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REPORT AND RECOMMENDATIONS

"DEVELOPMENT OF CENTRAL POLICIES AND PROGRAMMES

FOR

THE STRENGTHENING OF SMALL-SCALE AND RURAL INDUSTRIES IN AFRICA"

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Regional Adviser
Addis Ababa
1980.

11.3. The views and opinions expressed in this document are those of the Regional Adviser and do not necessarily reflect the views of the Secretariats of ECA or UNIDO. This document has been produced without formal editing.

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PART I

I. INTRODUCTION

1. Background

Small-scale and rural industries play an important role in accelerating the industrial development process of almost every developing country. Thus the development of small-scale and rural industries has been given high priority by the biennial Conferences of African Ministers of Industry and by the Follow-up Committee on Industrialization in Africa. It was also approved by the Technical Committee of ECA in Kinshasa in February 1977 and the Regional Symposium on Industrial Policies and Strategies in Africa which was held in Nairobi, Kenya, in September 1979.

The objective of this Report has been to recommend means to assist African Government in further developing or strengthening policies and programmes for the promotion of rural and small-scale industries establishing or reinforcing appropriate institutional machinery with a view to enhancing the actual implementation of projects in this field within the context of creating self-sustaining industrial development, and self-reliance at national and multinational levels.

With the above mentioned objective in mind, the project team studied the situation and experiences of a number of African countries, so as to be able to make recommendations as to what might be done to assist African Governments to:

- (i) develop central policies and programmes for the strengthening of small-scale and rural industries,
- (ii) design support services and institutions for promoting small-scale and rural industries,
- (iii) undertake training programmes for small-scale industry development,
- (iv) study modalities for establishing contacts and practical co-operation with related undertakings or institutions, both within and outside the region,
- (v) undertake the most appropriate means for facilitating collaboration between ECA and Governments in the implementation of the small-scale and rural industrial development programme within the overall concept of TODC programme.

A study mission to India was also undertaken by the project team in order to view at first hand the experience of that country in promoting the development of small-scale industry. India has been a pioneer country in this field and considerable insight was gained from the opportunity to view at first hand the experience accumulated, and to meet some of the individuals involved in, the successful efforts of India to accelerate the developmental process through priority given to the small-scale sector. In addition to national Offices and Institutions concerned with the development of small-scale industry, five States, and their local level Offices were visited as well.

2. Study Mission, India and Africa, May/June/July 1980

a) Composition of the Mission :

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b) Schedule of Mission:

INDIA

14/5/80 - 22/5/80 Delhi
22/5/80 - 25/5/80 Hyderabad
25/5/80 - 30/5/80 Bombay
31/5/80 - 20/6/80 Addis Ababa

AFRICA

20/6/80 - 27/6/80 Gaborone, Botswana
28/6/80 - 3/7/80 Antananarive, Madagascar
4/7/80 - 9/7/80 Nairobi, Kenya
10/7/80 - 13/7/80 Banjul, Gambia
5/8/80 - 22/8/80 Rabat, Morocco

(NB: A list of persons contacted, as well as a list of documents collected, reviewed and incorporated as source material, will be found in the Project Mission Report. ()).

c) Programme of the Mission

The team spent 4 months in Addis Ababa for briefing and preparing research outlines on small-scale industrial development in the countries to be visited.

Field visits were organized to five selected African countries to discuss the above issues with officials from institutions involved in policy making for small and rural industries, as well as with those responsible for executing those policies, including actual operating enterprises. These, wherever possible, specifically included:

- (a) Ministries of Planning, Industry, Trade, Finance;
- (b) Indigenous small-scale Centres, Training Units; and Industrial Estates;
- (c) Existing small-scale manufacturing units in the country;
- (d) International agencies in the field, engaged in the small-scale development programme;
- (e) Such other institutions and individuals as could provide valuable information, such as Rural Development extension services and co-operative organisations.

II. FUNCTIONAL ROLE OF SMALL-SCALE INDUSTRY IN ECONOMIC DEVELOPMENT

1. Preface

a) The historical context

The process of economic development of newly independent countries was started in the two decades following World War II. In the following decades and up until the present time, there has been a strong tendency to model industrial development on the experience of mature economies, both in the western, market economy countries and in the eastern European, planned economies. Both these examples have offered the model of the large, highly structured, unit of production as being the most recent and by implication, most efficient instrument of industrial/economic development.

It was fashionable both for mature economies to urge this model on newly independent countries, and for the developing economies to look to this model as the answer to rapid development. Massive investment of developing countries own resources as well as assistance resources were and are devoted to what was a familiar and reassuring model, both to advisers of developing countries, and to decision makers in these countries, nearly all of whom had been trained and educated in countries with mature economies and experienced in the workings of the large scale model of industrial development. The results of the transfer of this large scale model have not met with the expectations which their adoption had encouraged. Furthermore, at a time when mature economies are experiencing the limitation of the large-scale model and increasingly re-examining the advantages of a more small-scale approach to economic development in a changing world, the developing countries are also increasingly called upon to re-examine their industrial development strategy and policy.

In the process of concentrating on the large-scale model, resource and policy priorities have naturally been concentrated on this sector. Fiscal, credit, import privilege and market protection incentives have all been directed to the large scale sector. At best, the small-scale sector was often ignored and in many cases it was seriously inhibited by policies designed to encourage industrial development based on the large scale model.

Now planners and policy makers in developing countries are becoming increasingly aware of the vital role played by the small-scale sector in both developing and mature economies. Historically, the modern development of what are now mature economies began with the small-scale, entrepreneurial organisation. Even now, in most market economy mature industrial societies, what can be defined as small-scale enterprise in these countries represents some 30 per cent of GDP. Obviously such small-scale activities tend to cater for the service sector needs of the economy and for specialised or limited scale markets. They have proved to be the mortar which holds the bricks of the large scale sector together.

In mature, and especially in recently industrialised economies, the small-scale sector has proved itself to be an indispensable part of the developmental process by providing, through vertical and horizontal integration with the large scale sector, components and services at input values which cannot be duplicated by the large-scale enterprise. The very size of the small-scale enterprise ensures greater flexibility in adapting to changing market and economic conditions. Pragmatically,

when conditions are such that the survival of certain small-scale units is no longer viable, the social and economic consequences are more easily absorbed. The example of Japan in the context of integration of the two sectors has been striking and is a major factor attributed to the spectacular success of that countries' economy since the 1950s. ^{1/}

It can be argued that the continued survivals of the small-scale sector in developing countries, in spite of what have often been neglect or even identifiable constraints, is a tribute to the vitality and dynamism of the sector. While the essential role of a rational large scale is not for a moment underestimated, it should be recalled that every large scale enterprise, with almost no exceptions, and those have not necessarily been the most successful, had its origin as a small-scale enterprise.

Developing countries then have every reason to become increasingly aware of the integral and indispensable role of small-scale enterprise in the process of economic growth and distribution of benefits.

It will be the goal then of this project report to seek to indicate ways in which the UNECA can contribute to the efforts of developing countries in Africa to better stimulate the integration and growth of the small-scale sector in their planning and policy making process towards strengthening their economies and enhancing the standard of living of their peoples.

