities is determined by local markets, with the notable exception of some small-scale metal-product manufacturers from St. Louis who are gaining a foothold in markets in Mali and Niger.

In Colombia and Peru, RSIEs largely depend on local markets and resources. Exports of RSIE products are insignificant and more than 80% of inputs of small-scale enterprise are of local origin. In Colombia, the Export Promotion Fund (PROEXPO) does bring small quality producers together in co-operative export efforts, *inter alia*, of leather products.

II.4.2 Linkages with agriculture

With agricultural development, final-demand linkages for consumer goods through increasing rural incomes have become far more important than forward-production linkages of agricultural processing or backward-production linkages to manufacture of farm tools and equipment. Where subsistence farming is still important and agricultural growth is slow, RSIEs are involved in forward linkages of grain and oil-milling, wood-processing etc., and backward linkages of blacksmithing, forging etc., rather than in the manufacture of a range of consumer goods. With more developed agriculture, large-scale agro-processing shifts to

urban areas, but small-scale processing of staple foods to meet local demand continues in rural areas. The combined development of agricultural technology and infrastructure, together with the intermediary role of traders, have reduced the importance of final-demand linkages to RSIE in Pakistan and instead increased the role of agro-tools and equipment manufacture as well as rural-craft production, both linked in complementarity to large enterprises in urban areas.

The primary demand for RSIE products arises from agricultural growth and rural incomes generated thereby, both through production and through income linkages. There is considerable evidence that in rural households the income elasticity of demand for rural industrial growth is positive and that agriculture generates the largest share of rural income.

Final-demand linkages through consumer demand provide the most important linkage between agriculture and RSIE, since farm households spend 30–40% of their incomes on non-food items and around 10–15% on goods requiring substantial processing. Production linkages come second to income linkages. Agricultural-processing activities (forward-production linkages) may be dispersed in small-scale establishments, because crops are bulky and heavy and often perishable, and transport costs can be greatly reduced if agricultural processing is done close to the source of supply. Backward-production linkages occur through the manufacture of tools and farm equipment—often traditional, but sometimes modern—in villages and rural towns.

Empirical studies confirm the conclusion that consumer demand provides the major impetus for rural industrialization. In Sierra Leone, forward and backward linkages with agriculture provided only a second source of demand, growth in income being the major source.[9] A comparative study of relationship between rural industrialization and agricultural growth in different states of India[10] concluded as follows:

> "The performance of the rural industrial sector in different states (of India) is found to be broadly related to the levels of agricultural productivity, and more closely to the growth rate of agricultural output. The relationship, however, is direct in terms of input-supplying and output-using linkages only to a limited extent. Mostly, the relationship seems to be rather indirect, through rise in income levels, purchasing power and also to some extent, investible surplus generated by agricultural growth giving a general fillip to the existing industries and partly leading to emergence of new and dynamic ones. That is why the rural industrial structure of even the agriculturally better developed and fast growing regions is not necessarily dominated by agro-based industry or industry producing and repairing agricultural implements, but, like that of the less developed states, mostly by textile-based, forest-based and, to a lesser extent, by agro-based units—all traditional industries ubiquitously found in all regions. The difference between the faster growing agricultural areas and others is primarily in terms of the productivity and income levels in rural industries, and, only marginally in terms of the composition of industrial products."

[9] Chuta and C. Liedholm, *Employment Growth in Small-Scale Industry* (ILO, Macmillan, 1985).

[10] T. S. Papola, *Rural Industrialization and Agricultural Growth: A Case Study on India* (New Delhi, ILO, ARTEP, 1986).

This confirms the findings from statistical analyses in chapter II.3.2 that the main branches and types of RSIE remain in food products, wood and products, textiles and clothing, building materials, metal and repairs.

In China, a rapid increase in agricultural productivity provided the impetus for rural industry by generating a substantial increase in demand for their products.

> "The interlinkage between agriculture and rural industries followed the classic pattern of enlarging the market for the latter's products and helping the former's growth through a more efficient supply of inputs, including labour. The very rapid growth of rural industries that took place since 1978 is also ascribed partly to a high growth of agriculture. It is reported that provinces showing the fastest rates of industrial growth tend to be areas where rural economic reforms are well advanced and agricultural growth levels high."[11]

The predominance of the income or consumer demand linkage of agriculture to RSIE has been confirmed overall in the country studies made by the evaluation team. In Indonesia, the main products of RSIE—food, clothing, furniture, wood (for construction), bricks and tiles—were in strong rural demand, linked to a 45% increase in agricultural output over the past decade. Similar is the evidence from the Philippines, where about 60% of the increase in rural non-farm employment in Luzon come from an increase in consumer demand for clothing, building materials, furniture, metal products etc.

> "The consumption sector is larger and its elasticity of employment to agricultural production higher than agro-industry. Moreover, in keeping with the concentration of industry and trade in market-towns, elasticities are highest in the local urban centre, next highest in a rich village and lowest in a poor village."[12]

In Indonesia (rattan), the Philippines (garments) and Pakistan (agro-equipment), RSIE-upgrading with increased income and demand was very evident to the country evaluation mission.

In Taiwan Province of China, all the linkages cited by Ranis and Stewart (see box above) have been favourably employed to increase rural incomes and achieve employment in manufacturing of about 50% of the total in rural areas. According to Ranis and Stewart, reform of the agrarian structure (land reform) was crucial in increasing rural incomes and consumer demand. In Thailand, consumer-demand linkages to agriculture constitute the major source of demand for non-farm goods and services, followed by forward and backward linkages in agriculture.[13]

While increase in consumer demand arising from growth in rural incomes provides the major impetus for RSIE growth, this is less evident when subsistence farming still dominates the rural scene and marketable surplus is low. This is the case in Senegal and Zambia and, to a lesser degree, Kenya and the United Republic of Tanzania. Subsistence agriculture and relatively slow growth in agricultural production increase the importance of forward-linkage

[11] Samual P. S. Ho, *The Asian Experience in Rural Non-agricultural Development and its Relevance for China*, World Bank Staff Working Paper No. 757 (Washington, D.C., 1986).

[12] A. Gibb, *Some Evidence on the Impact of Agricultural Modernization on Non-agricultural Incomes in Agricultural Marketing Centres* (Institute of Economic Development and Research, University of the Philippines, 1972).

[13] World Bank, *Thailand: Rural Growth and Employment* (Washington, D.C., 1983).

industries involved in processing small quantities of grains or oil seeds for the local markets. The manufacture of agricultural implements and tools required for improved productivity generally takes place in urban areas and small towns, the role of blacksmiths in villages declining with the change in agricultural technology. In Senegal and Zambia, RSIE grain-milling was evident. In the prosperous agricultural area of Moshi in the United Republic of Tanzania, RSIEs were springing up in wood-working, oil-milling and metal-repairing.

The case of Pakistan is special in some ways. Here traders, by providing a link between urban markets and RSIE and small-scale enterprise in general, seem to have reduced the importance of final demand for consumer goods. The farm household has been moving away from subsistence farming into commercial farming. Consumer demand is largely met from urban goods imported into small towns and villages. On the other hand—as already noted—rural craft centres manufacture goods for the urban and the export markets. The backward production linkage provided to supply of machinery and equipment and services seems to be very significant in Pakistan RSIE, which has been able to capture a substantial part of the market for machinery and equipment and industrial services. Small enterprise has assumed a complementary role *vis-à-vis* large enterprise, after the latter has taken the lead in producing the more sophisticated equipment for irrigation and mechanization. Several clusters, both large and small, of RSIEs producing agricultural tools and machinery were observed in prosperous agricultural areas of Punjab and the North-West Frontier Province. Shops to repair and service tractors and other equipment were even more widespread. RSIE appears to match well with the small-farm sector. It is able to offer the appropriate goods and services in a manner that the illiterate small farmers can cope with. Thus, RSIE functions as a technological intermediary at the lower farm level.

Agriculture's forward linkage through agro-processing is carried out generally in large-scale enterprises in Pakistan and in other countries, such as India, where large surpluses of agricultural products generated by the green revolution necessitate processing on a larger scale. However, agro-processing merges with consumer-demand linkages for dietary staples, and RSIE processing of the local staple (maize, wheat, rice etc.) takes place to meet local demand, even when most food- and agro-processing (of marketed surpluses) has shifted to urban areas.

In the comparatively more developed countries of Latin America, e.g., Colombia and Peru, commercial agriculture is more developed, except in the highland areas, where some limited agro-processing for local markets takes place. Otherwise, agricultural modernization has bypassed RSIE, resulting in little or no linkages.

II.4.3 Linkages with large industry and urban areas

Linkages of RSIE to large-scale industries through sub-contracting or trade channels exist to a limited extent in the Asian countries surveyed. The development of such linkages will depend on the one hand on expansion of rural markets and of capacities (including engineering skills) of RSIE and, on the other hand, development of infrastructure and communications resulting in a rural-urban continuum. Government initiatives and incentives may accelerate the development of linkages, but they have to be sustained on the basis of competitive advantages in costs of production of RSIEs for the sub-contracted items.

Linkages with large-scale industry can be an important source of demand for small-scale industry products. Such linkages usually take the form of sub-contracting from large to small enterprises. Such sub-contracting requires a certain level of development of small-scale metal and engineering industry. Usually linkages take place in urban areas and more rarely between urban and rural industries. Linkages between RSIE and large industry will require, in addition to a level of engineering development, development of infrastructure, transport and communication facilities.

Among the countries surveyed, RSIE-to-large-industry linkages have been strong in Pakistan. RSIE in Pakistan is an inseparable part of long-standing manufacturing tradition of nurturing the large and the small. Sub-contracting was already practised several centuries ago and traditional products such as carpets, garments and footwear are still produced according to that old trade system. Thus, it is common practice to work along a vertical chain of inputs and outputs, consisting of both large and small units, which together produce the final product. The choice between large or small is purely a matter of economies of scale—which vary with the process and the product—and the availability of cheap labour in the countryside. The better the trade channels are, the further one penetrates into the countryside, and the more farm households and landless families are engaged in handicrafts or some other activity that can easily be standardized and controlled. The efficiency of this network of activities depends entirely on the accumulated knowledge of merchants, traders and transporters. Up to the present time, Pakistani traders still fulfil the crucial role of development agents. They are not only involved in business but also in production. One trade leads to another, and if one knows the market, one finds a producer, or starts production oneself. Thus, wool trade may lead to leather trade, and then to tanning and the garment industry (as for example in one medium-scale leather firm visited in Kasur in the Punjab). The extended family scouts for workers and sub-contracting potential. Credits are often given by the large suppliers and buyers.

In the engineering industry in Pakistan there are sub-contracting relations in certain special fields, e.g., cutlery and surgical instruments. In others there is specialization among small-scale manufacturers themselves of different stages of production, e.g., in the Daska slow-speed diesel industry.

Sub-contracting to RSIE is strong also in labour-intensive branches in Indonesia (e.g., batik, rattan) and in the Philippines (e.g., garments). Japan is the example, *par excellence*, of sub-contracting from large urban to small rural enterprises. The Japanese model works well because of special features; expanding demand, limited capital of large companies, low basic skills required (in, for example, garments) and paternalistic relationships. The Japanese model is not replicable elsewhere without adaptation.[14]

Sub-contracting is weaker in Africa, where the record of the large industrial parastatals in the United Republic of Tanzania is particularly poor, contrasting strongly with the active programme of a Tanzanian small-to-medium private farm-equipment producer in establishing satellite contractors to assemble its products in distant markets. In Senegal, the United Republic of Tanzania and Zambia, large public-sector enterprises were set up to undertake all operations from raw-material processing to manufacture of the end product.

[14] S. Watanabe, *Technology, Marketing and Industrialization: Linkages between Large and Small Enterprises* (New Delhi, Macmillan, 1983).

Despite the apparent potential for expanding sub-contracting, formal efforts to do so have been rare, and only successful where the initiative has been taken by private firms or their associations. In Indonesia, a large engine-manufacturer, Kubota Diesel, has developed a successful network of both small and medium sub-contractors, with the initial assistance of the local industry department. Governmental attempts to press other manufacturers to follow suit, have not so far proved successful.

Large firms may sometimes act as centres of technological diffusion and upgrading of RSIE, particularly public-sector firms or private firms induced by government initiative. (Sub-contracting practices also frequently transfer technology, so the two categories overlap.) This takes place in India and is encouraged by credit facilities, tax incentives, lower labour costs of sub-contractors and government purchase programmes.

In Peru, small-industry associations serve as sub-contract-promoting exchanges for their members. In rare instances, as with the private Tanzanian firm, Sherif Ceramics, this function is deliberately undertaken as a philanthropic though effective endeavour. Perhaps more often—though there are still only a few documented cases—the same effect is produced by enlighted self-interest, as with the foundry facilities and training provided by the large Punjabi metal firm, which has promoted a small-firm rural engineering industry producing at the lower end of the market, or the practice of SISMAR, the Senegalese farm-implement firm, in training local artisans to service its products. In both cases, the diffusion has probably gone farther than the large firms intended, through spin-offs of their own trained staff and copying of final products by the RSIEs.

In most of the developing countries surveyed, sub-contracting from large to small industries is confined to urban areas. India—like Pakistan—has examples of trade and marketing links extending to distant rural areas for organizing manufacture and purchase of handicrafts and marketing them centrally. In general, however, sub-contracting to small enterprises takes place mostly near the urban centres. This is true also in Indonesia and the Philippines.

The development of linkages between urban (large and small) industry and RSIE will depend, on the one hand, on expansion of rural markets and of capacities of RSIE entrepreneurs (including engineering skills) and, on the other hand, on development of infrastructure and communications resulting in a rural-urban continuum. Even so there may only be limited possibilities; e.g., between large agricultural engineering firms in urban areas and repair or servicing centres in rural areas, between semi-processing of primary products in rural areas and downstream activity in urban areas, between artisans (e.g., in specialized weaving or printing, such as "batik" textiles) or garment makers in rural areas and traders or middlemen from urban areas. Both facilities and skill levels in rural areas have to increase considerably for worthwhile and substantial sub-contracting to take place. Furthermore—as will be seen in the next chapter—government policies and countervailing measures, have considerable influence on stimulating rural location.

II.4.4 Infrastructure

The development of rural infrastructure, both physical (transport, electrification) and social (education, health), is crucial for rural development. RSIE growth is stimulated by access to markets and inputs through road development

and lower cost of production, higher quality and product diversification made possible by electrification. Social investments improve quality of labour and skills and make rural areas attractive for non-farm occupations. Infrastructure development should go hand in hand with macro-economic and sector policies favourable to RSIE growth (the latter are revieved in chapter III).

The development of rural infrastructure, both physical (electrification, transport network) and social (education, health), is crucial for rural development. It provides a critical linkage for RSIE promotion. The limited development of physical infrastructure in Senegal, the United Republic of Tanzania and Zambia has restricted the possibilities of expansion of agricultural production for the market, growth in incomes and linkages with RSIE. Similarly, the shortage of educational facilities limits the development of skills and quality of the rural entrepreneurial class and encourages migration to urban areas. The development of roads and electricity, education and health have, on the other hand, stimulated the trade and marketing network and helped the growth of manufacturing industries in certain rural areas of Indonesia, Pakistan and the Philippines.

Ranis and Stewart have, in the study cited at the beginning of the section, compared the experiences of Taiwan Province of China and the Philippines. The development of infrastructure (roads, electricity, health care, education, banks etc.) has been denser and greater even in rural Taiwan Province of China than in the rural areas of the Philippines. Thus, despite a slower growth rate in agricultural output in Taiwan Province of China as compared to the Philippines in the relevant periods, the increase in non-farm activities was stronger in Taiwan Province of China (6-7% per annum in the sixties) than in the Philippines (3.3% per annum in the seventies). However, even in the Philippines, the development of rural roads was strongly associated with RSIE development, since it stimulated access to inputs and markets.

An example of the effects of rural electrification in the Philippines has been cited in the same study. In an area with 397,000 people, rural electrification resulted within a year in more than a hundred new enterprises, including rice mills, welding shops, bakeries, meat plants and banana-cracker plants. The World Bank *Review of Rural Electrification in Indonesia* (1986) concluded that benefits to productive users (including RSIEs) were modest, the principal stimulation to RSIEs being lower costs and increased profits from better quality and longer hours, and from a few new lines of production like ice-making and battery-charging. This latter advantage of new lines of production was also observed by the evaluation team in rural areas of the United Republic of Tanzania.

It is necessary to caution here that mere provision of roads and electricity without the development of other complementary factors, e.g., agricultural technology, skills in RSIE, markets, financing etc., may have negative results in reducing RSIE output and employment, by making it easier and cheaper to obtain inputs from urban areas.

Finally, it should be observed that a network of rural roads facilitates bringing in consumer goods to remote areas. Non-availability of such goods can act as a disincentive for rural development (including RSIE). The RSIE mission to Zambia observed how a honey factory in a remote village pays the bee-keepers partly in kind (salt, soap), these consumer goods being brought in by the organization in charge of moving out the honey.

Finally, Taiwan Province of China provides a unique example of favourable conditions with respect to all the local linkages enumerated by Ranis and Stewart: size of farm and land distribution, mechanization and labour absorption in agriculture, organization of forward processing activities, and extent and distribution of infrastructure. The policy environment and the development strategy of realistic factor prices and competition—considered in the next chapter—made this possible.

II.5 RSIE: strengths and problems

RSIEs are mostly small, dispersed in area and concentrated in a few branches of production. They themselves marshal inputs and organize production. While they are usually passive, they are also good at exploiting market and technology opportunities, once these are introduced to them. There are promising potentials for co-operation among themselves in groups or associations for facilitating financing and technology transfer. These are examined in chapter IV. RSIEs need above all a favourable policy environment to create demand conditions for growth, a subject discussed in chapter III.

Most RSIEs are very small indeed, employing only a very few people, say from one to five or ten, including their owners. Their dispersion beyond the rural towns and smaller cities varies. However, there is a tendency to cluster and to be more varied in centres of about 5,000 and more inhabitants than in smaller villages.

RSIEs are concentrated largely in a few branches, usually food-processing, garments or textiles, woodworking (including rattan and bamboo in warm climates), building materials and metal-working, including repair shops. This pattern illustrates their typically strong dependence on rural consumer demand. They sometimes have links with wider—city, or even export—markets. They also usually use, and sometimes become exclusively dependent on, trade with other enterprises (middlemen or larger industries) to market their products. This can occur even within local markets, but is more marked in marketing over long distances.

Notwithstanding such links, RSIEs themselves marshal most or all of their essential ingredients. They themselves supply—or privately contract from private sources other than formal promotion and assistance institutions—start-up and working capital, premises, material inputs, labour and its (predominantly RSIE-trained) skills and, quite frequently, capital accumulation for progressive and significant expansions.

Despite this, the majority of RSIEs can fairly be described as passive, in the sense that they are not particularly good at seeking out new markets, products, technologies, or technical skills. Probably the risks of radical innovations *ab initio* appear too high to them. However, if profitable new markets or technical opportunities are introduced into, or self-generated by, some RSIEs, many of the others within reasonable distance and in the same or related branches, are often very good and quick at taking up and further diffusing these innovations, including the necessary expansion of skilled labour by poaching, splitting-off new enterprises, and in-house training. However, these profitable innovations should not require steep and immediate increases in capital assets.

The potential of RSIEs co-operating among themselves through their associations has not yet been exploited to a sufficient degree in the countries studied. Generally the associations are in urban areas and form part of the local Chamber of Commerce. Possibilities of associations, groups or co-operatives as vehicles for transmission of technology and for financing are examined in chapter IV.

RSIEs need above all a favourable policy environment, the subject considered in the next chapter. Not only are favourable demand conditions required through development of agriculture and rural infrastructure, but policies have to be favourable and non-discrimatory to RSIE in regard to access to inputs and finance and effects of trade, tariffs and protection.

III. The Policy Environment of Rural Small Industrial Enterprise (demand-side approach)

The necessity of a favourable economic environment for successful rural industrialization in the countries studied is reviewed in the introduction to this chapter. The next two sections analyse respectively *(a)* macro-policies related to agriculture and the rural sector, and *(b)* other macro-policies, particularly industrialization, and their effects on RSIE development. The final section reviews specific policies toward RSIE and their role in supporting or complementing demand-side policies.

III.1 Introduction

Successful rural industrialization presupposes a favourable economic environment in the rural areas engendered by high rates of agricultural growth and the development of infrastructural and social services. Such an RSIE-favouring environment has been found more in the Asian countries studied during the evaluation than in those of Africa or Latin America.

Development experience indicates that RSIEs are more effectively promoted by government policies influencing agriculture, infrastructure and social services positively than by policies and measures which are biased against the non-rural sectors or which give direct assistance *per se* to RSIE. In other words, successful rural industrialization presupposes a favourable economic environment in the rural areas engendered by high growth rates, especially in agricultural and other rural activities, and development of infrastructure and social services. Declining living conditions in the rural areas accompanied by denuding of rural resources and migration out of the area are not conducive to the development of RSIE. Stopping such a decline and ensuring growth is a policy prerequisite for rural industrialization.

The nature of the rural development problem, and consequently the type of policies required, differs among developing countries, depending on the ratio of rural to urban population, the pressure of population growth, the growth in the ratio of working population, agrarian structure and production systems, and other aspects of the rural environment. The extent of urbanization is greater in Latin America (65-70%) than in Asia and Africa (20-40%), with some exceptions. Zambia is one of the special cases among comparable developing countries where urban population is nearly 50% and rural areas have a low population density. However, the population growth rate, ratio of population

of working age and rate of growth of the labour force in Zambia are similar to those in other African developing countries.

Among the countries studied, the economic environment has been more favourable for rural development in the Asian countries than in the African or Latin American ones. The reasons include realistic agricultural pricing and other macro-policies, besides improvements in agricultural technology and investments in rural infrastructure.[15] However, after a long crisis period since the mid-seventies, the rural environment has begun to improve within the last five years or so in Senegal, the United Republic of Tanzania and Zambia, with better agriculture growth rates and investment in infrastructure and social services. The crisis in the three mentioned African countries was caused by an accumulation of general macro-economic and industrial policies which turned the terms of trade against the rural areas. These effects in turn were exacerbated by drought and adverse conditions for agriculture in general. Kenya—among the African countries studied—was different, since policies towards agricultural and rural development have been more favourable. A few other African countries, e.g., Cameroon, and Malawi also followed policies favourable to agricultural and rural development.

The economic environment for rural development and RSIE is also influenced by exogenous factors, i.e. external constraints from the international economy. The impact of such exogenous influences depends on the vulnerability or dependence of the economy. Among the countries studied, the African ones have been more affected by the international economy than the others, because of their dependence on exports of one or two primary products and on inflows of foreign aid and capital. Even though oil-price fluctuations have been important for Indonesia and foreign remittances and investment for Pakistan, these economies are sufficiently diversified for rural areas not to be so severely affected as in the case of Africa. In the case of Colombia and Peru, the importance of the urban economy is so much greater than of the rural that the latter is not directly affected by influences from outside the country.

III.2 Macro-policies related to agriculture and the rural sector

Country studies and other available research showed that demand-side policies resulting in an aggregate increase in rural incomes, have been more effective in stimulating RSIE through an increase in the demand for consumer goods than merely supply-side provision of inputs and technical assistance services to RSIEs themselves. In the absence of increasing demand for rural non-farm products, supply-side measures may fall flat on their face.

Demand-side macro-policies should include: (a) *investments in infrastructure and social services in rural areas,* (b) *price policies to ensure favourable terms of*

[15] In addition to country reports of the team:

(a) Islam, *op. cit.*;

(b) World Bank, *op. cit.*;

(c) Ranis and Stewart, "Rural linkages in the Philippines and Taiwan", in F. Stewart, *Macro-Policies for Appropriate Technology in Developing Countries* (London, Westview Press, 1987);

(d) Havnevik, Skarstein and Wangwe, *Small-Scale Industrial Sector Study-Tanzania* (Stockholm, SIDA, October 1985).

trade for the farmer. (c) *wide distribution of benefits in rural areas so as to generate sufficient effective demand.* (d) *agricultural investments in irrigation, extension and research and provision of credit to farmers.*

Historically, in the post-World War II period, development strategies were followed in many developing countries, which tended to concentrate on public investment and ownership to promote large-scale industrialization, accompanied by investment in social sectors, e.g., education and health. Agriculture and other rural activities were often neglected or subordinated to the pursuit of modernization through large-scale industrialization and urbanization. The costs of such development in terms of increased dependence on imports of food and raw materials and of rural poverty only came to be generally appreciated in the seventies. At this stage some countries, particularly in Asia, turned to emphasizing agricultural development (the green revolution) and food self-sufficiency. In the African countries surveyed, the imperative of adopting policies in favour of agriculture has been realized only in the eighties.

A development strategy could either be based on achieving structural transformation in the rural areas resulting in poverty-reduction and dynamic growth, generating income demand for rural industrial products, or on supply-side provision of inputs to increase the capacity of rural people to engage in industrial activities. The country studies carried out during this evaluation showed that demand-side policies (whether arising from agrarian reforms and more equitable distribution of land and incomes or from price and market incentives to farmers) resulting in an aggregate increase in rural incomes have been more effective in stimulating RSIE through increase in the demand for consumer goods (food, clothing, housing, durables etc.) than merely supply-side provision of inputs and technical assistance services. As will be seen in chapters IV and V, the demand-influencing strategy has to be complemented by supply-side assistance selectively provided to target groups which can be effectively reached. In actual practice, however, in many developing countries, industrial policies favouring large-scale industries have been balanced by institutions and measures (as virtually the only policy) for providing inputs and technical assistance for small-scale enterprise and RSIE. Supply-side strategy—skill-training programmes, appropriate technology diffusion, small investment credits, and industrial infrastructure development—serves an important supporting role, but does not by itself generate self-sustained employment. In the absence of increasing demand for rural non-farm products, supply-side measures to increase the production of such items may prove self-defeating.

The contrasting development results in the Asian and African countries studied illustrate the influence of macro- and related sector policies. In Indonesia, Pakistan and the Philippines, rural non-agricultural and RSIE development has followed growth in agriculture and rural infrastructure. High growth rates in the agricultural sector in Pakistan since 1977 were achieved through increased acreage, adoption of appropriate pricing policies and institutional support to farmers. The increase in agricultural prices led to an improvement in agriculture's terms of trade and in incomes. This has accelerated the adoption of modern agricultural technology by the farmers. In particular, increased use of agricultural machinery and implements has opened opportunities of entry for the small-scale metal firms. This had also led to an increase in repair and maintenance work, which is often undertaken by workshops and small firms in the rural and urban areas. In Indonesia, the

government policies on the agricultural sector have largely favoured the rapidly increased agricultural production to a level where Indonesia is virtually self-sufficient. Coupled with the relatively high and stable prices in real terms for the products (mainly rice), this has pushed up incomes in rural areas and increased the buying power of the rural population, in turn stimulating small-scale industrial production through consumer demand as well as generating surplus capital for investment. In the Philippines, flourishing non-agricultural development in the rural areas has accompanied growth in agriculture. In Thailand, in Taiwan Province of China and also in various regions of Malaysia and India, exceptional non-farm growth has been experienced in the wake of rapid improvements in farm incomes and farm production.

On the other hand, in the African countries studied, *de facto* policies until recently had the effect of depressing agriculture and turning the terms of trade against rural areas. It is only since the early eighties that price incentives, credit facilities and more competitive marketing arrangements have led to increasing agricultural production for the market. In response to this, the last two or three years have witnessed a spurt of RSIE in Zambia and especially in the United Republic of Tanzania.

The case of the Latin American countries studied is somewhat different because of the dominant position of commercial agriculture and the high degree of urbanization. The demand for RSIE products in the Andean highlands is strictly at the rather depressed local or district level and RSIEs are rarely integrated in the national economy. Dualism is a basic characteristic of the structure of agricultural production in Peru. Food industry and food consumption are only moderately linked with domestic agricultural production, with massive food imports supplanting the potential of Peruvian agriculture. In Colombia, dualism is also strong in agriculture, though import dependence for food is less.

Recent Chinese experience[18] illustrates how development strategy can influence rural development through area planning, investments in rural infrastructure, the upgrading of agricultural technology and the increase of the market demand for RSIE products by—to use Chinese terminology—encouraging "sideline" production on the one hand and township-village industrial enterprises (TVIEs) on the other. The idea is that, apart from rural households specializing in crop production, there will be more and more specialized households in forestry, fishery, livestock and sideline production. The establishment of non-agricultural sideline activities viz. handicrafts, commercial food and beverage services, repairs, transport and house-renovation undertakings is encouraged by individuals as private industrial and commercial activities in rural areas. The deliberate expansion or establishment of small or rural towns enables promotion of somewhat larger-sized processing industry, input industries (e.g., scaled-down fertilizer and cement plants), agricultural-equipment manufacturing units and consumer-goods industries. A counter-magnet is thus provided to stem rural-to-urban migration by creating rural growth centres. In the other countries studied, market towns and small towns around which villages cluster have the potential to be developed similarly as centres of non-agricultural economic activities. This is already happening to a greater extent in the Asian countries studied than in the African countries.

[18] (a) A. Saith, "Contrasting experiences in rural industrialization: are the East Asian successes transferable?", in R. Islam, *Rural Industrialization and Employment in Asia* (New Delhi, ILO, ARTEP, 1985).

(b) Ho, *op. cit.*

Rural Industry in China

Rural non-agricultural development has become a key component of China's development strategy. The Government wants to shift rural workers from agricultural to non-agricultural activities, but it also wants to achieve this with only a limited amount of rural-urban migration. The slogan is: "Leave the land but not the countryside, enter the factory but not the city". Non-agricultural activities in the countryside are expected to promote agricultural production, generate funds for agricultural mechanization, create employment opportunities, help to narrow rural-urban income differences and avoid a concentration pattern of industrialization and urbanization.

Chinese policy is to transform its agriculture from "self-sufficient and semi-self-sufficient" production to "large-scale commodity production". This involves increase in farm size and a substantial share of agricultural population moving out of cultivation. Specialization of households in crop production, forestry, fishery, livestock and sideline production (handicrafts, commercial food and beverages, services, repair, transport, house renovation) is encouraged. Private undertakings in these lines are helped by local Governments with credits, tax concessions, technical assistance and favourable prices. Besides individuals, community and brigade enterprises (CBEs), hitherto owned collectively by members of a commune or brigade, are being encouraged since 1984 under different forms of ownership arrangements—e.g., joint ownership by individual households, ownership by several brigades or communes, equity and dividend distributed according to capital contributed etc. Communes are now in townships and brigades in villages. The term CBE has been replaced by either township-town enterprise or township-village enterprise (TVE). Peasants involved in commerce, services or industry could establish household registration in market towns, while continuing to be responsible for their own food-grain requirements. This is part of a general policy to revive market towns. Market-town development is regarded as essential for agricultural commercialization and rural non-agricultural development. Market towns provide the sites for most TVEs, they are the centres for rural-urban trade and provide essential services to agriculture. The 53,000 market towns existing in China are not classified as urban areas, they are being developed as alternatives to urban cities, with provision of schools, hospitals and cultural amenities. The principles governing policy are to control the size of large cities, rationally develop medium cities and actively develop small towns. Future urban growth is expected in the 126 cities with populations between 20,000 and 200,000 and the more than 3,000 small market towns where TVEs are being located. It is projected that by the year 2000 the share of the rural labour force in non-agricultural activities should increase (from 11% in 1982) to 44%. Activities that serve local needs or produce non-traded goods, e.g., commerce, services, service-type industries, are regarded as prospective for dispersed rural locations. As regards TVEs, there is good development potential in agricultural processing (foodstuffs and processed feeds), building materials (tiles and bricks), energy (small coal mines and small hydro-power stations), and processing or producing components and parts for large enterprises. An example of successful development is that of Taiching County, in Southern Jiangsu and adjacent to the municipality of Shanghai. Between 1978 and 1983, the percentage of rural labour force engaged in non-agricultural activities increased from 23 to 37 and per-capita rural income increased 2 1/4 times.

Source Samuel P S Ho, *The Asian Experience in Rural Non-Agricultural Development and its Relevance for China* (Washington, D C . World Bank, 1986)

It is clear that macro-policies influencing rural development in general and agricultural growth in particular have resulted in significant RSIE growth. In market economies, such policies would include sufficient investments in infrastructure and social services in rural areas, and ensuring that prices of agricultural outputs sold by rural producers in relation to goods purchased by rural households (inputs to agriculture, tools, building materials, consumer goods), result in favourable terms of trade for the rural people. Furthermore, in order to be effective, such policies have to be egalitarian, benefiting a large number of smaller farmers and low-income rural households. Land tenure and agrarian-reform policies which effect an income redistribution will enhance the incomes of the poorer sections and generate an increased demand for products of RSIE and will also promote increased employment. It was noted in chapter II.4 under 'linkages' that Taiwan Province of China provided an outstanding example of successful land reforms (together with other macro-policies) contributing to growth and continued importance of RSIE in the economy.[17] Distribution of landownership, and land reforms are of course vast and delicate issues, from many standpoints other than RSIE. Suffice it to say that, in Pakistan, one of the reasons commonly adduced for the rural industrial backwardness of Sind is the highly unequal ownership of land in that province. This draws off a very large part of the surplus to rich landlords, reducing the disposable income of the local population and their demand for RSIE products. Moreover, concentration of landownership in the United Republic of Tanzania (through communal ownership in Ujamaa villages), in Zambia (through commercial farming) and in the Latin American countries, has not contributed favourably to agricultural growth and RSIE development.

Policies which influence agriculture will have powerful effects on the non-farm component of rural development (and this includes RSIE). Such policy measures would include—besides agrarian reform—investments in physical and social infrastructure, adequate agricultural support prices (as well as providing for a system of competing buyers rather than monopoly procurement) and rural credit programmes that are both effective and efficient. As regards agricultural price policies, these should not distort producer incentives against agriculture in general, the desired crop pattern or against labour-intensive production. Thus, a tax on cash crops may well be levied on middlemen or exporters, but the real burden is borne by the small farmer and hence rural income creation is adversely affected. Industrial and trade protection may increase the price of inputs and therefore of the consumer goods produced by the rural population. Another example may be subsidized imports of food grains or other agricultural products from developed countries, for example, the United States of America or the European Economic Community, intended to benefit the urban consumer in a developing country but adversely affecting rural incomes by providing a disincentive to the farmer to expand cultivation.

III.3 Other macro-policies

Industrial and trade policies in developing countries have generally affected RSIE adversely by favouring large-scale and capital-intensive industrialization and discriminating against small-scale industry. RSIE production costs and product

[17] Ranis and Stewart, *loc. cit.*

prices are adversely affected by higher costs of inputs, credit and marketing, compared to large-scale industries. Incidence of protection also helps large-scale industry vis-à-vis *small-scale industries and RSIE. Overvalued exchange rates diminish rural incomes arising from exports. Structural adjustment programmes in some countries (e.g., the United Republic of Tanzania) have been favourable for RSIE growth. However, only with measures for improved productivity and efficiency will RSIE be able to take full advantage of liberalization policies and adjust to changes in demand patterns. Agricultural prosperity has a favourable effect on RSIE and vice versa. However, there is no conclusive evidence about the effects of business cycles. There is evidence from country studies that macro-policies relating to agriculture and the rural sector (chapter II.2) are preferred (as far as RSIE are concerned) over macro-policies related to industrialization and trade unless the general economic distortions created by the latter are severe.*

Beside the macro-policies affecting demand for RSIE analysed above, others relating to structure and effects of protection, exchange rate, interest rate, credit, licensing, import quotas, prices of factors and products etc., also influence rural development and hence RSIE. These policies have to be unbiased and neutral in their effect and should not discriminate between large-scale and small-scale industries or between urban and rural areas. Often government policies are biased in favour of urban, large-scale and capital-intensive industrialization and the distortions created are definitely a disincentive for small-scale and rural industrialization.

It would appear that Governments have limited broad, incentive-type, policies to the public sector and large-scale formal industry. Small-scale enterprise and RSIE were presumed to be taken care of through projects for institutional and direct assistance. Thus, statements of government policy pay lip service to favouring small-scale enterprise and RSIE through establishing projects and programmes, without realizing that by excluding them from broader policy consideration they in effect become discriminated against and put in a disadvantageous position *vis-à-vis* large-scale industry.

Such discrimination takes place in access to inputs (i.e. availability of and prices for raw materials, intermediates and services, local or imported, to small-scale enterprises as compared to large-scale enterprises), access to credit (both short- and long-term), access to markets (government purchases, bulk purchases, exports). It thus affects costs of production and prices of products.

Industrial policy in developing countries has generally favoured large-scale industry in various ways. Tariff protection, licensing and access to credit, imported materials and equipment at favourable terms combine to provide monopolistic markets for large-scale industry. Foreign financing and development-bank financing are available at favourable rates of interest. Overvalued exchange rates increase the real value of their benefits by providing inputs at prices below national market prices. On the other hand, overvalued exchange rates diminish the income of farmers producing export crops, by making them uncompetitive, as happened in the United Republic of Tanzania.

While in theory some of the above benefits for large industry may also be available to small-scale enterprises, in practice they remain beyond their grasp. For example, credit from banks usually does not reach small-scale industry and RSIE because of the smaller size of loans required (often below the minimum sizes provided by development banks), insufficient collateral and the high

administrative costs of such loans to the banks. Furthermore, the policy of financial repression, i.e., ceilings on interest rates (and subsidy) to provide low-interest loans to small-scale industry and RSIE limits the availability of funds and lowers the supply of savings, further hurting RSIE at the lower end of the credit queue.

The structure of tariffs often discriminates against small-scale enterprise and RSIE by levying higher import duties on parts and components, services or raw materials, than on finished products, in order to protect large-scale domestic manufacturers of intermediate products. An example is duty on steel but not on agricultural tools (Zambia). Supplies of such inputs from domestic large producers to small-scale industry and RSIE are often scarce and available only at a premium on the notified selling price. Foreign exchange allocations for imports of inputs are usually only available to large industry and not to small-scale industry and RSIE.

Evidence has been found in the Philippines of high effective rates of tariff protection (25-500%) for sectors where large-scale enterprises predominate, compared to negative rates for sectors which provide two-thirds of small-industry employment.[18] In Indonesia, a similar negative correlation was observed between the share of small-enterprise production in an industry and the effective protection rate. A study sponsored by the World Bank on the United Republic of Tanzania[19] concludes that small-scale industrial enterprises have been penalized through *(i)* lower import content in foreign-exchange allocation (hence less subsidization through overvalued exchange rates), *(ii)* higher price paid for domestic raw materials, *(iii)* less subsidy on capital for equipment (from overvalued and subsidized exchange rate), and *(iv)* lower prices for outputs, because of marketing problems. The World Bank found that small-scale enterprises employing less than 25 workers are more efficient, having an economic return on capital of 3%, as compared with a negative return for firms with over 250 workers. But small firms enjoy a rate of effective protection below 100%, as against 2,000% for large firms (over 250 workers), thus reducing their financial rate of return to less than half that of the large firms.

Similarly, in Zambia the development of the industrial structure has not been conducive to the growth of small-scale industry and RSIE. It has not provided basic and intermediate materials. Capital intensity, import dependence and the type of products have not encouraged linkages. Some products made by large-scale industry compete with small-scale-industry and RSIE products. Some examples of specific effects may be cited. While considerable expansion in the establishment of small-scale maize mills appears to have taken place, the economics of operation depend on adequate prices for the end product. This is because the system of administered prices involves a subsidy on the price of mealie meal produced in a large plant in Lusaka. In the case of oil-pressing, there is competition from the large-scale parastatal, which has excess capacity. Regarding farm implements and tools, as well as products such as wire nails and wood screws, it was found that the structure of tariffs makes it cheaper to import the finished products than the raw materials. These issues of administered prices, differential prices and producer prices on the one hand,

[18] D. Anderson and S. Khambata, *Small Enterprises and Development Policy in the Philippines* (Washington, D.C., World Bank, 1981).

[19] World Bank, *Industrial Development Prospects in Tanzania* (Washington, D.C., 1986).

and of structure of tariffs on raw materials, intermediates and finished goods on the other hand, are important for RSIE and small-scale-industry development in Zambia as in other developing countries.

Many of the countries studied have undertaken structural adjustment programmes during the last five or six years to remove or reduce the effect of distortions, liberalize the economy and increase the influence of market forces in determining product and factor prices. More realistic exchange rates and higher producer prices for rural products have on the whole stimulated the rural economy and had beneficial effects on the terms of trade for the rural sector.

The structure of tariffs and effects of protection are being made more equitable. The effect of liberalized inputs is to increase competition for RSIE and small-scale industry products. This has produced mixed results. On the one hand, liberalization has meant elimination or reduction of large-sector licensed industries' monopoly and encouragement of small-scale industry and RSIE. On the other hand, in the absence of attention to the structural adjustment problems of RSIE, competition from cheaper imports or large-scale-industry manufactured goods could adversely affect existing RSIEs. The demand-push from liberalization provided incentives to certain RSIE products but affected others adversely, depending on each country's situation.

Export production emanating from rural areas via urban traders or sub-contracting, as in the case of carpets in Pakistan or garments and rattan furniture in the Philippines, benefits from liberalization through a more favourable exchange-rate régime and availability of capital equipment and intermediate goods at more competitive prices.

Among the countries which have adopted liberalization measures, Sri Lanka has had the longest experience. ILO has studied the effects and has concluded that on balance the impact on RSIE has been adverse:

> "A preliminary analysis of this case indicates that while a few cottage industries have benefited from trade liberalization, in general the impact has been rather adverse. Liberalized import of finished products has led to dumping at below-cost prices against which small-scale units could not compete. It has also shifted demand away from domestic goods to imported products. Technological upgrading of production in small-scale units did not take place due to limited access to foreign technologies and financial constraints on new investments. Secondly, liberalized import of raw materials and capital equipment has benefited primarily the larger enterprises who took advantage of the economies of scale by expanding their production and buying raw materials in bulk. Thirdly, small firms could take advantage of incentives to export promotion only indirectly through middlemen or as sub-contractors to larger firms. However, the export growth of the larger firms has been very limited. Finally, small firms were discriminated against in various ways by commercial banks, and hence, they could not benefit from the increased financial-resource mobilization. Factors mentioned above, indeed, helped the large and medium industries to strengthen their competitive position *vis-à-vis* the small and cottage industries. Many of the owners of the latter category had to discontinue their manufacturing activities and switch over to trading."[20]

[20] Islam, *op. cit.*

The experience of Sri Lanka does not necessarily invalidate what has been stated earlier about the overall beneficial effect of liberalization on small-scale industry and RSIE by ensuring more equitable access to inputs and markets at a competitive level. It is clear that some distortions and discrimination continued in Sri Lanka benefiting the larger of the small-scale industry rather than RSIE. Furthermore, in order to benefit from a liberalization régime small-scale industry and RSIE have to be responsive to changes in the pattern of demand arising from an increase in incomes and would have to improve productivity and efficiency in order to compete effectively in terms of quality and price. RSIE may well react to such competition by changing their technology, design or quality of product demanded by the consumers especially in those sectors which favour small-lot production, e.g., certain food products, garments, shoes etc.

As regards the effects of business cycles on RSIE, the direct link between agricultural and rural prosperity and RSIE development was evident during the field studies. A period of agricultural depression in the United Republic of Tanzania from mid-sixties to late seventies had adverse effects on RSIE. Booming agriculture in Pakistan during the same period had favourable effects on RSIE. There has been no opportunity to verify the linkage between a general or industrial depression and its effects on RSIE, although it is known that as far as urban, sub-contracting, small-scale enterprises are concerned they tend to be the first victims of any business recession which leads to a decline in demand for industrial products. On the other hand, in industrialized countries severe unemployment and recession in the late seventies and early eighties led to growth of the "black economy" of clandestine small enterprises and services.

To conclude this section, industrial and trade policies and incentives (tariffs, exchange rate, licenses, interest rates, credit and access to inputs and markets) should be non-discriminatory and unbiased between sizes and location of industrial enterprises and should avoid distortions which affect the agricultural and rural sector and RSIE adversely. The distortions have not been extreme in Indonesia and Pakistan, unlike in the Philippines, the United Republic of Tanzania and Zambia, where they led to crisis situations. Favourable agricultural policies in Pakistan and Indonesia boosted RSIE despite distorted industrial policies, thus confirming the primacy of macro-policies for agriculture (chapter II.2). On the other hand, serious distortions created by macro-policies for industry (the Philippines and Zambia) and for virtually every sector (United Republic of Tanzania) led to economic crises, which stunted the whole economy, including RSIE and agriculture.

III.4 Policies towards small-scale industry and RSIE (supply-side measures)

Specific countervailing measures of assistance to RSIE could benefit only a very few enterprises. There seems to be considerable scope for promoting RSIE development through sub-contracting from large industries, which has been successful in a small number of RSIE products in Indonesia, Pakistan and the Philippines through technological upgrading and trade links. Discriminatory measures in favour of RSIE, e.g., differential taxes, may compensate for benefits accruing to large industry, but in the long run RSIE should stand on its own

competitive strength in the market. Supply-side measures–further discussed in chapter IV–while more difficult, are important for upgrading skill and technology in RSIEs.

The macro-policies discussed in chapter III.2 create a conducive environment for agricultural and rural development. Such policies are designed with the economy as a whole in perspective, including RSIE and other groups. The industrial and trade policies discussed in chapter III.3 are again not meant for RSIE only, but for the industrial sector as a whole. These policies alone may not suffice in some cases to generate a process of rural non-farm and RSIE development, because of the effects of distortions over a long period and structural problems of poverty.

Thus many developing countries have positive policies of incentives, tax concessions, credit facilities, product reservations, government purchase preferences etc. Some of these act as "countervailing" measures to the otherwise favourable policy treatment of large-scale industry. In most cases, however, the benefits of such positive measures go to small-scale enterprises at the upper end of the definition and hardly affect RSIE or micro-enterprises. Generally, reliance is placed on provision to small-scale industry and RSIE of various inputs, as described in chapter IV. Their effectiveness is also analysed in that chapter. Suffice it to say here that such assistance can cover only a very small number of small-scale industries and RSIEs within the reach of the institutional mechanisms, as compared to policy measures which could have a widespread effect.

Demand for small-scale-enterprise and RSIE products can be consciously stimulated through encouraging sub-contracting and the development of ancillary industries. The experiences of China (Taiwan Province), India, Indonesia, Japan, Pakistan, Peru and the Philippines indicate that there is a considerable potential for exploiting the sub-contracting linkage for small-scale enterprise and RSIE to share in the benefits that large-scale and medium-sized industries derive from import-substitution and export-promotion policies. The nature of sub-contracting relationships has been analysed in section II.4 of this report. The extensive development of such linkages requires a level of development of the engineering industry and sufficiently developed infrastructure. Differences in inter-sectoral and inter-locational wage rates are also essential. There are more examples of urban small-scale industrial enterprises benefiting from sub-contracting through sub-contracting exchanges, ancillary industrial estates, supply of blueprints and designs by large firms etc., than of RSIE's benefiting in this way. RSIE examples relate to the garment industry in the Philippines, carpets in Pakistan, rattan furniture in Indonesia, metal-working in Peru and "shibori" silk in the Republic of Korea. Besides development of infrastructure, competition amongst contractors and sub-contractors might encourage improvement of quality and cost-effectiveness. The Governments' role should be to ensure prompt payment by contractors, encourage credit programmes as well as productivity, and quality improvement through groups or clusters of RSIEs, as in carpet weaving in Pakistan, batik and rattan furniture in Indonesia and garments in the Philippines.

A policy tool developed in Indonesia is the "Bapak Angkat" (Foster Father) Scheme. Under this scheme, large enterprises, both public and private, are expected to be active in developing small-scale industries as suppliers of parts. Recently, the concept has been extended to a more general approach

where large-scale industry is also expected to assist small-scale enterprises that have no relation to the branch of the large industry (e.g. petrochemical industry supporting rattan furniture-making). The support of the large-scale industry may include assistance in supplying raw materials, training and technical advice as well as in marketing of products. It is still too early to judge the effectiveness of this approach.

On the question of trade-offs between productivity improvement in small-scale enterprise and RSIE leading to the generation of additional rural income and thus to additional demand for RSIE products, and potential employment increase in rural areas, the team could not discern a policy approach in the countries studied. In general, labour-intensive technologies were favoured for small-scale enterprise and RSIE, but urban and larger small-scale enterprises within the reach of institutional assistance tended to become capital-intensive by taking advantage of low-interest loans for equipment purchase. To the extent urban small-scale industry benefited from common-service facilities, training programmes etc., improved technology did lead to improved productivity. Also, in the countries studied, there have been sectoral approaches to improve productivity, particularly related to equipment for agriculture suitable for raising agricultural productivity. In some countries, for example, the United Republic of Tanzania, this has had the effect of displacing rural blacksmiths, but in others, for example, Pakistan, considerable additional employment has been created in tractor and equipment repair and maintenance workshops. The cluster approach in Indonesia has also had the effect of improving productivity by encouraging specialization and co-operation in technology absorption, but policies or the lack of them have perpetuated out-dated technologies or led to stagnation in remote rural areas of Zambia. In general, in the countries studied, technology upgrading and the improvement of productivity in small-scale enterprise and RSIE has been taken up as a programme and project component, rather than as a policy approach. These questions are further discussed in chapters IV and V.

Other specific policy measures in support of small-scale enterprise and RSIE which have been adopted in some countries are preferential government purchase programmes, product reservation schemes, and tax reliefs or differential tax rates. All these measures have in fact benefited urban small-scale enterprises rather than RSIE. Government purchase programmes could provide assured markets and initial stimulus for new products or new designs. For example, in the United Republic of Tanzania and Zambia, education departments in rural provinces obtained school furniture from RSIE. In the long run, however, RSIE products should be competitive and should have cost advantages to be able to compete in the market. Reservation of products for manufacture by RSIE assumes a totally-planned industrial licensing system and could be beneficial only as an "infant industry" approach and not on a long-term basis. Tax advantages, for example, differential excise or sales taxes or income tax relief, may tend to perpetuate the cost disadvantages of small-scale enterprise and RSIE. They should be employed to compensate for specific cost advantages of large-scale industry *vis-à-vis* small-scale industry, rather than merely to subsidize the smaller enterprises.

Policies can take care of the demand for RSIE by ensuring the right environment for RSIE development. A dynamic approach requires continuous attention to reducing income inequality and expanding the market through, for example, the infrastructural and locational incentives discussed earlier. How-

ever, supply-side measures play a crucial role in upgrading skills and technological capabilities. Such measures tend to be more effective once general demand-side policies have been adopted. Where the prevalent institutional system in rural areas is inegalitarian—as in many developing countries—unqualified reliance on the market mechanism will not by itself generate rural non-farm employment and growth of RSIE. As a matter of fact much agricultural development has itself been the result of a mixture of demand-side (price) policies and supply-side intervention (technology, infrastructure). With RSIE more diverse and local in its inputs and markets than farming, and also thinner on the ground, supply-side assistance to RSIE through institutional support is likely to be more difficult. Its origins, its limitations, and its appropriate extent and organization, are looked at in chapter IV.

IV. Institutional Support of Rural Small Industrial Enterprise (supply-side approach)

This chapter reviews the instruments of institutional support to RSIE, considers the effectiveness of the several types of institutions and their activities, analyses some cross-institutional topics bearing on effectiveness, for example, centralized versus local operations, and recapitulates the record on effectiveness.

The chapter's overall objective is to examine the justification for institutional support of RSIE, as a complement (or palliative) to the influence of the broader demand-side policy environment emphasized in chapter III. Within this, another important objective is to give Governments, donors, and agencies a better idea of what—and what not—to expect from various types of institution and activity.

IV.1 The policy of institutional support

institutional support has largely been mounted to correct the perceived weaknesses of RSIE. Although weaknesses exist, they have been overemphasized, and with them so has the need for institutional support, which has frequently become a supply-side palliative to unfavourable demand-side policies.

Chapter III has shown that, in many developing countries, the broad policy environment was for a long time unfavourable to RSIE. In the pursuit of modernization, large-scale industry was favoured, while agriculture was relatively neglected, indeed often constrained by low prices paid to farmers. Over the last fifteen years, agricultural development has been progressively re-emphasized and agricultural pricing policy has been ameliorated. This, combined with the recent trend toward liberalization of the industrial sector, and of trade, exchange rates, and interest rates generally, should increase demand for RSIE products and stimulate RSIE development.

However, the present revised policies and their effects have been relative late-comers to the scene. The effects of the previous policies were already a matter of concern by around 1970. At that time, too, the full potential for accelerated agricultural development using the new technologies of the "Green Revolution" was not yet universally apparent.

Thus, policy-makers were faced with sluggish growth, substantial rural-urban migration, rapid population growth, and very slow expansion of employment in modern large-scale industry. They were also faced with strong vested interests—which in many countries persist to this day—supporting existing landownership patterns or protecting large industries, and with the parastatal produce-marketing bodies and low urban food prices, that in some countries contributed to low prices paid to farmers.

Thus, although there were moves to relieve rural-urban migration and create employment by ameliorating the relative depression of the agricultural and small-enterprise sectors, there were severe obstacles to achieving this using mainly demand-side (macro-economic and agricultural development, including land reform) policies. These obstacles were increased by an imperfect perception of the problems and potentials of small enterprise (RSIE included).

Apart from the difficulty of admitting that RSIE problems stemmed very largely from poor demand conditions brought on by entrenched broader policies, RSIE—and small enterprise generally *in* developing countries—are generally not very pretty to look at. They often produce relatively low-quality goods, are frequently run by people without much formal education, in homes, backyards, or other semi-delapidated buildings, using hand-tools or knocked-about equipment, with a limited range of skills, without formal production layouts, storage facilities, or account books. They also often have difficulties securing raw materials and marketing their products, without recourse to traders and middlemen, who certainly charge handsomely for their services, and for the credit which such services frequently involve.

In short, small enterprises and RSIE could easily be (and in fact were) perceived as simply "weak", and in need of improvement. And of course many of them were, and are, in need of such improvements. Few enterprises—large or small—are above criticism. The mistake—which was very natural—was to attribute RSIE's depression primarily to its endemic "weaknesses" and further, having focused on these, to assume a primary need to remedy most of them by outside supply-side intervention, often without conscious recognition of the relevance of demand-side policies. RSIE and micro-enterprise in general were at the time not considered to be integrated in the national economy, but continued to be seen as separate phenomena beset by mainly social problems and requiring specific support.

This was the origin, or at least the sustaining force, of the primary thrust of support for RSIE in developing countries over the last two decades, namely, the creation or expansion of institutions to channel inputs to RSIE to remedy its deficiencies. Such inputs have included credit, buildings and other infrastructure, technical training, new technologies, management training, extension advice on how to run small businesses, marketing, raw-material purchasing and organization into co-operatives.

Sometimes a range of institutions has been set up to provide these inputs and services on functional lines. Sometimes a multi-functional institution has attempted to provide them all by itself. The range of inputs provided, and the ownership of the institutions, has varied somewhat from country to country. However, the institutions—even if not publicly-owned—have usually been subsidized out of public funds. Moreover, the policy of wide-ranging institutional support has been pursued in countries of widely-differing ideologies. To illustrate this, one need look no further than the East African neighbours, Kenya and the United Republic of Tanzania. The former has avowedly pursued private enterprise policies, the latter socialist ones. But, despite differences of organizational detail, Kenya Industrial Estates, the Rural Industrial Development Centres and Programme and the Village Polytechnics broadly parallel the efforts in the United Republic of Tanzania of SIDO, the Rural Hire Purchase Scheme and the Post-Primary Technical Centres.

There were two further related factors in the swell of supply-side institutions. First, it is easier politically for a Government to point to an input or service-supply programme or institution as evidence that it is doing

something for small enterprises or for RSIE, than it is to say that it has created the right demand conditions for RSIE products. The latter claim can always be questioned, particularly in the short and medium term, even if it is justified. Secondly, as far as RSIEs are concerned, demand-side policies to promote them specifically are hard to come by. The promoting policies are mostly very indirect, and involve the parallel or even the prior enrichment of other groups. Often, these others are better off than many RSIE participants. It is very easy in such circumstances to view supply-side RSIE promotion as a superior "direct" solution to the poverty of land-deficient rural people, forgetting that their strongest RSIE demand will come from their slightly-richer neighbours.

Thus, for a whole range of reasons, Governments have until recently placed primary emphasis on a policy of wide-ranging supply-side institutional support of RSIE, and indeed of small-scale industry and small enterprises generally.

It may be appropriate at this point to avoid a misconception. We have referred to a "mistake" about the weakness of RSIE and its causes, and by implication also about policies. However, we neither assume nor imply a total wrongness. The mistake has been one of emphasis. Thus:

- We do NOT argue that RSIEs have no room for internal improvements;
- We do NOT say that they will develop optimally with only demand-side policy support "getting prices right";
- We do not conclude that there is NO role for supply-side institutional support to RSIE promotion.

However, in this and the preceding chapter, we do question a *primary* emphasis on *over-wide* and *unselective* supply-side institutional support, which is an ineffective palliative for RSIE problems. The implications are:

- That if policy-makers wish to promote RSIE effectively, they should pursue some mix of macro-economic and agricultural-development policies which sustains an expanding, largely rural, demand for RSIE products;
- They should search for and support only those types of supply-side activities and institutions, which are really effective in further promoting RSIE.

It is to assisting in this latter endeavour that the remainder of this chapter is devoted.

IV.2 Effectiveness of institutions and their activities

Although this study is concerned with RSIE, it is worthwhile remembering that relatively few of the institutions to be discussed were or are set up solely or primarily to promote RSIE. Most of them have wider target groups, for example, small or medium industries or enterprises, or rural small enterprises in general. This is understandable, given the claims of these other enterprises and the general policy thrust behind nearly all support institutions, namely, that small and medium enterprises generally are in need of remedial supply-side assistance to overcome endemic weaknesses and disadvantages.

A judgement that an institution is ineffective at promoting RSIE does not imply that such an institution is ineffective in all of its other activities. The

reader may judge that the institution is or is not also ineffective at promoting urban small industrial enterprise or non-industrial rural small enterprises.

Having thus restricted attention to RSIE, the basic criteria for effectiveness are that promotion should possess:

(a) Outreach—the promotional assistance must be on offer in practice to enough of the right people in the right places, including, where appropriate, specially-targetted disadvantaged groups such as women;

(b) Assimilability—it must be in forms which can be taken up by these people;

(c) Impact—it must significantly raise their material well-being by increasing their industrial employment and incomes;

(d) Low cost and non-redundancy—it must neither be costly out of proportion to its probable impact, nor merely perform a function which would anyway be performed in a low-cost way by RSIEs themselves or other private commercial parties;

(e) Progressive—it must be a progressive system in nature or target group, not repeated year after year for the same people;

(f) Sustainable—it must achieve independent financial self-sufficiency or generate sufficient confidence and morale to assure the long-term motivation of competent staff and goodwill of reliable funding sources, public, private or philanthropic.

These criteria are set up with the following objectives in mind:

- The diversification of RSIE markets and branches and the upgrading of product lines, skills, technology, quality and productivity within branches;
- The extension, in some branches, of RSIEs' economically viable range, for example, from larger rural towns to smaller towns, villages and the countryside;
- Encouraging the rural location of "footloose" industrial activities with non-rural markets, whether in small factories or dispersed in sub-contracted shops and households;
- The diversification of financially sustainable sources of capital for RSIE investment and operations;
- The slowing-down of rural-to-urban migration.

These objectives mirror the findings of chapter I on the strengths and weaknesses of RSIE. For ready reference, these are reproduced here (see box).

RSIE—Many Strengths and Some Weaknesses

Most RSIE are very small indeed, employing only a very few people, say from one to five or ten, including their owners. Their dispersion beyond the rural towns and smaller cities varies. However, there is everywhere observed an understandable tendency to cluster and to be more varied in centres of about 5,000 or more population.

RSIEs are concentrated largely in a few branches, usually food-processing, garments and textiles, carpentry, building materials, and metal-

working and repair shops. This pattern illustrates their typically strong dependence on local rural consumer demand. Despite this, they sometimes have links with wider city, or even export, markets. They also usually use, and sometimes become exclusively dependent on, trade with other enterprises (middlemen or larger industries) to market their products. This can occur even within local markets, but is more marked in marketing over long distances.

Notwithstanding such links, RSIEs themselves marshal most or all of their essential ingredients. They themselves almost always supply—or privately contract from private sources other than formal promotion or assistance institutions—start-up and working capital, premises, material inputs, labour and its (predominantly RSIE-trained) skills, and, quite frequently, capital accumulation for progressive and significant expansions.

Despite this, the majority of RSIEs can fairly be described as passive, in the sense that they are not particularly good at seeking out new markets, products, technologies, or technical skills. Probably the risks of radical innovations *ab initio* appear too high to them. However, if profitable new market or technical opportunities are introduced in, or self-generated by, some RSIEs, many of the others within reasonable distance and in the same or related branches, are often very good and quick at taking up and further diffusing these innovations, including the necessary expansion of skilled labour, by poaching, splitting-off new enterprises, and in-house training. However, these profitable innovations must not require steep and immediate increases in capital assets.

Reflecting these strengths and weaknesses, the effectiveness criteria and objectives have been set up in a positive way. That is, given that many millions of RSIEs exist in the developing countries, promotion should aim to assist the RSIE sector to flourish within a wider process of industrialization and rural development. Thus total RSIE numbers would rise, many of them would grow (a minority quite sharply), RSIE overall productivity and product range would increase, and institutional programmes would complement appropriate demand-side policies in promoting these developments.

RSIEs are thus viewed neither as endemically weak economic agents needing continuous propping-up, nor as some kind of *deus ex machina* for supplementing low rural incomes regardless of the external conditions necessary for their economic viability (primarily agricultural growth, or proximity to city markets). Rather, they are seen as valid and normal participants in broad rural and industrial growth.

A final word on the application of the effectiveness criteria (outreach, assimilability, impact, low cost and non-redundancy, progressive and self-sustainable systems); the information available on the various types of institutions and functions reviewed below is of varying depth and depends to a large extent on personal observations by the authors during field visits. The data certainly does not permit each type of institution to be judged formally, still less quantitatively, on each of the effectiveness criteria. Given the diversity of the sources of data, the emphasis is on overall, qualitative assessment, broadly based on the criteria and objectives set out above.

Obviously, too, judgements are formed on the weight of the available evidence. An unfavourable assessment of a particular promotional function or type of institution does not imply that no effective instances were found. Nevertheless, to maximize guidance, a judgement one way or another is given wherever possible, with qualifications and conditions as appropriate.

The framework for the analysis is the following list of types of institution or function:

Policy and general-purpose institutions

(a) Policy-forming bodies (including policy-research bodies and policy-transmittal mechanisms);

(b) General-purpose small industrial development agencies (SMIDAs);

Functions and functionally based institutions

(c) Marketing or raw-material-supply schemes;

(d) Publicly-controlled RSIE or rural production centres;

(e) RSIE co-operatives (i.e. production and marketing co-operatives, not savings and loan associations);

(f) Industrial estates, with or without common service facilities;

(g) Financial services institutions or programmes, including
- commercial banks
- development banks
- savings and loans associations or credit unions;

(h) Business advice extension services;

(i) Technical service facilities located with RSIE, technical extension services, mobile or on-location technical training;

(j) Formal vocational training centres;

(k) Technology development and diffusion centres;

Other institutions

(l) Area authorities and development programmes for special target-groups (e.g. women);

(m) Small industry or trade associations;

(n) Non-governmental organizations (NGOs), private voluntary organizations (PVOs).

(a) Policy-forming, -research, and -transmittal bodies

Neither planning bodies nor small industry development agencies have generally had an imaginative approach to RSIE policy-formulation and -transmittal. Small industrial enterprise and RSIE policy has focussed on supply-side, direct-input support, and has not been well-integrated into macro-policy-making. There are isolated signs that this may now be gradually changing.

Broad economic policy-making has largely ignored RSIE—at least on the demand side—in most developing countries (cf. chapter III). Macro-economic, agricultural and industrial policies for long created an unfavourable environment for RSIE. Through renewed emphasis on agricultural and rural development, this has been somewhat ameliorated in many countries over the last dozen years or so. But these changes were generally not effected with RSIE in mind. For example, a World Bank evaluation of its experience with integrated rural development over the last two decades concentrates almost

exclusively on farming target groups and contains no section on—indeed, hardly any reference to—RSIE or even to productive rural non-farm activities.[21]

Where policy-makers have consciously sought to redress an unfavourable environment, it has practically always been attempted through setting up formal institutions to supply inputs—industrial accommodation, training, credit, technology etc.—based wholly or partly on public funds, and usually on subsidized terms. Moreover, despite some exceptions such as Kenya's Rural Industrialization Programme, these programmes have usually focussed on small or medium industrial enterprises generally, rather than specifically on RSIE. The activities of Ministries of Industry, Finance, National Planning etc. with respect to small industrial enterprise and RSIE have been almost entirely restricted to formulating, funding and monitoring such supply-side, direct-input programmes.

In some countries, for example Kenya and Indonesia, substantial funds have been committed to these programmes and to their rural components. In others, such as Zambia and the United Republic of Tanzania, funding has been generally insubstantial and in practice often restricted to small industrial enterprise in the larger towns. A common feature is that top-level multi-sectoral planners usually lack a clear strategy for RSIE based on monitoring of field conditions and of the supply-side programmes. At the national level, Kenya may be an exception because national policies early recognized the importance of small-scale industry and RSIE. But otherwise, the only multi-sectoral planning agency observed to have a well-informed grasp of conditions and strategy was at the level of a (large) province—the Punjab Planning and Development Department in Pakistan. In national Ministries of Industry, small-industry divisions—if they exist—tend to comprise a small section with a tiny complement of staff. Nowhere did they, or the supply-side institutions they supervise, seem effectively integrated into the wider policy-making nexus generally centred on the Ministry of Finance and the authorities concerned with large-scale industry and general rural development. A specific example of this has been noted in a recent Asian Development Bank (ADB)/ILO report:

> "*Policies for rural employment creation*
>
> Although BSCIC (Bangladesh Small and Cottage Industries Corporation) and the most recent Five-Year Plan in Bangladesh both emphasize non-farm employment promotion via rural industries, the Government allows imports of inexpensive cottage industry products from the People's Republic of China. It is difficult for the unorganized rural industry sector in Bangladesh to become viable and sustainable under such circumstances. If BSCIC were linked to a national policy of reserving certain products exclusively for the small-scale and cottage industry sector, sustainability would be enhanced."[22]

While this is a good example of the failure to integrate RSIE supply-side policy and promotional institutions into broader policy-making, the protective

[21] World Bank, "World Bank experience with rural development, 1965-1986" (Washington, D.C., 1987), in particular p. 48, where "employment creation (through rural works and rural industries)" are cited among over 30 other sectors which were expected to be covered by integrated rural development.

[22] Asian Development Bank/ILO, *Rural Employment Creation in Asia and the Pacific* (Manila, 1987), p. 2.

policy apparently advocated by ADB and ILO is debatable, particularly as a long-term measure (cf. chapter III.3).

Nor have general-purpose small-industry development agencies (SMIDAs) had a better record in policy advice. Although Governments either formally or informally look to them for small-industrial-enterprise and RSIE policy-formulation, in Bangladesh, Senegal, the United Republic of Tanzania and Zambia, for example, the SMIDAs have failed to offer imaginative and constructive advice on RSIE, generally confining themselves to advocacy of their own (often urban-focussed) direct-input programmes, or at best trying to secure the co-operation of other agencies offering similar or complementary programmes.

It has been left to others even to conduct policy research. An example is the Centre for Socio-Economic and Technological Research (CINSEYT), a Peruvian NGO supported by the Konrad Adenauer Foundation, which conducts research for the Peruvian Ministry of Commerce, Tourism and Industry and for an association of small-scale industrialists (FENAPI). This is one of the few instances of direct input of such research to bodies concerned with making policy or influencing it. Within Government, observed examples of a broader outlook in promoting RSIE are equally rare. Two examples are:

(a) The subnational Planning and Development Department of the Punjab Province Government in Pakistan commissions policy research, notably from local research institutes. It is also, in marked contrast with other provincial Governments, very much aware of the important role that demand-side factors, such as infrastructure, can have in promoting RSIE;

(b) The Thailand National Economic and Social Development Board participated in 1980-81 with the World Bank and Thai universities in research into the role of non-farm activities in the rural economy. The research reached very similar conclusions to those of the present study, viz. supporting agricultural development and prosperity is a prime requisite of promoting other rural productive sectors, including RSIE.[23]

With the progressive change in policy atmosphere, there is hope that policy and planning agencies can become more effective as small-industrial-enterprise and RSIE promoters.

[23] World Bank, *Thailand*: . . . pp. 1 and 14-16.

Policy Formulation for RSIE—A New Approach

- More recognition of the role of demand-side policies and of the need to consider the needs of RSIE and rural non-farm activities generally in formulating macro-policies for industry and agriculture.
- A more effective integration of small-industrial-enterprise and RSIE needs within overall government policy-making. Perhaps this might be achieved through periodic task forces from organizations such as the Ministry of Industry, the Central Bank, the Ministry of Agriculture, the Ministry of Finance and the national planning agency, assisted by private small-industry associations, where these are well-developed. Periodic task forces may be preferable to standing co-ordinating bodies, which lose their freshness and have difficulty achieving constructive long-term co-operation—as the dissolution of the Commission on Small and Medium Industries in the Philippines indicates.

- Less reliance on SMIDAs for policy advice. Such reliance will tend to over-emphasize supply-side direct-input policy.
- Encouragement of independent policy-research bodies, like those used by the Punjab Government in Pakistan and CINSEYT in Peru, which is now beginning to assist the Peruvian Ministry of Commerce, Trade and Industry on policy for small and medium industry (not specifically for RSIE). In using such bodies, policy-makers would probably gain from participation by their own staff in the research. Some research topics might be:
  (i) The integrated rural economy (agricultural and non-agricultural);
  (ii) Experience on which RSIE branches and products have flourished best in more developed or prosperous areas of the country, to assist in establishing priorities for selective supply-side direct-input RSIE assistance;
  (iii) Sub-contracting potentials for RSIE near large towns and export centres.

(b) General-purpose small industrial development agencies (SMIDAs)

General-purpose small industrial development agencies (SMIDAs) are the archetypal mechanisms for supply-side direct-input support. The approach has not been effective at promoting RSIE. It has suffered inter alia *from over-centralization, rigidity, over-emphasis on hardware inputs and a largely urban focus. Individual SMIDAs appear to be progressively distancing themselves from the approach, but reforms are long and difficult.*

SMIDAs are frequently found. They may be branches of the Ministry of Industry (e.g. Small Industry Support Programme (BIPIK) in Indonesia), or parastatal organizations (e.g. SIDO in the United Republic of Tanzania or Zambia, SONEPI in Senegal, the Small Industry Corporations and Boards in Punjab, Sind and the North-West Frontier Province in Pakistan).

SMIDAs provide the archetypal mechanism of the policy of institutional supply-side direct-input support aimed at remedying a perceived general weakness of small industrial enterprise and RSIE. The SMIDAs' collection of programmes varies from country to country. It might include the provision and management of industrial estates, training centres and programmes, technical service facilities, extension services, credit schemes, production units and handicraft-marketing arms. Such programmes, whether offered by SMIDAs or other institutions, are considered in various sections below. Here we comment on the overall effectiveness of combining them within SMIDAs.

Effectiveness is not high. There are two main reasons, both linked to SMIDAs' nature as large formal institutions without an overriding incentive (such as a commercial incentive) to service difficult clients. First, SMIDAs are usually urban-based. Second, their involvement in so many types of programme is usually more of a hindrance than a help.

Their urban base generally stunts their effectiveness for more rural RSIE. For example, in Zambia, SIDO does little outside the main towns, and whereas Village Industries Services (VIS) is more active rurally, many of its activities are in support of small industrial enterprise in Lusaka. In the United Republic of Tanzania, SIDO's loans and extension services are overwhelmingly concentrated in Dar-es-Salaam and in the regional centres. In Indonesia, the bulk of BIPIK's funds in recent years have gone to the provision of industrial estates,

mostly on the outskirts of large cities. The same is true of Sind Small Industries Corporation.

Even where significant activities do take place away from the larger towns, they are limited to structured, discrete inputs such as formal training programmes and equipment grants or hire-purchase loans (e.g. *inter alia* BIPIK and the Punjab Small Industries Corporation (PSIC)). True extension work and follow-up, involving extensive mobility and autonomy for operational staff, is very rare. The funds have gone elsewhere, into urban estates, centres, and offices, whose effectiveness even in the towns is very patchy.

Second, the multiplicity of functions is usually not lived up to in practice. Few sustainable RSIEs need all the inputs of a "comprehensive" package. Except in attempts to promote less developed RSIE, such as Tanzanian country blacksmiths, women carpet-weavers in Baluchistan, or in highland Andean villages in Peru, where industrial development practically has to start from scratch, the comprehensive package either is not delivered as such or tends to dampen the motivation and initiative of RSIE. The industrial estate accommodation goes to small or medium formal enterprises in towns, who really do not require outside intervention on a comprehensive scale (for example, the Industrial Estate in Dakar (SODIDA)). Many smaller RSIEs or RSIE-candidates receive training, as in Punjab, the United Republic of Tanzania and Indonesia, but do not receive equipment loans or effective marketing assistance. On the other hand, some receive equipment but no adequate training, as is the case with many recipients of SIDO rural hire-purchase loans in the United Republic of Tanzania.

Many established RSIEs do not need a comprehensive package, at least not all elements simultaneously. Comprehensive supply is hard to resist, however, and thus much is provided that is not essential. Often, too, the SMIDA—over-confident of its own powers—embarks on initiatives which only make sense if follow-up can be guaranteed. Typical examples are training in unfamiliar techniques or branches, and the equipment necessary for commercial utilization, or introductory training which should be followed up by problem-solving extension visits to the RSIE's premises.

Caught between conflicting staff interests, a multi-function institution runs the risk of mis-budgeting the various functions, overemphasizing some at the expense of others. Even if this pitfall is avoided, the organization gets bloated from its multifarious functions and becomes departmentalized along their lines. The specialist departments become isolated from each other and from the local offices which may have to refer requests to them. The various services build up their own clienteles which do not overlap. For example, of nine sampled clients of SIDO's Small Industrial Counselling and Training Assistance (SICATA) in the United Republic of Tanzania, only two were on SIDO industrial estates and only four had SIDO loans.

There is another bureaucratic hazard facing even the most effective SMIDAs like the Punjab Small Industries Corporation (PSIC). It has several relatively effective programmes, notably its rural artisan training programmes and its branch-specialist technical institutes. It also has others which are ineffective or at best redundant because they are better left to the private sector, such as industrial accommodation, carpet-weaving training and handicraft-marketing. But many interests, both of staff and clients, have become vested in these programmes. So it is difficult to divest or halt them, the more so because the Corporation is effective in some other ways. It is probably easier to cut ineffective programmes which are isolated in specialist institutions.

In view of all the above drawbacks, it will not cause much of a surprise that SMIDAs sometimes have measurably low productivity. For example, SIDO in the United Republic of Tanzania established only 0.5 small industrial enterprises per staff member per annum between 1978 and 1983 that are still operating. More serious, however, is the illusion that the more active SMIDAs, such as those of Punjab and the North-West Frontier Province in Pakistan and BIPIK in Indonesia, which can in theory count many "heads"—thousands of trainees, hundreds of enterprises (or at least, occupied lots) on their estates—are thereby achieving something on a scale commensurate with the small-industrial-enterprise and RSIE sectors they are set up to serve. But RSIE numbers in Pakistan and Indonesia run into the many hundreds of thousands, dwarfing the direct outreach of even the active SMIDAs.

Everything then depends on the spread effects from the RSIEs directly serviced, but basic craft-training programmes and accommodation on industrial estates are not likely vehicles for rapid and extensive spread effects. Yet the "processing" by active SMIDAs of apparently large numbers of clients may convince their Governments that they have "done their duty" by the small industrial enterprise and RSIE sector, ceasing to be concerned about demand-side policy, not to mention the much larger resources channelled to large-scale industry. For example, in the first 37 years of Pakistani history, only 3-4% of industrial credit went to small industrial enterprise, urban or rural. However, although SMIDAs are not the answer to RSIE-promotion, some positive steps are possible.

Existing SMIDAs may become more effective by distancing themselves from the comprehensive supply-side approach. They may keep the same names, but cease in practice to be full-blown SMIDAs. They may, as SIDO in the United Republic of Tanzania and National Cottage Industry Development Association (NACIDA) in the Philippines, no longer offer credit. They may hive off their handicraft-marketing arms, as has been done in Senegal and is being considered in Bangladesh with the Bangladesh Small Cottage Industries Corporation (BSCIC). They may de-emphasize or hive off their industrial estates, as in Argentina (Directorate General for Technical Assistance (DAT) in Rosario), and Senegal, or decentralize their operations, as in Senegal, Kenya (Kenya Industrial Estates (KIE) and Rural Industries Programme (RIP)) and Punjab and the North-West Frontier Province in Pakistan. They may increasingly emphasize on-location training, extension, and technical services, as in Indonesia and Kenya. In this way, by concentrating on the more effective functions and organizational forms, institutions which were once full-blown SMIDAs may become more effective promoters of RSIE and indeed small industrial enterprise generally.

Such progressive dismantling and re-vamping is often a long and difficult process. It should not be abandoned lightly, but Governments would be well-advised to set limits to their patience at reform efforts. If effective reform proves impossible in particular SMIDA cases, policy-makers will probably wish to scale down or even terminate their budgetary support, at least as far as the SMIDAs' RSIE-promotion functions are concerned. If, however, policy-makers are beginning with a clean slate, experience indicates that it is best not to set up general-purpose SMIDAs for RSIE promotion in the first place.

(c) Marketing and raw-material supply schemes

Public intervention in the supply of raw materials to RSIEs and marketing of their products generally has a better chance of success if aimed at stimulating

private enterprise to perform these functions. The same principle of self-reliance also applies to sub-contracting.

There are numerous examples of failure, or at best of extremely limited success, in public attempts to handle RSIE marketing or raw-material supply directly. SIDO in the United Republic of Tanzania is not able to supply rural blacksmiths effectively with steel. BIPIK in Indonesia finds that distributions of raw material to bamboo weavers, for example, are rapidly dissipated. The Baluchistan small-scale industry department is unable to sustain rural carpet weavers by supplying raw materials and marketing the finished carpets. The Tanzanian state handicraft-marketing company, HANDICO, has small operations and large losses. NACIDA in the Philippines and the Punjab Small Industries Corporation in Pakistan succeed in marketing only a tiny fraction of the output of the relevant branches. All these operations seem to be costly, with high overheads and bureaucratic procedures.

Nor is a switch to NGO management a guarantee of success. The handicraft-export operations of the People's Handicraft Foundation (PEKERTI) in Indonesia are still very small, and the marketing co-operative associated with the Kenyan NGO, Maendeleo Ya Wanawake Organization (MYWO), is a commercial failure.

Some public or NGO handicraft-marketing operations do succeed, for example, OXFAM's world-wide trading arm, various parastatal companies in India, and the bartering of rural honey for urban consumer goods handled by the North Western Province area programme in Zambia. The small-scale Zambian case excepted, they have significant volume and are profitable, even if their operations are still relatively small compared with total private-sector exports. The OXFAM and Indian positions have been built up by many years of professional application, product adaptation, and market testing. A fully professional and commercially realistic approach seems to have underlain their success. Even so, even in India, the parastatals have not been successful in marketing non-handicraft RSIE products for the domestic market. Moreover, their most valuable contribution to the handicraft trade seems to have been initiating its modernization and thus encouraging the inflow of private traders and exporters.

This is consistent with the generally better record where institutions restrict themselves to promoting marketing and raw-material supply, as with Peruvian small-industry associations organizing common purchasing for the members. Other examples include the effective export marketing promoted by the Central Java Enterprise Development Project (not strictly a permanent institution) in Indonesia, the export exhibitions mounted by the Center for International Trade Expositions and Missions (CITEM) in the Philippines and partly paid for by the small-industrial-enterprise clients, the permanent sales fairs for handicraft traders found in Mexico, Peru, and Colombia for example, and the stimulation by a provincial industrial estate in Senegal, SODIZI, of private group-purchasing of transport and raw materials by local RSIEs.

It thus seems that marketing and raw-material-supply schemes should restrict themselves to stimulation. This has two advantages. Firstly, it reduces handling costs and, secondly, the RSIEs stimulated into doing something for themselves will have greater long-term viability than those which have it done for them by assistance institutions.

Self-reliance also seems to be the firmest basis for promoting sub-contracting. Neither the Ministry of Industry Sub-contracting Office (MDSO)

nor the publicly-controlled sub-contracting exchange, SUBCONEX, in the Philippines have had much success in bringing orders to small industrial enterprise. Small industrial enterprises surveyed in the Philippines note that personal contacts they have made with larger firms, have brought them most of their sub-contracting business. In Peru, a successful sub-contracting scheme has been sponsored in Lima by one of the small-industry associations, which is now extending it to other and smaller cities.

(d) Publicly-controlled RSIE production centres

The establishment of publicly-owned RSIEs cannot be recommended as a useful substitute for, or augmentation of, the private sector's productive capacities.

Only a few of these exist, relative to the vastly greater number of private RSIEs. Nevertheless, they are not infrequent features of public promotional institutions. In the United Republic of Tanzania, SIDO operates several training-cum-production centres, as do the Punjab Small Industries Corporation and the North-West Frontier Province Small Industries Development Board in Pakistan. In Indonesia, some of the regency mobile training centres (LBKs) undertake production involving the disabled. Production units for the disabled have been set up in Kenya and Nigeria. Again, in the United Republic of Tanzania, there are various RSIEs set up and run by the district authorities and the agricultural technology centre, CAMARTEC, as well as the common service facilities on SIDO's industrial estates, which now devote a large part of their resources to production for sale. Finally, in Pakistan, the North Western Frontier Province Small Industries Development Board (SIDB) operates a large furniture factory in Peshawar known as Pak-German Wood.

These units do not have any generally impressive production record. The thriving Pak-German Wood at first sight would appear to be a notable exception. But Pak-German Wood is a large concern located in a city of over 1 million people. It is not an RSIE, nor does it sub-contract any significant work to RSIEs. Moreover, though productive, it enjoys a protected public-sector market. Local officials confirm that its private competitors can produce to the same quality more cheaply. Public oduction units almost always exhibit lower productivity than their private SIE counterparts (cf. CAMARTEC and the common services facilities of th industrial estate compared with Themi Farm Implements in the United Republic of Tanzania), or find it difficult to compete with private RSIE, even when subsidized or lavishly over-capitalized (as in the North-West Frontier Province SIDB's training and production centres). Further, being sluggishly-run or endowed with relatively capital-intensive equipment beyond the means of most RSIEs, they provide no useful demonstration examples to the private sector.

Apart from over-endowment with inappropriate equipment, the basic reason for this poor record is that public management has been unable to find effective substitutes in RSIE for the financial disciplines and incentives of the private sector. The participants have either felt that the whole enterprise was a gift from the Government, or at least that losses and wages would continue to be underwritten, while they would get little benefit from burgeoning profits. There is always the possibility that some participants may skim off funds to their own benefit, but to the detriment of the enterprise.

Most of the public-sector RSIEs ventured into production either to serve special interest-groups, notably the Kenyan, Indonesian and Nigerian disabled,

or to increase the effectiveness of training (e.g. the Tanzanian and Pakistani training and production centres), or were forced into production to survive, their government budgets having been cut (CAMARTEC and the SIDO common service facilities in the United Republic of Tanzania).

None of these reasons appears compelling, except perhaps for the special case of the disabled, where the evidence is not yet sufficient to indicate the part to be played by publicly-sponsored production centres within a policy of returning the disabled to productive roles within their own communities. (A very successful publicly-sponsored enterprise for the disabled at a LBK in Bali is, however, now run by the disabled themselves, who, as a co-operative, have secured a sizeable loan from a private bank).

No general evidence was found that the training at training and production centres is more effective. Rather, the trainees are thereby encouraged to remain in the centres—which either fail to operate for lack of funds (United Republic of Tanzania) or operate only with continuing subsidy (Pakistan)—rather than leaving to enter private establishments of higher productivity. Furthermore, removing key people from a small-scale industry or RSIE even for a brief training course can put the continued existence of the small firm at risk! As for semi-subsidized production for survival in the face of inadequate government budgets, this may be a temporary stop-gap and superior to merely letting the assets lie idle, but it has low productivity, introduces unfair competition to the private RSIEs who are the target group, and does not in fact support significant services to RSIE. (In the United Republic of Tanzania the common service facilities sell to large enterprises.)

Thus, the endowment of public centres with self-sufficient productive assets cannot be generally recommended, even for other reasons than deliberately promoting public-sector RSIE production.

(e) RSIE co-operatives

While successful examples exist of RSIE-promotion via co-operatives, co-operative organization is best seen as a complement to RSIE private proprietorship in particular circumstances. Clear-cut benefits to members and careful preparation are essential.

RSIE, small-industrial-enterprise and small-scale-enterprise financial co-operatives (savings and loan associations etc.) are considered under financial-service institutions below. This section is concerned with co-operatives that undertake or participate in purchasing, production and marketing.

Although their numbers are relatively small, such co-operatives are found, and some operate successfully. Sometimes the co-operative itself is the RSIE, as in various oil-milling, tailoring or metal-working co-operative enterprises in the United Republic of Tanzania and large numbers of recently set-up women's milling co-operatives in Senegalese villages. Sometimes a co-operative will go into a successful joint venture with a private manufacturer, as in a furniture-making partnership in Indonesia.