^{1/} "Lessons for LDCs from Japan's experience" Oxford Institute of Economics and Statistics, Bulletin No. 33 (May, 1971)

b) The present and future context.

The next two decades of economic development in Africa will be characterized by a massive and intensive effort to increase agricultural production, in order to meet the needs of Africa's growing population.

Much of this increased agricultural production will, of necessity, be generated by more capital intensive and technology oriented methods. Thus, while a portion of the growing labour force will be absorbed by agriculture, it is clear that less labour intensive forms of agricultural production will not absorb all of this labour force. It is estimated by the IBRD that two out of every three job seekers will seek non-farm employment over the next 25 years.

These trends are illustrated by the table to be found in annex at the end of this section (II.1)

Providing employment for this growing labour pool must be one of the major priorities of developmental strategy for Africa from here until the end of the century.

While some of this new labour force will undoubtedly remain in rural areas and must be catered for in these areas, population movement trends already indicate that a large proportion of this labour force, and their families, will move to urban areas.

Without adequate preparation to meet these challenges, most of this new labour force will congregate in urban areas where, for the most part, lacking in skills and opportunities, they represent a grave danger to countries striving towards economic growth and increased standards of living.

Only clear and sustained policies for balanced and rational industrial development will make possible the productive and stable integration of the fast growing population and labour potential into national economies. The implementation of such policies for industrial growth in a systematic determined fashion will mean that this new population can represent a resource for economic development. GNP and per capita income can be increased through the transfer of labour from agriculture, often at subsistence level at present, to more productive activities, both in manufacture and services.

No economy can achieve healthy, sustained growth without the presence of a vigorous, diversified small-scale industry sector. Most developing countries in Africa have increasingly become aware of this aspect of economic growth and are already prepared to or are in the process of, giving increased policy priority to the encouragement of small entrepreneurial activities.

It must equally be a priority policy for development agencies to give assistance, encouragement and guidance to these countries.

**Global Data on Urban-Rural Population, Urban-Rural Labor Force,
and Labor Force in Agriculture, 1950, 1960, and 1970**

Region	Population (000)			Labor force (000)			Participation rates, percentage			Agricultural labor force (000)
	Total	Urban(1)	Rural	Total	Urban	Rural	Total	Urban	Rural	
(1950)										
Eastern Africa	66,869	5,131	33,733	40,161	1,995	38,166	45.2	38.2	45.6	36,000
Western Africa (2)	71,313	6,905	64,403	35,317	3,002	32,315	49.5	43.5	50.2	29,395
(percentage)										
Eastern Africa	100.0	5.8	94.2	100.0	5.0	95.0				89.6
Western Africa	100.0	9.7	90.3	100.0	8.5	91.5				83.2
(1960)										
Eastern Africa	110,366	10,322	100,544	48,392	3,883	44,509	43.7	37.6	44.3	41,653
Western Africa	37,397	11,425	76,462	40,967	4,544	35,523	45.6	39.8	46.5	31,431
(percentage)										
Eastern Africa	100.0	9.3	90.7	100.0	8.0	92.0				86.1
Western Africa	100.0	13.0	87.0	100.0	11.3	88.7				73.4
(1970)										
Eastern Africa	144,024	17,785	126,239	69,447	6,425	54,022	42.0	36.1	42.8	49,557
Western Africa	111,120	18,829	92,291	47,753	7,048	40,710	43.0	37.4	44.1	34,420
(percentage)										
Eastern Africa	100.0	12.3	87.7	100.0	10.6	89.4				82.0
Western Africa	100.0	16.9	83.1	100.0	14.8	85.2				72.1

(1) The national definitions of urban have been taken. Country-specific definitions can be found in UN Demographic Yearbook (New York: UN, 1973).

(2) Excluding Benin.

Source: United Nations Secretariat, Department of Economic Affairs, Population Division. "Selected World Demographic Indicators by Countries" (ESA/P/WP 55) May 1975.

Annual Growth Rates of Urban and Rural Populations, Urban and Rural Labor Force,
and Agricultural Labor Force in Developing Countries, by Region, 1950-70 (1)

Years and region	Growth rates (percentage per year)						Labor force in agriculture
	Population			Labor Force			
	Total	Urban	Rural	Total	Urban	Rural	
1950-1960							
Eastern Africa	2.23	6.99	1.93	1.26	6.66	1.54	1.46
Western Africa	2.08	5.04	1.72	1.26	4.15	0.95	0.67
1960-1970							
Eastern Africa	2.62	5.44	2.28	2.22	5.04	1.94	1.74
Western Africa	2.35	5.00	1.88	1.76	4.39	1.36	0.91

(1) Calculations are based on the data in Annex 1.

Source: United Nations Secretariat, Department of Economic Affairs,
Population Division. "Selected World Demographic Indicators
by Countries" (ESA/P/WP 55) May 1975.

2. Definition

The UNIDO Symposium on Industrial Development, Athens, 1967, was forced to conclude that: "It is neither possible nor desirable to attempt to establish uniform international criteria to define small-scale industries". The Georgia Institute of Technology has identified, in seventy five countries, some fifty varying definitions of small-scale industry. However, for the purposes of discussing the role of small-scale industry in the national development process, some standard of identification of the subject under discussion must be adopted.

In this report, the standard utilised by the World Bank will be the standard used. That is: Any enterprise which is classified in its own country as small-scale, but subject to a ceiling of fixed asset investment, excluding land, of US\$250,000 (1976).

This working definition therefore would include:

- (i) Enterprises in the traditional sector such as artisans, transport, small traders, maintenance and repair tradesmen, etc.
- (ii) Organised enterprises active in trading, construction, maintenance and repair, transport, crafts, etc.
- (iii) Small modern sector manufacturing enterprises, who can usually be characterised by investment in fixed assets in the form of machinery, and the presence of elements of middle management.

Thus, small companies incorporated in law, family concerns, small wholesale and retail businesses, artisans, service activities and cottage industries come under the present terms of discussion.

This working definition is applicable to both urban and rural areas, although there will naturally be an urban bias towards service activities.

It is clear from the terms of the working definition that the sector referred to as small-scale is primarily labour, as opposed to capital, intensive. Thus, by definition, a generator of more employment in terms of investment than large, modern sector manufacturing and processing industry. It has also been observed that small-scale activities appear to generate more productive output in terms of investment capital than large industry. Therefore, it would appear desirable to examine more closely the opportunities afforded to the developing economy of allocating policy priorities and an appropriate share of available resources to the encouragement of the small-scale manufacturing and service sectors.

3. Opportunities:

It has already been noted that Small-scale industry (SSI) is, by definition, more labour intensive than larger, usually more modern and investment oriented enterprises. By the same token, SSI will usually be found to produce goods or services which, in terms of basic characteristics and quality, differ from goods or services made or supplied by larger enterprises. SSI thus supply needs that in many cases are not met by the large, more highly structured sector. For such basic needs, the SSI sector is often the most efficient as well as the only source of supply.

Small-scale industry tends to be far less dependant on imports of raw materials, components or machinery than medium or large industry. They are obliged to make use of local resources which otherwise, in many cases would not be exploited at all. Local and specialised markets which would not interest medium or large industry stimulate the emergence of SSI which thus contribute to improved quality of life and at the same time provide an outlet for local investment, skills and resources focused at the local level. Thus, SSI also generate additional indirect employment and economic activity at their own, micro-level than they are generally assumed to do.

1. Resource utilisation

SSI provide an outlet for local initiatives and indigenous entrepreneurial talent. They promote the improvement or development of needed skills. Through the modest investment required, savings are mobilised and capital formation occurs. A growing SSI sector stimulates the economy through competition and innovation. By providing goods and services at local level, accessible to a local market, incentive is given to increase productivity in other areas of economic activity, including agriculture.

On the community level, the requirements of SSI for local resources, both labour and material; the availability of goods and service amenity, contribute to social stability and act as a brake on rural/urban migration. Rural development benefits from the countervailing linkages between industry, services and agriculture; an increasing proportion of the rural population is drawn into the market economy. The example of India is of particular interest in this context. Deliberate policy in that country has, for many years, encouraged and indeed stipulated, that vertical linkages be established between the medium to large scale sector and SSI for the production of components or for parts of the assembly process. It has been demonstrated in India that this policy benefits the larger firms and the economy in general since SSI can often perform these functions at advantageous unit costs. SSI in most cases have less negative impact on community environment and local ecology than large scale activities.

Mention has already been made of service industry as well as manufacturing. In urban areas it is estimated by the ILO that 3 times as many persons are gainfully employed in service industries as in manufacturing. Some of these service activities are of course themselves engendered by the manufacturing, and many more depend on it for a large share of turnover. Various studies cited by ILO would indicate that this 3:1 ratio is a fairly standard pattern in urban areas throughout the developing world. Consequently, it can logically be extrapolated that for every manufacturing job created, at least in urban areas, as many as 3 further jobs in such areas as maintenance and distribution may result as a result of this multiplier effect.

Therefore the sector of service enterprises who are engaged in productive activities must not be neglected when planning and elaborating policies to stimulate the small-scale industry sector. Other effects of the development of a vigorous small-scale sector may include such factors as the drawing into the national economy of greater numbers of the poorest and least educated members of society and endowing them with needed technical skills, thereby helping to reduce inequalities between different groups of society, regions and opportunity recipient categories.

Policies designed to give particular encouragement to the growth of small-scale industry and service activities in rural areas will relieve pressures on the larger metropolitan and capital city urban centres.

ii. Capital formation

The small-scale sector can be a significant source of capital formation in terms of the national economy. In favorable conditions small entrepreneurs are inclined to save excess cash flow beyond the basic needs of their enterprises and families. The spontaneous growth of informal savings clubs throughout Africa bears witness to this inclination.

Greater attention by policy makers to the encouragement of the SSI sector could stimulate this phenomenon by making both saving and borrowing more accessible to the typical small-scale entrepreneur. At present far too much potential savings is dispersed in excessively high interest payments to the informal lending sector and in sumptuary consumption, through absence of attractive outlets for savings. Any observer familiar with the small-scale entrepreneur in Africa is also familiar with the hidden tin box filled with notes and coins, which may be depreciating in value through inflation and which at best, are not earning interest. Capital formation is stimulated by policies designed to give a greater share of national resources in capital to the SSI sector which we have seen, tends to have a greater multiplier effect than the same investment in large scale, capital intensive activities.

Since it is agreed that productivity and employment creation are essential requirements to the developing economy it is important to note findings which have suggest that higher productivity of capital inputs is achieved in enterprises a lower level of investment for each employee than capital-intensive, large-scale enterprises ^{1/}. If these findings are correct and other source material tends to confirm them, then the two dimensions of low capital inputs, and comparatively high productivity per worker and unit of capital investment, indicate that promotion of SSI leads to increased capital formation through the most efficient use of national resources in capital and through the employment intensive multiplier effect of productivity per unit of capital input.

Income, both at the level of the enterprise and at the level of the salaried worker, could be channeled to a far greater extent than at present, into capital formation savings. Government policies and assistance agency projects must take this dimension into account when elaborating policies and programme to strengthen the SSI sector.

^{1/} "Small-Scale Industry in Latin America", UNIDO 11.B.37. 1969.

Skills

a) Entrepreneurship

Entrepreneurial ability is not often discussed in studies of the industrial development process. Experience seems to prove that such skills are difficult to define, and do not lend themselves to formal instruction. Entrepreneurial ability cannot be taught or learned, it is an innate quality which can be stimulated in certain circumstances and which can be encouraged by the creation of favorable conditions.

However, individuals with entrepreneurial ability can be taught management skills. Small-scale Industry attracts and offers opportunity to the entrepreneur. Not surprisingly, a large proportion of these men and women, in every country, come from the largest section of the countries' population, that section which has had the least exposure to formal education. No country, and in particular, no developing country, can afford to neglect the energies and abilities of these entrepreneurs and the contribution which their qualities can make to economic growth and social equilibrium.

If allowed to grow, the pool of existing and potential entrepreneurs in every country represent a resource for balanced economic growth and stability which cannot be measured in conventional terms but which has been observed, in countries who have recently achieved spectacular rates of growth, to be a powerful motor force in the developmental process. By encouraging the development of SSI, policy makers are creating conditions wherein a significant national resource, the entrepreneurial skills of its people, can be released and make an invaluable contribution to balanced economic growth.

Experience has shown that the small entrepreneur is closely tied to his business and disinclined to respond to opportunities to participate in structured training situations. He can be more easily reached, and tends to be far more responsive, when he is drawn into a relationship with a well trained extension worker. In many countries, access to sponsored credit facilities is associated with participation in an extension management training programme. This approach, of course, has proved to ensure high rates of participation and response. Such extension service, ideally, can and should be designed to incorporate advice on other aspects of business; marketing, technology, and procurement are examples of areas where a competent extension officer can provide valuable advice and assistance. A well organised extension service for SSI also should have the capability to permit the extension officer to call on specialist advisers when the need is apparent.

b) Technical skills

Training in skills of a more technical nature poses different problems to the kind of support activities most likely to develop entrepreneurial skills. In India, innovative schemes are being tested and have demonstrated their worth in reaching the provincial and rural population. A number of training institutes have residential apprentice schemes; another approach observed is mobile training workshops.

It has been suggested that such technical training schemes, which may encompass activities as diversified as shoe-repair to accountancy, can be used to attempt to identify potential entrepreneurial talent. As SSI technical training activities become better established and experienced, this approach is one which should be tested and developed. Again in India, such screening for entrepreneurial skills is being developed, usually associated with investment credit opportunities. These experiments should be followed attentively, and experience gained in India translated into African terms, in light of conditions prevailing in different African countries. A word of caution with regards technical training programmes. A thorough and realistic study of projected skills requirements, in terms of planning objectives, resources, business and economic trends, is necessary before undertaking specialised training programmes to develop skills for which there is little or insufficient effective need. The effects of socially corrosive and economically wasteful training of young people in irrelevant skills has been an observable phenomenon in a number of developing countries.

When the concept of a vital SSI sector as an essential component in the industrial and economic development policy has been accepted by planners and policy makers and given support by assistance agencies, it will be a necessary part of implementation policies to orient much of the technical skills training effort towards those skills which are relevant to the small-scale sector.