More frequently, RSIEs, while remaining independent producers, club together in a co-operative for marketing or raw-material purchasing. Such arrangements can be made by extremely rural micro-enterprises, for example, some Zambian carpenters, Indonesian blacksmiths and mat-weavers, or Peruvian handicraft artisans. Or they can be made in a more formal way by more advanced producers, as in Kedensari, a developed Javanese industrial village which sells brief-cases and other leather goods all over Indonesia. In all

these cases, the producer-members retain their independence. They may buy and sell individually, as well as through the co-operative.

Whilst successful instances thus exist, it does not seem that co-operative organization is any more than a complement to the predominant proprietorship and partnership forms of RSIE. For example, in Pakistan and the Philippines, co-operative RSIEs hardly seem to exist. In the United Republic of Tanzania, co-operatives are said to be the worst repayers of rural hire-purchase loans. In Indonesia, a country with a heavy commitment to co-operatives, they are frequently held not to work, particularly if organized in response to pressures from above. In such cases, the co-operatives sometimes turn out to be fakes, set up in order to attract cheap credit or some other benefit from the authorities. Moreover, even if they really operate, as do the Government-sponsored rice-trading and milling village co-operative units (KUD), they do not diversify industrially. The stronger KUDs may set up retail stores, but almost never venture outside rice-milling in the industrial sector. In Haiti, neither artisan steel-purchasing co-operatives nor handicraft production-cum-marketing co-operatives were found to be beneficial or financially sound, nor was a handicraft-marketing co-operative in Kenya. In Senegal, co-operative bakeries set up by trade unions have had great difficulties in starting up. Those that eventually succeeded in becoming operational are quite successful, however.

Thus, no general case can be made for promoting co-operatives on a widespread scale to remedy the weaknesses of RSIE, but co-operatives may be worth stimulating in particular circumstances. They seem to work best when offering clear-cut advantages to members, e.g. access to relatively costly powered equipment and a ready local market, as with Senegalese women's milling co-operatives, or access to wider markets, as with the Kedensari leather-goods co-operative, or Indonesian blacksmiths selecting one of their number as their itinerant seller. It also seems to help if their commercial operations are readily visible and understandable by the members, if costs and benefits are out in the open and not buried in complicated book-keeping and distant points of sale. To co-operative managers, this probably matters more than, for example, training in "management techniques".

Careful preparation—including assessment of markets and technical competence, and usually at least some simple book-keeping training—is essential. It is, for example, unclear whether the Peruvian highland village enterprises sponsored by the Programme of Micro-regional Development (PRODERM) will prove sustainable. Besides this, particularly with outside-sponsored co-operatives, the motivation and mutual trust of the members needs careful building-up. All these measures require considerable promotional resources and there is still a risk of the co-operative breaking-up or malfunctioning. That is why, in promoting co-operatives, the comparative advantages over proprietorships in each case *must* be both evident and attainable.

(f) Industrial estates with or without common service facilities

Industrial estates are not effective RSIE-promoters. They may be useful in medium or large cities with a thriving small or small-to-medium industrial enterprise sector.

The theory on which industrial estates and common service facilities are erected is plausible. The industrial estates will provide small industrial enterprise and RSIE with economical access to well-located land indisputably

set aside for industrial purposes, appropriate premises and efficiently supplied utilities, with common service facilities to provide useful production services which the small industrial enterprise and RSIEs cannot individually afford nor justify the required investment for.

In practice, industrial estates do not usually secure these benefits, except sometimes in thriving industrial cities with 200,000 or more inhabitants. The record from different countries varies only in detail. For example, some countries and areas—such as the Pakistan province of Punjab or Peru—may experience greater demand for industrial estates in medium-sized cities than others, such as Indonesia, Sind and the North-West Frontier Province in Pakistan, and the United Republic of Tanzania. But these differences are marginal. The main trends are clear (see box).

Industrial Estates: Few Benefits for RSIE

1. Industrial estates do not uniformly secure a good location. In Pakistan, for example, many estates are located several kilometres from the towns they serve, and this alone makes it difficult to attract enterprises.

2. Even the acquisition of land, together with obtaining building permits and approving building tenders, customarily takes several years. Desk and field studies revealed cases of this in Nepal, Pakistan and Peru.

3. Where erection of premises is undertaken or is closely regulated by the industrial estate, the buildings are over-specified at least for the purposes of small or medium enterprises. The industrial estate factories tend to have fully-enclosed high masonry walls and uniform concrete floors. Private premises, even of medium-sized firms, away from industrial estates have partially-open or corrugated iron walls and their height and the type of flooring vary according to the use of the space involved.

4. The required extra building investment is not recouped by the industrial estates. Even where the building is tenanted, it continues to be leased at uneconomic (subsidized) rents to the fortunate occupants and the replacement capital of the industrial estate is eroded.

5. Provision of utilities is not particularly efficient. In one case in a small rural town in the North-West Frontier Province in Pakistan, a 20-lot industrial estate had two tenants, with two private factories just outside its gates. The private factories could more easily ensure a steady supply of utilities than the tenants on the estate, who had to settle supply problems through the provincial capital, Peshawar, via the industrial-estate management.

6. Except in some branch-specialist industrial estates—for example, in Magetan, a medium-sized tannery town in Indonesia—the common service facilities do not serve mainly the small industrial enterprise and RSIE on the estate, instead deriving their business from firms—often large ones—off the estate.

7. The industrial estates frequently suffer from lack of industrial demand. They either take 20 years or more to be "colonized", as in Pakistan generally, or remain indefinitely poorly-utilized, as in most of Indonesia, and the smaller cities and rural towns of the United Republic of Tanzania, Pakistan and Senegal. This pattern is accentuated by political pressures. If the industrial estates are provided by a national or large-provincial body, typically a SMIDA, no region wishes to be left out of the industrial-estates programme, so industrial estates are provided in areas with no industrial

tradition and little prospective demand. Sometimes, too, poor industrial utilization is partly masked by allowing buildings to be used as warehouses or for other trading purposes, as, for example, in some Senegalese, Pakistani and Indonesian industrial estates.

8. Industrial estates do not effectively serve or stimulate RSIE in small towns and the countryside. There is little evidence that industrial estates stimulate demand and industrial development as opposed to merely following it. The small rural industrial estates in Punjab and Sind are the least colonized. The hoped-for promotional effects of a long-delayed industrial estate in the Surkhet Valley of Nepal have been superseded by a bank credit programme in the area. Kenya Industrial Estates (KIE) has found that its most successful clients are found in smaller towns, but not on its industrial estates. KIE is accordingly emphasizing extension work and industrial-promotion areas, rather than the provision of further premises on industrial estates.

9. Finally, even if in particular cases, the industrial estate has some degree of success—i.e. is reasonably full of effectively operating industrial enterprises either paying an economic rent or occupying buildings put up on the estate by themselves, as in the medium or large Punjabi cities in Pakistan, and some Kenyan estates—it remains open to doubt whether the deliberate promotional effort is necessary or produces benefits commensurate with the costs. Near the very cities of the Pakistan Punjab where there are thriving industrial estates—Sialkot, for example—one can see many small-to-medium factories being privately erected away from the industrial estates, the latest of which are not full.

These conclusions, reached on the basis of the present study's field-mission observations and desk-reviewed projects, corroborate at every point the conclusions of a study of ten years ago specifically on industrial estates.* That study found that industrial estates might be useful for relieving congestion within towns, and for agglomerations of branch-specialized high-technology industry. Otherwise, it found the same drawbacks and criticisms as those expressed above, with—if anything—even more force and emphasis on the lack of benefits for rural industry and its development.

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*_The Effectiveness of Industrial Estates in Developing Countries_ (United Nations publication, Sales No E.78.II.B.11)

We may conclude that industrial estates are not generally effective in promoting RSIE. They may be considered in medium or large cities where small industrial enterprise and small-to-medium industries are already thriving, and are prepared to put up their own factories on an "estate" if the authorities (or perhaps their own small-industry association) can provide cleared and serviced land. The proposed industrial estate in Villa Salvador (Peru) belongs to this category.

Common service facilities might then be considered as a *later* feature, in response to definite demand from the occupants of a thriving estate. Alternatively, their establishment might be divorced entirely from that of the industrial estate, being planned as service facilities to a locality rather than to an industrial estate. This became the *de facto* role of some of the workshops of DAT in Rosario in Argentina, and is possibly becoming the role of common service facilities on some of the Senegalese industrial estates. In some future cases, a market and feasibility analysis might show that an area common

service facility could be justified, while an industrial estate could not. However, as with industrial estates, it is probable that in most cases common service facilities would follow existing industrial demand rather than stimulate new industrial activities.

(g) Financial-service institutions and programmes

Traditionally-run commercial and development banks have not been effective promoters of RSIE, nor have RSIE-financing programmes initiated by non-financial institutions. Savings and loans associations (SLAs), or SLA-type programmes run by rural offices of banks, offer more promise, but are multisectoral, not focussed on RSIE.

Among the financial institutions that can and do provide support to small-scale industry and RSIE, the following will be reviewed:

(i) Formal banks;
(ii) Non-financial institutions;
(iii) Savings and loans associations (SLAs).

(i) Formal banks (commercial and development banks)

These have been generally ineffective at promoting RSIE. They have either made no significant loans to RSIE, or have not been able to mount financially viable loan programmes to them. They have almost always preferred to make loans to urban enterprise, to large industry, and to commerce. Within the small-industrial-enterprise sector, they have generally been more active and successful with the larger and more urban small industrial enterprise. This pattern is observed in all countries visited and studied, although in Indonesia the picture is more complex.

In Senegal the banks have made few small-industrial-enterprise or RSIE loans. In Kenya, the United Republic of Tanzania and Zambia this is true of the commercial and large development banks. The smaller development finance institutions, Small-scale Enterprise Promotion Ltd. (SEP) in Zambia, for example, have so far confined themselves, within the small-industrial-enterprise sector, to urban and "line-of-rail" loans in Zambia or to a few dozen RSIE loans mostly near Nairobi and Mombasa (for example, the Small Enterprise Finance Corporation (SEFCO)) in Kenya. In Pakistan, the banks—commercial or development—are all large, and nearly all state-owned, and the vast bulk of their lending has gone to large non-industrial and industrial enterprises. Encouraged by successive World Bank credits, they have begun to make loans to smaller industries, but most of the loans are in the medium and larger cities, and are of $50,000 to $100,000 or more, which in Pakistan typically means enterprises with 30 or more employees. The one formal financial institution which does make small loans is the Small Business Finance Corporation (SBFC), but its clients are mainly urban and non-industrial.

In Peru, the private commercial banks have not made small-industrial-enterprise or RSIE loans. The public development banks have done so in various programmes, often (but not always) funded at "soft" rates by external donors and agencies. These programmes have addressed varying target groups, from formal small-to-medium industry (average loan size $100,000) to artisans (average loan size $200), and have a fair geographical spread over the larger and smaller urban centres. However, the programmes comprise only a small

fraction of the lending of the formal banking system, which is itself of relatively minor importance in Peru compared with informal credit. The long-term financial viability of these programmes remains unproven.

In the Philippines, the picture is rather similar. The banks have lent the vast bulk of their funds to large enterprises, with the majority in and around Manila, reflecting the pattern of Philippine industrial and commercial concentration. However, over the last decade, World Bank loans have funded programmes aimed at the smaller and non-metropolitan industrial enterprise, handled alike by commercial banks, private non-bank financial institutions, public development banks, and small private rural banks. The participation of private and commercial banks was secured, as it has also been in Colombia, by a publicly-controlled loan guarantee fund. These programmes have achieved a fair spread outside Manila, particularly through the public and rural banks. Their arrears rates, originally very high, have been reduced to an average of 6%. This reduction is partly attributable to a tightening-up of loan appraisals and procedures by all types of banks, but is also associated with a trend towards larger loans. Smaller loans ($2,000 to $15,000) have had a much worse arrears record (25-70%) than medium-sized loans ($50,000 to $100,000) where the arrears were 2-15%. The rural banks, making the smallest and most rural loans, have had very high arrears and are not in good financial shape. As for the other banks, despite having made several thousand small-industrial-enterprise loans and reduced their arrears sharply, they still find the costs of administering such loans too high to make them attractive.

In Indonesia, the Small Investment/Working Capital Credit Scheme (KIK/KMKP) programme has since 1974 made hundreds of thousands of small-enterprise loans averaging a few thousand dollars each. These loans, handled largely by the state commercial banks which dominate the banking system, have had a wide regional and rural outreach. They have been funded by the Government through the central bank and the state loan-insurance company (ASKRINDO), which underwrites the programme's mounting bad debts. Since the 1983 reform of the financial system and the drying-up of further government funds, the KIK/KMKP portfolio has hardly increased, in sharp contrast to preceding years. The banks now regard it as marginal to their lending, and unprofitable (arrears appear to be very high). KIK/KMKP was envisaged as supporting new enterprises and particularly industrial ones. In fact, the bulk of lending has been to existing enterprises and trade, a favourite sector with banks.

Recently, one of the Indonesian state banks, the Peoples' Bank of Indonesia (BRI), has launched a programme that promises a more sustainable rural outreach. It is not a "credit" programme, powered by external funds or government lending directives to the bank. Rather, it is more of a vast savings and loan programme, with 4 million small savers and 1.3 million small borrowers, administered through over 2,000 rural sub-branches. It is largely financed by rural savings. Interest rates on both savings and loans are relatively high (15% and 24% or more respectively). Arrears are low—about 3%—and the programme is profitable and expanding. It serves micro-enterprises, with a maximum loan of about $1,000. Although very rural, it has limited direct impact on RSIEs, which form perhaps 2-4% of its borrowers. Trade is the predominant sector, and second is farming. Nevertheless, the programme holds out promise for RSIE.

Why have formal banks in general proved so uniformly ineffective in making small-industrial-enterprise and RSIE loans? Basically, because of high

overheads and centralized decision-making. Large loans are cheaper per dollar to develop, appraise, disburse, supervise, and collect. They are also usually made only to well-known clients who offer good collateral. Therefore, given equal quality of projects and honesty of borrowers, large loans will be less costly and risky than small ones. Loans, obviously, are subject to economies of scale.

High overheads are found in both state and private banks, in markets with several competing banks as well as in those where one bank has an effective monopoly. The banks thus have the incentive of survival, not merely of profitability, to concentrate on the lower-cost large loans. This has been reinforced by lending-interest-rate ceilings which do not permit the recovery of the higher costs of smaller loans.

Banks' lending procedures are usually highly centralized. Often small loans have to be authorized by the regional branch, medium loans (say $50,000 and up) by the provincial or even national head office. The centralization allegedly guards against sloppy and corrupt lending by lower-level branch managers. In practice, it may move the *locus* of corruption upwards. Whatever the balance of motives, the effect is the same. The loan becomes more costly for the bank to make and the implicit costs of delay, travel, and uncertainty to the small would-be borrower become prohibitive. Moreover, physical distance often goes with social distance. The bigger and grander the office to which the small-industrial-enterprise or RSIE applicant must go, the less inclined he feels even to enter the place.

Given all these factors, it is not surprising that if there is one sentiment uniting nearly all RSIE, it is that, "banks are for big people". Although in time something probably can and ought to be done to remedy this — first and above all by permitting interest rates to rise to realistic levels and eliminating policy bias in favour of large industry, thus encouraging the banks to look for new lending markets among small-scale enterprise—it will be a long and uphill journey to significant RSIE lending. Even given the right incentives, changing the set ways of institutions is not easy.

Meanwhile, for the present and for the medium term, traditionally-run formal banks are not and will not be significant RSIE promoters. At best, they may effectively reach some of the larger and more formal RSIEs in the smaller cities.

(ii) Financing programmes initiated by non-financial institutions

These are generally run or initiated by SMIDAs dissatisfied with the banks' RSIE-lending performance. They cannot be said to improve on it. Although they may temporarily achieve more outreach to smaller and, sometimes, less urban enterprises, they remain financially sustainable only—if at all—by continuous subsidized re-funding.

In the United Republic of Tanzania, SIDO has managed low-interest-rate equipment hire-purchase loan schemes to small industrial enterprise. The vast bulk of these loans have gone to small industrial enterprise in the towns. The equipment is procured centrally by SIDO's headquarters. This has frequently resulted in delays and inappropriately-specified equipment. The programmes are not financially viable or expanding. Arrears are high, and collections appropriated to operating expenses rather than re-lent. It is planned to transfer collection responsibility to the National Bank of Commerce, a body which—like most banks—has shown very little interest in co-operating with non-

financial agencies like SIDO. In Kenya, Kenya Industrial Estates (KIE) has operated a programme of 630 loans. This has had mixed results. The best clients are small and in medium-sized towns.

The experience has been no better in programmes where the technical agency chooses the types and recipients of loans, while leaving disbursement and collection to a bank. This has been tried in Indonesia in the Provincial Development Programme, and in Pakistan in the 1970s by consortia of the small industries corporations and the banks. In these programmes, the borrowers' credit-worthiness was not determined solely (sometimes, not at all) by the banks. The banks were not in control of the programmes, and felt absolved of the responsibility for financial success. Many of the borrowers, too, may have been unwisely chosen. The results have been a high incidence of bad debts and financial non-sustainability. Experiences of BSCIC in Bangladesh show similar results.

While these programmes actually reach and sometimes benefit some hundreds or even thousands of smaller and more dispersed RSIEs on a one-shot basis, without self-sustainability they usually run down without having achieved a long-term, widespread impact. There is no evidence that the subsidized direct recipients are particularly dynamic or promote marked spread effects in other RSIEs.

Such programmes cannot, therefore, be regarded as generally effective RSIE-promoters. The reason is probably that they have regarded their clients as a favoured group without very much regard to their credit-worthiness. Since they have also usually been based on "outside" government or external funds, both the programmes and their clients have tended to regard the loans as something of a gift.

If such programmes are to find support in future, they probably should *(a)* be locally administered, *(b)* be at least partly financed by local savings, *(c)* charge realistic (higher) interest rates, *(d)* focus on the character of the entrepreneur as opposed to the supposed developmental benefits of his or her project, *(e)* emphasize existing RSIE, while not absolutely excluding new ones, and *(f)* concentrate first on short-term loans, extending to longer-term loans as clients build up their credit-worthiness.

(iii) Savings and loans associations

These show more promise, although their widespread effectiveness for RSIE remains unproven.

In Pakistan, Senegal and the Philippines, no evidence was found of strong rural savings and loans associations (SLAs). In the United Republic of Tanzania, rural co-operatives are only beginning to be re-established, after their dissolution by the authorities in the 1970s.

In Zambia, there is a strong system of local rural credit unions and savings associations (CUSAs), which, however, service farmers rather than RSIEs. There is a similarly strong system of SLAs, the Co-operative Credit Centre (CCC) in Peru, based on interest rates in excess of very high inflation, which make short-term loans to individuals, primarily for productive purposes in any productive sector including trade and services. As noted above, BRI's new programme in Indonesia is run on similar principles, although managed by the bank, not by SLAs. The same is true of the highly successful Grameen Bank in Bangladesh, which, however, unlike BRI, has always based itself on these principles.

Other Indonesian examples are provided by the Sub-district Credit Institutions (BKK), which are SLAs run by the local authorities and assisted and monitored by the provincial development bank in Central Java. However, attempts to transfer the BKK model itself to other provinces have not been successful—the provincial development banks there have not been effective supervisors. There are also numerous SLAs set up with assistance from Indonesian NGOs. These, like other SLAs, concentrate on small savers and loans, have high interest rates and short loan terms with frequent re-payments. Some are multisectoral, but some are based on RSIE in villages where high RSIE-concentrations are found.

Summarizing, it seems that in some countries, SLAs have been able to prosper in small savings and loan, high-interest rate, markets—both urban and rural—neglected by or debarred from the formal banks, and that a few banks are beginning also to move into these markets. The SLAs disburse quicker and with less formality than the traditional bank lending programmes. Their stock-in-trade is short-term loans, usually used for working capital, to already operating businesses.

However, they are not RSIE-specific, except in rare cases. They serve whoever in their locality can save or borrow effectively. While RSIEs can probably use and benefit from SLAs and SLA-type bank programmes, they must do so based on their own prior strength.

On the above evidence, the perceived credit-worthiness of RSIE—and the range of credit instruments available to them—will continue to be more limited than many observers would wish.

It is an open question how much this matters. Many RSIEs only seem to want credit from their known suppliers or customers. Entire RSIE sectors in Pakistan and in Peru get along rather well in default of effective service from the more formal financial institutions. The bulk of small businesses everywhere rely primarily on their own capital and that of the parties with whom they trade.

Despite this, improved financial intermediation is to be hoped for. Many farmers and rural traders seem to have benefited from programmes such as the Grameen Bank's in Bangladesh and CUSA's in Zambia.

These reflections are largely paralleled by those of the World Bank/Thailand study of rural development and rural non-farm activities mentioned above in connection with policy-formulation:

> "The Kasetsart/Michigan State/Ohio State team has found very little indication that credit is a major problem faced by the existing (rural) enterprises. Indeed, especially in manufacturing and handicrafts, final demand was almost inevitably identified as the overriding constraint. The World Bank/Thailand National Economic and Social Development Board (NESDB) profiling studies and field trip came to similar conclusions.
>
> It is thus clear that non-farm activities are primarily carried out in households or small firms, require limited fixed capital, are largely self-financed and often obtain short-term credit from traders of inputs or outputs. The features just described may well represent *adaptations* of economic activity to the higher transaction costs of credit in widely-dispersed rural areas compared to large cities . . .
>
> Improvements in rural financial intermediation which lead to lowered transaction costs for formal lenders may well accelerate rural growth in

general, or non-farm growth in particular, and allow the enterprises to become more capital intensive."[24]

*(h) Business-advice extension services**

Business-advice extension services may be effective in support of some other useful promotional effort such as SLAs. RSIE business advice is not much valued in its own right.

Business-advice extension services have a mixed record. In Zambia, they have no effective rural outreach. In Peru, the National Industrial Training Service (SENATI) does not service small industrial enterprise and RSIE in this way. On the other hand, the small-industries associations in the medium and smaller cities assist small industrial enterprises in formalization procedures and loan applications and offer business assessments and advice in the process. Similar services are offered by the Association of Colombian Small-scale Industries (ACOPI) and by the Small Enterprise Development Corporation (CFP) in Colombia, and by KIE's rural industrial programme in Kenya (which has had only limited outreach beyond the towns). In the United Republic of Tanzania, SIDO's SICATA service is not impressive. Few of the sampled clients—all of whom were in towns—received constructive advice, and none seems to have adopted it. In Liberia, the small business division of the National Investment Commission has some rural as well as urban outreach, but confines itself largely to producing over-optimistic loan applications on behalf of its clients. In the Philippines, not much more can generally be said of the Medium and Small Industry Co-ordinated Action Programme (MASICAP) and the Small Business Advisory Centres (SBACs). The SBACs seem unable to mobilize other, more technical, agencies in response to small industrial enterprise and RSIE clients' needs. In Pakistan, the Small Industries Corporations (SICs) used to assist with loan applications, but the banks no longer co-operate with them. The same is largely true of SIDO's regional offices in the United Republic of Tanzania.

Effective support of this nature has only been observed as part of an otherwise successful wider effort:

(a) In Senegal, the Ministry of Social Development offers effective book-keeping and organization-building advice as part of a wider promotion of rural women's food-processing co-operatives which also includes technical training and equipment grants;

(b) A different, though also effective, approach is taken in Java by the Organization for Economic and Social Science Education and Extension (LP3ES), an Indonesian NGO. LP3ES offers book-keeping and organization-building advice as part of a wider promotion of rural producers' savings and loan associations. It promotes technical upgrading by encouraging introductory contracts with more advanced local RSIEs, relying thereafter as much as possible on the clients' own initiative. Over time, it reduces the extension visits to any particular RSIE client-group.

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*Insufficient evidence was available on the RSIE-promotional effectiveness of *entrepreneurial development* programmes. The one definite report noted—from a programme in Palawan, a rural province in the Philippines—was negative.

[24] *Ibid.*, pp. 135-136.

Summarizing, it appears that business-extension advice is rarely valued or effective in its own right, but only in support of some other promotional effort, such as bank loans, savings and loan associations and technical upgrading. It is a means to some specific end. Only if the end is achievable and useful, is supporting business-extension advice justified. RSIEs do not want and will not often benefit from outside advice on how to run their businesses better in general.

(i) Technical training centres

Training centres have, with some exceptions, been ineffective promoters of RSIE. The centres are often urban-based and -oriented, with little or no rural outreach, and usually attract, with doubtful results, school leavers or otherwise unemployed rather than those engaged in existing RSIE.

Technical training can be effective. But all too often, formal programmes only offer introductory vocational courses at training centres. They either deliberately eschew or fail to attract trainees from existing small industrial enterprise and RSIEs, concentrating instead on young labour-market entrants. Sometimes, for lack of funds, the courses are too short, or the centres have too little facilities, to be of any significant use to the trainees. On the other hand, courses with real content in well-equipped (invariably urban) centres prepare their trainees for wage-employment in large firms rather than self-employment in small industrial enterprise or RSIE. Both these characteristics are observed in the United Republic of Tanzania, where the National Vocational Training Centres turn out skilled wage labour, while SIDO's training centres and the district-run rural Post Primary Technical Centres are too ill-funded and equipped to give their inexperienced trainees significant marketable skills. Both these characteristics have also been observed by Watanabe and his contributors as regards small industrial enterprise and RSIE in Egypt and Ghana. Apart from the inappropriateness of equipment and curricula, the centres' effectiveness was reduced because people from existing small industrial enterprises could not afford the time or money to attend the courses.[25]

In Kenya, the Kenya Industrial Training Institute is geared towards larger industries and has very little RSIE outreach. Although the 400 Kenyan Village Polytechnics have trained about 40,000 people over the years, the graduates—possibly because they were not already engaged in existing RSIE—have had a marked tendency to migrate to urban informal sector enterprises and jobs.

In Peru, SENATI's training courses for small-scale industry and RSIE run at centres all over the country, have inappropriate curricula and are not very useful to their recipients. Whereas in Indonesia, BIPIK's on-location training courses in established RSIE clusters are effective, the same cannot be said of their courses run at remote rural and at relatively advanced urban centres, which appear to impart skills inapplicable even by experienced RSIE trainees. Again in Indonesia, the Manpower Department's vocational training centres in the smaller cities are also ineffective. They give only two-month courses, located at the training centres themselves. They are idle ten months of the year. They train new entrants, and the placement rate of the ex-trainees is low.

In Colombia, the National Apprenticeship Service (SENA) has had more success by running three-month sandwich courses for employees of existing small industrial enterprises. These courses are given separately from those

[25] Watanabe, *op. cit.*, pp. 63-65, 87-88 and 226.

aimed at larger industry. However, their outreach to RSIE is not known. In Burkina Faso, the RSIE outreach of the National Training Centre for Rural Artisans (CPNAR) has been very limited despite its title.

In Nepal, the placement rate of the National Volunteer Training Service's (NVTS) conventional training courses is lower than NVTS achieves with Training for Rural Gainful Activities (TRUGA), an on-location rural training scheme. In the Philippines, the Institute of Small-Scale Industries (ISSI) emphasizes business training courses which are aimed at the larger and more formal small industrial enterprise and have little if any outreach to RSIE. A recent attempt by ISSI to extend such courses to a rural area in the Palawan Integrated Area Development Project (PIADP) has met with no notable success.

Finally, in Pakistan, the more advanced training institutes—such as the Leather Products Development Centre in Karachi, the Institute of Leather Technology in Gujranwala, and the Metal Industries Development Centre in Sialkot—each appear to have effectively trained 10-50 skilled technicians per year. However, most of the ex-trainees find work in medium to large firms in medium to large cities. The small industry corporations train much greater numbers—some thousands per year—in more rural courses and centres for artisans and carpet-weavers. In areas without an industrial tradition, like Baluchistan, the imparted skills are rarely used. In more developed provinces, such as Punjab and the North-West Frontier Province, the training seems well and economically executed and is afterwards used by a large majority of trainees (carpet-weavers perhaps excepted). However, since Pakistani RSIEs are notable for their ability to impart basic vocational skills on-the-job to their apprentices, the need for public programmes doing the same thing for a small fraction of the total required numbers, is very doubtful.

Most of the observed formal training programmes conducted at centres have been very little use in promoting RSIE. One may speculate, however, that— provided they are adequately equipped—dispersed systems like Kenya's Village Polytechnics or Punjab's Rural Artisan Training Centres could be more effective RSIE promoters if they concentrated on short sandwich courses to those engaged in existing RSIE.

(j) On-location technical facilities, extension and training

These programmes are very often well-received and effective. They must, however, offer realistic new commercial opportunities to their RSIE clients. Also, not all institutions are effective in executing the programmes.

On-location programmes are mainly directed to already-operating small industrial enterprise and RSIE. Clients thus already have some technical knowledge and business experience and are able to build further on that base. Also, they can, by and large, choose to use the services as much or as little as they wish.

The location of such programmes allows them to remain in close touch with the needs and conditions of the small industrial enterprise or RSIE. Finally, on-location training is often associated with new but readily exploitable market or other commercial opportunities being introduced to the enterprises.

Technical service facilities, such as equipment available for use by local small industrial enterprise and RSIE, were in use and in demand in rural Indonesia (rattan tanning, leather-working), and in Pakistan (metal-working,

leather-working), in an urban context. In both countries, there is a tendency for the facilities to outlive their usefulness if not periodically upgraded. As the surrounding small industrial enterprise and RSIEs develop, they buy the relevant equipment themselves.

In Zambia, the on-location training is mostly also urban. It is executed by SIDO under contract to the Zambian Federation of Employers and the Small Industries Association, and is aimed at existing small industrial enterprises, whose productivity it appears to enhance. Rural outreach is very limited.

Rural on-location training in metal-working, followed up by extension, is given in the North-West Frontier Province in Pakistan by SIDB through the mobile units of the Pak-Holland project. Wide geographical coverage and relatively large numbers of trainees are achieved by giving part-time short courses, on the truck-borne units, to already-operating RSIEs. New products and techniques are introduced. Neighbouring RSIEs, who have not yet enrolled, now wish to do so, having observed the results achieved with the ex-trainees. The service—planned with considerable pre-feasibility work—is only 18 months old and still has heavy expatriate commitment. It is thus too early to say whether this strenuous but productive programme has a long-term future. The same can be said of TRUGA, an ILO-assisted programme in rural Nepal of the National Vocational Training Service. Unlike most on-location facilities, TRUGA works with new entrants, based on careful pre-analysis of local opportunities and specific training needs. To date, it has achieved higher employment or self-employment rates than NVTS' more conventional training programmes, but there is some doubt whether NVTS has the resources to continue it on a long-term basis. NVTS, having prior technical competence has, however, been more effective with TRUGA than the Bangladesh Rural Skills Service which lacks this competence.

Sustainability is not a present worry with the Senegalese Ministry of Social Development's successful programme of rural women's food-processing (milling) co-operatives. This too is partly based on new entrants—the co-operatives themselves and their male mill-operators—but the back-up training in machine fabrication and maintenance is given to existing blacksmiths, foundrymen and mechanics. Here, too, careful pre-feasibility work was done on market and technical aspects. After four years, several hundred co-operatives are operating successfully. Although the programme has always been assisted by foreign funds, the expertise is for all practical purposes Senegalese.

In contrast, programmes to upgrade rural handicrafts in Burkina Faso and Haiti have failed, because insufficient attention was paid to markets and economic viability (Burkina Faso) or to careful pre-organization of new co-operatives (Haiti). In both these cases, the promoting institution had a far weaker tradition of local presence than in Senegal.

In handicrafts and furniture, further successful examples come from Peru, the Philippines and Indonesia, where Peruvian small industry associations, BIPIK, NACIDA and the Small and Medium Enterprise Development (SMED) project of the Philippines Ministry of Trade and Industry have all executed or sponsored on-location training or consultancy to introduce upgraded products and techniques in rattan and other branches. These have resulted in expanded income and employment in the rural centres concerned. In Indonesia, at least, the direct effects have been multiplied by further diffusion of the improvements among the RSIEs themselves.

On-location technical upgrading programmes are thus often effective as RSIE promoters. However, the motivation of institutions to mount them tends

to be more limited. They form, for example, only a very small part of Zambian and Indonesian promotional efforts and are not mounted by SIDO in the United Republic of Tanzania or SENATI in Peru—both national-level, urban-based institutions. Often, they are associated with external assistance, as with the ILO United Nations Capital Development Fund (UNCDF) in Senegal, ILO in Nepal, Netherlands' aid in the North-West Frontier Province, and UNIDO and USAID in the Philippines. Probably the only institutions which can sustain such programmes in the long-term are those which have a tradition of decentralized rural operations. Provided that they have technical competence, such operations can then benefit from putting more emphasis on on-location technical programmes. More bureaucratic and centralized institutions, on the other hand, seem likely to give such programmes only minor or temporary support.

(k) Technology development and diffusion centres

These centres have generally been remote from RSIEs and ineffective at promoting them. A few have effectively served agricultural implement firms by developing close field contacts with them.

Effective technology diffusion by on-location technical training programmes and service facilities has already been covered above. Here, the experience of centres set up to do technical research, develop improved technology and diffuse it to industry is considered.

Few of these are effective as far as RSIEs are concerned. In Indonesia, the Metal Industries Development Centre in Bandung has a good technical reputation, but has no outreach to RSIE. The same is true of the Technology Resource Centre in the Philippines. In the same country, the branch-specialized research institutes similarly have no rural or even regional outreach and are reportedly not well-equipped or -staffed.

In Burkina Faso, the Centre for Appropriate Technology has achieved no commercially-applicable technical development work or rural outreach. Nor has the Kilimanjaro Industrial Development Centre in the United Republic of Tanzania, nor the Industrial Development Centre in Oshogbo in Nigeria, nor the Rural Industrial Development Centres in Kenya.

CAMARTEC in the United Republic of Tanzania has been a little more effective, but—after a period of stagnation—is only now beginning to move beyond its successful oxcart and coffee decorticator developments to fresh field research and testing of new products. Meanwhile, it has been outstripped in technical innovation by the local private firm, Themi Farm Implements.

In Kenya, a regional tool-development centre has produced some useful designs for agricultural implements, in response to demand from a multi-country rural extension and training programme. Further evidence that close links to clients' real needs are essential, comes from Argentina. There, DAT's Technical Centre at Rosario has substantially upgraded the product lines of, quite sophisticated, local agricultural-implement firms via an active extension service.

The low average effectiveness of research centres *vis-à-vis* RSIE would appear to stem from a combined lack of incentives from target group and institution alike. The former are not tempted to approach large, formal and — from their point of view—often remote centres staffed by civil servants with whom they feel little "rapport" and the latter see no obvious reason why they should serve RSIE clients on whom they are not financially dependent.

Given the strong linkages of RSIE with technically-simple rural consumer products, compared to weaker linkages to agricultural implements and processing, it is in any case doubtful whether extensive technology-development programmes are much use to them. (Even in Pakistan, where the links with agricultural implements seem to be at their strongest, a Swiss-assisted agricultural light-engineering centre of SIDB in the North-West Frontier Province has had little success in introducing new technology to its RSIE clients.)

(l) Area-based and target-group based institutions and programmes

There is little evidence that area-based institutions and programmes are effective at consciously promoting RSIE. They mostly pursue other sectors, such as infrastructure and agriculture. However, the linkages from such efforts can indirectly promote RSIE (see chapter II.4).

The lack of prominence given to RSIE in World Bank integrated area (rural) development programmes (IADPs) has already been noted.[26] This indicator is confirmed by evidence from several countries. IADPs and area-based institutions generally—like the district authorities in Pakistan, Peru and the United Republic of Tanzania, and IADPs in Pakistan and the Philippines—give priority to other sectors, such as agriculture, irrigation, roads, schools and clinics.

Deliberate efforts to devote significant attention to RSIE within an area programme have shown occasional success, as with wood-workers in the IADP in the North Western Province in Zambia. But other attempts—the Kilimanjaro Industrial Development Centre in the Kilimanjaro IADP in the United Republic of Tanzania, and the Palawan IADP in the Philippines, and the PRODERM and Herrandina projects of the Cuzco Development Corporation in Peru—have not yet been successful. They have found it difficult to co-ordinate the industrial sub-programmes with the other sectors and have found limited RSIE opportunities compared with their hopes, which were based on the supply of forest and agricultural resources of their areas, rather than on local consumer demand.

Programmes based on social (as opposed to sectoral) target groups show very mixed results. The successful Senegalese rural women's food-processing co-operatives programme concentrates on rural women and thus blends food-processing and the sectoral and social-group approaches. Its success is based on a strong extension network, careful pre-feasibility study, planning, and as much reliance as possible on the target groups' own (and other local) resources. None of these were present in the enterprise project aimed at Senegalese trade unions, or the industrial homes programme for Pakistani rural women, which have had very limited results.

Elsewhere, the experience of the Provincial Development Programme (PDP) in Indonesia confirms the need for strong local presence. There was uniform failure where the Industry Department had no sub-regency office. PDP also, by concentrating on poorer groups, avoided the almost total neglect of RSIE usual in IADPs. The agricultural interests of the richer, landed, smallholders were not the focus of PDP, which in the event devoted a relatively high 20% of its funds to RSIE.

[26] World Bank, "World Bank experience ..."

Training and therapeutic programmes for the disabled are hardly a fair test of the target-group approach. They may be more successful where based on rapid return to and support from the community, as in Indonesia and the Philippines. Retaining the ex-trainees in institutions merely perpetuates their dependence. It is unclear as yet what role is to be played by workshops spun off from institutions.

Despite some successes, institutions and programmes based on areas and social target groups offer no general effectiveness as direct RSIE promoters. Perhaps, with more careful selection and planning, the target-group programme can be a useful tool, particularly if the group has significant local social cohesion and motivation. However, the same cannot be said of area-based approaches. The claims of other sectors and the difficulties of co-ordination appear generally too formidable.

(m) Small industry and trade associations

Small industry and trade associations are observed to perform a useful range of services for regional-town RSIE in some developing countries. They take time to build up, but could be a promising target for more external TCA.

On the evidence available, these associations are not yet powerful small-scale-industry or RSIE-promoting agents except in Peru and Colombia. Associations of industrialists, businessmen or exporters are mostly strong in the national capitals or the larger cities of developing countries. Where they exist in the smaller cities and towns, they seem generally to be weak and limited to rather narrow lobbying functions. There is also evidence from the Philippines of strong disagreements between associations, both at the national level and between local associations and national ones trying to set up or affiliate local chapters.[27]

The same source indicates that in the Philippines the local associations are mostly Chambers of Commerce, i.e. multi-sectoral business associations dominated by landowners and traders rather than by RSIE.[28] Indeed RSIE, or even small industrial enterprise generally, seems often to be an afterthought of wider industrial or business associations, at the national or even local levels.

Nevertheless, small industry associations do exist, as in Zambia, and in Kasur, a small specialized, tanning city in the Pakistan Punjab. One used to exist in the United Republic of Tanzania, an association of the small metal-working firms in Moshi town. Associations of artisans also exist in the regional towns of Senegal (Chambres des Métiers), but have been established there by government decree.

Although the Zambian small industry associations do some vocational training, small industry associations generally confine themselves to lobbying for the alleged common interests of their members, e.g., a technical service facility for Kasur, or access to steel imports for Moshi. They are by no means uniformly effective in this. After three years of lobbying, there is no facility in Kasur, and the Moshi small industry association broke up after failing to secure import facilities from the Government.

From Peru and Colombia there is more promising evidence. In both countries, national small-industry-association federations exist and although

[27] C. McKean *et al.*, *Evaluation of the SMED Project* (Manila, Pragma/USAID, 1986), pp. 15 and 41.

[28] McKean, *op. cit.*, p. 38.

their effectiveness and presence is most clearly felt in the national capital cities. FENAPI (Peru) and ACOPI (Colombia) have regional offices in a large number of smaller cities and regional centres. The small industry associations provide information and, sometimes, organize common purchasing for their members. They also assist non-members with formalization procedures, at the same time providing them with assessments of their businesses. They are in close rapport with the local authorities on the need for strengthened infrastructure. They co-operate with NGOs who provide sector research and seminars. They are starting to act as effective sub-contracting exchanges between their members. At the national level, they are important as pressure groups and have played an important role in bringing about the establishment of other institutions that can and do provide effective assistance for RSIE. (ACOPI was instrumental in the establishment of SENA, CFP and the National Guarantee Fund in Colombia.)

It is dangerous to generalize from experience in relatively-developed, urbanized Peru and Colombia. However, recent evidence from Senegalese regional towns is promising. Their artisans' associations are beginning to organize common purchasing and transport facilities among their members and to press the local authorities for improved infrastructure.

While a wide range of functions for small industries associations must be regarded as unproven outside Peru and Colombia, and while they cannot be expected to finance costly services, they seem to be a promising target for external TCA, till now largely neglected by donors and agencies. The Philippine experience indicates that, as with RSIE co-operatives, extensive preparation is essential by outside agencies trying to help start or strengthen local business associations or small industries associations. Among the factors requiring attention are: *(a)* Whom do existing associations represent? *(b)* If they do not presently represent RSIE, is it better to work with them to extend their activities, or to promote new local and RSIE-specific associations?

Nevertheless, more attempts in this field may well repay the effort. If the Philippine, Senegalese, Peruvian and Colombian experiences are anything to go by, better results can be expected via local NGOs or external (international) business foundations as promotional agents, rather than governmental bodies. However, outreach is likely to be restricted to small city or rural town RSIEs, as opposed to RSIEs dispersed in the countryside.

(n) Non-governmental organizations (NGOs), other than small industries associations, SLAs etc.

NGOs perform a range of RSIE-promotional functions to a still-limited extent, but usually efficiently and with good rural fieldwork. Their especial strengths are the promotion of RSIE self-reliance through organization, and their emphasis on autonomous local operations. Their weaknesses have been over-emphasis on "welfare" concerns and under-emphasis on technical input and upgrading.

NGOs perform a variety of functions, as noted at various points above. For example, they do small-industrial-enterprise research, as in Peru. They market RSIE handicraft products, as with PEKERTI in Indonesia and the All Pakistan Women's Association (APWA) in Pakistan, or help upgrade rural handicraft quality and marketing, as in Peru. They help generate rural project grants—in various sectors—from international NGOs, as does Community Development Trust Fund in the United Republic of Tanzania. They conduct

technical training, like Village Industry Service in Zambia. They even fund small credit programmes, as with the Presidential National Trust Fund for Self-Reliance in the United Republic of Tanzania and various foundations in Colombia.

NGOs do all these things to a limited extent, but within those limits, they usually perform at least as effectively as—and often considerably better than—governmental institutions. This is largely because they are more enthusiastic about field-work and tend to fund it appropriately, thus attracting more motivated staff and using them more effectively, and partly because they know they will not be paid for doing very little, whereas in Government offices there is a greater tendency for both the active and the inactive to be retained on the payroll.

Their other distinctive contribution seems to be promotion of self-reliance. They do research for the national small industries association in Peru, they help set up or strengthen local chambers of commerce in the Philippines, and local small industries associations in Peru. They help SLAs and RSIE co-operatives to start in Indonesia, and strengthen SLA operations in Peru. They support technical upgrading in Indonesia through inter-RSIE contacts. They are not uniformly successful in these activities. Nevertheless, their localized, low-overhead, focus on helping the RSIEs to help themselves seems to be appropriate. It is significant that PEKERTI, a national-level NGO in Indonesia, has chosen to expand its connections outside Java by assisting local-level NGOs, rather than attempting to control distant branch offices.

In two areas, NGOs seem as yet generally ineffective for RSIE development. They concentrate mostly on "groups" and on the "poorest of the poor", rather than on those RSIEs with the largest potential. In other words, NGOs can suffer from a tendency to put welfare above effectiveness. Nor do they offer much direct technical upgrading training to established RSIEs owned by individuals, although there are exceptions, such as the Engineering Centre for Labour Development (CIPDEL) in Peru, an NGO working with entrepreneurs in a shanty town near Lima, and the Carvajal Foundation working with small entrepreneurs in Cali, Colombia. These weaknesses lessen the NGOs' effectiveness in promoting diffusion of improvements from innovating RSIEs to their neighbours. However, there are now signs that some NGOs—PEKERTI and its local affiliates in Indonesia, for example—are beginning to move towards upgrading training and away from an exclusive concern for specific groups.

IV.3 Particular aspects bearing on effectiveness

Section IV.2 has considered the RSIE-promotional effectiveness of various types of institution and function. This section deals with the bearing on effectiveness of some other aspects of institutions and their relations with RSIE. Since most of the data has already been covered above, this section is a recapitulatory regrouping of the evidence.

The questions considered are *(a)* the appropriate conditions and extent of supply-side assistance to RSIEs, *(b)* the question of how the effectiveness of assistance is affected by the way in which it is organized, and *(c)* some other institutional questions.

Under *(a)*, are included such questions as the demand conditions facing RSIE, the role of community involvement, whether comprehensive

or partial assistance is more effective, and what types of RSIE it can reach and help. These questions are highly interrelated.

Under *(b)*, are considered whether assistance should be organized on the area, the multisectoral, or the sectoral basis, whether institutions should be centralized or localized, and what should be their provenance, public, private, or NGO.

Under *(c)*, are included co-operation between institutions, new institutions, sustainability and cost-effectiveness of institutions, and monitoring by institutions of their own operations.

(a) The appropriate conditions and extent of supply-side assistance

Although general rural growth is not an absolute pre-condition for any supply-side RSIE support activity, lack of such growth severely limits opportunities, particularly in poor and sparsely populated regions. Community involvement should particularly be sought in RSIE promotion for disadvantaged regions and social groups.

Increasing rural prosperity and demand usually promotes the spontaneous growth of RSIE and makes certain types of supply-side support more appropriate. Examples are technical upgrading aimed at local markets, and savings or credit schemes based on local savings.

However, conditions of generally increasing demand are not absolutely necessary for effective supply-side support. For example, the Senegalese rural women's grain-milling co-operatives are not in particularly dynamic local economies, nor are the small industries associations and their members in Colombia and Peru. However, in these cases, even if the local economy is not evidently growing, there is a relatively high level of locally accessible demand for small-industrial-enterprise and RSIE products. In the Peruvian and Colombian situations, this comes from population density (and in this respect it may be significant that BRI's rural savings and credit programme in Indonesia has been more successful in densely-populated Java than in the more sparsely-populated outer islands). In Senegal, it is because ground millet is a daily staple which accounts for a substantial fraction of total rural consumption. The manner in which it is consumed in Senegal, furthermore, requires daily milling and this is considered by the women as drudgery when done by manual pounding.

Similarly, the only successful RSIE yet set up by PRODERM in the poorly-developed Peruvian highlands is a maize-mill, maize flour being a local food staple. In contrast, PRODERM's brick and tile RSIE is not doing well. Attempts to set up tile-making and pottery RSIEs in rural Senegal and Burkina Faso, and to upgrade basketry in rural Burkina Faso, were also not successful. It would seem that in poor, remote and sparsely-populated areas, only staple-food-processing can generally be stimulated, although other branches (e.g. wood products in the North Western Province of Zambia) may also be locally feasible. One may speculate that stimulation of wood products, then tailoring, building materials, and upgraded metal-working, might later successively become viable, driven by consumer demand as local agricultural prosperity increases.

It can be concluded that conditions for effective supply-side RSIE support may exist even where agricultural prosperity is not evidently increasing, but only for staple-food-processing RSIEs, or in densely populated areas. (Whether stimulating food-processing in sparsely-populated regions is cost-effective is a

further question which should be carefully examined in each region before launching the effort.) At the other end of the scale, in strong rural economies, institutions should be wary of supporting or trying to help create run-of-the-mill simple RSIEs, by, for example, basic technical training. The effort will probably be superfluous, as such enterprises will multiply spontaneously. Supply-side support should in such conditions concentrate on technical upgrading of selected or clustered RSIEs, and perhaps stimulating SLAs.

The Senegalese grain-mills provide an example of the value of community involvement. The programme was preceded by careful surveys to find out and check with local people what was in strong local demand, and to identify the technical obstacles to its supply. A similar approach was adopted by NVTS with TRUGA in remote Nepalese areas, also with fair success. The other field in which community involvement seems valuable, is in programmes aimed at disadvantaged social target groups, for example women. If the menfolk are deliberately excluded from such efforts, in many cultures the chances of success will be reduced.

Partial-input support is much more likely to be effective than comprehensive support. If the latter is needed at all, the risks of failure and cost-ineffectiveness are high.

Should supply-side support to RSIE be comprehensive (multi-input) or partial (minimal or "missing-ingredient" input)?

There is one notable example of success achieved by near-comprehensive support, the programme for rural Senegalese women's grain-milling co-operatives. Even these, however, had to provide their own buildings and working capital and, in the extension of the programme, will also probably have to pay for the locally-fabricated parts of the mills. However, the great bulk of the evidence—from the United Republic of Tanzania, Pakistan, Indonesia, Peru, Zambia and the Philippines—is that comprehensive support is difficult to deliver, unnecessary in most cases, and unsuccessful in promoting those RSIE who possibly "need" it. The poor record of SMIDAs in trying to deliver comprehensive support directly, and of business-advice extension services in marshalling such support from diverse agencies, and the withdrawal of some SMIDAs (such as KIE in Kenya) into more partial support are instructive. On the other hand, partial support—such as small loans in Indonesia and Peru, or technical upgrading for specific new markets in the Philippines, Indonesia and Pakistan—is very often effective.

This presents a dilemma which impels one toward caution in the extent of supply-side support to RSIE. The poorer and less versed (in relevant aspects) the target group and their region's population is, the more likely it is that several types of input—for example, training, machinery supply, credit and organization-building—will be required in combination, if effective production is to be started. However, the risks and costs of such comprehensive support are very high. There is the risk that the support will not be delivered in an effectively balanced manner, the more so if the location is remote. There is the risk that delivery will in any case generate dependence on the supplying institution, rather than self-reliant RSIE. There are the risks of enterprise failure that always mount with the novelty and extent of the innovation, the risk that the RSIE will not be economically viable in a backward environment, and the question of whether, even if all these obstacles are surmounted, the promotion has been worth its probably considerable costs.

RSIE supply-side support in unfavourable target-group or demand environments may "need" to be comprehensive, but requires very careful and sceptical pre-appraisal, including cool assessment of the assistance institution's capacities. Most RSIE support should be partial, to existing RSIEs, in more promising economic and infrastructural environments produced by prior agricultural development. Such partial support should be "made to measure" rather than preconceived from a comprehensive range of activities.

RSIEs and their support are not a leading or widely-viable activity in least-developed environments. This is well expressed by ISSI of the Philippines, commenting on its attempts with other agencies to promote rural industry in under-developed Palawan province:

> "... the development of infrastructure, markets, agriculture, and other bases for the industrialization of a rural area ... strengthens complementarities and optimizes utilization of development resources. There is indeed no reason for trying to promote or develop industries in an area where no preconditions to industrial development are in place."[29]

Smaller RSIEs—the bulk of the RSIE sector—are served effectively by only a narrow range of institutions and programmes. These centre chiefly on market or technical upgrading, savings and loan programmes, and strong field-work.

There is the further question of what the range of institutions is, which—if reasonably well-funded and organized, within the range of observed experience—can contribute to the effective promotion of various types of RSIEs.

For this purpose, three classes of RSIE can be distinguished, *(i)* more developed RSIE, usually employing between 15 and 25 people, in rural towns and small regional cities, *(ii)* smaller, artisanal or household, RSIE in those towns and cities, and *(iii)* village and countryside RSIE, almost invariably smaller, artisanal and household-based.

Evidently, this classification—like most others—has its grey areas. In particular, "more developed" RSIEs are frequently successful former artisanal enterprises which may retain many artisanal characteristics such as informal accommodation and labour practices. However, the classification does help in determining some limits to the outreach and assimilability of certain types of supply-side assistance. The ranges of institutions which may be able to promote the various classes of RSIE effectively can then be more clearly seen.

Supply-side assistance to class *(i)* RSIE is probably best carried out by well-organized institutions or programmes of the following types (not necessarily in this order!):

- SMIDAs (in the sense that such RSIE are likely to be the traditional SMIDAs most favoured RSIE clients);
- Marketing and raw-material-supply stimulatory schemes;
- RSIE co-operatives (with the necessary qualifications, e.g. the benefits to members must be clear-cut);
- Formal commercial and development banks (but in many cases insufficiently);
- Savings and loans associations or programmes;

[29] M. S. Salazar and A. O. Mangahat, *Promotion of Small-scale and Rural Industries in Palawan Province* (Quezon City, ISSI, 1987), p. 18

- On-location or near-location technical facilities and technical upgrading training;
- Small industry and trade associations.

For the smaller RSIEs in rural towns and regional cities (class *(ii)*), the range of possibly useful institutions or programmes is reduced, because the smaller RSIEs are less formal, appear less credit-worthy to banks, and are more difficult to organize:

- Marketing stimulatory schemes;
- RSIE co-operatives (with the necessary qualifications);
- Savings and loan associations or programmes;
- On-location or near-location technical facilities and technical upgrading training;
- Small industry and trade associations (less certain);
- NGOs.

Village and countryside RSIEs, usually very small, are more dispersed (class *(iii)*). They are thus less likely to associate fruitfully in small industry associations. On the other hand, a well-organized target-group programme may benefit some of them, as the case of the Senegalese rural grain-mills shows. Thus, the potentially effective institutions of programmes for this class become:

- Marketing stimulatory schemes;
- RSIE co-operatives (with the necessary qualifications);
- Savings and loan associations or programmes;
- On-location technical facilities and technical upgrading training;
- Social target-group development programmes;
- NGOs.

The smaller and more remote RSIEs—classes *(ii)* and *(iii)*—are served effectively by a considerably narrower range of institutions and programmes than the more-developed rural town or regional city enterprises.

Since classes *(ii)* and *(iii)* comprise the great majority of RSIE, this in itself illustrates the severe limitations and unconscious bias of supply-side assistance.

Nevertheless, there remains considerable scope for a supply-side approach to the development of RSIE. The effectiveness of such an approach, however, will increase considerably, if such institutional support can be implemented in the conducive environment of a demand-side policy that favours the creation of disposable income in rural areas.

Supply-side intervention is no substitute for the proper macro-policy. It is no effective palliative for economic conditions unfavourable to RSIE. In such circumstances, supply-side intervention only stands a chance of success, if:

- The intervention is exceptionally dedicated and competent at all levels;
- The target group can be and is clearly delimitated.

Most supply-side intervention will not rise above the level of a second-best solution without the benefit of an environment that stimulates the purchasing power of RSIE customers.

(b) The organizational form of assistance

The pure area-based multisectoral organization has little to offer RSIE. On the other hand, financial-services programmes are more viable if based on a range of productive rural sectors, not just on RSIE. But non-financial assistance seems most effective if targetted at specific subsectors within RSIE.

The following general tendencies are observed:

- Area-based organizations (district councils, development corporations, IADPs) have not been effective direct-input, supply-side promoters of RSIE. Most of them have agriculture and other non-industrial sectors as priorities, and their few attempts—usually in backward areas—to include RSIE components are more often guided by well-intentioned hopes than by effective demand based on agricultural surplus and incomes;
- The other type of rural multisectoral programme—savings and credits schemes—may help RSIE among other sectors. So far, most of their customers have been farmers and traders. However, while they may place little emphasis on RSIE, these multisectoral rural financial-services schemes are the only ones with proven financial viability and thus expandability. Credit programmes directed purely at small industry (RSIE included) at best barely survive;
- Small industry programmes serving all small-scale industry, whether they are financial (credit), non-financial (training, accommodation etc.) or comprehensive (SMIDAs or institutional consortia), have usually devoted the bulk of their resources to urban small-scale industry, with very limited outreach to the majority of RSIE (i.e., the smaller ones);
- Among non-financial programmes, subsectorally targetted ones work best, usually focussed on upgrading existing RSIE in selected branches. It helps cost-effectiveness and spread effects if such RSIEs are found in clusters. In all cases, careful selection of the target group with respect to its economic viability and capacity for upgrading is very important.

Highly centralized organizations are not effective RSIE-promoters. Strong field links, based on local presence and local autonomy of action are essential. However, localized operations must be technically competent.

Institutions with a strong local presence, and usually with strong local autonomy, are necessary for effective RSIE-promotion. RSIE cannot be serviced by offices and staff based at a distance. The costs are too great, the pressures to remain in or near urban offices too acute, the local knowledge of the staff too small. Centralized institutions thus end up serving few RSIEs, and mostly the more developed and urban among them.

Strong field links are essential in promoting RSIE. Such links may only be sustained, through whatever organizational mechanism, by a local apparatus; local offices and extension workers belonging to national agencies, or wholly local agencies. There are indications (DAT in Argentina, PSIC and SIDB in the North-West Frontier Province in Pakistan) that a strong local presence (including a strong local, provincial or state Government) may be a useful countervailing power against over-centralization. Such local strength may have

a better chance to develop in countries where the Government is organized federally or local autonomy has real meaning. The institutional mechanism has not only to be a decentralized one, but should preferably devolve on local personnel and entrepreneurs themselves.

Mere local presence, while essential is not enough. A few centrally-directed and national-level institutions—such as the Senegalese Ministry of Social Development—are able to maintain a widespread effective presence, by effective decentralization, mobility and knowing their clients' needs. More often, such institutions—for example most SMIDAs and banks—are not effective, even though they may possess dispersed offices. Their branch staff tend to lack autonomy, mobility and flexibility.

While the balance thus favours local organizations, these must have some technical expertise or basic management competence to offer, as—to take one example—the district development corporations in the United Republic of Tanzania did not.

Private-sector institutions and NGOs have a definite and probably expanding role to play in RSIE support, but it is doubtful whether they can take on the whole task. A primary need is for the public-sector institutions themselves to become more decentralized, flexible and selective in their RSIE support.

Private NGOs and public institutions each have a role to play. On the private-sector side, very few larger private firms consciously and deliberately "assist" RSIE, however beneficial the purely commercial trading relations between large and small enterprise may be. Some RSIEs may themselves associate in small industries associations, but these will probably not have the financial or technical capacity to conduct technical upgrading, or organize SLAs, unaided.

NGOs can provide such aid, but have so far done so on a relatively limited scale. Almost certainly, this can still be beneficially extended, and the technical content of NGOs' services strengthened. However, attempts to expand NGO operations too rapidly and radically—even if the expansion were politically acceptable to Governments—would probably erode their present strengths, which are field-work, high motivation and non-bureaucratic approach. Using NGOs as channels for external assistance seems to offer good possibilities for expanding their operations, as IADB's experiences in Colombia, the Dominican Republic and Peru indicate.

The public-sector institutions may or may not always suffer from a "bureaucratic" disadvantage. However, much of their generally lower effectiveness is attributable to their being the wrong types of institution for RSIE-promotion in the first place. SMIDAs, centralized national bodies, large commercial and development banks, training centres, technology centres are all examples. In other words, public institutions owe most of their ineffectiveness to centralized rigidity.

The need, therefore, is for changes in public institutional policy away from centralization. The crucial issue for RSIE-assisting institutions is not whether they are public or private, but whether they develop mechanisms which will involve the beneficiaries themselves and make possible the transfer of technology, market opportunities, or development of viable credit. Institutions at the local level, such as the recently started Northern Region Rural Industry Project in Zambia, are one example.

(c) Other institutional questions

Finally, some other institutional questions are briefly considered.

(i) There is very little co-operation between support institutions and this should be recognized when designing RSIE support programmes.

On the issue of co-operation, the tale is a short one—there is very little co-operation between support institutions. An exception is found at the local level in Peruvian medium-sized cities, where small industries associations co-operate with NGOs (who also co-operate with SLAs) and with the local authorities. Elsewhere, each institution—bank, SMIDA, training body, business advice service, technology centre—in practice goes its own way, despite national committees (as in the Philippines), or regional ones (as in the United Republic of Tanzania), or even bilateral agreements (as between SIDO and the National Bank of Commerce in the United Republic of Tanzania), which attempt to co-ordinate them. NGOs themselves have found it difficult to co-operate with bureaucratic public-sector bodies. The Colombian laws on micro-enterprise (1984) and small-to-medium industries (1987) aim to provide the institutional framework precisely for such co-operation. It would appear worthwhile to monitor future developments closely.

This lack of co-operation often leads to wasteful duplication, particularly of equipment, but matters less than perhaps it would if partial (as opposed to comprehensive) support to RSIEs were less effective. The greatest sufferers are the business advice extension services, whose advice is usually not much use unless they can secure the co-operation of, say, a bank or a technical service.

(ii) Localization and geographical spread of effective types of institutions is to be encouraged, but the set-up of new institutional types is not.

There is certainly room for encouraging more locally autonomous organizations as close as possible to RSIEs (local SLAs, small industries associations or self-help associations, NGOs) and more local offices of banks and industry departments (such as DAT, a provincial organization at Rosario in Argentina), provided these are given, like DAT, programmes and incentives which emphasize mobile field-work, on-location technical upgrading etc.

On the other hand, the range of functional types of institutions is already broad enough, if not indeed excessive. Few RSIEs would feel any the worse off for the closure or disposal of a good many industrial estates, common service facilities, vocational training centres, technology diffusion centres, business advice extension services, or traditional bank small-industry credit programmes. On the other hand, the more effective functional types of programme, e.g. market-oriented technical upgrading of existing RSIE, can be handled by the range of existing institutions (given the improved outreach of some of them via an expanding branch network) in many developing countries.

To these considerations, we may add the observation above that co-operation between institutions is extremely difficult to secure and maintain. Setting up new institutions—other than new local examples of proved models—should be a last resort, in the face of persistent failure of existing institutions to concentrate on effective functions and spread their delivery at local levels.

(iii) Relatively few RSIE-support institutions are financially self-sustainable. For many institutions, the issue is mounting effective programmes which can secure the loyalty of staff and outside funding. Cost-effectiveness can only be assessed impressionistically, but the likely benefit versus cost per recipient should nevertheless always receive cool prior assessment.

RSIEs themselves are more sustainable if they have been induced to do new things for themselves based on unsubsidized inputs. On this count, small industries associations, SLAs, NGOs, with their emphasis on promoting self-reliance, and market and technical upgrading programmes based on existing RSIEs, come out best.

Sustainability of institutions rests either on their independent financial viability, or on effective programmes which can secure the long-term motivation of competent staff and the goodwill of funding sources, public, private, or philanthropic. Among RSIE-support institutions, only SLAs and bank-run SLA-type programmes, and possibly also some small industries associations with a partial-input approach, and—in more developed areas—some technical service facilities fall into the former category of self-financing sustainability.

Sustainability of the latter category is more difficult to assess. Many NGOs have it. Probably, small industries associations do, too. As for many public institutions, it remains to be seen whether they can re-group themselves around the more effective types of programme and dispose of their white elephants.

Cost-effectiveness is even more difficult to assess. In most cases, disaggregated costs by function are not available, while some institutions—SIDO in the United Republic of Tanzania, for example—have not published even aggregate quantitative reports for several years. Again, the diversity and imprecision of outputs makes comparison of cost-effectiveness over any reasonable range of institutions impossible in practice. Precise information is lacking on trainees, RSIE clients "technically-assisted" (in which ways, in locations of what degree of rurality, and with what precise effect?), loans made (in what size categories, in which locations, with what repayment rates?), kind of prototype products developed etc. The judgements in this chapter could not be based on quantitative assessments.

Notwithstanding this, one receives the strong impression that, for example, promoting SLAs or SLA-type programmes (because they can be financially viable once set up), and market-oriented technical-upgrading of existing RSIEs in reasonably prosperous or densely-populated areas (because of the spread effects to other RSIE), are cost-effective activities. On the other hand, efforts based on centres and hardware, efforts duplicating what the private sector would probably do for itself (e.g. accommodation), efforts based on long trips from central locations and in remote, sparsely-populated and poor areas are much less likely to be cost-effective.

As with all general indications, such impressions should be scrutinized and tested in each situation by planners and institutions. The planners in particular should ask whether, in a particular case, there is a cost-effective role for *any* supply-side support alongside demand-side policies and inputs into agricultural development and general infrastructure. And when considering a particular supply-side proposal, the best procedure may be to estimate the number of RSIE participants it is likely to reach with any material effect, divide the total programme costs by that number, and then try to obtain an impression of whether the benefits per participant are likely to exceed the costs per participant.

(iv) Self-monitoring by RSIE-support institutions is not generally impressive. In any case, supervisory and planning agencies have an external monitoring responsibility, the execution of which will keep them in closer touch with sectoral problems, linkages and broad policy options.

Relatively little such monitoring seems to be done, or at least published or made available to outsiders. Not surprisingly, the best and frankest reports are published by institutions which have some plausible achievements to record, e.g. the Punjab Small Industries Corporation in Pakistan. Such institutions can afford to be frank even about their less successful activities.

Given the generally low level of RSIE-promotional effectiveness (cf. section IV.2), the organizational weakness of many of the institutions, and their obvious interest in preserving their programmes and budgets, it is not very realistic to expect acute and searching self-monitoring.

Whilst future build-up of self-monitoring capacity is certainly to be encouraged, a major external monitoring responsibility rests with the supervisory and planning agencies. Again, Punjab in Pakistan provides an example. The Provincial Government's Planning and Development Department monitors PSIC's programmes through, *inter alia*, commissioned research studies. Regular monitoring by a planning agency's own staff also seems an essential function.

Apart from checking in a narrow way things like the rural outreach and assimilability of institutional efforts, such monitoring and research will keep planners in stronger and more continuous touch with the problems and potentials of the RSIE sector, and its relationships with the general rural economy and the framework of broad economic and demand-side policies. The reader will recall that this was already urged in section IV.2 (a) on policy-forming bodies.

IV.4 Summary of effectiveness

Much of this chapter has been a recital of the generally low effectiveness in RSIE-promotion of supply-side direct-assistance institutions and programmes, *inter alia* of:

- The traditional isolated supply-side approach ... policy-formulation and -transmittal;
- General-purpose SMIDAs;
- Public supply of raw materials and marketing of RSIE products;
- Publicly-controlled RSIEs or rural production centres;
- Industrial estates and related common services facilities;
- Traditional small industry credit schemes administered by formal banks or industrial promotion agencies;
- Business advice extension agencies without strong co-operative links with financial or technical institutions;
- Formal vocational training centres;
- Technology development and diffusion centres;
- Area authorities and IADPs.

In particular, only a few institutions effectively promote the smaller and more rural enterprises, which make up the great bulk of RSIE.

However, the more important question is: "Within the supply-side approach to RSIE-promotion, what DOES work?" Here the catalogue is rather shorter.

By way of background, it may be recalled that in most circumstances RSIE can be relied on to do many things effectively themselves. They can start themselves up, finance themselves privately, accommodate themselves, collectively, train themselves in familiar techniques, and produce and market familiar products using relatively little capital. RSIEs are reluctant to plunge into market or technical innovations, but are quick to diffuse these once their practical profitability has been seen.

Institutions which effectively promote RSIE—usually by enhancing their capacity to help themselves—are found in the following circumstances:

(a) Policy level

- RSIE policy formulation and transmittal is improved if high-level planning and supervisory bodies are involved in research into the rural economy and monitoring of supply-side institutions' programmes.

(b) Supply-side support mechanisms

- Where RSIE co-operatives offer evident and attainable advantages over proprietorships (e.g. in equipment or market access) they can succeed, but only with careful and laborious preparation;
- Where market or raw-material access is an evident problem (e.g. in export markets, or in the case of material shortages in provincial towns) external stimulation of RSIE's *own* efforts may be effective. The public handling of goods generally is not;
- Savings and loan associations (SLAs), or SLA-type programmes run by well-motivated and organized banks with a strong local presence, can provide small short-term loans to a large and expanding clientele of small enterprises. Such SLAs and programmes can be financially viable, based on high interest rates and local savings. RSIEs can benefit from them, but only on the basis of competing with other sectors. RSIE participation is likely to be relatively small;
- On-location technical upgrading programmes, particularly technical training associated with new markets, generally benefit RSIEs, who then diffuse the innovations among themselves. The ability to sustain such programmes is less general, given the centre-based approach of many institutions;
- Business advice extension programmes can be useful in support of some other specific beneficial and attainable end, for example access to new markets based on technical upgrading. If the end is not attainable, or the advice is too general, such programmes will not be helpful.

(c) Institutional types

- Small industry associations have proved effective in Peruvian and Colombian large and medium-sized cities. Further support for small industry associations in small cities and regional towns, probably via

local NGOs, is a reasonable line of action. It remains an open question whether these can promote RSIE effectiveness outside such towns;

- Collectively, NGOs can perform a variety of functions on a limited scale. They are particularly strong in field-work, localized operations, reaching the smaller and more dispersed RSIEs, and promoting the self-reliance of RSIEs and their associations. But they should be encouraged to place more emphasis on the technical and market upgrading of established individual RSIEs. A few public-sector institutions, matching NGOs' strong local presence and commitment to field work, have been equally effective at RSIE promotion. However, most public-sector institutions have hitherto adopted a more formal centre- and hardware-based approach, sometimes on a multi-functional "comprehensive" basis. These characteristics have blunted their RSIE-promotional effectiveness.

(d) Other aspects

- Turning to other aspects, the following generalizations broadly hold:
  - Organizations with strong local presence are more effective than centralized ones, provided they have some expertise and competence to offer;
  - Partial support to RSIE is more likely to be effective than comprehensive support;
  - For other services to RSIE, however, for example those introducing market or technical innovations, careful selection and serving of target groups (in particular, existing RSIEs in selected branches), is much more effective than a blanket approach;
  - Cost-effectiveness is difficult to assess. However, it is likely that promoting SLAs and SLA-type programmes and market-oriented technical upgrading of existing RSIEs are cost-effective approaches, whereas approaches based on centres and hardware, duplication of what RSIEs do for themselves, and attempts at supply-side promotion of RSIE in remote, backward, and sparsely populated areas are less likely to be cost-effective.

V. External Assistance and Rural Small Industrial Enterprise

This chapter will begin by recapitulating briefly the economic and the policy environment of RSIE and the institutional support that it receives (the subjects of chapters II, III and IV). This sets the scene for the role of external assistance, that is, technical co-operation assistance (TCA) and other forms of support from donors and agencies. Is external assistance provided at the level of national policy, or to build institutions, or to provide direct support to RSIE? How do donors and agencies practice external assistance? What makes for good project design and management? How is sustainability best achieved? Finally, a brief review is made of the specific nature of donor and agency policies towards RSIE, approaches to co-ordination of external efforts, and some of the problems involved in the selection of host-country counterpart agencies.

V.1 Midway recapitulation

The typical rural small-scale industrial entrepreneur is a loner. As long as national policies ensure the proper economic environment (demand-side policies), specific support supplied by national or local institutions, unless specifically requested, will be taken as an unwarranted intrusion. Many of such institutions were established because it was thus hoped—wrongly, as it turned out—that negative effects of policy on RSIE development could be remedied. Not all such assistance should be rejected out of hand, although the list of institutions that is effective is far shorter than the one that is not.

RSIE is a relative and country-specific concept. The small rural industrial enterprise is different in each country because the structure of economic activity and the levels and distribution of national income also differ considerably. In some countries, such as most of those in Latin America, the rural share of population is less than 40%, in many poorer African countries it is over 80%. High rates of urbanization go hand in hand with specialization, all industry becomes urban and rural areas go agricultural except for the regional and market towns that serve as centres where produce is sold and implements and consumer goods, often made locally, are bought. That, too, is RSIE, because it depends on surplus production in rural areas, on income obtained from agriculture and other primary activities. Without that surplus, RSIE stands no chance.

The best way to obtain such a surplus is by adopting the right policies. For agriculture, that includes a pricing system that allows local agricultural produce to compete with food imports, often subsidized, and a tax system that leaves the farmer with a good disposable income.

What will that income tend to be spent on? In most countries, RSIEs produce basic goods for local consumption. (RSIEs rarely get involved in exports, and, when they do, this mainly concerns handicrafts.) These basic goods can be made of metal (such as farm implements) or wood (such as furniture, doors, window frames etc.). They always include clothing and footwear. Some food-processing may be involved (mainly of daily staples in the least developed countries). Building materials (cement blocks, bricks, tiles) are often also included.

Many small-scale industries and RSIEs feel no need for general outside support. The average small industrial entrepreneur, rightly or wrongly, tends to be extremely self-reliant and self-assured. Thus:

- He repairs or even designs his own equipment;
- He accommodates his business in his house or in specially-acquired premises nearby;
- He trains his own labour force (training facilities tend to be either non-existent or do not meet the entrepreneur's training needs);
- He finances the start-up of his enterprise from personal savings or those of close relatives and friends and, to a lesser degree, also finances expansions himself;
- He tends not to look favourably on outside intervention (as a result of previous unfortunate experiences, especially of government agencies and institutions, which are only too easily equated with tax-collecting agencies);
- He participates in all activities of the firm and usually is unwilling to delegate authority or responsibility (except—and often not even that—to a close relative);
- He tends to have a strong-minded and often precise perception of the fundamental problems he faces (or of the inputs he lacks) and is willing to accept external assistance for the solution of these problems.

(*Note:* Throughout this section "he" and "his" also stand for "she" and "her"!)

From the point of view of this typical small entrepreneur, institutional interventions are only too easily equated with undesirable interruptions of daily activities.

As long as the macro-economic climate does not discriminate against small-enterprise development, there is a tendency for outside intervention to be equated with unwanted interference. It was noted in chapter III that any policy that assists in increasing disposable income and in improving personal-income distribution will assist small-industry development. If such measures particularly favour the creation of additional rural income, they will assist RSIE.

In practice, however, policies which aim to change macro-economic conditions (demand-side policies), will often fail to bear fruit for small-scale industries and RSIE. Government industrialization policies, regardless of whether they are aimed at import substitution or export diversification, have tended to favour large-scale industry only, rather than the development of a balanced industrial structure with high interlinkage between large-, medium- and small-scale industry. Attempts at achieving such a balance have, in most

cases, taken more of a supply-side approach by relying on the building of specific (preferably national) institutions to assist the development of small-scale industry and RSIE, rather than attempting to make macro-policies more favourable for the rural small-industry sector.

As was seen in chapter IV, most assistance to small-scale industry and RSIE has been more on the supply side. Institutions have been established (or existing institutions have been given a new dimension) that either tend to cover all imaginable needs of small-scale industry and RSIE (KIE in Kenya, as well as the SIDOs of the United Republic of Tanzania and Zambia were set up with this in mind), or have a more limited scope, focussing on such issues as credit, or extension and training.

Chapter IV has shown that few institutions seem able to make a systematic contribution to the development of RSIE, either because they are not suitable for such a task or because they are inadequately managed. Those that do work well tend to be local rather than national, provide partial rather than comprehensive support, provide financial services for many sectors rather than just for RSIE, and do not belong to the public sector (i.e. they are NGOs, trade associations or PVOs).

In the light of RSIE's economic policy and institutional environment, this chapter will review the role of external assistance by the United Nations system and bilateral donors. Has such assistance any role to play in the development of RSIE, or is it just another unwarranted intrusion?

V.2 Levels of external assistance

External assistance to RSIE (as well as to any other sector) can be provided at three levels. Firstly, there is policy support, which—though ideal—has only occasionally been provided. Secondly, there is institution-building, on which most emphasis has been laid, but with disappointing results thus far. This has led certain donors to emphasize a third possibility, direct support to RSIE.

V.2.1 Preliminary remarks

External assistance—from bilateral donors and multilateral agencies alike, is provided, basically, as a support to national (host country) activities. External assistance can be grouped under three headings, as stated above:

(i) Macro-policy support or policy making;
(ii) Institution-building (or institution sustenance);
(iii) Direct support to enterprise.

Of the projects desk-reviewed in the course of this study, 13 were implemented by a donor (the Netherlands) and 43 by agencies (UNIDO and ILO). Of the latter, all received funds from UNDP, but a number also received funds from other sources (UNCDF, United Nations Fund for Drug Abuse Control (UNFDAC), United Nations Development Fund for Women (UNIFEM) and bilateral co-financing in so-called "multi-bi" projects). Furthermore,

during the various field visits, many projects were observed that were not desk-reviewed for this study. These were often financed and implemented by other donors and agencies such as World Bank, Gesellschaft für Technische Zusammenarbeit (GTZ) of the Federal Republic of Germany, IADB, Norwegian Agency for International Development (NORAD), USAID, NGOs such as OXFAM, or volunteer organizations such as SNV.

In view of the differences in procedures and approaches in the projects reviewed and observed, not only between donors and agencies, but also among donors, the confining of this chapter to TCA* alone would fail to do justice to the range of external interventions found in support of RSIE. In this context, it should be remembered that the sponsors of this study also include a bilateral donor and that bilateral interventions often combine TCA and financial assistance from the same source.

For these reasons the original purely TCA-agency approach has been expanded to include all types of external assistance to RSIE.

External assistance is intended to be complementary to host country activities. Much agency assistance (TCA and funds) is only made available at the explicit request of the host country. Attempts at leverage through conditionality, that is, the giving of assistance on condition that the host country enacts certain policy or administrative reforms, by *inter alia* the World Bank group and USAID, have only had some measure of success in cases of structural adjustment and stabilization. This has never directly involved small-scale industry and RSIE which tends to be viewed by host-country policy-makers and external policy advisors in terms of sectoral development rather than general adjustment. It must be recognized, however, that structural adjustment programmes have influenced RSIE through macro-policy influences (e.g. exchange rates, import liberalization, pricing policies etc., cf. chapter III).

The extent to which external assistance in support of RSIE will be provided in most cases depends on the priority it is accorded in national development programmes and the locally-available funds and human resources for this purpose. The larger the local efforts, the less likely the need will be for multifaceted and voluminous external assistance.

Among the countries studied, the nature and role of external assistance has varied with the level of development. Donor policies have been more significant for the African countries studied—Kenya, Senegal, the United Republic of Tanzania and Zambia—than for Colombia, Indonesia, Pakistan, Peru and the Philippines. Moreover, in Indonesia and Pakistan, multilateral assistance from the World Bank and other parts of the United Nations system has been more important than bilateral assistance, whereas government or national policies have been more important than donor policies in the Asian and Latin American countries.

The almost total donor-dependence in the African countries studied has been due to various factors. Concentration on large-scale industrialization has left little or no resources—finance or manpower—for small-scale enterprise and RSIE. A policy focus for small-scale enterprise and RSIE has similarly been wanting. The acute shortage of both domestic and foreign financial resources in recent years in the United Republic of Tanzania and Zambia has accentuated dependence on donors not only for expatriate expertise and imported equipment, but also, increasingly, for meeting the costs of local personnel and inputs.

*See list of definitions appended to chapter I

The operational nature of bilateral assistance has merit in that funding and TCA can be provided from a single source. This is normally not possible within the United Nations system. Here the "multi-bi" projects implemented *inter alia* by ILO share this advantage, but to a lesser degree. A special effort for fund raising and co-ordination is required which is usually already built into the bilateral approach. Meeting the costs of local personnel may reduce high costs of foreign expertise to some extent. However, the viability and sustenance over the medium and long term of the programme depends on phased replacement of donor funding of operations by domestic (government) funding or generation of own resources through production activities or conversion into a commercial operation. It should be realized, however, that it will take a long time to achieve commercial operation of extension and technical services in a backward area and in respect of RSIE development.

Two more features may be mentioned. Firstly, where there is lack of a national focus, Governments are not only not able to influence donor policies, but have to tolerate different and conflicting donor and agency policies in the same country. In the United Republic of Tanzania and Zambia, different donors have different provinces or centres to experiment with their approaches and methods. Secondly, the role of foreign NGOs and of volunteers has increased in the African countries. They are used both by Governments and by bilateral donors. Some foreign NGOs are able to liaise with local NGOs.

Two Cases of Donor Dependence in Africa

In the *United Republic of Tanzania*, SIDO, since its foundation in 1973, has heavily depended on donor assistance. As a parastatal, its development budget was not integrated in the national planning system. It has been receiving annual grants from the government budget for maintenance expenditure and was left free to negotiate development projects with foreign donors. Thus, about 60% of SIDO's development budget from 1974 to 1984 was met from donor funds. In 1984, the donor share was 75%. The major share of donor assistance has gone to machinery supplies (83%), marketing services (7.5%) and buildings and training centres (5%).

Major donors to SIDO include:

(i) Sweden, through the Swedish International Development Agency (SIDA), has set up a "sister industry programme" with Tanzanian plants on industrial estates and equipment hire-purchase programmes inside ("urban") and outside ("rural") industrial estates. Where necessary, additional import support was available. All assistance—on a grant basis—to SIDO and related industrial institutions totalled $US 11,500,000 for the period 1985-1987;

(ii) The Netherlands have provided volunteer assistance since 1974, equipment since 1975 and experts since 1980. Total outlay (1977-1986) was $US 7,800,000, according to UNDP;

(iii) The Federal Republic of Germany has provided $US 1,700,000 (1986-1988);

(iv) India (the Indian small-scale industry model was an inspiration for SIDO) provided much training, especially in the early years of SIDO;

(v) Total UNDP/UNIDO assistance (1979-1986) amounted to approximately $US 1,500,000.

SIDO has lacked a strategy for utilizing donor aid. Donors seem to have influenced the type of projects and kind of assistance provided. Donors themselves have failed to co-ordinate their efforts and to benefit from each other's experience. Urban small-scale industry rather than RSIE has received major attention. The institutional strength of SIDO, and its ability to manage and administer programmes, does not seem to have substantially increased. Donor assistance has, however, developed some capability in managers and supervisors of the common services facility and the common facility foundry.

In *Zambia*, the lack of a coherent government policy and the inadequacy of resources for small-scale enterprise and RSIE development, has led to independent approaches by donor agencies in line with their own perceptions of development needs and priorities. As against assistance from the United Nations system of less than a million United States dollars, NORAD is providing over $US 5 million in programmes which have just started. Denmark, the Federal Republic of Germany, the Netherlands (SNV), the United States of America and NGOs are other donors.

Several features of donor assistance should be noted. Assistance for small-scale enterprise and RSIE is recent and only now gathering momentum. UNDP/UNIDO assistance—small and fragmented—reflects the Government's lack of a unified policy and diffusion of responsibility. During 1982-1985, UNDP devoted 2-3% of its total technical co-operation assistance in Zambia to the industry sector. In the small-scale enterprise and RSIE sector, assistance was for institution-building and contributed to the initial setting up of SIDO and strengthening of the village industries services (VIS).

On the other hand, assistance from bilateral donors seeks to achieve operations through the funding of both investment and operations as well as through technical assistance. Bilateral agencies tend to prefer VIS to SIDO, perhaps because of the former's flexible institutional structure as an NGO. VIS will have direct involvement in the NORAD project in Kasama, Northern Province. It will be the counterpart agency, but its costs will be met by NORAD funding. The SNV project in Mongu, Western Province, will also be initially donor-financed (even though from counterpart funds) and managed. It is hoped, however, that the District Council will become the host organization.

Except for the NORAD programme, which is both for rural industries country-wide (Special Fund for Rural Development and the Development Bank of Zambia) and for a specific area (Northern Province), all other bilateral aid is area-specific or community-specific.

V.2.2 External assistance for macro-policies

Assistance at the policy level is potentially the most effective form of external assistance to RSIE because it can be directed towards the creation of an RSIE-friendly economic environment and can reach all RSIE more or less equally. Such assistance could cut across bureaucratic barriers at the top. Unfortunately, many countries consider such intervention as an unwarranted intrusion and will probably continue to do so, unless TCA policy is handled as a mutually-persuasive dialogue.

Macro-policies or a demand-side approach to RSIE development rely on small entrepreneurs using the opportunities that are offered to them by increased disposable income (tax relief, support of agriculture, import-

restrictions etc.). As opposed to more specific supply-side policies, demand-side policies have two particular advantages:

(a) A far larger outreach (in principle the benefits are available for every entrepreneur, a feat no credit programme can even hope to match);

(b) The entrepreneur is free to act as he chooses and is not confronted by a host of bureaucratic procedures and complications, of which past experience has made him suspicious.

As long as national policies are following such lines, no outside intervention, which, particularly at this level, tends to be resented, need even be considered. Where this is not the case, however, TCA should be made available as tactfully as possible. Should the need for external assistance in the wake of an economic crisis arise, the opportunity should be used to include RSIE-favouring policies in the economic-adjustment programme.

External assistance for policy formulation has been observed in three forms:

(a) External missions for policy recommendations;

(b) TCA in projects (as part of a project that also aims to assist RSIE development at other levels, or as part of a policy assistance project that also covers RSIE policy);

(c) Donor or agency support of national policy research.

No missions have been traced that dealt exclusively with small-scale industry and RSIE. The nearest to this were the ILO missions in the late sixties and early seventies which elaborated national employment plans for a number of countries such as Colombia, Kenya, the Philippines and Sri Lanka. To a varying degree, these missions emphasized the role of small-scale industry and the informal sector as important sources of employment. In some cases, such as the Philippines, RSIE (although not by that acronym) was identified as a key element in a strategy of balanced and enhanced rural development.

International Monetary Fund and World Bank policy missions (as distinct from narrower sectoral ones) tend to be concerned with overall national economic policy formulation, although adopting such a new policy may well have some consequences for small-scale industry and RSIE. No examples have been found of the Fund or the Bank applying their potential for leverage, which is considerable in cases of structural adjustment or stabilization programmes, to promote policies that particularly favour small-scale industry or RSIE. Field-mission offices visited as well as the Washington headquarters expressed no high priority for small-scale industry and RSIE but rather for the concept of small enterprise in general. When the World Bank provides funds for credit to small-scale industry, these tend to be reserved for the upper echelon of small-scale industries (in Pakistan and Peru, for example) or at best for small formal enterprises (such as KIK-KMKP in Indonesia). Unlike the IADB, the World Bank has no special small-projects department channelling credit through NGOs and PVOs with outreach to micro-enterprises. And although good sector papers on small-scale industry and RSIE have been produced by the Bank, these are by now ten years old.