Other benefits

2. Equilibrium

The dangers and injustices of uneven concentration of the centres of economic growth, and the distribution of the benefits that ensue, are increasingly evident. Most governments and assistance agencies recognise the necessity of emphasising balance in the allocation of resources to the development process. Social, regional and structural considerations must be given the highest priorities to avoid perpetuating already established distortions, biased in favor of urban centres, regions which have traditionally had the greatest exposure to the developed world, and educational or linguistic privileges, as well as other imbalances. SSI, by its very nature, is often able to transcend these barriers. It provides an outlet for the energies of the less educationally privileged, its services are required in disadvantaged areas whether these be the outer peripheries of urban centres or isolated provincial and rural areas.

SSI is usually local in nature and in most instances finds both its principal inputs and principal markets locally. It is not reliant on sophisticated technology and infrastructures. Labour supply factors are such that acceptable wages can be paid which are substantially lower than those practiced in modern sector growth areas.

Research has shown that there is a strong likelihood that SSI tends to be more entrenched and, an important factor, more profitable in provincial, small urban centres than in the major conurbations.^{1/} Thus, market forces will encourage the establishment and prosperity of SSI in those very areas where their presence may be

^{1/} "The Economics of Rural and Urban Small-scale Industries in Sierra Leone" University of Sierra Leone/Michigan State, African Rural Economy Paper No.14, 1976.

considered particularly desirable in terms of achieving social and economic equilibrium. This phenomenon underlines the natural role that SSI can play as a partner in rural development and agricultural productivity.

A healthy SSI sector often offers the only available constructive outlet for the most energetic and ambitious representatives of the least privileged members of the community. By increased access of these individuals to the productive sector of the economy, they, and to a considerable extent, their workers and families are drawn in to the mainstream of modern society. By being able to participate in the economic life of the country and therefore the decision making processes, these people acquire a greater interest and share in national consciousness and reinforce a country's efforts to develop a sense of national identity.

ii. Linkages

In this discussion of the equilibrium building characteristics of a well established SSI sector, emphasis has been placed on the enterprise functioning locally in provincial and rural areas as a self-contained business environment. In order to make clear that SSI is not confined solely to that area of the national economy, some mention should be made of the role of SSI as a participant through vertical and horizontal linkages with other sectors of the economy.

On the community level, the requirements of SSI for local resources, both labour and material; the availability of goods and service amenity, contribute to social stability and act as a brake on rural/urban migration. Rural development benefits from the countervailing linkages between industry, services and agriculture; an increasing proportion of the rural population is drawn into the market economy. The example of India is of particular interest in this context. Deliberate policy in that country has, for many years, encouraged and indeed stipulated, that vertical linkages be established between the medium to large scale sector and SSI for the production of components or for steps in the assembly process. It has been demonstrated in India that this policy benefits the larger firms and the economy in general since SSI can often perform these functions at advantageous unit costs.

Through the mechanisms of the market place and through the relative skills and aspirations of the individual SSI entrepreneur, some firms will be more successful than others. Some will fail, some will grow. Where circumstances are favourable, amongst those firms that experience substantial growth will be those who are able to enter into sub-contracting relationships with larger firms and activities. Such firms, through growth, will be obliged to acquire more sophisticated management skills, learn to use financial machinery better and to upgrade the technology employed. The enterprises that emerge from the mass of small-scale industry in this way become, in fact, intermediate-scale enterprises and as such contribute to the building of a more self-sufficient industrial sector on a national scale.

The examples of India and Japan, as well as more recently, China, have demonstrated conclusively the dynamic, flexible role that SSI can play in growth, through the development and promotion of linkages between this and other sectors.

This is particularly true when referring to the complementarity between SSI and larger scale industry where their respective maximisation of two basic resources, labour and capital, support one another and produce a multiplier effect.

In order for SSI to be able to fulfil its necessary and constructive role in industrial and economic development, the promotion and encouragement of the sector must be afforded the same policy consideration and an appropriate share of national resources and administrative energies as other vital areas of priority in the planning process.

iii. Technology

The persistent bias towards expensive and sophisticated technology in industrial development strategies is an established phenomenon, increasingly commented upon by qualified observers. ^{1/} A number of factors seem to influence this propensity. Often, technical assistance is oriented towards or tied to, the adoption of modern, mature economy technologies. These technologies enjoy a prestige, reflecting the higher standards of living prevailing in mature economy societies. Commercial interest have developed considerable expertise in marketing high technology. Governments of many developed countries have instituted schemes which in effect subsidise or guarantee the sale of technology packages. Developing countries very often have elaborated investment incentive programmes which give favorable treatment to large-scale, capital intensive projects through credit and fiscal advantages, import of materials privileges and market protection. While such measures clearly have an important role to play in any industrial development strategy, the known history of disappointing results from such projects are an incitement to rethinking the priorities and policies which might be given to a parallel and balancing action to encourage and strengthen the small-scale sector.

Often alternative technologies, appropriate to the needs and consistent with resource factors of developing countries are not well known or promoted with the same profit motivated intensity as high cost, advanced technology. In some instances there seems to be a definite resistance to alternative, lower cost technologies which are perceived as being in some way inferior.

Now of course, increasing emphasis is being placed in the introduction of intermediate and appropriate technology, much of such innovation is introduced without adequate testing or knowledge of "real world" conditions in the environment where it is to be utilised. The rate of success in such endeavours still leaves room for more comprehensive needs study and product testing.

Interestingly enough, it has been observed that a very significant proportion of successful appropriate technology applications are based on the innovations of SSI artisans in the work place. Much of the small-scale industrial process in Africa, at least in this context of mechanical operations, has traditionally involved a long apprenticeship system. African artisans, mechanics and craftsmen in general quite routinely achieve high standards of ability, within the limitations imposed by lack of access to suitable tools, materials and perhaps more advanced training than that available in the indigenous small-scale work place.

^{1/} "Small Enterprises in Africa..." Lde Pierpont, UNECA/ILO, Regional Symposium on Industrial Policies during the period 1978-2000. Nairobi, 1979.

These same limitations are none-the-less a stimulator of adaptability and innovation ; no-one familiar with the small-scale entrepreneur manufacturer in Africa can have escaped being struck by the extraordinary ability of the craftsman or artisan to improvise and invent solutions to problems which are a condition of professional activity for him.

The small-scale sector will always suffer from the kind of constraint pressures which foster this innovative and resourceful spirit. Adequate assistance to the SSI sector will certainly liberate the entrepreneur from many limiting factors, it should never stifle his ability to adapt and improvise.

As certain firms in the small-scale sector grow into what may be called the intermediate sector, these skills and ability to adapt and innovate will contribute to their ability to incorporate into the production process more advanced technology which, by mature economy standards, may be considered semi-obsolescent. Relatively low cost/labour inputs will permit the firm to maintain and repair machinery whose initial capital investment cost has been lower than that of more complex, new equipment.

In this context two opportunities suggest themselves. Firstly, a healthy small-scale sector will continue to generate genuinely appropriate technology; secondly, well organised and comprehensive institutions designed to promote and develop the small-scale sector will be designed to disseminate both a functional awareness of proven introduced alternative technology and will ensure the spread of indigenously innovated appropriate technology.

While the above discussion has taken the mechanical, manufacturing sector as an example, there are, of course, innumerable ancilliary sectors where the same arguments apply.