The Resident Representative of UNDP in theory shares responsibility for field co-ordination of agency and donor activities with the Government of the

host country concerned. Annual foreign-assistance reviews are drawn up by the local UNDP office for this purpose. This should place UNDP in a good position to provide host-country Governments with a framework for the input of internal and external resources.* This role could then involve some policy leverage for RSIE, which, coming from UNDP, would tend to be more acceptable than from bilateral donors.

USAID considers policy dialogue as the first of its "four pillars" of development assistance.** Policy dialogue aims to achieve agreement with a host country on the nature of key policy constraints and on feasible and practical changes in macro- and sector policies of the host country. This dialogue can range from informal meetings between USAID and local staff, via technical assistance and formal training to conditionality imposed on projects and programmes. The African Economic Policy Reform Programme (AEPRP) for African countries is an example of this, namely that assistance that was previously agreed upon is withheld till specific policy or administration changes have taken place. A similar approach helped to abolish tariffs on small sewing machines in Sierra Leone that are used by small tailors (they had previously been taxed as luxury items). The AEPRP was most successful in influencing general economic policies (exchange rates, budget spending etc.) and agricultural policies rather than those specifically favouring RSIE.

To sum up, leverage is most likely to be effective when the following two "conditions" are met:

(a) The host country concerned is in the throes of an economic crisis and has requested external assistance to work out stabilization and adjustment programmes;

(b) The donor or agency involved in the adjustment programme is recognized as influential.

The furthering of small-scale industry and RSIE is normally not considered by policy-makers as a suitable contribution to the solving of the economic crisis nor does it have a high priority with influential donors and agencies. Therefore, the possibility of directly obtaining RSIE-favourable results in this manner should not be overestimated. What results can be achieved in this way for RSIE are due entirely to spread effects from the new policy approach, for example to the extent that such changes stimulate agricultural production and rural-income generation.

The second form of external assistance for policy formulation refers to TCA in projects. Of the 56 projects desk-reviewed for this study, 24 had national policy and programme connotations. In virtually all cases, however, this reflects the role of national policies *vis-à-vis* the projects rather than any attempted impact of the projects on macro-policy.

None of the projects desk-reviewed were found to be centred on providing assistance on macro-policies or to policy-making government bodies. (UNIDO assistance to BIPIK in Indonesia in the second phase, DP/INS/78/078, while providing comprehensive support to BIPIK, was not concerned with policy

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*Cf. Speech by Netherlands' Minister for Development Co-operation at the opening of the Eighth Development Seminar for Senior Staff of UNDP, The Hague, 17 November 1987.

**The others are the improvement of institutional capacities, the fuller participation of the private sector, and stimulating indigenous capacity to adapt, create and apply technology.

formulation *vis-à-vis* small-scale industry and RSIE in Indonesia.) Field mission experiences have not basically altered this conclusion. It has been observed that Peru, Senegal and Zambia have agreed to TCA from UNDP/UNIDO to carry through industrial-restructuring policy projects that will also give some attention to small-scale industry and RSIE.

In Pakistan and Indonesia, World Bank/International Development Association (IDA) credit schemes for small-scale industry and RSIE have been the result of mutually agreed macro-policies. At a subnational level, Netherlands' aid to PSIC in the Pakistani Punjab will follow a similar but more rural pattern, while the Kredit Union Pedesaan (KUPEDES), formerly supported by USAID, now by the World Bank, though national in scope, achieves most of its results in Java and Bali.

No real evidence has been found of TCA at high government level, except for a chief technical adviser in Kenya, in practice also informally doubling as a government advisor on small industry, and French advisors to the Directors of Artisanat and Industry in Senegal. Little has been found of TCA in practice supporting general policy that will result (or has resulted in) improved economic conditions for RSIE. Whereas the effectiveness of TCA for macro-policy remains largely unproven, this does not mean that no case can be made for macro-policies that support RSIE.

The evidence that has been observed on this point in particular refers to two projects in Indonesia. One is an ILO employment-creation-strategy project with the Ministry of Manpower in Indonesia (INS/84/006) aimed at policy research and recommendations for the promotion of labour-intensive sub-sectors, including small-scale industry. In the other case, USAID is embarking on a policy-formulation project with the National Development Planning Board (BAPPENAS). Both projects involve long-term expatriate TCA.

The third form of policy support concerns outside support of policy research. The following approaches have been noted:

(a) TCA in order to prepare a loan (World Bank in Bangladesh). This involves a type of leverage. The disbursement of the loan depends on the implementation of the policy changes suggested by the research. Like all leverage it only works in times of crisis and is usually resented;

(b) A more long-term approach that concentrates on universities, research institutes, fellowships etc., in an attempt to build up policy-oriented research capabilities in the host country. This comes und r the heading of policy reformulation and as such it may also favour RSIE;

(c) External funding of small-scale-industry-related research. In Peru, evidence was found of two NGOs (based in the Federal Republic of Germany) stimulating small-scale-industry and RSIE-related research in general and working for a small-industries association and a Government department involved in small-scale industry policy-making in particular. The operational quality of this intervention is high. It is not clear whether it can be sustained once external assistance ends.

Much policy-support effectiveness remains unproven, because it has been tried relatively rarely and the results depend on the degree to which policy can change environment.

V.2.3 Institution-building and institution sustenance

Donors and agencies have a marked preference for external assistance for institution-building, because, if such assistance helps an institution to take off, the latter can then continue its activities without outside support. Many institutions, however, never reach that stage and just survive on outside sustenance, whereas already effective institutions make good use of external support. RSIE-specific institutions are few and far between, as are new institutions established through external assistance.

In the desk-review stage of this thematic study, it was found that external assistance to RSIE addressed mostly one or more of the following problems (in decreasing order of occurrence); lack of technical skills, access to credit, access to markets, lack of marketing skills, problems of organization, lack of accountancy skills, lack of management skills and access to raw materials. The corresponding external-assistance interventions usually refer to; training, extension, research and development credit, infrastructure, associated or any combination of the preceding.

There is no clear-cut answer as regards the ideal channel through which to deal with these problems, because the problems are highly location-specific and the institutions to deal with them are often not in existence at that location

The revealed preference for providing external assistance through institutions is based on the expectation that such institutions in due course can take over the activities previously carried out with external assistance and that the demand for these activities will be sustained after external assistance has come to an end.

Practically all projects in the field of RSIE in one way or other attempt to fortify institutions or even to build them up from scratch. Only one case was observed (a USAID project in Senegal) where local NGOs were used to try to determine the effectiveness of a certain approach. Once the approach is established, all external activities are to be discontinued and the external structures dismantled. The other extreme occurs when support to an institution becomes more or less permanent because the institution is too weak financially or technically to survive, let alone provide support to the target group it was set up to assist. Rather than letting such an institution expire, an artificial lifeline is introduced via a long-term operational involvement of expatriate funds and expertise. Although a miracle may occur and long-term involvement may end up producing an effective result (KIE in Kenya*), normally, the situation will progresively deteriorate (SIDO in the United Republic of Tanzania) with foreign participation continuously increasing. External assistance becomes "the great provider". Here, helping the institution survive as an institution has taken over from helping the institution help the target group. Institution-building has degenerated into institution-sustenance and the survival of the institution has become the development objective.

Not all lengthy external assistance to institution-building should be regarded as institution sustenance. Long-term outside involvement may well be the result of factors such as the target group requiring comprehensive direct support over a long period of time, for example, RSIE in Andean Highland Villages supported by PRODERM, where industry basically has to start from scratch. The effort involved could well be too large for the host-country

*The fact that Kenyan Government policy has increasingly over the years given support to small-scale industry and RSIE development may well have contributed to this "miracl

institution to tackle alone and in turn would require long-term external assistance for the duration of the specific effort. Most institution-building refers to external assistance to an existing institution to make it function more effectively or to broaden its scope of activities. The external-assistance effort involved may in itself be quite time-consuming (a period of 10–15 years for reaching results is no exception). Once the institution is "built", however, it should be self-sustainable as an effective institution to channel external funds to target groups, or as an institution that can charge for its services because of their quality (fees to target groups for the value of the services rendered and handling fees for outside providers of funds for target groups). If long-term involvement does not lead to *(a)* an institution that is self-supporting from a managerial, technical and administrative point of view, or *(b)* an institution that can provide for the financing of its staff and other normal running expenses, then the assistance provided will have sustained the institution rather than have made it self-sustaining.

The frequent lack of tangible outputs in institution-building makes it difficult to assess the cost effectiveness of the external assistance involved. In most cases, institution-building will tend to include some direct-support activities such as field-training exercises in training programmes etc. This complicates matters even further!

The point of external assistance is to contribute towards developing host-country capabilities, and is thus aimed at making itself superfluous. But such institution-building can often be pursued through pilot or exemplary direct assistance to RSIE in co-operation with the institution's staff. Only four of the 56 projects desk-reviewed for this study (7%) were dedicated exclusively to direct assistance. Of the 52 remaining projects that in one way or other were involved in institution-building, 11 did nothing else, 40 were involved in local and 31 in national institution-building. These figures reveal two important conclusions:

(a) Local institution-building is already receiving slightly more attention than national institution-building;

(b) Institution-building at local and national levels is often combined in the same project.

The advantages of RSIE-promotion at local levels have already been explained in chapter IV. Here it should be added that external-assistance providers seem in practice to have reached the same conclusion, but that for outsiders it is difficult to assist at the local level without going through national channels.

Most projects tend to combine institution-building and direct support. The combination can be of a purely nominal nature with a minor element of direct support included in a project that is basically of an institution-building nature (e.g. practical field work in a teacher's training programme) or the other way round. More often, however, substantial direct support and institution-building are combined in a single project. On the one hand, such an approach recognizes that institutions and external assistance should maintain contact with "real world" activities, or that implementation of external assistance has no lasting results without some institutional transfer. On the other hand, assessing cost-effectiveness tends to become even more complex. The risk of having conflicting and confusing objectives should be borne in mind, such as attempting to maximize counterpart training while trying to increase RSIE employment simultaneously.

Institution Sustenance

1 *Sustenance can give results on occasion*

Over a 10-year period, UNDP has provided $2,357,000 to KIE in Kenya where industrial-estate building of the nursery type (see chapter IV) has gradually made way for a sites-and-services approach, in particular in Eldoret. The failure of the former approach (an investment of $1,650,000) led to the success of the latter (an investment of $707,000). It must be pointed out here that UNDP/UNIDO was but one of the many external funders of KIE, which at one time had no less than 47 external advisors. The turn-about is not the work of UNDP alone.

A similar result is being achieved in Senegal, where central funding for provincial industrial estates has run out, forcing them (without outside sustenance) to earn their keep by branching out into other activities, such as warehousing and transport.

2. *But it usually does not*

From 1974 onwards, the Netherlands (one of the many donors and agencies involved) have poured approximately $10,500,000 into SIDO in the United Republic of Tanzania, at first on a bilaterally-agreed programme basis and later on a project basis (1986 onwards). Large amounts have also been provided by SIDA (Sweden). The established common-services facilities and "sister industries" remain dependent on outside support and SIDO's external funding (which also includes assistance from India, the Federal Republic of Germany and other donors) is now 75% of its budget. After 15 years, the institution is still not able to service its target groups, to co-ordinate its external assistance and to finance its investments and operations. It is sustained more than ever by (i.e. is dependent on) external assistance.

3. *Or will not*

NORAD is implementing a number of projects in Zambia for which not even a take-over target-date is fixed. One of these is a credit-guarantee scheme for developing small-scale enterprises in the Northern Province. This project cannot be said to be badly designed as such. However, the conception of the project has a weakness which may result in it having limited effects after its five-years duration. Not only the investment cost of a VIS office will be financed by NORAD but also the recurrent cost (including staff salaries) during the five-year project operation. No national inputs are foreseen, nor is there a formal commitment to gradual transfer to a national budget. It remains to be seen what will happen to the VIS regional office when, in five years' time, NORAD pulls out.

Even if the design of the project on paper has attempted to limit this conflict, implementation will not always go according to plan. Extension visits to RSIEs can be cancelled because of the lack of transport facilities or, on the other hand, can prove to be exorbitantly costly because of the transport to really remote RSIEs. Examples of the former were observed in a UNIDO project in Liberia, where lack of adequate transport made a small-industry support project much less rural than intended (especially in the first phase of the project) by forcing extension visits to be limited to the capital city Monrovia and its immediate surroundings where taxis could be used. At the

other extreme, it was found in a project supported by the Danish Agency for International Development Assistance (DANIDA) in Kenya that the justification on grounds of equity of also paying extension visits to more remote RSIEs meant that the cost of an extension visit to a single remote entrepreneur could equal the entire annual income of the client. It is extremely unlikely that such visits can be continued once external assistance is withdrawn.

Of the 56 projects desk-reviewed for this study, it was found that 70% combined direct and indirect support to RSIE. This combination was found in all of the projects involved in a comprehensive approach, in production or service workshops and in infrastructure. The figures for projects involving credit, training, extension and research and development are 83%, 69%, 58% and 40% respectively.

The desk and field evidence of external assistance playing a successful role in supply-side institution-building for RSIE does not hold out much promise. In that respect it mirrors the conclusions reached in the previous chapter on the institutions themselves. This does not necessarily mean that the external assistance itself was ineffective, but rather that the institution receiving the assistance was not able to handle it effectively. No cases could be found of external assistance being the linchpin for turning an ineffective institution into an effective one. The case of the Peoples' Bank of Indonesia (BRI) proves this point. Confronted by low effectiveness in its operational activities, BRI, with powerful support from the Indonesian Ministry of Finance, successfully carried out a reorganization. Only then did it become an effective channel for external assistance (credit to rural producers). External assistance alone in all probability could never have both masterminded the reorganization and have provided the funding for the credit programme. It can, however, if and when the institution is effective, increase this effectiveness by providing the means to broaden the scope of the institution's activities. This indicates the vital role of host-country institutions in the process of external assistance (cf. section V.4). In cases where there are no counterpart institutions available or the existing ones are considered inadequate for a variety of reasons, a number of solutions are possible:

(a) Assisting in the development of other sectors (e.g. encouraging agricultural surpluses) as a precondition to RSIE;

(b) Attempting some kind of leverage to improve policies and institutions (which will only be effective if the host country is affected by an economic crisis or the donor or agency involved can be persuasive in other ways);

(c) Choosing direct support as an alternative (highly cost-ineffective);

(d) Assisting in the establishment of new institutions or of new departments in existing institutions.

Approach *(d)* has only rarely been encountered. Of course, it is often forgotten that some of the, by now, well-established institutions owe their existence to external assistance in the past (DAT in Argentina, ISSI in the Philippines). In desk-reviewed projects, only few institutions or departments were found which had been established relatively recently with external assistance (such as PRODERM in Peru and SICATA in the United Republic of Tanzania).

More often, however, such special efforts were not made and the choice was limited to existing institutions. In practice, this had often led to what proved to be the altogether wrong choice of institutions. They could prove to

be too urban (for example, the rural women artisans promotion in Burkina Faso), beset with cash flow problems (for example, SENATI in Peru) or even insolvent (for example, a women's NGO in Kenya), wrongly staffed with more administrators than trainers (for example, in the Industrial Development Centre in Oshogbo, Nigeria or the Bangladesh part of TRUGA).

Special RSIE institutions are few and far between. The CNPAR training centre in Burkina Faso, VIS in Zambia, SEFCO in Kenya are a few examples, although the last mentioned also provides credit to rural services such as hotels and silos. Instead, RSIE is usually covered by institutions involved in agriculture or in small-scale industry. In both cases, RSIE runs the risk of only being accorded an "also-ran" status when project design is too complex or implementation runs into problems. Industry institutions, furthermore, tend to have an urban bias.

V.2.4 Direct support to enterprise

Few external assistance projects to RSIE are dedicated exclusively to direct assistance. The combination of direct assistance and institution-building is more effective than either of the approaches separately. Donors have been known to opt for direct assistance either because they feel that host-country agencies are inadequate or because they are of the opinion that the duration of the required intervention does not justify the establishment of an institution.

TCA projects that are dedicated exclusively to direct assistance are few and far between (only four such projects were found in the desk phase of the study and the field visits yielded little additional evidence). However, if the concept of external intervention is broadened to include other forms of aid such as financial assistance, the evidence of direct support to RSIE increases. Donors will often combine TCA and funding in one project where agencies tend to maintain separate identities (ILO and UNCDF with the pre-co-operatives for women in Senegal, UNIDO and UNFDAC in the cocoa factory in Peru). Some donors will also channel funds directly to RSIEs while multilateral funding agencies make use of local institutions (Government or NGO).

The combination of TCA and funding as direct assistance to RSIE has been implemented in the United Republic of Tanzania by SIDA and GTZ in the following ways:

(a) Under the "sister industries programme" of SIDA, some 20 Swedish companies co-operate with 29 companies in the United Republic of Tanzania. Although this programme has succeeded in transferring certain know-how, technology and management skills, the Tanzanian "younger sisters" have remained highly import-dependent on goods supplied via the Swedish import-support scheme;

(b) Similarly, GTZ has provided direct assistance in Tanga (the United Republic of Tanzania) for the establishment of small-scale enterprises and to assist in operating the n until they are self-reliant. A revolving fund is being set up from repayments of initial loans. No Tanzanian intermediary institution is envisaged.

Both cases indicate, albeit differently, the weaknesses of direct assistance on its own. In the "sister industries programme", direct assistance forms the sustaining lifeline of the programme. Between 1977 and 1984, the programme

had absorbed about 50% of total SIDA support to small-industries development in the United Republic of Tanzania. The sum of 92 million Swedish crowns ($US 14 million) was spent and 700 new jobs were created at an average cost of $20,000 per job. Without continuous Swedish support, the majority of these jobs are in jeopardy, as there is no Tanzanian funding available to replace Swedish employment subsidy.

In the SIDA example, no local institution is available. In the GTZ case, no local institutions have been involved because it is considered that a long-term involvement with direct support will make the target group more self-reliant than by supporting or even creating pertinent local institutions.* This may well be the case, but a country's development cannot depend on the selection criteria of a donor.

Direct assistance, while efficient from a short-term viewpoint in "getting things done", would seem to go against development logic (especially when no training of counterparts to take over the job is included). Clear examples of the risks incurred in this manner are the Jabotabek (Regional Project Management Unit) and the Small Enterprise Development Programme (SEDP) projects in Indonesia (the latter is more or less the continuation of the former). In this case, the training of local bank officials by a mixed team of expatriate and local consultants did not include a "training of the trainers" element. When it was decided in the second stage to leave this aspect of the project entirely to local consultants, the host country decided to employ a different firm of consultants without any evidence of malfunctioning by the first team. Thus any possibility of building on past experience was lost and meanwhile no instructors had been trained within the recipient institution.

Direct assistance may be justified in cases when an emergency situation has arisen, and when institutions are non-existent or incapable of doing the job required. Direct assistance is also considered by some donors such as USAID and GTZ to be an acceptable alternative to institution-building for RSIE, when the required intervention is estimated to be of limited duration which does not justify the establishment of an institution and no adequate one is in existence.

Although the reasoning behind such decisions can well be understood, it probably underestimates the high cost per beneficiary involved (cf. section V.3). In cases where a donor or an agency is tempted to bypass host-country institutions and is aware of the risks involved of adding a new institution to an already bloated bureaucracy, it may well be to the advantage of both donor or agency and recipient to redirect external assistance to another sector or area.

V.3 Project mechanisms and their particular relevance to RSIE

The mechanics of project preparation, implementation and follow-up are project- and not RSIE-specific. From an RSIE angle, special importance is accorded to the complexities of design (rural and industrial), the intricacies of management, where assistance to RSIE is but part of a larger project, and the need to develop models of external assistance that become expendable in due course. Donors and agencies have not developed a unified approach and field co-ordination leaves much to be desired.

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*A similar approach is adopted by GTZ and Kreditanstalt für Wiederaufbau (KfW) of the Federal Republic of Germany in the SODIDA industrial estate in Dakar (cf. section V.4).

V.3.1 Preliminary remarks

It is definitely not the intention of this section to review all the ins and outs of project identification, preparation, implementation and follow-up, not even with respect to RSIE. The reason for this is that none of the field missions or the preceding desk reviews of countries and projects have revealed problems and issues which are not also found in non-RSIE projects. Project mechanisms and project logistics have been the subject of many studies, to which it seems unnecessary to add another.

Instead, the issues that have arisen in desk and field research on the various aspects and stages of the project cycle will be reviewed here as briefly as possible. It is hoped, thus, to review project-cycle issues mainly from an RSIE angle rather than vice versa. It should also be remembered that the study is thematic rather than project-based. Projects are considered primarily as points of entry to the general issues of RSIE development. The focus of this section is the extent to which external assistance can contribute to RSIE development. Attention is also drawn to some donor-specific issues which are more wide-ranging than TCA. Since the promotion of RSIE requires the upgrading of technical and entrepreneurial skills (in an individual, a group, a co-operative, a community, a region or a country), the development of demand-side policies and the stimulation of markets, institutions, infrastructure and technology, intervention will tend to be aimed at the development of these prerequisites and external assistance will have a supplementary role in this process. In this section, external assistance will be reviewed in the whole context of RSIE development efforts. The issues under consideration have been arranged according to the three major phases of the project cycle:

(a) Project design (identification, feasibility study, project document);

(b) Project management (input delivery and logistics, appropriateness of inputs, monitoring);

(c) Project follow-up (sustainability of efforts, carry-over of lessons to external assistance elsewhere).

V.3.2. Project design

Many problems of project management and follow-up can be reduced to errors in project design, but good project design in itself must not be considered as a guarantee of successful management and follow-up. Good project design is rather a precondition than a guarantee of success. An analogous line of reasoning is less valid for the project document. Whereas inadequate identification and (pre)feasibility studies will certainly result in a poor project document, good groundwork in identification and feasibility analysis account for 90% of a good project document.

The early stages in the project cycle are decisive for the outcome of a project. No projects have been found where bad design has led to good results. At best, a good project team is able to make the best of a bad job and can initiate improvements through revisions of the project document. Whereas agency (TCA) projects are bound to a rigid framework of project mechanisms, many donor projects operate in a far looser mould. Often there is neither a production nor a feasibility study and projects simply evolve out of a bilateral

pledging agreement between donor and host country. At pledging meetings, a general aid document is drawn up and agreed upon and certain lines of assistance (which may be in project form) are set out. In certain donor countries such as the Netherlands, the last few years have seen an increasing formalization of the project process with projects now being officially identified and documented, but this is by no means a universal donor principle.

The looser approach to the project cycle has the advantage of greater flexibility, but the disadvantage of no built-in control mechanisms and there is no approved project document to fall back on. The agency approach on the other hand lacks flexibility and this can only be introduced via a system of relatively frequent revisions of the project documents.

The ideal place for flexibility is at the very beginning of the first stage of the project cycle, the project identification. This is too often taken rather lightly as a rush job. Short missions have to identify a large number of projects (a task which can become especially pressing towards the end of any budgetary year). On the other hand, good and thorough identification missions could help to avoid many of the problems frequently encountered in later stages of the project cycle (wrong selection of counterpart agency or target groups, for example).

An important role in identification must be given to local representatives of donors (embassies) and agencies (Resident Representatives), who should have better insight into host-country policy, environment and institutions than donor and agency headquarters, who should concentrate on sectoral expertise.

In the United Republic of Tanzania, in particular, evidence has been found of much bilateral external assistance being based on the donors' sympathy with host-country ideology, for example, the post-Arusha-declaration experiment. Thus, the Netherlands' involvement in SIDO—which began in 1974—was without any documentary foundation till 1980, when an evaluation report recommended that it be put on a multi-year planning basis. It was not until 1986, however, that a formal project document was prepared. (For other examples, see the box on the consequences of design below.) The conclusion was not drawn, apparently, that sympathy with a host country's policies is only an entry-point for country selection and not a combination of identification, feasibility study and project document all in one!

Identification refers to the selection of project theme and target group, the selection of the host country institution* and, if applicable, the location of project implementation. An example of thorough project identification and preparation in general was observed in the Pak-Holland Metal project, where during a nine month pre-project period, not only was a sample of the target group surveyed, but this was done in close co-operation between the donor and the provincial small-industry development board. This made possible a clearer and more workable delineation of the project's and the host-country agency's responsibilities.**

Once general identification has been carried out, the specifics of the project have to be determined. In the complex area of small-scale industrial development with its difficult-to-define target group and complex institutional environment, global identification has to be followed by a more specific feasibility study.

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*This will be dealt with in more detail in section V.4.

**Pakistan Country Report (1987) p. 39 (not yet published but available from the sponsors of the study: Netherlands Government, UNDP, ILO or UNIDO).

Field visits confirmed that the more successful RSIE-projects were those which had been preceded by a feasibility study. They also confirmed that some of the most unsuccessful projects were those where no feasibility study, or a wholly inadequate one, had been carried out. This should not be taken to imply that properly executed feasibility studies are a guarantee of success. Some feasibility studies by donors tend to be prejudiced by the donors' preference for certain types of intervention, and this can result in assistance being supplied that does not coincide with local demand (see following box for some examples). It is more common, however, to find that projects fail to live up to expectations because of the lack of adequate feasibility studies rather than in spite of them. Except for reasons of cost, as in the case of the micro-projects, often in remote areas, that are funded through such organizations as the European Development Fund and the Netherlands, Small Embassy Project programmes, there seems to be no valid reason not to carry out a feasibility study, no matter how obvious the need for a project appears.

An identification mission should lay the groundwork for a feasibility study by indicating:

(a) The scope and location of the project (if possible, alternative choices should be indicated);

(b) Nature of the target group;

(c) The national policy environment in relation to the proposed project;

(d) The availability and quality of host-country agencies.

The feasibility study should use the data obtained from the identification to establish realistic objectives (identify relevant host-country development objectives, as well as set targets in the project) and to quantify the corresponding outputs and activities, within the limits of the human and capital resources available from the donor or agency.

For RSIE, it is important in this context to establish *inter alia:*

(a) That there is a marketable surplus in rural production. This surplus must be available as disposable rural income. (If this does not exist, external assistance should concentrate on this first.);

(b) That there are population clusters, or a high overall population density in the rural (or non-metropolitan) areas;

(c) What the host-country policy environment with respect to RSIE is (for example, does it favour positive demand-side policies such as stimulating high disposable per-capita rural income?);

(d) What the choice of counterpart agency is. If there is an agency which is adequately competent, then external assistance could well be limited to the financing of new or expanded activities through this agency.

The more these questions can be answered, the more specific external assistance can be.

It should not be forgotten, however, that no matter how thoroughly project preparations are made, they do not guarantee success. Some further assurance (but not necessarily enough) can be derived from an approach which combines an intermediate pilot-project phase with risk analysis, as used by SNV in Zambia. Here, an *ex-ante* analysis is made of how to react if the pilot project fails to be continued or replicated by a host-country institution.

The Consequences of Design in RSIE Projects

Good design leads to good projects

(a) In Senegal, the ILO-UNDP-UNCDF project (SEN/82/004) for pre-co-operative grain mills emerged from a sequence of:

- A sample survey among rural women;
- A UNICEF-financed conference on the results of the survey;
- A prefeasibility study;
- A pilot phase for the introduction of 500 mills which was successful. (The preceding phase of this project, on the other hand, laboured under the disadvantage of serious design defects.)

(b) The International Development Research Centre (IDRC), also in Senegal, has subjected its grain decorticators to test runs in Botswana before providing the technical details to two different groups of manufacturers in Senegambia (the large-scale SISMAR in Senegal and the small-scale artisans in the Gambia), who were required to make test runs and check with women (the most knowledgeable group when it comes to grains). This approach is potentially highly successful. If this successful pilot stage is to be the cornerstone of a larger and more differentiated programme, any changes introduced should themselves be subjected to prefeasibility study.

(c) Pak-Holland Metal in Pakistan started with an exhaustive field survey of the requirements of village metal-workshops in the North Western Frontier Province and this information is updated continuously. Although the project has only recently become fully operational, the first results are promising.

Bad design (or no design at all) leads to bad projects

(a) An attempt to assist product development and marketing for rural women in Kenya (KEN/80/V0I) by ILO via a handicrafts co-operative was not preceded by a market or financial analysis, because the need for the project was considered obvious. Bad management has furthermore left the co-operative heading for insolvency.

(b) Assistance to Artisan Chambers (Chambres des Métiers) in Senegal (ILO/SEN/82/007) was aimed at establishing regional training-cum-production centres for artisans. The need for these centres was felt to be self-evident so that the feasibility study was skipped. Many of the centres were built but only one or two are in any way operational. Sites and choice of technology are wholly inadequate.

(c) Because the Netherlands failed to carry out a feasibility study on its production contribution to an IDA small-enterprise loan in Pakistan, it only found out later that the money was not going to small enterprises but to medium-sized enterprises instead.

Wrong feasibility studies lead to wrong projects

Three examples from the United Republic of Tanzania.

(a) A study by the Netherlands' Research Institute for Management Science (RVB) on the needs of small-scale industry found a need for management, marketing and accounting assistance, which was not felt by the target group of small entrepreneurs. As a result, the supplied training-cum-extension was not well received by the small entrepreneurs who (rightly or wrongly) gave priority to technical problems. Apparently, no thought was given to using technical problems as the starting point for management training.

(b) The Japanese feasibility study for the economic development of the Kilimanjaro region and the setting up of the Kilimanjaro Industrial Development Corporation in particular was concerned mainly with a purely technical approach and thus arrived at solutions of development problems that proved rather far removed from the potential and needs of the local population, proposing, for example, large-scale rice milling and modern manufacturing of simple agricultural tools that can be and are also effectively manufactured by rural blacksmiths.

(c) For the SIDO common facilities workshop in Morogoro, the range of equipment provided by the Netherlands proved more suitable for training than for product development or technology diffusion. (It is beside the point that this same equipment is not suitable for the direct production it is used for now.)

Two from Peru:

(d) In the Arequipa training centre of SENATI, Japanese assistance provided training and equipment for various types of welding. Because there was a shortage of all types of qualified welders, it was decided to train expert welders capable of doing all types. There proved to be no demand for such universal welders who are now being respecialized in the same training centre in only one type of welding.

(e) The project UNIDO/PER/81/020 is instrumental in the setting up of a leather training institute, also in Arequipa. Local tanners actually prefer to train their own staff but are anxiously awaiting the small pilot plant to be installed in the centre so that they can use it for quality-control testing purposes.

And one from Indonesia:

(f) The Netherlands' (LTA/77/K12) small-industry promotion in Northern Aceh (Indonesia) did not adapt its design when the identified target group proved to be non-existent. The targetted migrant workers did not settle but continued to migrate. Although the design was not changed, the activities were, and the assistance was provided to others.

The Terminology is not Confusing, but it is Often Confused

In project documents, which are often based on a logical framework approach, clear distinction should be made (but often is not) between objectives (development or long-term and immediate or short-term), outputs, and activities. Objectives must be reached, outputs are the results of activities that must be carried out. In this way the training of extension workers (activity) will produce trained extension workers (output), who strengthen the extension service (immediate objective) which will promote RSIE development (development objective). Inputs and outputs never seem to get confused, but outputs, activities and objectives do, as can be seen from the following RSIE examples:

(a) The mixing-up of outputs and activities with objectives in the institution-building project, DP/ZAM/80/005. This project states one of its objectives to be, "to carry out the comprehensive development programme for small-scale industry". This is an activity. The objective is "the development of Zambian small-scale industry";

(b) Vague and unspecific project design, as in DP/INS/78/015, a project aimed at assisting the Surabaya Centre of the Ministry of Manpower (Indonesia) in its operations to develop and test curricula for the training of "drop-outs". The design does not distinguish the centre from the project and does not define the target group clearly. The designed curricula have not been accepted by other centres;

(c) Sometimes, even the approach gives reason for confusion, and direct support and institution-building, instead of being combined, get mixed up. An example is the project, DP/ZAM/82/019, Assistance to Village Industry Services in Zambia, which aims to promote village industries through voluntary organizations, providing training by demonstrating training, training a group of artisans and liaison with other institutions in demonstrating new possibilities for village industries.

Finally it bears pointing out that the same type of activity implemented by different institutions can really be a different activity. The monitoring of external assistance by a donor or agency refers only to the inputs of that donor or agency whereas the monitoring of host-country RSIE intervention (with or without external assistance) refers to the effects of that intervention on RSIE.

It is of course clear that none of these misadventures is RSIE-specific, but it must also be observed that few RSIE projects were found that proved to be exceptionally well designed from the start. (The second phase of the women's pre-co-operatives in Senegal, and Pak-Holland Metal in Pakistan stand out among the few exceptions.) What does occur is that subsequent stages of a project can show marked design improvements, or in other words that project design can learn from preceding projects (KIE, for example). This would appear to relegate, with hindsight, previous phases to project-preparation status.

Finally, it should be noted that the criticisms listed here of project design confirm the need for projects to be as specific as possible, which in this case means RSIE-specific rather than multi-purpose in the sense of serving many different target groups.

V.3.3 Project management (input delivery and logistics, appropriateness of inputs, monitoring)

The diverse and multifaceted nature of the RSIE sector and its problems makes co-ordination and project management particularly difficult. Problems encountered arose from this complexity rather than from the nature of RSIE. Monitoring was only found in the more successful projects.

With hindsight, many problems in the implementation of external assistance can be reduced to errors of judgement in the design stage. One example is the use of inappropriate hardware and expertise, as in the ILO Chambres des Métiers project in Senegal, shown in the box later in this section. Another is the wrong appraisal of a host-country agency, as in two ILO projects in Kenya for vocational rehabilitation of the disabled and co-operative manufacturing and marketing of handicraft goods by women, in both of which cases the chosen host-country agency proved to be insolvent. Also possible is

the wrong appraisal of social conditions, as in two ILO projects for women in Pakistan. In the first of these, if no role for men were included, women would not be allowed to participate by their menfolk and, in the second, women trainees are not permitted to receive instruction from male teachers.

One of the focal points in project management concerns the delivery of inputs and the appropriateness of these inputs for the project. Because of the number of agencies involved (host-country and expatriate, often more than one of each), each with different approaches, budgetary periods and constraints, the task of managing these inputs can indeed be a formidable one. Project management is concerned to an important degree with the co-ordination of external support and the harmonious blending of this with host-country inputs.

Such problems are common in all sectors and RSIE is no exception. However, co-ordination of project inputs may be particularly difficult where RSIE is concerned, because of the diverse and multifaceted nature of the sector and its problems, and because these may be handled by several agencies in different locations, particularly at the national level in the host country. The result may then well be the absence of a national focal point resulting in the involvement of several host-country agencies (governmental, parastatal, NGO, voluntary etc.) with several donors and international agencies assisting them in several projects focussed on different agencies and functions. SIDO in the United Republic of Tanzania, for example, has received assistance from various Nordic and East European countries, India, the Netherlands and Turkey, among others, without any co-ordination or harmonization of donor inputs. (This subject will be dealt with further in section V.4.) As a result, each donor had a "fief" of its own where it could more or less do what it pleased.

Among the logistical and management problems that can impede effective project implementation, the following, in particular, seem to affect RSIE projects:

(a) Transport. If this was the responsibility of the host-country agency, it often proved to be defective, thus making rural extension visits etc. virtually impossible, unless TCA funds could be made available for this purpose. This problem is common to all types of rural projects and the RSIE projects reviewed in Liberia and observed in Indonesia, Senegal and the United Republic of Tanzania, were all at one time or another beleaguered by this problem;

(b) Lack of co-operation with government organizations who are not directly involved. This was noteworthy in the case of Peruvian customs officials who repeatedly held up (once because of a strike) the import of project inputs, which under the terms of a project agreement should have proceeded without any problem. Delays of this type are not the monopoly of host-country agencies, however (see box);

(c) Problems within the host-country agencies themselves, such as lack of funds to meet project commitments or lack of interest in a project. For example, in Peru, the project UNIDO/SI/PER/84/801—Prefabricated Modular Bridges—was transferred to two new host-country agencies, because the original one had lost interest and had shelved the project. The involvement of two agencies, while rekindling interest in the project, unfortunately introduced an element of lack of co-ordination and agreement between the two;

(d) Delays in the transfer of funds. For example, the Netherlands-supported SEFCO project in Kenya has suffered from delays in receiving funds

from the Treasury which had been transferred some time previously by the donor.

Except for the complexities involved in RSIE as a sector and the problems involved in dealing with rural projects in general, no evidence has come to light as far as project management and logistics in general is concerned that is RSIE-specific.

It Is Not Always The Counter Agencies That Cause The Delays

While donors and international agencies frequently and often not without reason voice complaints about irksome delays and procedures in host countries, they themselves can be at the root of tardy implementation or other forms of mismanagement. The following are some examples found during the RSIE study:

(a) ILO/KEN/80/VO1—Assistance to Women's Handicraft Co-operatives—was the victim of undue delays because of the large number of United Nations agencies involved;

(b) UNIDO/COL/76/020—Integrated Technical Assistance for Small and Medium Industry—a training programme with the Corporación Financiera Popular, suffered from frequent changes of expatriate staff, while the non-resident chief technical advisor paid flying visits from time to time and wrote unrealistically optimistic reports, even just before the project folded;

(c) The Small Enterprise Development Project in Indonesia, financed by the Netherlands, was unnecessarily delayed because project officers insisted on a further additional study for the project;

(d) UNIDO/ARG/84/004—Assistance to Small and Medium Scale Industry of Santa Fe Province—suffered undue delays, because the purchase of an electron microscope required long review at headquarters (Vienna, New York).

Logistics is but one of the elements of day-to-day project management, although an important one. It can, however, only be effective if the inputs it has to handle are appropriate. Any attempt at promoting self-sustained development should begin by reviewing the ingredients required in comparison with those available. The lacking ingredients should then be critically considered for proxies or substitutes that are or could become available locally. Donor assistance helps in filling the gaps temporarily, the principle of external assistance being that national counterparts are trained to take the place of expatriates.

Unfortunately, nearly every field mission of this thematic study has been confronted with cases of excessive donor or agency intervention leading to increased dependency or decreased likelihood of host-country agencies even considering future take-over. While many of these excesses can be linked to flaws in project design, some go back further and are the outcome of inappropriate development philosophies adhered to by donors and agencies.

This tendency to excessive intervention is mirrored in the wide range of institutions that supply a whole series of goods and services to RSIE, which most RSIE do not want in the first place. What they do want is the right environment to do the job; policies that favour them, credit they can get and afford and enough space to build a shed and install the equipment they need.

If institutions fail to meet demand, and external assistance emphasizes institution-building, many external inputs will be found to be inappropriate, including the following:

(a) Import-support programmes (which tend to lead to import dependence);

(b) Excessive imports of often sophisticated equipment (which needs, but often lacks local back-up facilities);

(c) Excessive deployment of expatriate experts (who tend to become operational rather than instructive);

(d) Wrong choice of external expertise (together with bad identification and design).

The first three instances result in delaying the take-over of the activity by the host country. The fourth is an indication of how things can go wrong irrespective of the project design.

1. Does Import Support Equal Import Dependence?

Import-support programmes have by and large contributed to undue import dependency in small-scale industry. In some cases imports may indeed be essential, but more often than not inventive entrepreneurs can come up with local substitutes, or even manage to earn foreign currency by supplying goods to TCA projects, which can then be used instead of imports. Cases of inappropriate import support observed include:

(a) Complaints in the United Republic of Tanzania about the lack of scrap and pig iron for foundry work, and of refractories for foundry lining (Grey Iron Foundry Company, Arusha Industrial Estate, Swedish "sister industries programme"), because not enough funds were available to import these materials under the Swedish import-support programme. At the same time, however, neighbouring industries are making acceptable refractories and using local scrap for foundry work. Scrap may even be had virtually free (Moshi blacksmith youth economic groups). Finally, the Kilimanjaro Industrial Development Corporation, which receives large amounts of assistance from Japan, imports pig iron from Japan to make the same products as the young blacksmiths they helped to get started, using on virtually free local scrap;

(b) A chemical plant on the Arusha Industrial Estate (the United Republic of Tanzania), which was also established under the Swedish "sister industries programme", is at a standstill while battling for a foreign-exchange license to import inputs of which inferior, but acceptable, qualities are available locally;

(c) GTZ and KfW have converted the Dakar Industrial Estate for Small Industry (SODIDA) in Senegal into a luxurious and self-contained estate for what, given Senegalese conditions, must be considered medium-sized industry. Because of impatience with slow national institutions, the donors have created special facilities, such as quick credit, for a number of firms that least need it. It should not come as a surprise that the installed firms do not want to leave and that the nursery estate has permanent occupants who "never had it so good".

Plants that have never received import support, in the United Republic of Tanzania at least, are more able to cope than those which were born under the aegis of import-support facilities.

2. Complicated Tools Make Simple Jobs Complicated

Excessive imports of sophisticated equipment, for which local back-up is lacking, perpetuate import dependency. This is often the result of inappropriate choice of t nology. Because bilateral assistance and import-support programmes are usually tied to purchases in the country supplying the foreign exchange, the range of available equipment is often limited and machinery from different countries often cannot be matched up. The following are some of the cases of excessive or unsuitable equipment provision that have been noted:

(a) The Swedish rural hire purchase programme in the United Republic of Tanzania has provided imported equipment for small-scale rural industry without checking the feasibility of the requests beforehand. When an evaluation showed much of the equipment being put to bad use or no use at all, a Swedish expert was put to work to correct this by carrying out repairs and installation, rather than training Tanzanians for the job (assuming that no trained Tanzanians were available). The suitability of the installed equipment was never questioned, apparently;

(b) In the Northern Province of Zambia, NORAD finances a guarantee scheme as well as all supporting costs, investment as well as recurrent. There are no national inputs and no plans for future take-over by any national agency whatsoever;

(c) The evolution of SODIDA in the Senegalese capital of Dakar into a luxurious estate (with assistance from GTZ) for medium-sized enterprise was guided *inter alia* by the consideration that smaller firms, for which the estate was originally intended, proved to be insufficiently profitable. Advanced facilities, such as a rapid credit scheme via KfW, are offered to firms on the estate;

(d) In Kenya, the Rural Industrial Development Programme (RIDP) has established over-elaborate machinery services with under-utilized schemes for training and skill improvement (aid from DANIDA) and undertaken the development of products to be made by small artisans, without any market research. There proved to be no interest in making these goods because the entrepreneurs knew that there would be no effective demand for them;

(e) In Arequipa, Peru, SENATI through external assistance, has obtained a lathe with numerical control for training purposes. Unfortunately such equipment is exceedingly rare in Peruvian industry. SENATI also have long series of tools and machines for training that seem over-sophisticated (TCA and equipment from the Federal Republic of Germany, Italy, Japan and Spain);

(f) The assembling of a pilot modular wooden bridge near Piura, Peru, is continuously delayed because the chief technical advisor wishes to use hardwoods that have to be brought in from the jungle area of Peru, across the Andes. In other countries, local woods are always used, even if they are not ideal, and bridges for emergency situations are rapidly assembled.

The establishment of over-elaborate equipment and installations makes it very difficult for the donor or agency to retire in due course, without the achieved results retiring with him. Excessive support has institution-sustenance built into it.

3. Too Many Cooks . . .

Excessive deployment of expatriate expertise has also been found. This has either led to the wrong services being offered, or too much attention to operative tasks. The excess also results from an inadequate number (or insufficient preparation) of host-country counterparts. Some examples:

(a) In the Netherlands-supported SICATA project in the United Republic of Tanzania, too much emphasis was put on off-shop-floor training in management, accounting and marketing techniques rather than on extension service on the shop floor and the solving of production problems. A random selection of client files showed that the training had had little impact and that there was little follow-up to the extension services provided. Expatriate expertise concentrated on what it thought it could do best;

(b) In the Kilimanjaro Industrial Development Corporation in Moshi, United Republic of Tanzania, expatriate experts put too much emphasis on in-plant training at their own excessively equipped centres, because they are specialists in this kind of knowledge transfer. Field visits and extension are considered of secondary importance to be left to Japanese volunteers and their counterparts;

(c) In the Jabotabek regional project management unit (RPMU) in Indonesia, too few loan officers were too exhaustively (and hence too expensively) trained. The base-line studies that were the product of their field training are hardly used. Expatriate staff were only operationally involved in training. No trainers were trained to ensure further training after the completion of the project.

4. Or Just A Bad Job!

A project can of course have the misfortune to be ineffective because of accumulation of bad identification, design and management. This leads in turn to an improbable series of badly conceived and executed project outputs. Such was the case with ILO/DP/SEN/82/007, Technical Support to the Directorate of Artisanship and Chambers of Trades (Assistance Techniques au Directorat de l'Artisannat et aux Chambres des Métiers). Output of this project, which was visited by the Senegal mission includes:

A shut-down tannery, because traditional tanning vats were preferred (Louga);

An over-equipped garage at a standstill in a city where the busy mechanical workshop of the industrial estate has virtually no equipment (Kaolack);

A "Centre de Formation" (Training Centre) consisting of a locked and empty building (Ziguinchor);

A bridge which took three years to build because the local population did not wish to work on it. There has always been a better alternative road nearby (Ziguinchor—Nyankit);

A small complex consisting of two kilns (one damaged by a lorry) for making bricks, unglazed tiles and pottery, without a wheel, in Nyankit, a village that has no ready water supply and no "pottery-safe" road

connection with bigger towns, even after the above-mentioned bridge was built;

An over-equipped furniture shop, where for want of a few saw-blades, the most expensive equipment is not working (Oussouye). The staff of the workshop have become accustomed to project officers passing by with the necessary supplies.

This project had no chief technical advisor for a long time and an expatriate technician had to double in this function. None of these excesses described here is RSIE- or Senegal-specific. Bad design, conception and management are not bound to any sector in particular. It may be hoped that such a cumulative combination is more unique.

The illustrations in the four boxes above show that, in practially all these cases, less sophisticated and cheaper solutions (especially in terms of foreign exchange) could have been found, quite often by simply looking at more successful local entrepreneurs (in the United Republic of Tanzania, for example) who have often found the solutions that the assistance programmes and host-country institutions are trying to find. It would even seem that such opportunities to solve problems may not be taken up precisely because it is the external assistance (the supply-side approach in general) that fails to encourage the adoption of these local solutions.

Monitoring

One of the essential tools of project management is monitoring. All of the "derailments" already described in this section could probably have been avoided if the projects had been effectively monitored from the start. Where no or insufficient monitoring occurs, this is not necessarily the fault of inadequate local project management, it can also occur for reasons of understaffing and the remote location of small project activities. However, except for such cases, where to insist on monitoring would definitely be cost-ineffective, there is no valid reason to be found for not monitoring projects.

Effective monitoring seems to go hand-in-hand with effective projects and agencies. For bilateral projects that are not based on a project document, systematic monitoring requires a special effort by the experts in the field. In agency TCA projects, this should be built into the system. Nevertheless, experience indicates that good monitoring is not always self-evident. The establishment of the mechanics of monitoring on paper (e.g. a periodic reporting system according to a standard format) may lead to effective monitoring, but in no way guarantees it.

Monitoring may also be used as a guide for future projects, as in field-based construction of a script. Examples of how this is done have been found in projects of USAID and GTZ:

- USAID in Kaolack (Senegal) is monitoring its RSIE project extensively in order to use the results for project implementation elsewhere (to prove the general effectiveness of the "Kaolack" approach);
- The GTZ project on "Innovation Advisory Services" in Indonesia started without a detailed design or study of the area and subject,

beyond the general study on metalworking and machinery in the Medan Area. This project, together with a similar one in Brazil, is a pilot project. No institutional structure or legal position is defined and the two projects regularly compare notes. Initial experiences predictably have been rather poor. It is hoped, nevertheless, to develop a project concept in this way for future implementation elsewhere. Prospects do not seem good, however.

V.3.4 Project follow-up (sustainability of efforts, carry-over of lessons to external assistance elsewhere)

Excessive donor or agency intervention stimulates donor dependency, throws up a barrier against future host country take-over and hence against sustainability and replicability in general. External assistance to RSIE is no exception. The potential to carry over external assistance experiences will be greater if cost effectiveness is high.

The sections on institution-building and project management have provided a number of illustrations of how excessive external support becomes counterproductive in the sense that it diminishes the possibility of the project activity being sustained by itself or by local funding (clients or local institutions).

Sometimes, promises of a local take-over exist, as in the case of the NORAD rehabilitation project of the disabled in Zambia. Sometimes no follow-up is considered at all, as with all projects in the United Republic of Tanzania, the ILO/SEN/82/007 Chambres des Métiers project in Senegal, and the NORAD guarantee scheme in Northern Zambia.

Few of the projects desk-reviewed for this study have shown convincing evidence of sustainability. Those which have include:

(a) The Netherlands-supported Prime Mover Proje t in the Surkhet Valley of Western Nepal. Whereas the establishment of the industrial estate, which lay at the heart of the project design, suffered from numerous delays, an adjacent loan scheme proved highly successful (200 loans in two years resulting in 526 new jobs at an average cost of $350) and has since been taken up by the Agricultural Development Bank of Nepal;

(b) ILO/SEN/82/004—Pre-co-operatives for Rural Women—where the demand for grain mills to be installed would well allow a price for them being charged, and it has also led to increased production of mills by rural metalworking artisans. The approach has awakened interest in Burkina Faso, Mali, Mauritania and Niger. TCA is limited and could be even less;

(c) UNIDO/PAK/79/022—Leather Production Development Centre—successfully trains large numbers of leather workers and manages to cover 15% of costs through fees and sales. Training, together with export incentives, contributed to the more than tripling of exports between 1980 and 1985;

(d) UNIDO/ARG/81/004—Assistance to Small and Medium-scale Industry of Santa Fe Province—was instrumental in revitalizing the regional small and medium agricultural equipment industry through new designs and

improved quality control. Clients proved willing to pay three times as much for services. This approach has been copied in other parts of Santa Fe Province and Uruguay. The external subsidy is declining.

These four cases indicate that external assistance can promote sustainability, but only if supply to and demand from RSIE coincide. In Nepal, there was only demand for credit and not for an industrial estate. In Argentina, there was only a demand for technology extension but not for the industrial estate which was originally included. In Pakistan, the leather processors wanted training, where as those in Arequipa do not. The needs of Senegalese women were established by a survey. Sustainability is also helped where local outreach is effective, as in the cases above in Argentina, Nepal and Senegal.

These cases also show the potential for successful projects being able to charge for services and the potential for their duplication elsewhere. Other projects (USAID in Kaolack) are designed as experiments to be applied in different locations. Here the carry-over of lessons to external assistance elsewhere has taken priority over the need for local impact or institution-building. Although, from a donor point of view, such an approach may be rewarding, the "guinea pig" approach to the target group can produce an undesirable backwash for future donor or agency intervention in that area.

Sustainability is also related to cost and effectiveness. A too-expensive approach usually stands no chance of follow-up or duplication. In terms of numbers of clients reached, the effectiveness of the intervention is determined by the level of intervention. In decreasing order of scale, these may be said to be:

(a) Regional projects, such as the ILO (RAF/85/M10/FRG) project for the training of bank officials of the West African Economic Community* countries to make loan procedures to small-scale industry and RSIE quicker and more effective. In due course outreach should be to small-scale industry and RSIE in all member countries;

(b) National projects to assist in the restructuring of macro-policies of a country to favour small-scale industry and RSIE;

(c) Assistance in institution-building so that these institutions can assist small-scale industry and RSIE;

(d) Direct assistance to RSIE (not self-sustainable).

The cost per small entrepreneur increases from *(a)* to *(d)*, although the few entrepreneurs reached in *(d)* may be the most effectively assisted of all, if supply and demand of intervention coincide. The typical entrepreneur will prefer *(b)* and probably has no idea of *(a)*.

No records of external assistance to RSIE were available to allow any quantitative estimates of cost-effectiveness. Even with the grossest of heroic assumptions and "guestimates" the outcome would be virtually bereft of significance (the exercise itself would be a clear example of cost-ineffectiveness), if only because the number of clients reached gives no indication of the effectiveness of the outreach and what the beneficiary does with the intervention.

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*The West African Economic Community, or Communauté Economique de l'Afrique Occidentale (CEAO) includes Burkina Faso, Côte d'Ivoire, Mali, Mauritania, Niger and Senegal. Benin and Togo have observer status.

V.4 Specific donor and agency issues (specificity, field co-ordination, selection of host-country institutions)

Donors and agencies have different approaches and procedures in external assistance. There is some indication of an increasing preference among donors and agencies for policy assistance, although only few projects—mostly recent—provide assistance at this level. Differences are found in approaches to RSIE, but these mainly concern ways to bypass ineffective institutions.

V.4.1 Specificity

This section is not intended as a review of efforts by donors and agencies to assist RSIE development (for The Netherlands, UNDP, ILO, UNIDO, cf. chapter 1). The aim here is to try to find out whether those donors and agencies, whose interventions in RSIE development have been observed in desk and field studies, do this according to any standard pattern, or whether there are significantly different donor- or agency-specific approaches.

Donors and agencies do not seem to be able to agree on the procedures to be followed by a host country requesting external assistance. Procedures are completely donor- or agency-centred and usually incomprehensible to all but the most seasoned host-country bureaucrat. Furthermore, they have the unfortunate tendency to be revised frequently. On the other hand, in some cases procedures do not exist at all and decision-making is entirely *ad hoc*.

Whereas some United Nations agencies contend that they are supposed to limit their TCA interventions to specific host-country requests, donors have more leeway in this respect. They can enter into negotiations with a host country to work out a plan of external assistance with specifications of sectors, programmes and projects. Especially in large pledges of external assistance, it is possible to work out a set of interlinking aid activities (TCA plus funding plus import support) that allow for a comprehensive approach and lessen the problems of assistance co-ordination and management.

Among those interviewed, donors (Netherlands, USAID) and agencies (UNDP, IADB) expressed a theoretical preference for a macro-policy approach to RSIE development. Among the reasons mentioned were:

(a) Cost (it is the cheapest way of reaching target groups, cheaper than by institution-building, which, in turn, is cheaper than direct support in terms of cost per target-group member reached);

(b) Effectiveness (it leaves the RSIE entrepreneur free to act as he or she chooses);

(c) It is what the entrepreneur wants (no outside interference in his or her affairs, but instead a favourable economic environment).

Although RSIE development receives a variety of external assistance, this seldom takes the form of policy assistance, which is never found on its own, but at best as part of a package deal in TCA (UNDP/UNIDO, USAID policy dialogues).

Support at the institutional level (which covers more than institution-building) is given in a number of ways:

(a) As part of integrated rural area development programmes. This has been observed on two occasions as an element of Japanese external assistance

policies, for example, in the Kilimanjaro Industrial Development Corporation around Moshi in the United Republic of Tanzania and the Southern Peru development programme around Arequipa. Both programmes include sophisticated Japanese hardware;

(b) As part of a large development programme concentrated in a relatively small number of countries, as with Nordic aid in Kenya, United Republic of Tanzania and Zambia. These programmes are characterized by a comprehensive approach and generous concessional terms;

(c) As a specific attempt to bypass existing institutions (especially those with a national scope) which are deemed ineffective. Various options have been found:

(i) Going direct to local institutions, such as local NGOs or trade associations. This approach is favoured by the IADB Small Projects Programme, USAID in their Project for Investment in the Small Capital Enterprise Sector, and the Konrad Adenauer Foundation *inter alia* in Peru;

(ii) Stimulating the establishment of local NGOs, as the organization of American States is seeking to do in Peru.

Direct support can be deemed effective by the donor or agency, although the cost per target-group member may be high. Reasons for insisting on direct support have included:

(a) Impatience with the ineffective performance of pertinent national agencies. This is a characteristic of assistance by the Federal Republic of Germany to small-scale industry and RSIE. Here it is felt that direct support over a certain period of time and as comprehensively as possible will lead to the target group becoming self-reliant in due course and does not saddle the host country with a, by then, useless institution. Evidence of this approach has been found at the GTZ-supported Small-Industries Promotion Unit project in Tanga (United Republic of Tanzania) and it also characterizes the GTZ-KfW package of external assistance to the SODIDA Industrial Estate in Dakar;

(b) The need to develop a new approach to RSIE development. Pilot projects with this in mind have been started by, among others, USAID and GTZ. The USAID project in Kaolack was set up to determine the effectiveness of promoting RSIE development through local NGOs. It is not intended to leave behind any institutions once the effectiveness has been demonstrated and the donor decides to retire. The GTZ Innovation Advisory Services in Indonesia (Medan) and Brazil are even more experimental. No design is made beforehand and the two teams meet regularly to exchange experiences;

(c) The lack of an institutional framework with the donor so that no projects can be designed in advance, but teams of experts are fielded to work out a project within the framework of a general pledging agreement between donor and host country, for example, Netherlands' assistance to SIDO in the United Republic of Tanzania and PRODERM in Peru.

Although a large variety still characterizes assistance policies of donors and agencies, there are certain tendencies that are preferred by many and implemented by a few "pathfinders":

(a) There is a marked preference for assisting host countries to adopt the "right" policies that will lead to an economic environment that favours RSIE (World Bank and USAID, in particular);

(b) There is a general dissatisfaction with national institutions which has led all donors and agencies to prefer local institutions and some to rely on direct assistance.

Despite some general agreement, however, the differences between the various providers of external assistance form an added problem for the field co-ordination of donor activities.

V.4.2 Field co-ordination

Field co-ordination of donor activities is in theory the responsibility of the Resident Representative of UNDP who reviews annual foreign-assistance efforts. As co-operation in this exercise is voluntary, coverage is far from complete and co-ordination results are usually not impressive. Donors might well agree to formalize the pivotal role of UNDP in field co-ordination. In the United Republic of Tanzania, the UNDP Resident Representative has taken the initiative in calling informal monthly meetings with donors and agencies. This could be a first step towards the co-ordination of field efforts for specific subsectors.

At the same time there is usually a department of Government (Central Planning Agency, Treasury, Ministry of Foreign Affairs) that agrees to and co-ordinates all external assistance. Here again co-ordination is limited because the responsible agency is often no more than a window for other departments.

Thus, co-ordination and harmonization of policies, if they exist, are often the result of informal arrangements. In most cases they are non-existent.

Co-ordination of external assistance has an additional importance in the case of RSIE because it usually lacks a focal point in the host country. (This may be an additional justification for donors and agencies to go for local instead of national institutions.)

In general, donor policies have been more significant for the African countries studied (Kenya, Senegal, United Republic of Tanzania and Zambia) than for the Asian and Latin American ones, where host-country policies and institutions are generally more developed, and multilateral assistance from the World Bank and the United Nations system has been more important than donor assistance. An example of effective co-ordination is found in Indonesia. The Central Bank (Bank Indonesia) acts as recipient of foreign loans for the KIK-KMKP programme and divides the country into sections, regional project management units, which are allotted to various donors and agencies. Co-ordination has obviously been ineffective in Zambia where donors and agencies in the field simply decide on a course of action and obtain local "rubber-stamp" approval. In the United Republic of Tanzania, donors fail to establish uniform criteria for assisting target groups. This leads to charges being levied by one institution for what is given away free by another. A similar practice was also found in Senegal for grain mills.

Lack of co-ordination is also seen when many donors (and national institutions) concentrate on the same target group or institution, either because it is the only institution dealing with the subject (for example SIDO in the United Republic of Tanzania) or because it has performed particularly well (for example the Commonwealth Development Trust Fund in the United Republic of Tanzania and Villa Salvador in Peru). This leads to a skewed distribution of

scarce funds and expertise which could be avoided by better co-ordination. The overall result is a series of, at best, loosely-connected projects that do not come near to effective country programming.

*V.4.3 Selection of host-country institutions**

Donors and agencies alike seem to be moving away from national institutions as a channel for RSIE support (cf. chapter III where the inadequacies of such institutions for RSIE are reviewed). The relative inaccessibility of much RSIE puts most institutions that work on a national level at a disadvantage, unless they have a built-in strong regional and local outreach and autonomy.

If no local institutions are available the options are to create them or to provide direct assistance. As has already been mentioned, USAID and GTZ have been active in this field as has the Netherlands-supported PRODERM project in the Andean Highlands of Peru. The only other alternatives are to "make the best of a bad job" with existing institutions that are not location- or RSIE-specific (or both) or to attempt a conditional approach: "if certain conditions cannot be met, further funding and TCA will be curtailed".

When to make such conditions is not easy to determine, because it also involves a long-term perspective. Many interventions, especially those that have to start from scratch (i.e. where there is no RSIE tradition or where none is left) not only take a long time to bear fruit, it may also take quite some time until it is clear that no results are forthcoming!

*See also the subsection on institution-building and institution sustenance.

VI. Findings and Recommendations*

Early industrialization policies in most developing countries emphasized the establishment of modern large industry as the focal point of a general modernization drive. Import substitution and, later, export-led growth failed to anchor large industry in a balanced industrial structure of small-, medium- and large-size industry. Efforts to redress this imbalance were by and large of a supply-side nature. Institutions were established (or existing ones were given an added dimension), often with external assistance, to provide services for small-scale industry and RSIE in order to allow this sector to catch up and link up with industry. Macro-policies to influence demand factors for rural industrialization only began to emerge under the threat of worsening economic conditions. Newly emerging policies, however, that incorporate small-scale industry and RSIE into a more general policy framework have not been found in this study.

1. Macro-policy favouring the growth of rural income should be given priority in RSIE-development strategies and should preferably precede supply-side measures of support to RSIE.

On average 10% of rural employment in developing countries is involved in manufacturing. The share of a country's total manufacturing employment located in rural areas decreases with development. This can be observed by cross-section analysis as well as within a single country over time. The share of non-farm income in total income is more important for households with small landholdings than for those with larger ones.

There is no clear separation between urban and rural. Rural environment characteristics vary with agricultural prosperity, population density, the degree of urbanization and the development of rural infrastructure. In the African countries studied, Kenya and the United Republic of Tanzania have large subsistence sectors, whereas Senegal and Zambia are more involved in commercial production. African urbanization rates are among the lowest. In Asia, and especially in Latin America, agriculture is increasingly developing along commercial lines and urbanization rates are high. Whereas non-farm activities in rural areas are of considerable importance in countries such as Indonesia, Pakistan and the Philippines, much RSIE in Colombia and Peru is located in small towns and shanty towns.

2. The development of an agricultural surplus is a precondition for the stimulation of non-farming activities such as RSIE in rural areas. If no such surplus exists, efforts should primarily be directed towards achieving such a surplus.

There are no clear-cut universal definitions for small and rural industry. For this study, micro-enterprise covers 0-4 employees and small enterprise 5-

*Note: the recommendations are in bold type.

25 employees. Rural in most cases includes towns up to 20,000 inhabitants as well as larger urban areas where rural characteristics prevail. Most manufacturing enterprises in rural areas provide part-time employment, are micro-sized and have emerged from traditional artisan crafts (food-processing, clothing and footwear, metal and wood products) to meet local demand. As demand increases, these production activities tend to gravitate towards small towns or market centres with household or cottage industries thus evolving into small-scale industry.

In the microsphere, there is a high participation rate by women, both as owners and as workers. Products made tend to be linked with the processing of rural produce (food-processing and oil extraction, but also basketware and pottery) and geared to meeting rural demand for services (tailoring and dressmaking).

3. Because RSIE provides a supplementary source of income for an average of 50% of rural women engaged in agriculture, emphasis might be placed on expanding and adding value to this activity. Attention should be given to reducing drudgery and manual work and to training for new types of RSIE work (electrical wiring, electronic assembly etc.).

Linkages provide the obvious path for RSIE to become part of a balanced national industrial structure and are, thus, crucial for enhancing RSIE's own development. The process of development involves increasing interlinkage between the various sectors of the economy. Linkages for RSIE in particular are furthered by promoting agricultural production, by the development of rural infrastructure, by making available assistance for technical upgrading and credit.

4. Policies for the support of RSIE should concentrate on maximizing the linkages of RSIE with other sectors.

Rural industrialization requires a successful environment which is provided by successful agriculture coupled with the successful development of infrastructural and social services as well as successful macro-policies. None of these can be wholly isolated from external stimuli or the constraints of the international economy. Vulnerability declines when exports are less dependent on one or a few primary products and urban and rural economies are more diversified.

5. In order to stimulate RSIE, more emphasis should be given to favourable macro-policies and general strategies aimed at economic diversification. Such policies should include; investments in rural infrastructure and social services, price policies favouring farmers, wide distribution of benefits in rural areas to generate effective demand, and general supporting measures for agriculture (irrigation, extension, research, credit).

In practice most macro-policies have favoured large-scale enterprise (tariff protection, access to cheap credit, licensing etc.) and have thereby stunted the growth of small-scale industry and RSIE. Industrial and trade policies and incentives should be non-discriminatory and unbiased between sizes and locations of industrial enterprise.

There is little evidence of special countervailing measures effectively stimulating small-scale industry and RSIE. In the few cases where this has been

found, benefits are restricted to the larger small-scale industry and RSIEs. Demand for small-industry products can be effectively stimulated by encouraging sub-contracting from large enterprises (induced linkage). For this a certain level of technological development in specific sectors is required. Products such as garments, metal-working and rattan furniture can be supplied by small firms working according to large firm designs or patterns.

6. Sub-contracting from large and medium industries to small-scale industry and RSIE should be promoted through policies for upgrading technical skills and special training and extension programmes for small-scale industry and RSIE. Sub-contracting information exchanges are more effectively operated by industry associations than by extension agencies.

Although government purchase and product reservation schemes (as well as tax rebates) may initially provide an incentive to small-scale industry and RSIE, they detract from the ultimate competitiveness, which small industry must achieve if it is to become viable in the industrial structure.

7. Purchase, reservation and tax-incentive schemes for small-scale industry and RSIE should only be introduced as temporary measures.

The nature of institutional support of RSIE is to supply services to RSIE in order to correct perceived weaknesses. Overemphasizing these weaknesses, which are often not felt as such by the RSIE themselves, has led to an exaggerated emphasis on the crucial role of existing or proposed national institutions in the development of RSIE. Thus, the far more essential macro-policy changes required tend to be disregarded. Institutions can only assist RSIE effectively when macro-policies are favourable to RSIE; they are in no way a valid substitute for such policies. Very few institutions have been found that cater exclusively for RSIE. In most cases, the institutions cover all small industry or even all small enterprise. Most institutions that in one way or other support RSIE are either policy or general-purpose or functionally based institutions. Other support institutions are NGOs or PVOs, or are institutions based on particular target-groups.

Experience with policy-making and with general-purpose small industry development agencies (SMIDAs) has been disappointing in respect of policy advice. They have concentrated on a wide range of supply-side activities, for which there was often no corresponding demand. SMIDAs, furthermore, tend to be over-centralized and this gives them an urban bias.

8. SMIDAs should concentrate on the functions which they can perform most effectively and adjust their organizational structure accordingly. This usually involves decentralization and, in particular, hiving off industrial estate and credit operations.

Industrial estates, by and large, have proved to be ineffective for new RSIE development. Some degree of success has been found, however, in industrial estates which provide sites and services for existing small-scale industries requiring expanded premises. Where industrial estates contain common services facilities, these tend to be used more by firms off than on the industrial estates and, as such, often provide appreciated services.

9. Common services facilities should be hived off from industrial estates and be transformed into technology centres providing services to nearby small-scale industry and RSIE.

Banks have not served small-scale industry and RSIE well. (The same is true for non-bank financial institutions.) Savings and loans associations have performed better in this respect. These tend to focus on individuals rather than on enterprise and do not limit themselves to small-scale industry or RSIE. Many small-scale industries and RSIEs seem to be able to find other sources of finance without too much trouble.

10. Credit for small-scale industry and RSIE should be made available in as decentralized a form as possible. The role of non-bank financial intermediaries in this context should be enlarged.

Although business advice to RSIE may be useful, the need for it is often not felt by the entrepreneur. The same is true for training that is provided on a non-extension basis. Many small entrepreneurs have no wish to leave their premises except outside working hours which are often long. This is especially true for rural entrepreneurs in view of travel difficulties. On the other hand, on-location extension and training are well received. In more remote areas, mobile training units can assist in providing training and extension.

11. Because on-location branch-specific technical upgrading programmes (including mobile training units) are often effective RSIE promoters, especially in more remote areas, they should be stimulated.

Small industry and trade associations can be a useful tool to assist RSIE development, because they exemplify a from[illegible]e-bottom-up approach by RSIE for RSIE. They tend to be more effective in the more developed developing countries.

NGOs perform a range of activities for small-scale industry and RSIE such as research, marketing, technical training, and even small credit programmes, mostly on a local basis and with low overheads. Donors and agencies are increasingly seeking to involve them in programmes where local outreach is deemed crucial.

12. In the promotion of RSIE development, increasing use should be made of NGOs and PVOs as agents of change, because they tend to have a better grasp of the local demands of RSIE than national institutions.

More developed RSIEs in towns—the least "rural" and "small" RSIEs, and also much the least numerous—may be reached by, and probably benefit from, well-organized institutions or programmes of the following types:

- SMIDAs, in the sense that such RSIEs are likely to be the traditional SMIDA's most favoured RSIE clients;
- Marketing and raw-material-supply stimulatory schemes;
- RSIE co-operatives (with the necessary qualifications, for example, that the benefits to members must be clear-cut);
- Formal commercial or development banks (but in many cases this assistance is inadequate);

- Savings and loans associations and programmes;
- On-location or near-location technical facilities and technical-upgrading training;
- Small industry and trade associations.

For smaller RSIEs in rural towns and regional cities, the range of possibly useful institutions and programmes is reduced, because the smaller RSIEs are less formal, appear less creditworthy to banks, and are more difficult to organize. They include:

- Marketing-stimulatory schemes;
- RSIE co-operatives (with the necessary qualifications);
- Savings and loan associations and programmes;
- On-location or near-location technical facilities and technical-upgrading training;
- Small industry and trade associations (less certain);
- NGOs.

Village and countryside RSIEs, usually very small, are more dispersed. They are thus less likely to associate fruitfully in small-industries associations. On the other hand, a well-organized target-group programme may benefit some of them. The potentially effective institutions and programmes for this class include:

- Marketing-stimulatory schemes;
- RSIE co-operatives (with the necessary qualifications);
- Savings and loan associations and programmes;
- On-location technical facilities and technical-upgrading training;
- Social target-group development programmes;
- NGOs.

13. In order to optimize its effectiveness, supply-side institutional support for RSIE should be framed in a macro-policy which enhances the growth of disposable rural income. Comprehensive intervention should be limited to situations where RSIE has to be built up from scratch.

External assistance to RSIE is provided as policy support (external missions, external assistance in projects or support of national policy research), as institution-building, or as direct support. External assistance for macro-policies is the donor or agency complement of the demand-side policies that are considered best-suited for RSIE development. This is because of its large outreach and non-discriminatory nature (each entrepreneur can react as he or she wishes). External policy formulation missions have not been very RSIE-specific, although RSIEs have been known to benefit from the results of mission policy recommendations. Policy dialogue or leverage is usually less successful because it can only be implemented in an adjustment or stabilization programme where RSIE is usually not considered. Here again, there may be some indirect effects (for example, support of national policy research).

14. Donors and agencies should focus on persuading host countries to adopt appropriate macro-policies that favour grass-root and small-enterprise development in rural areas, rather than on mounting supply-side programmes and projects. Or they should insist on these macro-policies as a precondition for supply-side assistance.

The preference of donors and agencies for institution-building in their external-assistance programme is justifiable in terms of the promotion of self-reliance and presumed cost-effectiveness. However, little evidence has surfaced of external assistance actually making institutions more effective and there are numerous instances of external assistance acting as a lifeline for the survival of ineffective institutions.

15. Every effort should be made to make use of existing institutions rather than bypassing them with direct assistance or setting up new ones. National institutions of the SMIDA variety might be streamlined through external assistance (cf. recommendation 8).

Little evidence has been found of project mechanics (preparation, implementation and follow-up) being RSIE-specific. Certain problems, however, tend to crop up because of the complex nature and often remote location of RSIE. Good design is a precondition for (but not a guarantee of) a successful project. The same can be said for monitoring.

Donors and agencies should be wary of excessive intervention because it promotes donor-dependency and postpones (maybe permanently) self-reliance and sustainability.

Donors and agencies are particularly weak when it comes to field co-ordination and the specificity of their approaches to RSIE development was found to be more a question of procedures than of policy content.

16. Donors and agencies should make every effort to harmonize their external assistance procedures and co-ordinate their field activities. This is especially important when it comes to sectors where enterprises are often located in remote areas, as is the case with RSIE.

Annex I

SUMMARY OF COUNTRY REPORT FINDINGS

A. Basic data on the countries studied

Indicator	*Unit*	*Colombia*	*Indonesia*	*Kenya*	*Pakistan*	*Peru*	*Philippines*	*Senegal*	*United Republic of Zambia*	*Zambia*
Population (1985)	million	28.4	162.2	20.4	96.2	18.6	54.7	6.6	22.2	6.7
Population growth (1980-1985)	%	1.9	2.1	4.1	3.1	2.3	2.5	2.9	3.5	3.5
Area	1 000 km²	1 139	1 919	583	804	1 285	300	196	945	753
GNP per capita (1985)	$	1 320	530	290	380	1 010	580	370	290	390
GNP per capita growth (1965-1985)	%	2.9	4.8	1.9	2.6	0.2	2.3	−0.6	. .	−1.6
Average annual rate of inflation (1980-1985)	%	22.5	10.7	10.0	8.1	98.6	19.3	9.7	19.6	14.7
Life expectancy at birth (1985)	years	65	55	54	51	59	63	47	52	52
Annual growth rates (1980-1985):										
• GDP	%	1.9	3.5	3.1	6.0	−1.6	−0.5	3.3	0.8	0.1
• Agriculture	%	1.8	3.1	2.8	2.1	1.9	1.7	1.8	0.7	2.9
• Industry	%	2.9	1.0	2.0	8.8	−3.0	−2.8	4.5	−4.5	−0.5
• Manufacturing	%	—	6.4	3.8	10.1	−3.8	−1.2	4.9	−4.6	0.4
• Services	%	1.6	6.3	3.9	6.8	−1.2	−0.1	3.3	2.8	−0.4

GDP (1985):										
• Agriculture	%	20	24	31	25	11	27	19	58	14
• Industry	%	30	36	20	28	38	32	29	8	39
• Manufacturing	%	18	14	13	20	20	25	18	5	22
• Services	%	50	41	49	47	51	41	52	33	46
• Industry	%	30	36	20	28	38	32	29	8	39
Population of working age (15-64 yrs) (1985)	%	59	56	45	53	56	56	52	50	48
Labour force (1980)										
• Agriculture	%	34	57	81	55	40	52	81	86	73
• Industry	%	24	13	7	16	18	16	6	5	10
• Services	%	42	30	12	30	42	33	13	10	17
Annual growth of labour force (1980-1985)	%	2.8	2.4	3.5	3.2	2.9	2.5	1.9	2.8	3.2
Urban population (1985)	%	67	25	20	29	68	39	36	14	48
Urban population annual growth (1980-1985)	%	2.8	2.3	6.3	4.8	3.8	3.2	4.0	8.3	5.5
Exchange rate (May 1987) local currency = $US 1		pesos 241.39	rupiahs 1 645.2	shillings 16.3	rupees 17.3	intis 15.1	pesos 20.4	CFA francs 298.48	shillings 58.3	kwacha 8.3

Sources: World Bank, *World Development Report, 1987* (Washington, D.C., 1987). Exchange rates are taken from IMF, *International Financial Statistics* (Washington, D.C., July 1987).

B. Countries visited*

(In chronological order of visits)

1. United Republic of Tanzania

The mission to the United Republic of Tanzania took place from 12 May to 5 June 1987. It was undertaken by the three core consultants: James Keddie, S. Nanjundan and Roger Teszler. S. Nanjundan acted as team leader. There was no national consultant.

Summary of findings

Structure, functions and problems of RSIE

The concept of small-scale industry is based on the aims of socialism and self-reliance. Data for RSIE are largely unavailable. RSIE is not clearly separated from small industrial enterprise in general. Rural craft industries may have declined, artistic ones are moving to urban areas and rural blacksmithing is declining in importance. To some extent these have been replaced by more modern agricultural processing, weaving, carpentry, pottery and repair shops.

There is some evidence that small-scale industrial enterprises employing between 5 and 25 workers are more efficient in the use of capital and labour than very large enterprises. However, these are likely to be largely in urban areas. Four industrial branches (food products, textiles, wood products and metal products) account for the bulk of small-scale enterprise and RSIE. This structure gives promise for sustained robustness since the branches involved specialize in highly localized markets and small-lot orders.

Sources of entrepreneurship for RSIE which could be further tapped include former traders and agricultural processors, accountants and civil servants, skilled technicians or engineers.

A noticeable trend has been the recent conversion of publicly-owned common facilities on industrial estates, research institutions etc., into production activities, in order to earn revenue to cover costs in the context of reduced government funding. It seems desirable that production activities of such institutions be hived off and operated commercially, so that they compete fairly with private or co-operative enterprises in the same field of production.

Interlinkages with other sectors play a crucial role in the development of RSIE. In the United Republic of Tanzania, until very recently declining investments in agriculture resulted in reduced agricultural surpluses, available raw materials for industry, exports and industrial production. As a result exploitation of the linkage potential in agriculture for RSIE development has been minimal, except in certain regions such as Arusha. There is considerable evidence, especially in more recent years, of forward-linkage enterprises, for example, maize mills, oil presses and sawmills. Backward-linkage activities have mostly taken place in rural towns rather than villages. Farm implements and transport equipment are made in rural towns, but assembled sometimes in village centres.

Linkage potential with large industry has been almost totally neglected, because of the encouragement of large integrated parastatals (for example, in cotton and leather). With the gradual development of small-scale metal industry, some linkages are beginning to develop. This process has been assisted by the severe shortage of foreign exchange for the import of spare parts and components by large enterprise.

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*This information and that in section C is summarized from the nine individual country reports, which are not yet published, but which are available to interested parties on request from any of the sponsors of this study (Netherlands Government, UNDP, ILO and UNIDO).

Urban-rural linkages exist between small towns and the rural hinterland. The increase in agricultural prosperity will in future strengthen such linkages.

The bad condition of rural roads, the high cost of fuel, the absence of electrification have all affected the development of RSIE. Investment in expansion of the all-weather network, maintenance, and supplies of parts and fuel have all been inadequate due to general economic conditions and policies. The development of infrastructure and transportation may remove the disadvantages of remote rural areas.

There has been no evidence traced of positive or negative effects of education on RSIE. It seems donor policies may have created training facilities not specifically directed towards rural vocations. There may be gaps in skills in rural areas, for example, in repair and maintenance. Specifically tailored training programmes may be needed to establish and operate appropriate RSIEs.

Policy and institutional framework of RSIE

The effectiveness of RSIE development has been considerably influenced by the development strategy, exogeneous factors, macro-policies, institutional policy and dependence on donors. Although the Arusha Declaration (1967) accorded prime importance to agriculture and rural development, in actual practice strategies favouring large-scale processing and basic industries through parastatals were followed, thus allocating inadequate resources to the agricultural and rural sector.

Low producer prices along with monopoly procurement proved a disincentive to generating marketable surpluses and increasing agricultural incomes. Subsistence farming increased and production of cash crops decreased, thus leading to large unutilized capacities in processing industries. At the same time, protectionist policies, foreign-exchange allocation, exchange-rate policy etc., favoured large-scale industries at the expense of small-scale industries.

Recent macro-policy changes, for example, in producer prices for agricultural products, prices of foreign exchange and interest rates, have had a favourable effect on the growth of small industrial enterprise and RSIE.

The institutional framework has provided a combination of centralized and decentralized planning apparatus. SIDO was established in 1973 as a parastatal organization principally concerned with the establishment of small-scale and rural industries. At the same time, regional development authorities, directly under the Prime Minister's Office, enjoyed some delegated authority to organize or assist production activities. At another level, district development authorities (including the District Development Corporation) under the Ministry of Local Government could also engage in industrial activities. Finally, at the village level, village committees had the sole responsibility—to the exclusion of individuals, partnerships and co-operatives (until 1973)—for organizing and operating rural industrial activities. There were also industrial-cum-social projects operated by village committees or district authorities, which were funded by NGOs working through the Commonwealth Development Trust Fund and micro-projects financed by the European Communities and other external sources. Across the entire RSIE sector, financial channels were essentially limited to hire-purchase loans from SIDO and grants via the district and regional authorities, almost all of them financed by donors. Commercial and co-operative bank financing is minimal, and almost non-existent in the rural areas especially for small-scale industrial activities.

SIDO has developed a network of 20 regional offices, 16 industrial estates with common service or common foundry facilities and 10 regional training-cum-production centres. While detailed programmes are prepared after obtaining information from regional and district levels, projects approved and executed in actual practice arise from donor contributions. These have largely been small- and medium-scale industrial enterprises mostly situated on urban industrial estates and occasionally outside industrial estates, financed by the Rural Hire Purchase scheme.

A special feature of the programmes is their substantial dependence on donors (Federal Republic of Germany, India, Japan, the Netherlands, SIDA etc.). Bilateral

assistance has been several times more important than international (United Nations) technical co-operation assistance in the field of small-scale enterprise and RSIE. However, there has been no deliberate strategy for utilizing donor contributions within a coherent RSIE-development programme. As a result, projects have been established mostly in line with separate donor perceptions of small-industry development. Thus hardware (equipment and buildings) in urban areas has been heavily emphasized. Intra-donor co-ordination has been conspicuously lacking and donors have not perceptibly influenced policy regarding public versus private institutions and enterprises.

Effectiveness of RSIE institutions

Private enterprises (including partnerships) appear to be far more effective as recipients of assistance and as productive units. They also promote diffusion of technology and new products and are a major source of training for skilled and semi-skilled workers. Communal and co-operative enterprises can also be successful. Facilities directly owned by the State have proved definitely less productive.

The overall productivity of SIDO has been very low. However, despite concerns over SIDO's outreach and the possible effects of the wide range of its activities on its overall productivity, it is not clear that NGOs have any decisive advantage in the delivery of RSIE projects and extension assistance over public agencies in the United Republic of Tanzania.

No systematic comparison has been possible of training provided by private firms and public agencies. Private apprenticeship in the informal small-scale sector has been relatively successful, but public training facilities have generally been underutilized and have often provided types of training for which there was no demand.

The public-sector monopoly in banking and finance has served RSIE ill. Financing of RSIE may need new mechanisms, linking savings to loans and providing mutual guarantees through co-operative savings and credit associations.

Effectiveness of assistance does not decisively differ with the location of institutions, as the national institutions involved (National Bank of Commerce and to a lesser extent SIDO) have very extensive branch networks. Despite this, SIDO at least has very limited outreach beyond the regional towns into the countryside. Regional projects have a mixed record. Some achieve very few local linkages and rural outreach, others achieve considerably more. The district authorities are capable of promoting very simple small projects, although the priorities of district programmes lie rather in agriculture, transport, education and social services.

Despite their branch networks, the national institutions exhibit some rigidities of centralization, particularly in financing and procurement.

Most assistance appeared to be based on the sectoral approach. No true example of the integrated area approach, linking sectors, was observed. One partial approach to this, attempting to interlink wood and mineral resources to industry in the Kilimanjaro region, has had very little success.

Co-ordination among host institutions is attempted through a system of committees particularly at the regional level. However, in practice it is very limited.

Donor assistance has rather detracted from than contributed to inter-institutional co-ordination. In providing TCA, donors have unduly restricted their choice of recipient institutions. Despite the fact that they have concentrated on public rather than private institutions, they have contributed little towards solving the shortcomings of public-sector management.

Programme and project issues

Although the field visits showed up many cases of aid-addiction (donor-dependency) in RSIE, there were also instances of self-reliant growth or good utilization of partial support. The shortage of public funding for parastatal institutions has led to many RSIE-servicing institutions going into productive activity that is in direct competition with their clients (for example, the common-facilities workshops and

CAMARTEC). RSIEs, especially on industrial estates ("sister industries programme"), have remained excessively import-dependent.

From the scant information available, pre-feasibility studies for RSIE would appear to be either too much tied to the idiosyncracies of a specific donor agency or were even purposely neglected for lack of manpower.

There is too little evidence to evaluate the effectiveness of multi-purpose as opposed to RSIE-specific projects. Most programmes covered either all small enterprises generally, or, at the district or rural level, all sectors. Neither type puts much emphasis on small industrial enterprise in the countryside. A rather successful experience with rural industrial extension in Arusha district centred around the development of appropriate technology for industries with forward and backward linkage to agriculture.

Inadequate monitoring of RSIE programmes and projects was found to be due to understaffing, lack of a project document, lack of institutional co-operation, a too partial approach to TCA, the possibility of relying on another agency, and similar factors.

No tangible evidence of built-in follow-up in assisted projects was found. It would seem rather that assisted host-country institutions are increasing in their aid-dependence. Evaluations were often too late to save gross waste, for example, SIDA evaluation of the rural hire purchase scheme and the Netherlands' evaluation of common-service facilities.

Specificity of approach by donors is tied more to the aid policies of donors than to the needs of the target group assisted. Recipient attitudes seem to vary from a laisser-faire approach (SIDO) to a parcelling out of regions to certain donors (Commonwealth Development Trust Fund).

2. *Senegal*

The mission to Senegal took place from 4 June to 30 June 1987. It was undertaken by a team consisting of Sidate Gueye (National Consultant), Frieda Panis (UNDP Technical Advisor) and Roger Teszler (Core Consultant and Team Leader).

Summary of findings

The inadequacy of quantifiable information and the present transition stage of Senegal's development policy make it difficult to arrive at a clear diagnosis of the state of RSIE (or of industry in general).