With effective support from regional technical assistance organisations, this two-fold process can be implemented not only on the national, but on a regional basis.

4. Constraints

i. Policy

Although in recent year both Government and Technical Assistance Advisery and Funding Agencies have begun to review policies which placed the highest developmental priorities on larger scale projects, in many countries still further emphasis could be assigned to defining realistic policies and then allocating resources so as to benefit from the opportunities offered by a healthy, growing small-scale sector. India, to name but one non-African developing country, has benefitted visibly from a well co-ordinated policy of parallel development of all sectors in the industrial development process. UNECA is particularly well placed to offer to African countries, who are reviewing their developmental strategies, valuable assistance in both the determining of the value of SSI institutional support programmes and machinery to implement such programmes.

It should be underlined that frequent references in this paper to the contributions which can be made to industrial development and social equilibrium through the encouragement of the entrepreneurship which characterises the SSI sector do not imply that these benefits are confined to market economy systems. We have discussed entrepreneurship as being an innate ability found in any society. Entrepreneurial energies can be and are channelled into productive and beneficial activities in countries which have adopted a planned economic system, China is a noteworthy example.

Since the various factors which have tended to encourage a bias in favour of large-scale industrial development are deeply rooted in well intentioned prejudices based on models drawn from association with mature developed economies, a profound and well-informed appreciation of the importance of strengthening the small-scale sector is required on the part of decision makers to motivate and sustain the necessary shift in some developmental priority allocations.

Present structural distortions which deliberately favour large-scale, capital intensive investment and activity have tended to inhibit the development of the small-scale sector as much as the absence of effective and comprehensive programmes to actively encourage it. Any policy devised to encourage SSI should not only include direct measures of support but must also identify and modify, to whatever extent possible, other industrial/economic development policies which put SSI at a disadvantage.

ii. Management

Small-scale entrepreneurs, almost without exceptions, seem to emerge from those sections of society where educational advantages are least available. There may be a cause and effect for this phenomenon but this paper is not the proper forum to examine that particular question. Certainly it can be observed that often the technical skills and energy brought to the small enterprise are frustrated by the lack of exposure to elementary management techniques of the individual entrepreneur. This problem tends to manifest itself and become acute when the enterprise has reached a certain stage in growth, which often corresponds to what might be called a take-off point at which the activity has the opportunity to expand into the medium scale activity. Awareness of lack of management skills may also inhibit an entrepreneur from attempting to expand his business beyond a certain subsistence level, even when conditions would encourage expansion of the enterprise.

Small-scale enterprises generally start as a one individual activity with the entrepreneur being the most experienced and skilled person in the work-force as well as being responsible for procurement, financial management. As the activity grows, these functions, often unfamiliar and time consuming for the entrepreneur, take him away from the productive process, which suffers as a consequence.

The typical small entrepreneur may well be unable to take advantage of existing formal training activities because he lacks or feels he lacks the literacy and even the numeracy skills to benefit from them. Distance factors and problems involved in his absenting himself from the enterprise will also probably discourage him from participating in sponsored management training programmes. In any case, the small-scale entrepreneur will often believe that the problems facing his business are unique,

sometimes with some justification. All these factors lead to the conclusion, borne out by experience, that the most effective way to approach the small entrepreneur is in his own work-place. Well trained and motivated business extension agents, equipped with the basic elements of simple management technique can survey the small-scale universe in a given area and concentrate their efforts on those enterprises which demonstrate the greatest receptivity and potential for growth and employment generation, or whatever other local priority has been identified.

In addition to the constraints identified with the lack of management skills, the small businessman is often unaware or suspicious of opportunities available to him through government institutions, credit institutions and in general, the macro-economic climate in which he lives and works. Again, after an extension agent had demonstrated his interest and the efficacy of his intervention, the entrepreneur will develop sufficient confidence in the agent to allow him to serve as an introduction or intermediary with government services, banks and other institutions.

Any policy designed to encourage SSI then, will include a component of management training for small-scale entrepreneurs. Quite probably policy makers will find from their own experience, as well as that of other countries, that an important element of any programme will be the training and organising of a cadre of polyvalent, enthusiastic extension workers. This first level of contact with small entrepreneurs will be backed up by access to more highly specialised advisers who can be called upon when the need is justified.

iii. Finance

Frequent lack of access to institutional sources of credit at reasonable rates of interest; lack of knowledge and familiarity with institutional savings organisations, set a pattern in the milieu where the small entrepreneur is to be found which discourage saving. The small-scale entrepreneur tends to turn to the informal lending sector where often crippling rates of interest discourage investment or growth of the enterprise. The informal lending sector referred to in many cases may also be the source of essential inputs to the entrepreneurial activity as well; components, raw materials, energy or transport are examples. In many instances, the informal lender may also control the marketing process. Given the scarcity and relative complexity of formal savings institutions, what profits the SSI entrepreneur generates above and beyond the immediate needs of enterprise to maintain itself at a given level of activity, may all too often be used for sumptuary consumption with its emphasis on imported goods.

It is characteristic and understandable that nearly all small-scale entrepreneurs, when surveyed on problems of the enterprise, respond that failure to expand is due to lack of finance, usually operating capital. This, of course, is often confirmed as true or partially true, when the enterprise is analysed. However, more often the problem areas are quite different from what is perceived by the businessman. It is an all too frequent observation of the small-scale sector that perhaps the most certain way to bring about the failure of a small enterprise is to make available easy credit or loans without any serious remedial action being taken to identify and correct other problems besetting the business. When additional operating capital is identified as a genuine need, the lending institution or guarantor will find it necessary to define carefully the precise purpose to which funding is directed and to monitor its most effective use. While some financial institutions are staffed

with specialised personnel to fulfil these functions, most are not. Therefore, in many programmes of financial assistance to SSI, a close working relationship is often developed between lending institutions, and business advisory or extension services. Not uncommonly, extending credit is associated with a pre-loan analysis of the firm's needs and with advice and monitoring of its use by extension or advisory services, familiar with the entrepreneur and his firm.

Because of their defined characteristics of intensive reliance on labour and relatively low capital investment levels, SSI do very commonly experience a continuous constraint arising from the precarious availability of working capital. Such firms tend to hold most of their assets in the form of raw material and product inventory. The entrepreneur often finds himself squeezed between the high rates of interest he must pay in either the informal lending sector or as supplier credit, and the credit on finished product sales which social pressures and marketing practice dictate. These factors, of course, force higher price levels for products and make the SSI manufacturer more vulnerable to competition from both imported and local mass produced goods.

SSI encouragement programmes will need to be able to respond to the entrepreneurs well defined requirements in working capital at normal rates of interest from the formal lending sector, permitting purchase in quantity of materials, financing the labour and material content of the manufacturing or building process, and holding inventory of finished goods until they can be marketed at maximum advantage. Such needs can often be met by short term, revolving credit, particularly in the case of business involved in activities which depend on seasonal factors such as tourism and agricultural production. Resulting increased profitability of course permits the entrepreneur to invest in better facilities required from more rational production, to upgrade quality and expand markets, and to employ additional labour. As such firms expand, the demand for labour puts more emphasis on technical skill and, eventually, even low level management skills such as book-keeping, inventory control etc.

Financial institutions then, must be drawn into the elaboration and execution of projects and programmes designed to assist the SSI sector. A word of caution is perhaps not misplaced in this context, experience and observation have demonstrated that it is highly undesirable for the advisory or extension service institution be called upon to exercise a banking function. Every developing country has its own financial institutions, whether in the private, state, or semi-state sectors. These can be drawn into the process of providing more flexible, simplified credit schemes to small enterprises, when they have been given assurances that such loans will be screened and then monitored by a specialised advisory service.

In a number of countries these local financial institutions have been further encouraged to participate in SSI development programmes by the establishment of the loan guarantee schemes, underwritten either by Government or by an assistance agency. The UN Capital Development Fund and the World Bank have been particularly active in this field in recent years. Practice has tended to indicate that the amount of the guarantee in such schemes should not exceed 80 per cent in order to ensure prudent risk sharing between the lending institution and the guarantor.

UNECA is well placed to assist governments in devising schemes for each countries particular needs in the field of SSI development. UNECA can also serve as a useful intermediary in some cases to facilitate government's initial contacts with such guarantor institutions as the UNCDF and IBRD.

It is to be recalled that financial assistance alone is not likely to have either a broad or beneficial impact on a healthy, developing SSI sector. It does remain a vital element of any over-all policy in this endeavour.

iv. Training and technology

SSI managers are often unaware of technology which would, at little capital cost, improve their productivity or lower their costs. Much valuable work is increasingly being done to disseminate what is usually referred to as appropriate or intermediate technology. Much of the research and field work done in this area is oriented towards agriculture and quality of life in the home. Specialised agencies such as UNIDO are to be encouraged in their efforts to extend such research to the field of small-scale manufacturing and processing, building and other productive activities which are capable of absorbing and benefitting from it.

As has been observed, there appears to be a strong tradition of informal apprenticeship at the grass roots of SSI. The individual entrepreneur/manager will in most cases have acquired some particular skill either through having worked in the modern sector or within the apprentice system and the emerging enterprise will be based on this skill and the entrepreneurs' own energies. Such skills often need periodic updating to remain competitive; sometimes skills become obsolete but can serve as a base for learning new skills. As an enterprise grows, additional technical skills may be required on the part of the head of the enterprise and members of his workforce. When such skills cannot be imparted in the workplace, encouragement, organisation and perhaps assistance are required to allow either the entrepreneur, or members of his workforce, to travel to, and stay at the nearest point where such skills can be learned.

A well integrated and comprehensive advisory or extension service will therefore have the responsibility of:

- a. keeping up-to-date on technological trends and opportunities;
- b. being able to disseminate such information throughout the appropriate trade sectors of the country SSI universe;
- c. being prepared to encourage and assist the enterprise in making available for training selected members of the workforce;
- d. being able to identify and recommend suitable places for training and ensure enrollment and regular attendance.

In addition to training facilities run by governments and technical assistance agencies such as ILO and UNIDO, another potential source of training facilities is more recently being identified in the large and medium scale sectors of industry.

Many of these firms are, or would be, well disposed to participation in skills upgrading and training programmes. Others could be encouraged through educational, media and institutional approaches. An obvious advantage of the extension of this last form of training is the creation of linkages on a personal basis which would inevitably lead to a growing network of subcontracting linkages.

Improved technology and upgraded skills do not necessarily mean a shift to higher capital intensive orientation of the enterprise with its presumed stagnation or even reduction in employment. Quite often, a firm can, in fact, increase employment by eliminating bottlenecks in the productive process which would not be susceptible to additional labour inputs. A growing enterprise will almost always be obliged to adopt a mix of different levels of technology, ranging from labour intensive to highly sophisticated. Finding the proper mix, together with the needed improvements in management capabilities and technical skills should, by increasing productivity, competitiveness, improving quality and design, generate the increased market share and profitability required to stimulate propensity to employ more labour at every skill level. As has already been observed, the profitable expansion of the small firm in turn exercises a multiplier effect on ancillary activities, ranging from production of raw materials to transport, distribution and other services, and generates further employment.

As discussed above, organised training facilities, particularly for young people and capable of offering residential accommodation, often permit the identification and selection of potential SSI entrepreneurs in priority 1/ fields of economic activity. When so identified, these individuals can be given the encouragement of purpose-designed programmes to help them establish themselves in useful small-scale activities.

v. Procurement and marketing

A major constraint affecting SSIs is to be found in the areas of procurement and marketing. As already mentioned, chronic shortages of working capital make the entrepreneur vulnerable to supplier credit at inflated rates of interest. Sometimes the same supplier will control the marketing of the production as well, even if this is not the case, some other intermediary often intervenes in the marketing process. This classic pattern of up-stream and down-stream pressure reduces profitability to a near subsistence level and inhibits growth of the enterprise, by denying incentive to grow and starving the business of the working and investment capital needed for upgrading the productive process. Given his relative lack of mobility, the SSI entrepreneur may not have easy access to a choice of competing suppliers or outlets.

If the production process requires imported inputs the small enterprise will probably find himself at the end of a chain comprising the primary importer and perhaps further wholesalers and distributors. Because of relatively small consumption, the SSI has a very low priority when imported inputs are in short supply. The maze of regulations, foreign exchange controls and lack of familiarity with importing mechanisms in general, discourage the SSI entrepreneur from attempting to import directly his requirements. A growing firm may be observed to stagnate because its proprietor/manager is not able to import one simple, inexpensive piece of machinery or an indispensable replacement part.

1/ "Activité de Main d'Oeuvre: Transferts Industriels vers les Pays en Voie de Développement. Steen", ILO, 1976.

There are no simple answers to the problems associated with supply of raw materials and the marketing of product. The application of SSI support policies advocated in recommendations below, such as easier access to normal credit, within the framework of an effective advisory service, would enable the entrepreneur to deal with many such problems himself.

vi. Association

For many activities in the small-scale sector, the emergence of various forms of association has been an increasingly noted response, particularly in urban or semi-urban areas amongst handicraft producers. Some spontaneous, informal associations have proved successful within a limited scope of activity. Another and increasingly popular form of association is the co-operative. Considerable specialist assistance is almost always required for the formation of durable and effective co-operatives. In many types of activity a co-operative can fulfil both the functions of procurement, seasonal inventory financing and marketing of production. Export marketing becomes an achievable goal for even the smallest entrepreneur within the framework of a co-operative or association. Economies of scale, quality control and standardisation, effective access to management skills, better knowledge of market requirements and design improvement are only some of the further advantages afforded by well organised and supported associations amongst SSI firms and entrepreneurs.

UNECA, possibly in collaboration with other, specialised technical assistance agencies, is particularly well placed to study, in consultation with governments, measures designed to encourage the formation of associations of SSI entrepreneurs which will permit them to overcome constraints to growth and profitability associated with the whole spectrum of management, financial and procurement marketing problems which characterise his activities.

5. Support Policies

i. Government and agencies

As has been observed, virtually every developing country is subject to various factors which introduce into the mechanisms of industrial and economic growth substantial bias in favour of large-scale, capital intensive investment. This type of investment almost invariably requires major inputs of imported technology and often a high level of expatriate expertise. While such investment has an important role to fulfil in the developmental process, far too often the priorities afforded are at the expense of the small-scale sector.