Structure, functions and problems of RSIE

From an RSIE viewpoint, three categories of industry can be distinguished: artisans, small industry and medium-sized industry. It is believed that there are 350,000 to 400,000 artisans in rural areas. There are also 200 small-scale and 150 medium-sized enterprises, 75% of them in the Dakar-Cape Verde area.

The combined problems of drought and a decline of world commodity prices have made a re-orientation of economic policy necessary. The new policies for agriculture and industry have been established in principle but must now be worked out in detail. The envisaged privatization and the opening up of the Senegalese economy has not yet been analysed in terms of the artisanate and small and medium enterprise. What programmes have been established are aimed at assisting special groups (such as discharged civil servants or unemployed degree holders) in setting up firms.

RSIE has most linkages with agriculture—forward and backward linkages, rather than linkages due to increased rural incomes. It is hoped that the new irrigated lands of the "après barrage" scheme will also stimulate non-agricultural activity which at present suffers along with agricultural decline. Some signs of a renaissance have even preceded the irrigation (St. Louis-Richard Toll-Podor). An important link with agriculture is formed by mainly diesel-operated grain mills that are often made by artisans and small

or medium enterprises, and for which special designs have been promoted by Environment Development Action (a regional NGO), among others. Artisans successfully copy the designs of large producers (SISMAR). These mills are mostly used in women's pre-co-operatives. The processing link with agriculture is mainly for direct consumption.

Linkage with large industry is limited to purchase and imitation although some small and medium enterprises show signs of attempting to obtain contract work from large industry (SODIDA, SODIZI).

The low linkage level of Senegalese industry (high import content and low value added for export) make it difficult for RSIEs to forge any links with other enterprises. High transport costs and low levels of education also hinder the spread of rural industry. RSIE agglomeration effect may be enhanced through the establishment of service centres in industrial estates and through co-operation with "Chambres des Métiers" (Artisan Chambers).

Policy and institutional framework

Despite an average annual growth of over 4% in manufacturing, income growth has been slow, because of slow growth in agriculture, the high population growth rate and low rate of savings. GDP per capita has been declining and is now below the average for Africa. The crisis in the economy is structural and long-term. Adjustment measures during the eighties have included appropriate pricing policies, cuts in budget deficits, debt rescheduling and reducing the role of the public sector. Since 1986, the New Industry Policy has aimed at increasing manufacturing efficiency, increasing exports and achieving better integration with other sectors of the economy.

RSIE growth will depend considerably on the development of agriculture in the different regions, and the generation of small "agro-industry" and "pre-agricultural" activities.

Several institutions take care of RSIE with different but sometimes similar functions. The Government of Senegal tried to organize the RSIE sector by financing, from its capital budget and from foreign assistance, the establishment of promotion organizations, while putting in place an environment supportive of development. In spite of all the policies developed, including the credit policies, the local development and commercial banks did not want to assume the risks involved and preferred directing their credit to the more profitable large-industry sector.

Likewise, the concern for decentralization, which was the origin of the creation of the industrial estates and of the regional centres for artisans, did not produce satisfactory results because of an excessive centralization of authority and of the services provided.

Only some socio-professional groups, such as the educated unemployed, those made redundant and returning emigrants, were able to find financing. The experience was, however, not a success because the new entrepreneurs did not have the necessary training. The situation is being redressed at present. Nevertheless, the potential which exists in the Vallée du Fleuve with the "après barrage" and in the south of the country with agriculture, make decentralization indispensable for the development of RSIE. Collaboration between the different organizations which concern themselves with RSIE is equally indispensable.

Effectiveness of RSIE institutions

An integrated, comprehensive and at least moderately detailed policy and organizational framework is widely perceived to be necessary for the effective operational and economic functioning of individual institutions acting within or upon the small industrial enterprise or RSIE subsectors. The absence of such a framework has weakened the structure of institutions and diminished effective collaboration and co-ordination between institutions within Senegal.

The short-term effectiveness of external assistance and the longer-term sustainability and potential growth of the institutions and programmes built up with external

assistance depend on the prior existence of a minimum core national structure, active participation by that structure and the allocation of real national inputs.

An attempt was made to review the requirements, structures and levels of effectiveness of institutions operating within different parameters (public versus private, local versus national, geographical versus sectoral) so as to identify possible differences. The configuration of Senegalese institutions does not, however, lend itself to clear comparisons or comparative rankings. There is some evidence favouring institutions with a structured outreach-and-feedback network extending into the regions.

Although a wide range of public, private, NGO, co-operative and autonomous institutions exists in Senegal, the mission has seen no empirical evidence of clear differences between the various types of institutions when it comes to their economic or operational effectiveness or even their *modus operandi*. All financial institutions, of whatever hue, have small portfolios and underutilized credit resources for the small-and-medium-enterprise sector. They are all Dakar-based, and have in effect favoured commercial and service enterprises rather than industrial. The main difference between public development banks (including special credit funds) and private commercial banks lies in the fact that the former, by virtue of mandates, have attempted to get involved in small industrial enterprise and RSIE financing and thus have a greater volume of operations relating to RSIE. External donor funds and funds intended for specific purposes (for example, to assist groups of educated unemployed) are somewhat more effectively used for small industrial enterprise and RSIE through public institutions, such as SODIDA, Société Financière Sénégalaise pour le Développement de l'Industrie et du Tourisme (Senegalese Finance Corporation for the Development of Industry and Tourism, SOFISEDIT), SONEPI and Société Nationale de Garantie d'Assistance et de Crédit (National Credit Guarantee and Assistance Fund, SONAGA). The channeling of USAID-financed programmes for local community and rural enterprises in the Kaolack region through NGOs has apparently been successful, though there is no evidence of its sustainability after external funding disappears, since no institutional follow-up has been built in.

Programme and project issues

Sustainability. Small and medium enterprises on industrial estates are mostly still far from self-reliant since they depend on low rents and estate assistance. Dependency may be further increased by establishing service centres in industrial estates. Successful entrepreneurs remain rare and artisans who have built up a business seem to be few and far between. It is encouraging to see certain industrial estates (in their new role as service centres) take initiatives to make the estates pay their way by encouraging new activities.

Attempts to promote self-reliance among artisans have only met with a limited degree of success (if the success story of the women's co-operatives is not considered as an artisan effort). The constitution of women's groups was effected by introducing the possibility of forced saving through grain milling and thus paving the way for collective self-reliance and economic improvement. This example shows the importance of local support and of strong national structures for self-sustained development.

Relevance of pre-feasibility studies. There appears to be an indication, at least amongst the projects observed in Senegal, of success being measurable in terms of the thoroughness of pre-feasibility study. The women's pre-co-operatives had a multi-year pilot phase which was preceded by a feasibility study-cum-survey. Whereas, assistance to the "Chambres des Métiers" through the "Direction de l'Artisanat" seems to have been implemented without any pre-feasibility study at all.

Planning differentiation according to target group. Practically all interventions have been differentiated, even to the extent that, for example, redundant civil servants starting small industrial enterprises received different assistance than unemployed graduates attempting the same. The idea that mechanisms can be built into more general projects to ensure that certain groups get their share, has only been brought forward as desirable but seems not to have been implemented.

Comprehensive versus partial. Varying degrees of partial input support seems on the whole to have been more successful. This approach would seem to fit in well with the new government policies.

Inappropriate hardware or expertise. Inappropriate hardware was found in nearly all sub-projects of the project to assist the "Chambres des Métiers" through the "Direction de l'Artisanat". Inappropriate expertise was not found, although in some cases the expatriate TCA can be considered excessive. Perhaps the proposed UNIDO 87/001 will provide much needed policy approaches to small-scale industry and RSIE (it seems unlikely that it will also consider artisans).

The pre-co-operatives for women form the only case observed where a follow-up was considered in the design stage. (The first phase was a pilot phase.)

3. *Zambia*

The mission to Zambia took place from 8 June to 10 July 1987. It was undertaken by a team consisting of S. Nanjundan (Core Consultant and Team Leader) and Jan Versluis (ILO Evaluation Officer). There was no national consultant.

Summary of findings

RSIE: Types, structure, trends

Zambia is unique among developing countries of comparable size and level of development in its high degree of urbanization, high share of large and medium-sized enterprises in total manufacturing, low development of agriculture and existence of large unused agricultural resources. Rural small industrial enterprises currently play only a minor role in the economy.

Historical, structural, institutional, legal and policy constraints have resulted in the development of two distinct economies, urbanizing along the line-of-rail and rural in most of the rest of the country. Rural areas are sparsely populated and the population is widely dispersed. Rural underemployment is combined with a large and growing urban unemployment, 80% of rural and 25% of urban households have incomes below the basic-needs minimum. The economic crisis of the last 10 years or so, resulting from deteriorating terms of trade, declining mining output and employment, and lack of foreign exchange for maintaining industrial production, has underlined the imperative of agricultural and rural development.

Recent data are available on the number of small enterprises and employment in rural areas, where there are estimated to be about 350,000 enterprises providing employment to about 500,000 persons. These are very small individual or family enterprises of one or two persons each on average. Two-thirds of them provide only a supplementary income to subsistence farming. About half of the enterprises are forest-based and about two-thirds are owned by women.

Development of agriculture has become a first priority of the authorities and agricultural production is beginning to be geographically redistributed in favour of the rural provinces. There is an undoubted potential for both forward and backward linkages of RSIE with agriculture. Food processing (such as maize milling) and the production of agricultural implements and tools are the obvious examples. Government price policies in certain cases, however, constitute disincentives for the development of the small-industry sector.

Forestry provides an important linkage to RSIE, for example, in furniture-making. The potential has not been fully exploited. Problems in this respect are the availability of timber, the use of imported metal components (screws, hinges) and marketing.

Leather tanning is another promising sector for RSIE development. It is also one, however, where the potential linkages to urban small industrial enterprise have not been sufficiently explored (linkages to furniture-making or the small-scale shoe industry, for example).

Obviously, if agricultural output were to increase at a significant rate, potential markets for RSIE would develop. However, in view of the remoteness of rural areas and the sparse distribution of rural population, marketing and transport of both RSIE inputs and outputs need specific attention, in order to improve RSIE linkages with urban markets and industries.

Lack of rural infrastructure and scarcity of basic consumer goods in rural areas further limit the development of RSIE. Development of such infrastructure could provide an important incentive in this connection. There are examples of partial payment in kind in consumer goods by marketing organizations to rural craft producers, as an incentive (to counterbalance scarcity of consumer goods).

Levels of general education do not seem to be directly related to RSIE development. However, skill development and management training continues to be pertinent. There are a number of remarkable attempts in this area, but the training of trainers remains an important area for technical co-operation assistance.

Since potential linkages of RSIEs among themselves or with other sectors have not been systematically explored, it would be advisable for donors and executing agencies in collaboration with national institutions to review this question carefully and aim for multiplier effects within the RSIE sector.

The social and cultural context has to be taken into account in programmes of RSIE development. Non-availability of time and labour in subsistence households during peak agricultural periods, the rights and obligations imposed by the extended family, the land tenure and inheritance systems, are all important. The sparse population in villages, the small size of the local market, the poor development of infrastructure, and the scarcity of skills and entrepreneurship are unfavourable factors in villages, besides the fact of decreasing numbers of traditional artisans, such as blacksmiths, carpenters, wood carvers etc. Rural entrepreneurs have to be created through vocational and trade training as well as work-oriented education. It may also be possible to attract to rural townships and small towns retired or redundant workers and trained young men from urban areas. Thus the rural townships and small towns offer better prospects for RSIE development than villages. Selected rural towns may be developed as growth centres for RSIE.

Policy and institutional framework of RSIE

Several factors have constrained agricultural and rural development. Historically, policies based on copper mining and later on large-scale industries and commercial farming, resulted in neglect of peasant agriculture and migration from rural to urban areas. High wages in urban areas and the system of administered prices did not provide incentives for agriculture. As regards the industrial structure, policies concentrated on capital- and import-intensive consumer goods and on line-of-rail locations, and did not provide linkages for small-scale enterprise and RSIE development. The issues of administered prices, differential prices and producer prices on the one hand, and of structure of tariffs on raw materials, intermediates and finished goods on the other hand, are important for RSIE and small-scale enterprise development. There are legal constraints on the establishment and location of small-scale enterprise and RSIE, while positive incentives are difficult to administer.

The institutional framework lacks cohesion. There is little central co-ordination. SIDO was meant to be a co-ordinating agency, but has not functioned as such, lacking the resources and manpower required, as well as influence over other agencies. The Village Industry Services (VIS), a non-governmental society, has been more successful with its more limited resources in organizing and assisting very small urban enterprises and village groups, including women's groups. It has been able to attract donor resources to rural areas. However its organizational strength needs to be built up. Both SIDO and VIS have come to be looked upon as apex institutions—the former for the more modern organized urban small-scale enterprise and the latter for the rural small enterprises.

Financial resources and mechanisms are in the process of development. The Development Bank of Zambia (DBZ) has assisted urban small-scale enterprise since 1983. Small-scale Enterprises Promotion Ltd. (SEP) has been successful to a limited extent in

meeting the requirements of small and medium enterprises along the line-of-rail. With NORAD finance and support, the Special Fund for Rural Development has been established for guaranteeing loans to enterprises established 50 kilometres away from the line-of-rail. Small revolving funds for certain provinces, for example, the North, are being established, linked to bilateral projects. While the more modern and organized small-scale enterprise could be financed through commercial banks backed by credit guarantees, the question of financing RSIE will remain a difficult problem, because of legal constraints on establishment and location and the difficulties of obtaining collateral. The co-operative credit system—operated through credit unions—offers perhaps the best possibilities for financing RSIE. The co-operative system will make possible loans to members of a group against mutual guarantee of its members and backed by the savings of the group. It will also offer a channel for supervising loans.

Outreach to rural entrepreneurs is difficult for central institutions. Local organizations, such as district councils have to play a key role in promoting RSIE. The acute scarcity of resources makes central planning, co-ordination and allocation of resources by the Ministry of Commerce and Industry imperative for RSIE development. Furthermore, the roles of central and provincial agencies should be carefully demarcated and the specific role of SIDO in the light of the proposed co-ordinating role of the Ministry of Commerce and Industry, needs to be defined. It will be useful to have a functional distinction between central agencies and local agencies, and also to separate promotion and extension functions from financing and commercial functions. Local agencies, such as district councils, will need central assistance and allocation of resources, which may be done on a selective basis, with incentives for mobilization of local resources. Duplication or overlapping of efforts should be avoided in the light of the acute scarcity of resources. The respective responsibility of SIDO and VIS may be pragmatically defined, so that, for example, the former is for "urban" provinces, and the latter for "rural" provinces.

While the UNDP approach focuses on institution-building and advisory services, bilateral donors seek to achieve their objectives through technical assistance as well as funding of investment and of operations. Complete funding of projects by donors may perpetuate donor dependence and a policy is required to phase out donor financing of local costs by substituting local contributions (supported by the Government) for achieving long-run viability and sustainability of the programme.

Long-term donor assistance is required before commercial operation of extension and technical services in a backward area can be achieved. While commercial operations, such as purchasing, sales, production etc., should be run on a commercial basis, it is legitimate to subsidize the provision of technical and extension services for RSIE development. This is an important policy question which should receive serious consideration from the authorities as well as allocation of resources for this purpose.

Effectiveness of RSIE institutions

The impact of SIDO is likely to be on small-scale enterprises in the urban areas and line-of-rail provinces rather than on RSIE. However, its role should be clearly defined so as not to overlap, for example, with the Copper Mining Enterprise Trust (COMET) in the Copperbelt. Its capabilities in project preparation and appraisal and appropriate technology should be utilized by local institutions promoting RSIE.

The operations of the Integrated Rural Development Programme (IRDP) relating to RSIE in the North-Western Province appear to have been highly effective, though their impact cannot as yet be evaluated. The IRDP approach has the merit of *(a)* small investments; *(b)* development of appropriate technology and tools; *(c)* learning by doing; and *(d)* eventual institutionalization. It may have the disadvantage of slower development of new activities, for example, in farm implements and metals.

VIS activities have met with a measure of success, but the institution depends overly on donor financing even for its day-to-day operations. VIS's handicraft-marketing activities could benefit from assistance from the United Nations system in product design and export marketing. Handicraft-marketing operations may eventually be expanded and generate increasing surplus, some of which may be used to finance the

extension activities of VIS. VIS may also consider passing over its urban small industrial enterprise activities to urban councils or other NGOs, in order to devote its full capability to RSIE development.

The financing of RSIE needs a new institutional channel. The credit union system may offer the best possibilities for developing a system of loans to RSIE, taking into account legal constraints in rural areas, insufficiency of outreach by commercial banks, the small size of loans required and the need for personal knowledge of clients by creditors.

There is as yet insufficient experience of local institutional arrangements. Localization of institutional arrangements is essential for RSIE promotion. The district council, the co-operative credit union and the co-operative society may play an important role in villages. In small towns private companies may provide services. National institutions, such as SIDO and VIS, may channel technological and training services through local institutions.

RSIE development needs area-specific sectoral institutions. Area organizations, such as IRDP, have had some impact on RSIE development whereas national sectoral organizations have had only a very limited impact.

TCA projects have hitherto concentrated on a limited number of host organizations. There is scope for developing activities with other potential counterpart organizations such as CUSA.

The design of UNIDO projects for assistance to SIDO and VIS has in the past been confused between institution-building and direct-support activities. There has been insufficient counterpart support and training has not been sufficient to enable the institutions to become self-supporting. Partly because of design defects, the projects have had to be extended from time to time. The latest project documents for both SIDO and VIS have, however, been well prepared.

Bilateral projects, for example, those of GTZ, NORAD and SNV, are, on the whole, better designed. However, the NORAD project does not provide for national and local financing of inputs. The GTZ project in the North-Western Province is a good institution-building project, providing for national continuation of activities. A unique feature of the SNV project for the Western Province is the inclusion of a risk analysis on sustainability of the institution.

4. Pakistan

The mission to Pakistan took place from 8 June to 10 July 1987. It was undertaken by a team consisting of Khalid Aftab (National Consultant), James Keddie (Core Consultant and Team Leader) and Hermine Weijland (Netherlands Government Consultant).

Summary of findings

Structure, functioning and linkages of RSIE

Despite unfavourable policies, RSIE is a sizeable and dynamic sector in the Pakistani economy. About 10% of the rural population earn a living from it, i.e. about 6 million people supported by 500,000 small workshops or household enterprises.

In work-force terms, the single most important branch is clothing, footwear and leather products, with 30% of workers. In income terms, wood and metal products probably come higher. The latter are made primarily for local customers, but the trend of RSIE is to outward-oriented growth, towards inputs to and outputs of goods marketed in [illegible] centres or even abroad.

There are two broad types of RSIE: a predominantly male section, clustering in small towns and at cross-roads, and a predominantly female section, in rural cottages, which is fragmented and often on the smallest imaginable scale.

Both types are highly commercialized. The female sector is almost entirely dependent on sub-contracting, as is also one part of the male sector. The other part

produces on its own account for local customers, or for urban markets via a network of competing traders.

The existence of a large dynamic RSIE sector is the result of four strongly favourable factors in Pakistan:

(a) An age-old industrial tradition;

(b) A strong agricultural base;

(c) A pattern of local population concentrations in the most prosperous agricultural areas;

(d) A well-developed transport and trade sector.

These factors show wide regional variations, they are applicable mostly in Punjab, somewhat less in the North West Frontier Province and least in Sind and Baluchistan. Where only one factor is lacking, RSIEs are not doing well or are almost absent.

Functions in the economy

- A substantial part of RSIE goods is exported.
- RSIEs have strong linkages with agriculture:
  - They produce machinery and equipment for the small farmers who cannot afford sophisticated products and do not know how to go about purchasing such expensive products from large, urban traders. RSIE skills are compatible with small farmers' bargaining practices, and both have a common technological background;
  - RSIEs also process and transform agricultural products (basketry, wood products, grain and oil milling, leather industry);
  - RSIEs can absorb seasonally unemployed agricultural labour;
  - RSIEs also absorb agricultural savings. Many farmers turn into small industrial entrepreneurs, or finance RSIE;
  - RSIEs provide cheap consumer goods for the farmers' households.
- RSIEs have very useful linkages with large industry and commerce. In the agriculturally developed areas, RSIEs are part and parcel of the larger manufacturing sector.
- There are most beneficial linkages between RSIE and the transport sector. The latter is organized mainly by private small entrepreneurs who can have their vehicles built and serviced by RSIE. The automotive branch in RSIE is very dynamic.
- RSIEs play an important role in training labour. They take many apprentices and are the basis of informal training. Although the illiteracy rate in RSIE is higher than 80%, they can create skilled artisans.

Obstacles to RSIE development

- In some regions, there is a lack of industrial tradition. Where this is the case, it is very difficult to start RSIE (people do not want it).
- In all regions, RSIE needs upgrading of technology to meet the requirements of a fast-growing economy.
- Capital has not been a stringent constraint. RSIE has been financed with family savings (from farming, migrant labour, or trade) and from suppliers' and buyers' credit. Technological improvements, diversification and expansion, however, require credit facilities.
- Accommodation is a constraint, the purchasing or hiring of a workshop is very costly.
- Marketing is a constraint only for the isolated cottage workers.

Policy and institutional framework

Initially, the Government's broad policy was to diversify the economy into industry. In the last decade or two, however, increased attention has been given to agricultural development.

The industrialization policies and instruments have all favoured large-scale industry rather than small (for example, credit, exchange rate, industrial and import licensing). The bias has been reduced with liberalization, but still exists. Concern for small industry has not yet singled out RSIE, so that an urban bias remains.

Credit and other assistance institutions have been seen as separate, and are only partially decentralized, to the detriment of RSIE promotion. NGOs remain weak, and have not been effectively encouraged.

The donors have taken few, or only marginal, initiatives to affect policy or institutions, except in general liberalization measures. They have tended to follow Pakistani initiatives.

Institutional effectiveness

The RSIE sector is overwhelmingly privately-owned. The relatively few publicly-owned production units are, with few exceptions, inefficient as viable producers.

The sector's assistance institutions are overwhelmingly publicly-owned. NGOs are weak in this field, and mostly involved in representational work. There are not many associations of the RSIEs themselves.

Despite considerable efforts, the assistance offered to RSIEs by institutions has been very small relative to the size of the RSIE sector, and of very uneven effectiveness. Most RSIEs are self-reliant (or reliant on other small private parties) in terms of markets, skills, labour and accommodation. Public-sector assistance has been effective at introducing new markets, products, technologies and training in exploiting these. These efforts are paralleled and multiplied by the private sector and the RSIEs.

Provincial-level organizations seem to be more effective at promoting RSIE than national ones. The provincial organizations see the need to decentralize their own decision-making.

Sectoral extension centres have a limited geographical outreach to RSIE. If well-planned, mobile units offer considerable promise of greater outreach and higher productivity.

Area, as opposed to sectoral, development programmes have offered little to promote RSIE.

There is a fairly general lack of co-operation between various assistance institutions, in particular between the banking system and the promotional agencies.

Donors have only recently become seriously interested in RSIE-promotion. As they have become so, their selection of institutions and their TCA offerings are becoming more appropriate.

Programme and project issues

Although there is some evidence that local-community support has promoted development projects, most of this has not been directed towards RSIE.

Multi-sectoral or multi-target group programmes have given no effective support to RSIE, except, on occasion, from spill-over effects. RSIE is a low priority for such programmes. The impact of RSIE-specific projects is greater.

Comprehensive assistance is not needed by many RSIEs, who typically need only one or two types of assistance, for example, training in new skills or product development or credit. Where comprehensive assistance may be required, for example for female carpet-weaving in remote areas, it cannot effectively be provided by the public sector, which lacks the necessary commercial discipline and contacts.

Choice of foreign equipment without local consultation with field staff can be damaging. Expatriate advisers can function effectively at almost all levels, usually working in tandem with counterparts.

Donors design projects based on policies for utilization of funds. They do not provide policy advisers or design projects for policy advice. Careful selection of institutions is therefore important.

Monitoring results of past programmes (in Pakistan or outside) appears to be widespread and useful in designing new programmes. In Pak-Holland Metal, a special effort is made to self-monitor within projects, assisted by an outside permanent advisory group.

Little explicit attention seems to be paid to the follow-up capacity of the host-country institution. This does not seem to be a pressing issue in technical assistance projects in Pakistan.

5. *Indonesia*

The mission to Indonesia took place from 13 August to 14 September 1987. It was undertaken by a team consisting of Adrie de Groot (UNIDO Evaluation Staff) and James Keddie (Core Consultant and Team Leader). There was no national consultant.

Summary of findings

Structure, functions and problems of RSIE

There is no strong general industrial or entrepreneurial tradition in Indonesia or in its rural areas. Agriculture still predominates in the countryside, and rural industry—largely restricted to food, clothing and textiles, wood, clay products and metal-working—is not the dominant secondary sector. Rural life is characterized by mobility and part-time use of labour and capital between sectors and trade, often involving credit to producers, is a very prominent sector. Many rural people and RSIEs have severe liquidity problems.

Although employment and value added in small industry and RSIEs are growing in Indonesia, RSIE wages are not high. Both men and women participate in RSIEs, which are more heavily concentrated in Java and Bali than in the outer islands.

The chief strength of Indonesian RSIEs is their ability to produce a fair range of consumption and handicraft goods with low labour costs and using minimal capital, and to respond rapidly to growth in demand for a known product. Against this, there are several major weaknesses. RSIEs are predominantly passive in skills, product range, marketing and the raising of capital. They rarely innovate without a determined external stimulus. They stick to known products and wait for buyers to come to their doors. This has, however, not prevented an encouraging success in exporting furniture, clothing, baskets, carvings etc. through buyers, who are attracted by the RSIE strengths.

The main linkage to agriculture seems to be backward, via consumer goods produced in response to rising agricultural incomes. There is relatively little agricultural processing in RSIEs except in rice milling, and only limited production of simple agricultural implements, mainly hand tools. The RSIE sector is not strongly linked to larger industry by sub-contracting or intermediate processing, except in isolated cases and in the handicrafts export sector. Even in that sector, however, the relationship is more akin to trading than to division of manufacturing functions and RSIEs most marked linkage is commerce, both urban and rural, on which it relies for supplies, credit and marketing. Improved transport probably has generally helped RSIE by increasing rural incomes. Most RSIEs do not use electricity, which may, however, have helped the spread of rice mills, sawmills etc. There is scant evidence of modern technical skills within the labour force. Thus, although RSIEs benefit from some favourable circumstances—growing rural prosperity and infrastructure and some export prospects—their main problem is their passivity, which makes development of markets, capital and higher skills a laborious prospect.

Policy and institutional framework

On the policy side, the record is mixed. The Government has for many years adopted a realistic exchange rate and an expansionist agricultural policy. But it has practiced marked industrial protection and, by this and other means, has favoured large, import-substituting industries and has, at least relatively, discouraged the labour-intensive export sector in which RSIEs might participate. Recent measures of credit and trade liberalization appear sincere but, while signs are hopeful, it is too early to assess their RSIE-promoting effects. Perhaps the main lesson from the policy standpoint is that a sensible expansion of agriculture—and a related wide distribution of oil revenues—can work wonders for RSIE, even where other measures force up industrial-input costs.

On the institutional side, Government is not hostile to private enterprise but is regulatory of NGOs. It operates a massive and highly complex apparatus of public agencies—banks, official co-operatives, departments of industry, manpower, social affairs, home affairs, education, trade—all of which have separate programmes relevant to RSIE. The state banks' credit terms and programmes have recently grown more market-oriented but some subsidized programmes remain.

Effectiveness of RSIE institutions

Precise comparisons of the RSIE-promoting effectiveness of institutions are difficult since few institutions are specific to RSIE and they mostly have differing objectives and operate under different conditions. Although RSIEs in Indonesia are capable of considerable self-help in their response to evident new opportunities, the sector is not very dynamic in itself and clearly benefits from well-designed outside assistance, including perhaps credit (though continuing to rely chiefly on its own, and informal sources of funds). It receives some assistance from other private firms and NGOs, which seems to be of a high quality, but limited in extent and likely to remain so.

While many parts of the Government apparatus are locally effective (BIPIK in established centres, BRI with Kredit Union Pedesaan (KUPEDES), many LBKs), on the whole its effectiveness is seriously impaired by low pay and travel allowances to its field staff, rigid project budgetary and operating procedures and the reluctance of its various agencies to co-operate with each other.

Thus, all in all, there is a limited and inefficient national system of RSIE-promotion, in spite of many agencies with widely decentralized operations. Such operations seem to be a necessary, but not a sufficient, condition of effectiveness. It also seems that efficient multi-sectoral programmes such as KUPEDES credit cannot place much emphasis on RSIEs, due to the diversified and trade-intensive nature of the rural economy. It was, however, found that carefully selected inputs can be as effective as a comprehensive package of assistance. Flexibility is the key.

TCA project issues

Turning to project issues, it is sad to record that while TCA has had some local successes, it has not yet been able—with the exception of TCA to BRI for KUPEDES—to contribute significant improvements to the national system of RSIE-promotion. For that, one or two things seem to be necessary; either a reform of procedures and working practices in more Government programmes, and a real willingness to co-operate with other agencies and the private sector, or (possibly but implausibly) the widespread turnover of the more active Government promotion functions to private or NGO mechanisms.

In the meantime, TCA has largely concentrated either on local direct-support activities to RSIE, with varying success dependent on good judgement of the needs and potentials of target groups, or on mostly ineffective governmental institution-building projects. Not many conclusions on project issues can, therefore, be drawn from the Indonesian data alone. Perhaps the chief ones are that project designs should be honest and modest in their objectives when faced with simultaneous weaknesses in the RSIE

and the institution and that, if an institution (like BRI) wants to change, it can be effectively assisted to do so—even in highly dispersed operations—by "indirect" pure institution-building TCA from well-informed experts.

6. *Peru*

The mission to Peru took place from 17 August to 11 September 1987. It was undertaken by a team consisting of Oscar Gonzalez-Hernandez (UNIDO, Chief of Evaluation Staff), Teobaldo Pinzás (National Consultant) and Roger Teszler (Core Consultant and Team Leader).

Summary of findings

Structure, functions and problems of RSIE

The observations of the mission during its stay in Peru have given rise to a classification of Peruvian RSIE into three global categories:

(a) Industrial enterprises in rural communities. This can be organized on a village community or on a more individual basis. They exist mainly in the Andean highland area of Peru;

(b) Micro- and small industrial enterprises in "pueblos jovenes" (shanty towns);

(c) Small industrial enterprises in secondary cities.

Whereas enterprise in the *(a)* category requires integrated TCA over a long period of time, the others depend much less on intervention of an integrated nature. Instead, they usually lack specific elements such as space, industrial inputs, or credit. They may lack all of these elements but they do not want assistance in all of them. It may be possible—although no proof is yet available—that an industrial-estate type of approach could solve some of the problems of small industry of the *(a)* category.

Village community enterprise usually only has linkages with rural activities of the primary sector (agriculture, extraction). Sales are at the local or the district level.

Type *(b)* enterprise is characterized by a dynamic class of entrepreneurs who give much attention to organization (associations) and who are increasingly found to be producing consumer goods (clothing), intermediate and even capital goods (metal workshops) rather than processed food products. Their main markets are in the larger cities, they do no primary processing and have few linkages with larger industry (such as sub-contracting). The small metal-working industry (but it holds true for the entire branch irrespective of plant size) in Peru has problems in obtaining steel (national production is deficient and imports are restricted).

Category *(c)* firms which are larger in size than *(a)* or *(b)* firms go in more for sub-contracting and do most of their selling in national and even in international markets (e.g., hydraulic presses from Piura).

Small-scale industry has succeeded in increasing its role in the Peruvian economy. In all subsectors of industry, more than 50% of the establishments are small. In some, this figure is even higher than 90% (footwear, clothing, printing, metal products).

In the 1970s, small-scale industry grew faster in metropolitan areas such as Lima-Callao. The present decade has seen a reversal of this trend together with an accelerated overall growth of the sector in terms of number of firms, persons employed and gross production value. Fastest growth appears to have been achieved in a number of secondary urban centres (Arequipa, Chiclayo, Trujillo, Iquitos, Cusco, Piura in particular) and slowest (i.e., even slower than in metropolitan areas) in smaller towns and rural areas. Building-up the *(a)* type enterprise is a lengthy process because it involves introducing industry virtually from scratch. On the other hand *(b)* and *(c)* category enterprise has a number of both strong and weak points. Among the former mention should be made of:

- The high degree of technical self-sufficiency of the entrepreneur;

- The rapid adaptability of the firm to sudden changes in the market;
- Low labour turnover ratios (much labour is family labour).

Weak points include:

- Difficulty of access to formal credit;
- Low bargaining power *vis-à-vis* large suppliers and customers.

Policy and institutional framework

Government attitudes: Small-scale industry in general and RSIE in particular have, until recently, been relatively ignored in Peruvian industrialization policies. In 1982, the new general law on industries (Nueva Ley General de Industrias) proposed special treatment for the small-industry sector, but it is only in 1985 that this change came into force. In this new law, the treatment of small-scale industry does not differ considerably from that of larger industry. No special policies exist for promoting industry in rural areas. Only from 1985 onwards has the Government started to show specific interest in the small entrepreneur. Statements by previous administrations and the ongoing (October 1987) process of nationalization of private banks (which measure seem to have been inspired, *inter alia*, by the wish to channel more funds to small entrepreneurs and consumers) have not yielded significant results in this respect.

Fiscal incentives: The 1985 law proposes few and limited fiscal incentives, the main one being, for all practical purposes, lower application rates of the general sales tax to small-scale industry. The newest law that is now before the Parliament proposes a single tax for small-scale industry (imposición única) to replace a whole series of taxes and levies, such as income tax, general sales tax and the levies for the various national institutions for housing, industrial training and industrial technology. This may be considered to be an important step forward as a simplification of existing legislation.

Financial incentives: Although a number of credit lines (including funds from donors and international agencies) exist for the financing of small-scale industry, the main sources of small-scale-industry financing are found in personal (or family) savings, commercial and informal credit. The potential role of the banks is limited by the extreme complexity of the paperwork required for the extension of a loan and the scarcity of other more easily available funds (soft loans). In this respect, the newest law on small-scale industry contains an interesting and probably quite effective proviso that reserves a minimum of 30% of available industrial credit from public development banks for small-scale industry and at least 5% (should be more) from commercial private banks.

Formalization and registration: The paperwork and other bureaucratic procedures that form part of the registration procedures of small-scale industry are overly cumbersome. It has been estimated that, on average, the whole process requires no less than 11 separate authorizations that take approximately 10 months to obtain. The 1985 law and its regulatory procedures have simplified this process. For rural areas, such procedures are even more complex because the registration of firm and products to be made has to take place in the offices of the Ministry of Trade, Tourism and Industry in Lima or one of its area representative offices in the capital city of a department. Some assistance is provided by associations of entrepreneurs.

The effectiveness of institutions and infrastructure

Judging by the limited success of industrial estates as a means of promoting industrial development in the past (e.g., Trujillo), it should be considered remarkable how much interest there is, at least in Peru, in building industrial estates for RSIE. It is still too early to form an opinion on the impact of such estates on RSIE development, because none of the estates intended exclusively for small-scale industry and RSIE are yet operational.

Although it may seem obvious that the availability of more and better production sites will prove to be beneficial to entrepreneurs now working under extremely cramped conditions, experiences in other countries (such as Kenya, Senegal and the United Republic of Tanzania) should modify the high hopes of this solution. Furthermore, the delays in the building of approved estates or even in the use of already opened ones, has led to land invasions and the search for other solutions so that the appeal of industrial estates for RSIE is losing ground. The newest law on small-scale industry continues to emphasize the positive role of industrial estates.

Whereas the industrial-estate concept is characterized by the concentrated supply of industrial inputs (water, sewage, electricity, production sites etc.), in Peru, the entrepreneur outside such an estate usually encounters serious problems in obtaining at least some of these inputs.

(b)- and *(c)*-type enterprises seem to have few problems as far as electricity is concerned, even though supply is sometimes interrupted. The transport system favours entrepreneurs located in areas with dense traffic because of lower prevailing freight rates.

Water did prove a problem in certain areas (the same applies for drainage). Cases observed include:

- Villa Salvador (shortage of water, deeper drilling would only provide brackish water because of proximity to the Pacific Ocean);
- Tanners in Arequipa continue to contaminate the Chili River, because the new industrial estate Rio Seco has not yet been opened.

A relatively large number of institutions, public as well as private, render services to small-scale industry and RSIE. Common characteristics include:

(a) Many institutions render identical services. In view of the fact that each institution serves a very specific location, this need not be a disadvantage. On the contrary, it often proves to be decisive for better and more effective contacts between the target groups and the institutions. Nevertheless, some co-ordination efforts may be required to avoid over-intervention at one location and non-intervention at another;

(b) Little is known about the impact made by these service institutions in their respective fields (extension, training, finance etc.);

(c) The way in which an institution is financed may well influence its *modus operandi* (or vice versa), as may be seen in the case of SENATI. Because this institution is financially independent (it is funded by a sales levy on industry), there is no relationship between the services SENATI offers to small-scale industry and RSIE and that sector's requirements. SENATI receives no financial support that is conditional on its helping small-scale industry and RSIE;

(d) Co-ordination between institutions could be improved, but it is desirable to avoid the creation of new institutions for this purpose. For that reason, the proposal to create the Comite de Desarrollo de la Pequeña Empresa Industrial (Committee for the Development of Small Industrial Enterprises) as a co-ordinating agency under the new law for small-scale industry, should be treated with caution. Much, if not all, the objectives aimed at could be achieved by improving existing institutions.

In principle there are various funds and lines of credit available for small-scale industry and RSIE in Peru. These can come from:

(a) Industrial banks or development finance institutions such as Banco Industrial del Peru (Industrial Bank of Peru) and Corporación Financiera de Desarrollo (Development Finance Corporation, COFIDE);

(b) Guarantee funds run by NGOs such as Fondo de Garantías del Sector Informal (Guarantee Fund for the Informal Sector) run by Programa de Desarollo Social y Empleo (Programme for Social Development and Employment) for financing

via the Co-operative Credit Centre, or by finance institutions such as the Fondo de Garantias para Préstamos a la Pequeña Industria (Guarantee Fund for Loans to Small Industry), run by COFIDE.

Funds from banks and development finance institutions for small-scale industry and RSIE have not been used effectively. Not much credit has been made available. This is not the result of demand shortfall, but of the forbidding procedures, guarantees and collaterals required by the banks (in accordance with national banking regulations that do not distinguish clients by size) and the time delays involved in processing loan requests and disbursements of the funds. Simplification of access to credit would undoubtedly lead to a shortage of available funds.

In the meantime it would appear that many loans are obtained by small-scale industry via informal channels. (This is also true for other sectors of the Peruvian economy.)

The second group of funds seems to be much more flexible and dynamic. As is the case with savings and credit co-operatives, the amounts loaned are very small and among the recipients no clear distinction can be made between industrial and commercial enterprises. Another advantage of this approach is that the managers of the guarantee funds can (but do not often do so) provide TCA to their clients, thus making it possible to use received loans more effectively and to arrive at high payback ratios.

The largest industrial training institute in Peru is SENATI. Although in practice most of its efforts are directed towards medium- and especially large-scale industry, it does make a special effort to provide assistance to small-scale industry as well, in particular through its subsidiary Instituto de Apoyo a la Mediana y Pequeña Industria (Institute for Support to Medium and Small Industry, IDAMPEI), which mainly works in Lima. A positive impact on small-scale metal workshops was observed (use of IDAMPEI equipment by small entrepreneurs for productive purposes). But in general it must be concluded that the activities of SENATI, by and large, do not correspond with the specific needs of small-scale industry and RSIE. This became particularly clear in Arequipa where SENATI equipment and SENATI courses (general as well as for tanning) do not harmonize with the needs of the small industrial entrepreneurs.

Training for business management (administration, accounting etc.) is also provided—apart from IDAMPEI—by NGOs in close co-operation with local authorities and small enterprise associations. Results so far have been good.

Issues of external assistance

In rural peasant communities, intervention to encourage industrial development should be of an integrated nature (even though this may be very expensive), because all industrial activity in such circumstances—in the Andean highlands of Peru at least—starts virtually from scratch.

In the other two categories of small-scale industry and RSIE, assistance should rather be directed towards the solution of well-specified problems than be based on an integrated approach. This would probably not be acceptable anyway because of its paternalistic connotations.

In all probability this would be the most effective manner to provide assistance to RSIE. It would be useful if the DP/PER/87/010 project on industrial restructuring would incorporate this approach.

The obligations of national counterparts should be well defined. Some projects seem to lead a life of their own, independent of the counterpart. Project staff on occasion give more attention to other objectives than those of the project. In general the projects reviewed are weak on institution-building.

Because of the wide range of professionals available in Peru, it would appear that a large number of national experts can be used in TCA projects of the type under review. On the other hand, assurances must be available that these professionals will really work full-time on the project they are assigned to and that national staff will continue to run the institution, once TCA has come to an end.

C. Countries desk-reviewed

7. *Colombia*

The Colombian desk review by Roger Teszler is based on readily available sources and some recent Colombian material which was gathered by the author during a stop-over in Colombia on completion of the RSIE field mission to Peru (17 August to 11 September 1987).

Summary of findings

The economic environment of RSIE

Large industry and to a lesser extent small and medium-sized industry are increasing their share in Colombian manufacturing employment at the cost of micro-enterprise (cottage-shops). The continuing migration to urban areas, furthermore, is relegating RSIE to more remote rural areas. If, however, the term rural is allowed a somewhat broader interpretation by defining it as all micro- and small industry outside the eight Colombian metropolitan areas,* Colombian RSIE also includes considerable smaller-town manufacturing of basic goods (food, beverages, tobacco, textiles, clothing, leather).

Over the last 120 years or so, urban and rural industry have switched roles in the wake of the rural-urban population migratory flows. In 1870, 80% of manufacturing employment was rural and in 1978 only 10%. Even in absolute terms, there was a decline of 50% in rural manufacturing employment. In the mid-nineteenth century, free trade led to the decline of rural industry and income from trade (coffee, cotton, wool) promoted the surge of modern industry in predominantly urban areas in the beginning of the twentieth century. The geographical conditions (moutain-ridges and highland valleys) led to the development of a series of urban centres with Bogotá gradually outstripping the others.

The policy environment

After waves of free trade and import-substitution protection policies, from the mid-sixties onwards attention was increasingly given to the export of manufactures (e.g., tax facilities). The export promotion board, PROEX, ..., also stimulates small-scale industry to export (e.g., leather goods). Efforts to stimulate small-scale industry were channelled through the parastatal Banco Popular and its development finance subsidiary, Corporación Financiera Popular (CFP). The 1982 law (Ley de Microempresas) established rapid procedures for formalization and other forms of assistance to the informal sector (industry and others) and, in March 1987, an integrated plan was announced for the promotion of small and medium-sized industry. No specific attention is given to RSIE, all policies are formulated in sectoral rather than territorial terms.