Since experience, particularly in some of the more advanced developing countries, demonstrates conclusively that the presence and encouragement of a healthy SSI sector provides an indispensable foundation for industrial development, it would be erroneous to see a conflict of interest between SSI and the larger, capital intensive sector. Rather, the two sectors are complimentary. Each one meets requirements which cannot be met by the other and the parallel development of the two sectors permits each one to re-inforce the other.

If it is accepted that there is no conflict in priorities, then the issue to be confronted by policy makers and planners is allocation of resources. In every country and indeed in different regions of many countries, resource distribution will be the function of widely varying conditions.

The two resources usually in shortest supply, and in any case the most important, are finance and trained manpower; administrative, managerial, technical. However, contemporary thinking about development strategy now recognises the essential role of SSI in a balanced, socially desirable growth pattern. Resources are available from all the major assistance agencies for well designed programmes of institutional, financial, technical and training strengthening of the SSI sector.

African Governments have the opportunity to work closely with the specialised knowledge and experience available to them through UNECA to elaborate country specific policies, machinery and institutions which will enable them to make the best use of both their own resources and those available from the donor assistance community. By availing of the expertise available through UNECA, considerable economies in scarce resources, as well as critical time, can be saved through the unique ability of UNECA to study conditions and make recommendations in light of experience gained by trial and error in other countries. UNECA awareness of developments in other African countries will make it more possible for certain activities to be planned and executed on regional basis, permitting the sharing of some resources.

However, a firm and sustained commitment at the policy and planning level on the part of government must be made if any efforts to benefit from the demonstrated advantages of the SSI sector are to succeed. Here again, collaboration with UNECA may facilitate the task of governments in persuading civil servants, community leaders, financial institutions and other decision makers, that a comprehensive and active SSI programme is both desirable and attainable.

ii. Institutional machinery

In each developing African country institutional machinery based on country specific requirements will be designed to respond to conditions particular to the country. However, it is probably safe to say that in every country two major forms of institutional support will be found necessary, the specific and the general.

- a. Specific forms of support will take place through the creation or strengthening of formal organisations. These might, typically, include an authority at ministerial level which would have a co-ordinating and policy making role and then, a number of specialised organisations in the fields of extension, credit, training etc. Linkages with donor assistance agencies will usually be established at the level of these organisations which will undoubtedly, in most countries, be government sponsored.
- b. General forms of support to SSI are implemented through government policies and regulations designed to encourage, assist and support SSI through the working of the economy as a whole. Some obvious examples of this form of general support will be a deliberate government policy for the purchase of government requirements in goods and services which gives some form of relative preference to potential SSI suppliers or at least ensures their access to the government procurement machinery in a realistic way. Government policy

which encourages, through fiscal measures, regulations, imported input allocations etc., the practice of sub-contracting by both the para-state and private sectors have been successful in this context. India offers a noteworthy example.

What are loosely known as industrial estates are also, particularly in the urban milieu, considered as a general support activity. By assisting in making basic infrastructure services available to the SSI entrepreneur, such groupings will often permit the SSI to upgrade its skills and standards and give rise to opportunities for associative and contractual arrangements between firms. Trial and error have shown that mixed estates are most effective, particularly when they encourage the development of linkages between different size firms in close proximity to one another.

Simplification or elimination of regulations, and other formalities which may have either been inherited from previous political establishments, or have been designed primarily with the modern sector in mind, is a form of general support to SSI which requires deliberate policy decisions on the part of government. Excessive and legalistic regulation of business tends, in the small-scale sector, to both discourage enterprise and to be more expensive to administer than any possible benefit. Unreasonable or out-dated regulations can often lead to disregard for all regulations or encourage corruption within the administration responsible for their enforcement.

There will be an obvious relationship between the specific and general forms of institutional support which will have been created by policy and resource allocation programmes. For instance, a trained and well distributed extension service will be essential if the SSI entrepreneur is to be able to avail himself of general government opportunities.

It is indeed the inter-reaction of all aspects of SSI development policies which make it indispensable for most countries to create a specific institutional agency which is given both adequate resources in skilled planning and administrative manpower resources, and sufficient authority to permit its fulfilling a comprehensive planning and co-ordinating role.

iii. Financial mechanisms

Most developing countries in Africa have set up some form of DFC ^{1/} to provide assistance to activities which would otherwise have difficulty in gaining access to more traditional financial institutions. Although efforts are being made in many countries to broaden the activities of such DFCs, in general they are too often inaccessible to the SSI entrepreneur. Assistance agencies are increasingly seeking ways to work more closely with DFCs to enable them to reach a wider spectrum of borrowers. IBRD is particularly active in this field, as is UN/CDF.

As prime movers in the small-scale development process, many DFCs require strengthening in various areas if they are to participate fully in the key role designed for them. These areas are likely to include: 1) wider representation in areas outside of the country's capital; 2) better capabilities to evaluate and monitor small loans,

^{1/} DFC (Development Finance Corporation). Any intermediary which provides medium to long term finances to assist the development of productive, non-agricultural enterprise.

3) policy and statutory authorisation to deal with certain categories of applicants in a flexible and expeditious manner.

Such strengthening will enable DFCs to adapt their policies to the needs of a greater part of the economic community and extend their services to more enterprises, including those outside the fixed asset manufacturing sector. Term lending or revolving credits can be made more readily available to firms whose requirements are for working capital rather than investment capital.

DFCs should be encouraged to actively participate in SSI development policies by elaborating policies of their own which will reflect such criteria as:

1. job creation,
2. use of appropriate technology and
3. encouraging the development of sub-contractual, rural/urban linkages.

Clearly DFCs will be incurring higher costs and experiencing higher rates of default by adopting such policies. Clearly also, few DFCs can be expected to develop in-house capacity for the kind of extension or advisory services which are required for the servicing of larger numbers of low figure transactions.

Close and well defined co-operation between DFCs and the various facilities offered to the small entrepreneurial sector by the principal institutions and agencies engaged in promoting SSI will figure large in any programme evolving out of a national SSI development policy.

When DFCs have been strengthened in their capability to actively assist in the institutional support of SSI, they will be able to extend their activities more easily to service activities which are often creators of employment, developers of skills and who make a productive contribution to the economy. Many activities which are not based on large fixed investment are particularly suitable in this category; i.e. contractual services such as land preparation for agriculture, well drilling, and crop treatment, transportation of goods and passengers, wholesale storage and distribution of basic materials and produce, construction, repair and maintenance, crafts and tourism related activities.

In a framework of rural and agricultural development, the gradual move from subsistence to a more commercial agriculture will create needs and opportunities which a dynamic DFC, working closely with other institutions such as extension services, can assist in areas like distribution, storage and processing. The suitable vehicle for such expanding services may be a co-operative or a small enterprise, the objective will often be to stimulate institutional linkages between agriculture and the SSI manufacturing, processing or service sector.

A frequent danger encountered in the elaboration and implementation of an active DFC is that it becomes both a lame duck clinic and a court of last appeal for the least commercially viable potential borrowers in the market place. It has always been difficult to find the right balance between prudent lending and outright loss making

subsidies in establishing DFC commercial policies. To minimise these problems as well as to provide the widest possible spectrum of financing for small enterprises, policy makers will probably wish to draw into the small business development process other financial institutions.