The institutional framework

There are a large number of institutions involved in providing credit and related facilities to small-scale industry and RSIE, but none of them is RSIE-specific. They have channelled large loans from the World Bank and IADB to small-scale industry. Among the more important of these, the Corporación Financiera Popular has made approximately 35,000 loans in 20 years to small-scale industry and 5,000 loans in five years to micro-enterprise. The Fondo Nacional de Garantías (National Guarantee Fund) guarantees loans to small-scale industry up to 80%. The Fondo Financiero Industrial (Industrial Finance Fund) also provides loans to small-scale industry and levies a higher interest rate in metropolitan areas.

*I.e., outside Bogotá, Medellín, Cali, Barranquilla, Bucaramanga, Manizales, Pereira and Cartagena.

CFP in particular also provides technical assistance to small-scale industry through an exclusive network of branch offices and extension officers ("monitores"). Others providing technical assistance include the National Apprenticeship Service, SENA, the major vocational training institution with a well developed national branch network which has programmes for micro and small industry reaching 500-600 clients per annum. There is also an increasing number of NGOs such as the Caravajal Foundation, which provides support to micro-enterprise, initially only in Cali and the immediate surroundings. It is now receiving funds from IADB and provides assistance in other regions of Colombia as well.

External assistance

Because Colombia has built up considerable expertise in promoting small-scale industry and RSIE, external assistance has been limited in recent years to financial support (IADB, KfW, USAID and World Bank). There is no evidence of policy support.

8. Kenya

The Kenyan desk review of RSIE by Roger Teszler is based on the dossier compiled in the preparation of a field visit in April of 1987 which had to be cancelled. No effort has been made to update the material.

Summary of findings

Structure, functions and problems of RSIE

In Kenya there are estimated to be 14,000 rural and urban micro-industries as against 2,000 modern small manufacturing units. RSIE, i.e., small-scale manufacturing outside Nairobi and Mombasa, is at least a part-time activity for more than 50% of rural households in Kenya. For a long time it seemed possible to limit the migratory flow to urban areas by subsidizing land and increasing switch-overs to cash-crop cultivation, apart from RSIE. There are signs that this process is reaching its limits and that non-farm activities will become more important.

Most formal small-scale industry is in urban areas. In terms of employment in informal manufacturing, 40% is found in Nairobi and Mombasa, 30% in smaller cities and the remainder in rural trading centres.

Really "rural" RSIE is mainly involved in food-processing and carpentry. Other activities tend to drift to rural trading centres and small towns. All non-rural inputs have to come from Nairobi.

Policy environment

After nearly two decades of rapid general (and even more rapid industrial) growth, the economic recession of the current decade and the worsening debt and crisis situation has slowed down growth considerably. The early emphasis on large-scale-industry development gradually made way for shifts towards Africanization, agricultural development and small-scale industry and RSIE development. As far as the last is concerned, attention gradually moved from urban small formal industry, via small-scale industry in smaller towns, to RSIE. There is some evidence of demand-side support (*inter alia* government procurement reservation schemes and "by default", as when the worsening balance of payments situation put a stop to the import of goods that compete with small-scale industry and RSIE).

Institutional framework

There are a large number of institutions in Kenya supplying assistance to RSIE, ranging from the comprehensive national ones like KIE to more partial ones limiting their operations to very specific localities (often NGOs).

There has been a general shift away—as exemplified in the evolution of KIE—from a comprehensive approach to the support of RSIE development to a more partial one. Industrial estates are losing their inward-looking approach and are offering their service facilities to RSIEs outside the estates.

Financial support (credit) has not been overly effective, showing considerable arrears which could have been less if more field extension had been provided (SEFCO).

External assistance and RSIE

Most external assistance has been directed towards institution-building and to providing institutions with financial means to provide direct assistance to RSIE. Results have not proved generally sustainable, but it is interesting to observe how UNIDO TCA to KIE in three succeeding phases set up and abandoned the nursery or breeder approach to industrial estates in favour of a more global approach which considers the needs and demands of RSIE.

9. The Philippines

The desk review of Philippine RSIE was carried out by James Keddie. In order to gain access to written materials which were readily available only on the spot, Manila and Quezon City were visited between 15 and 18 September 1987, after completion of the Indonesia mission.

Summary of findings

The economic environment of RSIE

Despite post-war industrialization, the Philippines has remained a heavily agricultural and rural country in population, employment, output and—until the mid 1970s—exports. Although agricultural production has grown, the high density of population and the unequal distribution of land have ensured that rural people do not depend overwhelmingly on agriculture, but divide their activities between sectors (including RSIE), and also migrate to the towns.

Growth seems to have continued in rural manufacturing overall, but very small household manufacturing has declined relative to firms with five or more persons employed. Traditional branches like weaving, charcoal, and most food-processing have also declined.

However, based on the increased rural consumer demand associated with growth of agricultural production, local market branches, such as tailoring, building materials, furniture, job-order metal-working etc., have expanded along with rice and maize milling. Expansion has been widespread but strongest in the rural towns of above (say) 10,000 inhabitants, and it has proceeded parallel to the expansion of rural trade, services, construction etc. There is no evidence that RSIEs have been a leading sector, or that they have promoted agriculture through forward linkages. There is also little evidence that they have been helped by improved infrastructure (except perhaps rural roads), or that, overall, they have relied on external finance and training facilities. However, they seem to have paid a price for their limited linkages, remaining for the most part conservative in their outlook and product lines, and confined to a few consumer branches.

Policy and institutional framework of RSIE

For virtually the whole of the post-war period, the Philippines has pursued a policy of industrialization which to this day is mostly characterized by import-substitution, largeness of scale, capital intensity, and concentration in and near Manila. This pattern was nurtured by import protection (first by physical restrictions, later by high tariffs) cheap credit predominantly available to the protected large industries, and other benefits

(fiscal incentives, licenses, rebates), which were more easily available in practice to large firms located near Manila. This pattern of development penalized agriculture, and reinforced itself by building up wealth and markets in Manila.

During the 1960s and 1970s, agricultural development began to receive more attention, with irrigation schemes and the introduction of high-yielding grain varieties. Although RSIEs have been somewhat sustained by the rural consumer demand thus generated, the weight of economic and industrial policies remained against them. These policies have had relatively little effect through imposing competitive disadvantages on RSIE *vis-à-vis* large urban industry. Rather, the primary factors have been macro-economic: the stunting of economic growth through the promotion of inefficient protected industries (accentuated in the 1980s by related budget and trade deficits), the diversion of resources away from agriculture, and the concentration of wealth and markets near Manila. All these have depressed demand for RSIE products.

Despite this, most of the institutions at all pertinent to RSIE have been set up to counteract their presumed competitive disadvantages and to palliate, rather than alter, adverse macro-economic policies and conditions. Most of them offer—to other small and medium industries as well as to RSIE—subsidized inputs such as technical and entrepreneurial training, research, marketing assistance, business advice, and credit. These institutions have mostly been Government-owned or largely supported by public funds. Most are national-level and have headquarters in Manila, although some have a voiced preference for operations and small industrial enterprises in the provinces and rural areas.

Effectiveness of RSIE institutions

Private-sector commercial operations have limits as RSIE-promoters. Although supplying most of their own inputs, and diffusing commercially-proven innovations among themselves, most RSIEs are conservative and limited to a few consumer branches. The extent of sub-contracting by larger firms to RSIE is not known.

Policy-making for RSIE has mostly consisted of devising input-supply assistance programmes. Attempts to co-ordinate these have not been very successful.

Integrated area development programmes have yet to be effective RSIE promoters, as also have display and sales emporia and sub-contracting schemes, but trade fairs have been more effective.

On the technical side, research and technical consultancy centres have not been much help to RSIE. There is also little evidence that formal vocational training centres have been helpful. However, product-specific short-term training and design assistance seems to have been quite effective in upgrading existing RSIE.

Entrepreneurial training programmes have not had any significant RSIE impact and the performance of the Ministry of Trade and Industry's business advice network (SBAC and MASICAP) has not been generally impressive. It has had difficulty in securing the co-operation of the banks and the technical institutions.

The only major small and medium industry loan programme—that of the Development Bank of the Philippines and private-sector banks co-operating with the Industrial Loan and Guarantee Fund—has achieved substantial provincial outreach, and has sharply reduced its overall arrears. But its most viable clients have been medium-sized, rather than small- or micro-, and the programme is not financially attractive to the banks.

Of the private-sector institutions, industry and business associations are still weak outside Manila, and NGOs, in their provincial and rural efforts, concentrate primarily on agriculture and physical and social infrastructure, not on RSIE.

Thus overall, neither the public nor the private assistance institutions have been an effective palliative against general policies discouraging RSIE growth.

Annex II

SUMMARY OF THE PHASE I REPORT

(The preparatory desk study for the thematic evaluation of technical co-operation in support of rural small industrial enterprises, completed December 1987)

Introduction (chapter I)

1. Phase one consisted primarily of a desk review of 56 TCA projects (23 from UNIDO, 20 from ILO and 13 from the Netherlands), covering 18 countries, and 2 regional projects (one each in Asia and Africa). Project data assessment sheets (PDAS) were designed and completed for each of the projects, after a study of the files and the reports on the projects and, wherever possible, discussion with the project officers and evaluation officers. After completion of the assessment sheets, the key issues of rural industrialization were analysed on a cross-project basis and supplemented by a survey of recent studies on substantive issues including policy and strategy, choice of programmes, project design, institutional requirements, and assessment of benefits.

The role and significance of RSIE in development (chapter II)

2. The role and significance of RSIE are reviewed with reference to scope and coverage, rural employment and income growth, linkages with agriculture, rural-urban linkages, types of rural industries, types of programmes and projects, role of policies and scope and limitations of outside intervention.

3. Analysis of development experience indicates that non-farm activities, especially rural industries, provide an increasingly important source of employment, income growth, upgrading of the poor, and removal of income inequalities.

4. There is considerable empirical evidence that agriculture is related to rural non-agricultural activities directly through its forward and backward linkages and indirectly through the consumption levels of farm households.

5. As the economy progresses from the subsistence stage, demand factors become more important than supply in influencing the non-agricultural rural sector. Further growth of the economy is facilitated by development of infrastructure and linkages with urban markets and urban industries.

6. Three approaches to promoting RSIEs and their efforts are distinguished; the integrated rural-development approach, the problem-solving approach, and the sectoral approach.

7. Macro-policies may affect RSIE development positively or negatively. Financial and fiscal policy instruments may be used to remove constraints to RSIE.

8. The functional scope and institutional range of outside intervention have been very great. Its effective limitations are not yet known and have not been subject to much critical evaluation. An accepted distinctive approach for assistance to RSIE, as against small and medium enterprise in general, has yet to emerge.

Analysis of the issues special to RSIE (chapter III)

9. A review and analysis of the issues arising from experiences of the 56 projects was made. These issues are:

- Objectives and purpose of TCA to RSIE;
- Direct or indirect assistance;
- Effectiveness and impact;

- Linkages to the rural economy;
- National context and role of policies;
- Co-ordination of complementary inputs;
- Institutional requirements.

10. Tentative judgements were made on "effectiveness" or "success", even on the basis of limited data, using the criterion of something useful achieved in employment, loans, training or new enterprises started, at a reasonable cost and effort.

11. Chapter III, section 8 of the phase I report* contains a fuller summary of the issues and their significance for further investigation. Only a few aspects are reported below.

12. No clear picture has emerged from the desk review of the effectiveness of different types of institutions. There is little experience in the projects reviewed of NGOs and private institutions. This is a serious gap requiring attention in phase II.

13. Data in the files have been inadequate for undertaking a cost-benefit analysis of projects. Purely on the basis of the criteria given in point 10, an interim analysis has been made of 45 projects. The results are of very limited value in the absence of sufficient data. Phase II will need to undertake *(a)* a cost-benefit analysis for some projects, and *(b)* an assessment of more projects on the basis of more general success criteria and *(c)* the collection of the required data.

14. While linkages with agriculture are apparent in the desk review, there is inadequate information on inter-industry linkages, rural-urban linkages and linkages within clusters. This is a gap to be filled in phase II.

15. The role of macro-policies and their linkage to rural development are not clear in the projects studied. There are hardly any projects dealing with policies as such. This gap needs to be filled in phase II.

16. There are some indications that local institutional presence is more effective for RSIE development than assistance through a national or centralized institution. No conclusion on the type of institution is possible. The desk review identifies problems of co-ordination between projects and institutions at the country level, as well as between donor agencies. The evidence is insufficient on the mechanisms required to achieve co-ordination.

17. A tentative conclusion is that not enough is being done to assist organizations in lobbying for improvements in demand conditions. Although the sample of 56 projects is heavily skewed towards public and national institutions, the interim lessons of the desk evaluation to be tested and verified in phase II are *(a)* that institutions below the national level, with strong field links, work better than centralized institutions, *(b)* that promoting and assisting private RSIE to run commercial operations works better on the whole than entrusting public TCA institutions with this task.

Recommendations for phase II (chapter IV)

18. Simultaneous change in the perspectives and attitudes of donors and recipients, as well as the gaps revealed through the desk review (points 12-17 above), underline the appropriateness and usefulness of in-depth country studies at this time.

19. The issues requiring further investigation in the field have been grouped under *(a)* economic policies and environment, *(b)* success and failure criteria, *(c)* institutional questions, and *(d)* project design questions. Briefly, the policy and environment issues relate to the significance of both supply-side and demand-side interventions, the impact of macro- and sectoral policies on RSIE, market linkages and their implications, and the limitations of the politico-economic framework. Regarding success or failure criteria,

*The phase I report is available to interested parties from any of the sponsors of this study: UNDP, ILO, UNIDO, Netherlands Government.

cost-benefit analysis in a few cases, where possible, and a more general assessment of success or effectiveness for a larger number of projects on the basis of data to be collected, are considered essential. Institutional issues relate, among others, to the nature of the local institutional machinery required, the role of NGOs and private institutions, and inter-institutional and inter-donor co-ordination. Project design questions relate to target-group orientation, linking of direct to indirect assistance in a programme spectrum, and combination and co-ordination of different donor and host-country inputs.

20. The consultants recommend in-depth country studies in a minimum of six countries for a duration of six weeks in each country to enable conclusions to be drawn of wider applicability and validity to rural industrialization. The team agrees with the selection of countries made by the Steering Committee in October 1986, viz. Burkina Faso, Colombia, Indonesia, Kenya, Pakistan and Peru.

21. Three stages of phase II have been distinguished. The first stage should begin immediately after the Steering Committee Meeting in January 1987 and consist of preparation for the country missions (including assembling country background information), consultation with other donors and further development of methodology for the measurement of the success or effectiveness of projects. This stage should last about six weeks, after which time the country missions could commence.

22. The terms of reference for the country missions will include a policy and programme review with specific reference to critical issues (see point 19 above), a study of cost-effectiveness of projects and conclusions applicable to the country as well as more generally. The consultant team for each country study may be composed of three members, a core consultant, a representative of one of the agencies participating in the thematic evaluation, and a national or country expert.

23. The third and final stage of phase II will be the preparation of the final report by the three core consultants, taking into account the desk review report, the six country reports and more general information acquired from donors and others. This stage may last up to six weeks.

Annex III

CONSOLIDATED LIST OF PROJECTS INCLUDED IN THE PHASE I DESK STUDY

Column Headings:

I Project Data and Assessment Sheet (PDAS) number
II Donor (NL-Netherlands) or Executing Agency (ILO-UNIDO)
III Country (arranged by continent)
IV Project number
V Project title and date
VI Latest available budget of Technical Co-operation Assistance (TCA) in dollars

I	*II*	*III*	*IV*	*V*	*VI*
		AFRICA			$
1	NL*	Botswana	NL-1	Grapple Processing, 1986-	210,000
2	ILO	Burkina Faso	BKF/79/003 + 82/009	Promotion de l'Artisanat Féminin (Promotion of Women Artisans), 1979-1985	1,024,000
3	ILO	Burkina Faso	BKF/77/003	Formation d'Artisans pour les Technologies Rurales (Artisan Training in Rural Technologies), 1980-1982	640,000
4	NL	Burkina Faso	NL-2	FAAC, Fonds d'Assistance ARCOMA-COREMA (Assistance Fund ARCOMA-COREMA), 1980-1983	200,000
5	UNIDO	Burkina Faso	BKF/81/206	Assistance à la Direction du Développement Industriel et de l'Artisanat pour l'Elaboration d'un Programme National de Promotion des Industries Villageoises (Assistance to the Directorate of Industrial and Trade Development for the Elaboration of a National Programme of Village Industry Promotion), 1981-1982	23,274
6	UNIDO*	Ethiopia	ETH/83/012	Handicrafts and Small-scale Industry Development (phase II), 1983-1986	2,500,000
7	ILO	Kenya	VFDW/KEN /80/V01	Development of Small Enterprises in Handicrafts for Women, 1980-1982	122,000
8	ILO	Kenya	KEN/78/004 + 84/015	Rehabilitation of the Disabled, 1981-	1,361,000
9	UNIDO	Kenya	KEN/77/006 + 81/017	Assistance to Small-scale Industries, Kenya Industrial Estates, Ltd., phases I and II, 1978-1985	707,428
10	UNIDO	Kenya	KEN/84/011	Assistance to Small-scale Industries, Kenya Industrial Estates, Ltd., phase III, 1985-	707,428

*Additional project, outside country selection.

I	II	III	IV	V	VI
		AFRICA *(continued)*			$
11	UNIDO*	Liberia	LIR/80/007	Extension Services to Small-scale Industries, 1982-	1,440,000
12	ILO	Nigeria	NIR/78/014	Vocational Rehabilitation of Disabled Persons, 1981-	534,000
13	UNIDO	Nigeria	NIR/73/014	Industrial Development Centre Oshogbo, 1976-1984	3,171,543
14	ILO	Senegal	NETH/79/ INT 3	Possibilités d'Emplois pour les Femmes en Milieu Rural (Employment Opportunities for Rural Women through Organization), 1981-1983	587,000
15	ILO	Senegal	SEN/83/ MO6/ITA	Education Ouvrière dans le Cadre des Entreprises Coopératives des Travailleurs au Sénégal (Worker Education Assistance in Workers' Co-operative Enterprises in Senegal), 1984-	1,855,000
16	ILO	Senegal	SEN/82/007	Soutien Technique à la Direction de l'Artisanat et des Chambres des Métiers (Technical Support to the Directorate of Artisanship and Chambers of Trades), 1982-	1,089,000
17	ILO	Senegal	SEN/82/004	Pré-coopératives pour les Femmes au Milieu Rural (Pre-co-operatives for Rural Women), 1982-	2,149,000
18	UNIDO	Senegal	SEN/84/001	Assistance au Développement des PME dans les Régions du Séné-Saloum et de la Casamance (Development Assistance to Small and Medium Enterprise in the Séné-Saloum and Casamance Region), 1984-	404,191
19	NL	United Republic of Tanzania	NL-3	SICATA (Small Industries Consultancy and Training Assistance), 1983-1986	2,100,000
20	NL	United Republic of Tanzania	NL-4	SIDO (Small Industries Development Organization), 1974-	10,500,000
21	UNIDO	United Republic of Tanzania	US/URT/77/ 003	The Consolidation of the Village Republic Production of Agricultural Implements by Local Blacksmiths, 1979-1980	119,848
22	UNIDO	United Republic of Tanzania	BR/URT/84/ 001	Rehabilitation of the Leather Republic Footwear and Leather Products of Industry, 1984-1985	135,347
23	UNIDO	United Republic of Tanzania	RP/URT/84/ 001 + IW/URT/83/ 002	Seminar for Women Entrepreneurs on Managerial and Technical Aspects of Expansion of Small Industrial Enterprises, 1984 (April-December)	52,000
24	UNIDO	United Republic of Tanzania	URT/81/038	Assistance to Industrial Estate Zanzibar, 1984-	357,900

*Additional project, outside country selection.

I	II	III	IV	V	VI
		AFRICA *(continued)*			$
25	UNIDO*	Zambia	ZAM/82/019	Assistance to Village Industry Service, 1984-1986	194,000
26	UNIDO*	Zambia	RP/ZAM/85/601 + XA/ZAM/86/601	Rural Industry Development, 1985-1986	164,000
27	ILO	Regional Africa	SIDA/82/RAF/48/6	Skill Development for Self-reliance, phase II etc., 1980-1986	2,614,889
		ASIA			
28	ILO	Bangladesh	BFD/79/007	Cottage Industries Development, 1981-	2,290,000
29	ILO	Bangladesh	SIDA/80/RAS/37	Training for Rural Cainful Activities for Disadvantaged Groups (TRUGA), 1983-1986	1,109,000
30	ILO	Indonesia	INS/78/023 + 82/011	Community-based Rehabilitation of the Disabled, 1979-1986 (2 phases)	1,884,000
31	NL	Indonesia	NL-5	RTA-65, KIK-KMKP Small Enterprise Development Financing Jabotabek Region, 1981-1985	2,000,000
32	NL	Indonesia	NL-6	Small Enterprises Development Project (SEDP), 1985-	4,800,000
33	UNIDO	Indonesia	INS/77/004	Assistance to the Development of Small-scale Industry (BIPIK), 1978-1980	531,238
34	UNIDO	Indonesia	INS/78/078	Assistance to the Development of Small-scale Industry (phase II), 1981-	2,447,157
35	NL*	Nepal	NL-7	Prime Mover Industries, 1981-1984	725,000
36	ILO	Pakistan	RAS/NET 84/071	Employment Opportunities for Rural Women Through Organization, 1982-	107,965
37	ILO	Pakistan	DDA/80/PAK/1b	Craft Training for Rural Women, 1982-1983	504,000
38	NL	Pakistan	NL-8	Metal Industries Development Project (NWFP), 1986-	2,125,000
39	NL	Pakistan	NL-9	Co-financing Second Small Industries Project, 1985-	2,000,000
40	UNIDO	Pakistan	PAK/79/022	Leather Products Development Centre (LPDC), 1981-1986	1,014,904
41	ILO	Philippines	PHI/84/009	Community-based Approach to Rehabilitation of the Disabled, 1985-	326,000
42	NL	Philippines	NL-10	Institute for Small-scale Industries (ISSI), 1966-1986	2,330,000
43	UNIDO	Philippines	PHI/83/008	Quality and Productivity Improvement for Cottage Industries, 1984-	83,850
44	ILO	Regional Asia	FIN/81/RAS/10	Self-employment Schemes for Female Headed Households, 1984-	747,000

*Additional project, outside country selection.

I	II	III	IV	V	VI
		LATIN AMERICA			$
45	UNIDO	Argentina	ARG/81/004	Asistencia Tecnológica a la Pequeña y Mediana Industria de la Provincia de Santa Fe (Assistance to Small and Medium Industry of Santa Fe Province), 1982-1986	1,330,222
46	UNIDO	Colombia	COL/76/020	Asistencia Técnica Integral para la Pequeña y Mediana Industria (Integrated Technical Assistance to Small and Medium Industry), 1978-1985	252,802
47	ILO	Haiti	HAI/83/003	Consolidation des Structures de Financement, de Commercialisation et de Gestion Coopératifs (Consolidation of Financing, Marketing and Co-operative Management Structures), 1984-1985	458,414
48	ILO	Haiti	HAI/85/015/B/01/11	Consolidation des Structures de Financement, de Commercialisation et de Gestion Coopératifs — Phase Complémentaire (Consolidation of Financing, Marketing and Co-operative Management Structures — Complementary Phase), 1986-	783,000
49	ILO	Haiti	HAI/81/009	Projet de Formation, Recherche et Promotion de l'Emploi dans le Secteur Artisanat dans la Péninsule du Sud (Pilot Project for Training, Research and Development of Employment in the Artisan Sector of the Southern Peninsula), 1982-1986	577,000
50	UNIDO	Haiti	HAI/84/008	Assistance à l'Institut de Développement Agricole et Industriel (IDAI), dans la Promotion, l'Adaptation et la Production d'Outillages Agricoles Simples (Assistance to the Agricultural and Industrial Development Institute for the Promotion, Adaptation and Production of Simple Agricultural Tools), 1981-1984	89,238
51	NL	Peru	NL-11	Proyecto de Desarrollo Rural en Microregiones (PRODERM): Pequeños Proyectos Productives (Rural Development Project in Micro Regions: Small Productive Projects), 1979-	120,000
52	NL	Peru	NL-12	Formación de Empresarios y Servicios de Consultoria para la Pequeña y Mediana Industria (Education of Entrepreneurs and Consulting Services for the Small and Medium Industry), 1978-1980	675,000
53	UNIDO	Peru	PER/84/465 + 467 PER/86/458 + 459	Erradicación de la Coca, Cultivación y Procesamiento del Cacao y Pequeña Agroindustria en la Región de Tingo Maria (Coca Eradication, Cocoa Cul-	5,717,040

I	II	III	IV	V	VI
		LATIN AMERICA *(continued)*			$
				tivation and Processing and Small-scale Agro-industry in Tingo Maria Region), 1984-	
54	UNIDO	Peru	PER/81/02A	Asistencia a la Industria en la Formulación de Estudios de Factibilidad; "Cueros y Pieles" (Assistance to Industry in the Formulation of Feasibility Studies; "Hides and Skins"), 1983-	108,744
55	UNIDO	Peru	PER/84/801 (+ UC/84/102)	Desarrollo de Puentes de Madera Modulares Prefabricados (Development of Prefabricated Modular Wooden Bridges), 1984-	79,634
		AFRICA *(continued)*			
56	NL (10a)	Kenya	NL-13	SEFCO (Small Enterprise Finance Company), 1984-	5,000,000

Summary table of phase I project data

Country	Donor or agency: ILO ($)	ILO (Number of projects)	NL ($)	NL (Number of projects)	UNIDO ($)	UNIDO (Number of projects)	TOTAL ($)	TOTAL (Number of projects)
Africa								
Burkina Faso	1 664 000	2	200 000	1	23 274	1	1 887 274	4
Kenya	1 483 000	2	5 900 000	1	2 357 673	2	8 840 673	4
Nigeria	534 000	1	—		3 171 543	1	3 705 543	2
Senegal	3 663 000	4	—		404 191	1	4 067 191	5
United Republic of Tanzania	—		12 600 000	2	665 295	4	13 265 295	6
Other	2 614 889	1	210 000	1	4 298 000	4	7 122 889	6
Total Africa	11 975 889	10	18 010 000	5	10 919 976	13	40 905 865	28
Asia								
Bangladesh	3 399 000	2	—		—		3 399 274	2
Indonesia	1 884 000	1	6 800 000	2	2 978 395	2	11 662 395	5
Pakistan	611 965	2	4 125 000	2	1 014 904	1	5 751 869	5
Philippines	326 000	1	2 330 000	1	83 850	1	2 739 850	3
Other	747 000	1	725 000	1	—		1 472 000	1
Total Asia	6 967 965	7	13 980 000	6	4 077 149	4	25 025 114	17
Latin America								
Argentina	—		—		1 330 222	1	1 330 222	1
Colombia	—		—		252 802	1	252 802	1
Haiti	1 818 414	3	—		89 238	1	1 907 652	4
Peru	—	—	795 000	2	5 905 418	3	6 700 418	5
Total Latin America	1 818 414	3	795 000	2	7 577 680	6	10 191 094	11
Grand total	20 762 268	20	32 785 000	13	22 574 805	23	76 122 073	56

Annex IV

PROJECT DATA AND ASSESSMENT SHEET*

I. BASIC DATA

1. Prepared by
2. Date
3. Project Number
4. Project Title
5. Country
6. Region
7. National Agency
8. Executing Agency
9. Preparatory Assistance — Yes/No
   Date P.A. approved
10. Date full project approved
11. Is this the first phase of the project? — Yes/No
    If no, how many previous phases:
    Phases + Duration (dates)
12. Status of project — Completed/ongoing
13. Original estimated starting date
    Actual starting date
    Original estimated completion date
    Current estimated completion date
    Actual completion date
14. *Original Proposed Donor Contribution*

US$

Donor				
Experts				
Training				
Equipment				
TOTAL				

For experts also indicate w/m.

*Reproduced as used, without editing.

Latest Estimate of Donor Contribution (Date . . .).

US$

Donor				
Experts				
Training				
Equipment				
TOTAL				

NOTE:

All non US$ amounts to be converted into US$ according to IMF Trade Deflation Factor (TDF as given in IFS). Where no annual budgets are available the TDF to be applied is the one available for the original estimated starting date; or — when applicable — the TDF for the TDF for the date of the latest estimate.

Please describe briefly other inputs related to objectives of this project and in particular those on which implementation depends.

II. PROJECT FORMULATION AND DESIGN

15. Did the project result from an adequate diagnosis of a problem? Yes/No

If there was no clearly defined national policy, on what basis was the TCA developed?

Were target groups adequately identified? Yes/No

Was account taken of the external environment, including the national policy context? Yes/No

Were reasonably foreseeable changes considered? Yes/No

16. *Original Project Design**

a) Development objectives

b) Immediate objectives

c) Outputs

d) Activities

Is/was the project design, given the objectives

	1	2	3	4
• comprehensive	☐	☐	☐	☐
• realistic	☐	☐	☐	☐
• coherent	☐	☐	☐	☐

Specify outstanding merits or flaws.

*See appendix for checklists, if necessary. Evaluate: 1 = good, 2 = acceptable, 3 = inadequate, 4 = poor.

17. Were the resoures budgetted commensurate with the achievement of the immediate objectives? Yes/No

Was there a workplan in the design stage? Yes/No

If not, when was it first drawn up? Specify.

Was the workplan coherent and logical? Yes/No

Were the objectives/outputs *formally* revised? Yes/No

Comments on revision, if applicable:

III. PROJECT DETAIL AND IMPLEMENTATION

18. Were objectives/outputs revised *de facto* Yes/No

If yes, comment:

19. Project level of entry	*Design**	*Implementation***
• national policy making	☐	☐
• institution building at national level	☐	☐
• institution building at the level of local support structures	☐	☐
• direct support to RSIE	☐	☐
	☐	☐
	☐	☐

20. Recipients of the TCA***		
Who are/have been the direct recipients of the TCA		
• policy level staff	☐	☐
• senior staff	☐	☐
• technical and extension staff	☐	☐
• actual entrepreneurs in the RSIE	☐	☐
• potential entrepreneurs in the RSIE	☐	☐
	☐	☐
	☐	☐

21. Problems of RSIE addresses		
• lack of technical skills	☐	☐
• lack of accounting skills	☐	☐
• lack of marketing skills	☐	☐
• organization (e.g. co-operation)	☐	☐
• access to credit	☐	☐
• access to markets	☐	☐
	☐	☐
	☐	☐

Indicate with an asterisk the two most important categories in planning as well as in implementation.

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*If necessary, also compare implementation with *de facto* design.

**Include *formal* redesign.

***Give quantity, if available. Indicate women, if known.

22. Comment on the appropriateness of the RSIE project (design and implementation) in view of the level of industrialization in the area. Consider the importance of the target group for the Economy.

	*Planning**	*Implementation**
23. Project Staffing		
• timing		
• quality		
• quantity		
24. Training		
• timing		
• quality		
• quantity		
25. Project Equipment		
• timing		
• quality		
• quantity		
26. Agency Support		
• administrative adequacy		
• substantive adequacy		
27. National Support Inputs		
• timing		
• quality		
• quantity		

Specify outstanding merits or flaws for questions 23 through 27.

*1 = good, 2 = acceptable, 3 = inadequate, 4 = poor.

IV. BACKGROUND DOCUMENTATION AVAILABLE

	*Quantity**	*Quality***
28. Project Records		
• Project Document		
• Progress Reports		
• Internal Evaluation Reports		
• External Evaluation Reports		
• Tripartite Review Reports		
• Terminal Report		
•		
•		
•		
•		
•		

V. NATIONAL CONTEXT (environment and policy framework)

29. Which external factors have borne significantly on the implementation of the project and on its effects?

	+	−	0***
• natural environment changes			
• national financial position			
• overall project financial position			
• industrial policies and priorities			
• policies towards other sectors (agriculture, education etc.)			
• institutional framework (includes weaknesses/strengths imposed on national agency or relevant private)			
•			
•			
•			

Please indicate by asterisks the three most important factors. Comment on predominant factors. Include an assessment of whether the magnitude of the effects was reasonably foreseeable.

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*Specify number.
**Evaluate 1-4.
***+ positive, − negative, 0 insignificant.

VI. PROJECT ASSESSMENT (narrative)

Checklist of topics to be reviewed

1. ***"Was the project worth doing?"***

1.1 *Did the project achieve any of the following?*

- Quantifiable (vs. cost on same $ scale) rural economic benefits?
- Other quantifiable "benefits" (positive indicators, e.g. rural employment, wages, value added, new/expanded enterprises not already failed or patently about to fail)?
- Significant direct development inputs to the rural economy (e.g. rural people trained, rural loans made)?
- Build-up of infrastructure of a quality likely to benefit rural people and accessible to them (e.g. training/extension/credit staff with some motivation and training, probably located in rural areas and likely to stay there, or with an effective rural-oriented institution, for some time)?
- Build-up of above, probably benefiting either:
  a) non-rural SI
  b) any other sectors (specify)
- Immediate outputs not completely unrelated to project's immediate objectives (specify with care)?
- Anything significant at all?
- Its immediate objectives, ditto?
- Its development objectives, at least to a degree reasonably possible given the scale of the projects?

1.2 *If the reply to the previous question is negative, check the significance for the project of items such as:*

- Increase in number of RSIE (net)
- Increase in output of RSIE
- Increase in employment (direct and indirect)
- Are these increases self-sustaining?
- Are these increases "robust" (net)?
- Can replication be expected? (either automatic or as the result of application of the same mechanism)
  Has this been achieved?
- Has urban drift been slowed down?
- Have local wage rates risen?
- Have disadvantaged groups attained an increase in their total and/or low seasonal incomes?
- Has the local balance of trade been improved?
- Has the total utilization of local resources been increased?

- Has local enterprise become a more effective interest group?
- Has the effect on Government policy been beneficial?
- Have specific institutions for the support of RSIE been strengthened? Has this led to the possibility of charges to be levied for services to RSIE's?
- Have any new types of industry been developed?
- Have new markets been tapped?
- Has a more accessible credit system become available?
- Have transport flows been modified in a favourable way?

2. ***"Could it have been done better?"***

See checklist subquestion 1.2, but also consider the following:

Comment on the project's level of achievement with particular reference to:

- Scale of donors' inputs
- Quality/appropriateness of donor inputs
- The effectiveness of the national agency and its inputs
- The wider commitment of Government
- The econmic environment
- The strengths/weaknesses/accessibility of the target (or alternative) groups
- Performance monitoring and technical and administrative backstopping
- Could application of similar TCA resources to other ends (sectors, areas) have achieved more viable results?
- Were the institutional means (incl. types of assistance) used the most cost-effective for the objectives of the project (including level of entry)?

3. ***"What lessons can be learned?"***

- Should the TCA have been directed towards RSIE in the first place? More suitable alternatives?
- Was the chosen level of entry suitable for the target groups? (Direct Assistance and/or institution building, Direct Assistance as a precondition for institution building, Direct Assistance as a follow-up to institution building?)
- Would it appear that *in this case* RSIE support would have been better achieved via other channels such as Government support, private support; at other levels (decentralized national, local). Any other combination of these channels and levels?
- Is the best policy vehicle *in this case:*
  - third party voluntary
  - third party commercial
  - directly based on the target group
  - any combination of the above.

- Would a different distribution of authority/responsibility within the project have led to more effectiveness or self-sufficiency?
- If the project suffered from a lack of its budgetted inputs, what lessons can be learned about a better supply or adaptation to inadequate supply?
- Would different types of business assistance have led to better results? Specify.

Appendix

Checklist for question 16

Possible objectives

- Development of existing enterprises
- Creation of new enterprises
- Regional dispersal of industry
- Rural urban migration
- Rural employment
- Import substitution
- Use of natural resources
- Export policies
- The definition of industrial and other policies
- The promotion of new or expanded industrial activities through incentives, preferential treatment etc.
- The provision of physical infrastructure, industrial estates, workshop clusters, ancillary equipment, common facilities etc.
- The establishment of new and the strengthening of existing development institutions
- The provisions of extension services and in-plant counselling
- The improvement of information and resources flows
- The generation or upgrading of managerial, entrepreneurial, organizational, financial, technical and production skills through training
- Decentralization of the supporting system
- Development of the credit system

Annex V

TERMS OF REFERENCE FOR THE THEMATIC EVALUATION OF TCA IN SUPPORT OF RSIE

The following terms of reference governing the thematic evaluation study are excerpted from the background paper finalized in August 1986.

The Study

Purpose

The aim of this thematic study is to help Governments, executing agencies and UNDP, on the basis of experience, to improve the planning and implementation of current and future activities of technical co-operation in the support of RSIE development and to draw practical conclusions, mainly through a Programme Advisory Note, on the further improvement of project design and implementation. The study will do so by examining technical co-operation activities in support of RSIE in rural areas, especially the appropriateness of the assistance rendered and the efficiency with which it was delivered. While some conclusions may only be relevant to individual countries where the projects examined were located, the intention is to develop general conclusions which will be of wider relevance and application to international, regional and national agencies. Special endeavours will be made to identify promising approaches and techniques that appear to deserve wider application.

Scope and analytical framework

The study will do so by examining the recently completed and on-going programmes and projects at international, regional and national levels, in particular those supported by UNDP, ILO, UNIDO and the Government of the Netherlands. The review of past experience will focus on programmes and projects completed or started in the last five years, although, should circumstances warrant, the review may go back beyond ten years. It is expected that some priorities for future technical co-operation will emerge. The study will utilize written records and project documentation of the United Nations system, and wherever possible, of national development agencies.

Reports relevant to the subject matter, particularly evaluations by other agencies and Governments, will be consulted where appropriate and considered useful and practical, supported either by correspondence or through face-to-face interviews.

The study will examine the outcome of individual projects against the original objectives, as defined in project documentation and, as far as possible, against perception by key personnel, within the context of national and sectoral strategies and programmes for RSIE development. The study will address key issues of technical co-operation as it was actually delivered covering such matters as project identification and design, development of analytical concepts, approach and methodology selection and delivery of expertise and know-how, quantity and quality of local support, project management, execution and external and internal factors affecting take-up, but most of all, the results of the projects, i.e., their impact. Economic, managerial and technical aspects of the projects will receive equal emphasis.

Project selection

The study will examine a sample of recently completed and on-going projects. The sample will be selected in the preparatory desk study, after preliminary review of the population of relevant United Nations system projects so as to provide a cross section of the major types of technical co-operation activities and of project experience in each of the major regions. At least one third of the projects selected will be on-going so as to

provide ample opportunity to address current priorities and problems and relate closely to the current "state-of-the art". Care will be taken to examine projects both in countries with more developed industrial sectors and in those where this sector is not so advanced.

A. *Completed projects* (primarily for assessment of impact):

- Large-scale projects and projects above $200,000;
- Clusters of projects with total value of $150,000 and above;
- Giving adequate geographic representation;
- Giving adequate functional coverage (institution-building, direct support, experimental).

B. *On-going projects* (primarily for assessment of effectiveness and systems performance):

- Large-scale projects and projects above $100,000;
- Clusters of projects with total value of $100,000 and above;
- Giving adequate geographic representation;
- With sufficient project implementation to justify and enable mid-term review;
- With sufficient maturity to permit examination of the possibility of achieving immediate objective and subsequent impact on higher objectives;
- Giving adequate functional coverage.

Implementation of the Study

Phasing of the study

Phase one: Preparatory desk study (August 1986-January 1987)

The preparatory desk study team would:

- Work out a methodologically sound framework, starting from an initial list of basic issues, linked with ILO's, UNIDO's and the Dutch Government's preliminary documentation, statistical profiles and based on an analysis of relevant materials;
- Draw-up desk studies of approximately 50 projects selected to match the prime focus of the study. During phase one, contact will be established with other concerned agencies to examine their experience on the key issues of the study;
- Select a representative sample of projects for the intended evaluations by field missions;
- Review all documentation on the sample projects available in The Hague as well as in UNIDO and ILO headquarters and, if appropriate, in UNDP headquarters. In doing so the suitability of the framework can be checked and if necessary improved;
- Finalize a design for the field studies which is considered to be the core of an exercise which should provide lessons to be learned for the future from findings on actual policies, performance and effectiveness;

- Draw up proposals for terms of reference for the field teams, which *inter alia* should reflect full consideration for the position of women and youth;
- Draw up proposals for a time schedule and items to be costed, as a basis for an amended budget;
- Prepare a report on their findings and proposals.

Desk studies of approximately 50 projects, selected to match the prime focus of the study will result in a phase one report and preparations for phase two. During this phase, contact will be established with other concerned agencies to establish their experience on the key issues of the project. The Steering Committee will meet before and after the phase.

The projects will be drawn up from a portfolio consisting of projects executed by UNIDO and ILO and financed by UNDP or by other agencies. Projects financed exclusively by the Government of the Netherlands will also be included. For the purpose of understanding the issues involved, project data assessment sheets will be finalized by the consultant, with the assistance of the UNDP Central Evaluation Office.

The phase one report, to be produced four months after commencement, will concern itself with:

- An overview of the general nature of technical co-operation in the sector, and identification of specific issues in the subject matter area;
- Examination of the design of the projects including the appropriate definition of desired outputs and targets;
- The role of the United Nations system and the Government of the Netherlands in support of the projects;
- Problems of implementation;
- Identification of the reasons for success or failure in fulfilling any objectives;
- Summarizing the findings of the desk study;
- Identifying issues for field study;
- Selecting countries and institutions to be visited;
- Preparing terms of reference for these visits.

A team of three consultants who will constitute the core team will implement this phase over the four-month period, assisted by all the participating organizations as appropriate. Details of actual implementation of this phase will be discussed at the first Steering Committee meeting.

The succeeding phases are given in outline for informative purposes.

Phase two: Field-study visits (to be determined)

(to be reviewed at the end of phase one)

Field studies of a limited sample (at least three projects in each of six countries) in the context of national policies and programmes in each country will result in phase two reports. The Steering Committee will meet after the phase.

Six field visits (to six countries) are envisaged. These missions will be of five weeks duration each and will consist of not more than three members including an expert from the country visited.

The mission reports will be finalized by the mission leader in either ILO or UNIDO headquarters. The draft report and findings should be discussed with the Government of the country concerned, the UNDP and agency representatives and with the Embassy of the Netherlands covering that country.

The Governments of the countries to be visited will be informed of the mission and its terms of reference through the office of the UNDP Resident Representative in consultation with the Embassy of the Netherlands.

The full implementation of phase two is expected to take place over several months.

Phase three: Synthesis of report (to be determined)

The Steering Committee will meet to review the mission reports of the second phase and to make arrangements for the synthesis of results of the field mission and desk study in the final report. By the end of the period, the core team is to complete this final report in draft. This draft final report will be reviewed by the Steering Committee.

Phase four: Publication of the report and preparation of the programme advisory note (to be determined)

The final report of the core team will be published, translated and distributed to the governing bodies of the respective partners. A programme advisory note will also be prepared and distributed to Governments, UNDP and agency field and headquarters staff.

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