The commercial or traditional banking sector represents a complimentary and often essential financial institution together with the DFC. These banks usually have a more widespread system of branch offices; they employ officers experienced in business and market conditions. The spread of the bank's clientele between different medium and large scale businesses makes them useful intermediaries for the creation of linkages between SSI enterprises and their other sources of finance. Banks are well geared to relatively quick decisions on short term working capital lending; as observed, often the primary financial constraint on the SSI operator. Most conventional banks are reluctant to deal with the small-scale borrower because of the relatively high risks involved and because the overhead costs to a bank are basically the same for a small loan as for a larger transaction. Means of overcoming these reluctances have been devised in various countries where the banking sector has been drawn into the financial market directed towards the small client. These measures will differ from country to country ^{1/} but some of the mechanisms being practiced with success include: 1. additional points of interest to cover the high cost of servicing such business; 2. a requirement made by government that a given percentage of bank's lending resource be reserved for the SSI sector; 3. loans made to banks by central banks on concessionary terms; which are in turn often provided for by assistance agencies (IBRD) UNCDF et al; 4) schemes whereby a substantial percentage of each loan is guaranteed by national or international development agency. With reference to this last example, UNCDF policy is to guarantee up to 80 per cent of a loan. This balance gives the bank both an incentive to deal with the SSI sector and a sufficient vested interest in loan appraisal and monitoring to avoid careless or frivolous loan management practices.

India, as well as a number of African countries, i.e. Gambia, Botswana, have been able to incorporate the banking sector into small entrepreneur financing with considerable success by using a mix of the above listed mechanisms.

A number of governments have approached the problem of financial assistance to SSI through the mechanism of a loan window either directly incorporated into the SSI development agency or, the agency in conjunction with a DFC. This practice has not been a success in a number of countries as observed. Combining the functions of technical and business advice with the administering of loans whose repayment may be seen to be influenced by the quality of the advice clearly generates conflicts of interest. Another disadvantage of having the development finance institution too closely linked with a Government agency responsible for SSI development is that loans tend to be considered by borrowers as "government" money which they are observably less conscientious about repaying.

While each country will evolve its own appropriate mixture of 1. advisory/extension service agency, 2. DFC and in most cases; 3. conventional banking; the mix will most probably include these three basic elements. IBRD recommends, from its own experience, a close relationship between the advisory agency and the DFC. Thus the DFC or bank

^{1/} See Mission Country Report, M - 2.

can refer a potential client to the agency or the agency can assist the client in preparing his application to the lending institution. IBRD feels that the dominant role in these transactions will devolve upon the lending institution who is in a position to exercise its authority through financial control, while not compromising the agency in its advisory assistance capacity.

The question of interest which a financial institution charges for developmental loans has aroused great controversy in the past and different approaches have been tried. However, subsidised rates of interest have been demonstrated so often to be counter productive that contemporary developmental thinking now tends towards a market place rate of interest or even a slightly higher rate to permit lending institutions to absorb the cost of administering greater volume of small loans. In at least one country visited during the course of the project mission, the negative effect of subsidised rates of interest was once again noted by this observer.

It can be argued that the absorption of the extra costs of administering small loans by the DFC or bank at market rates of interest is in itself a disguised subsidy. An additional subsidy will be the cost of the advisory service which in every case encountered is provided free or at a nominal charge. These two last forms of subsidy are probably far more realistic in terms of developmental priorities and more likely to prepare the entrepreneur for the real world of the financial market place. It is to be recalled that the traditional source of financing for the SSI entrepreneur in developing countries, the informal money lender, invariably will charge higher rates of interest than even a premium rate charged by a conventional bank or DFC. When allowed access to conventional financing, the intrinsic advantages of the SSI entrepreneur should, even without disguised subsidies, permit him to meet normal financial costs.

We have observed that the SSI sector represents a considerable potential for generating savings. In order to encourage this trend, the distortions inherent in a loan subsidy policy should be avoided.

"The prime requisite for successful SSI financing is to inculcate financial discipline, not only to prevent a drain on public resources but also to encourage rational investment and managerial decisions by borrowers". 1/

1/ "Employment and Development of Small Enterprises" IBRD, 1978.

III. SMALL-SCALE INDUSTRY AND RURAL DEVELOPMENT

1. Introduction

Rural development policies are increasingly being focused on forms of agricultural development which seek to ensure that the growth of agricultural output is shared between larger land owners and small peasant farmers who form the majority of the rural poor in developing African countries.

These policies have a direct impact of the small-scale manufacturing and service sectors in that these sectors will increasingly be called upon to absorb excess numbers of workers from within the small peasant group. Furthermore, the rural poor are the principal market for the kind of goods and services most often provided by the small-scale sector. Growth of agricultural output and rural disposable income will stimulate the growth of consumption, production, earnings, and employment in the rural small-scale manufacturing and service sector, or rural non-farm activity sector.

In the evolving developmental process, the small rural non farm sector must evolve as well. Improved communications infrastructures will expose the rural small-scale entrepreneur to increased competition from the modern sector. This competition for a more developed market can be a stimulus to the more dynamic elements of the small-scale sector to improve; in such areas as: product standardisation, design, and techniques of production and marketing. The need for better skills in management and the necessity of investment through participation in the formal financial sector will also be impressed upon the small-scale entrepreneur.

In addition, improved transport and communication infrastructures may provide an incentive to some of the more modern and generally urban based manufacturing sector to decentralise towards low labour cost rural areas, either by investment or through sub-contracting for component manufacture or for assembly operations. These phenomena will add to the multiplier effect of growing rural prosperity, better markets, and improved employment potential.

In specific country contexts, various mechanisms may be considered to accelerate the process described above and stimulate the growth of market responsive small non farm rural activities. These may include:

- i. fiscal and other concessions for recognised small-scale activities in designated areas;
- ii. the introduction of business advisory extension services to permit small rural entrepreneurs to acquire new skills needed to a changing economic climate and to ensure that they are able to take advantage of concessions;
- iii. Government procurement policies and fostering of vertical linkages between the small-scale and the modern sectors;
- iv. Other specific government policies tailored to the particular circumstances of a given country, region or category of activity. An example is the policy of the government of India to restrict manufacturing licences and access to loans and imported raw materials or components to certain activities which are particularly well suited to the small-scale sector (i.e. matches).

Such actions as suggested in (i) through (iv) above will have been undertaken after an extensive examination of their role in both the macro national economy and the particular micro economy where they are scheduled for implementation. The guiding consideration will be to encourage the emergence, growth or restructuring of small-scale activities which will be economically viable in terms of the workings of the market place in which it is situated. The costs of small non farm activity promotion will then have to be evaluated in terms not only of market potential but in terms of infrastructure investment, balanced against social benefit.

2. Rationale for including non farm small-scale activities in rural development planning and programming.

It may not be necessarily obvious to policy makers that Rural Development planning will benefit from the inclusion in such planning of provision for parallel development of small-scale non farm activities. However, failure to provide for them can predictably vitiate, or at best cause the loss of important side effect benefits to; any rural development programme.

- i. In areas where agricultural modernisation and improvement in the quality of rural life are taking place, an immediate need for increased levels of non farm activity will arise. More and better tools, implements and integrated policy of support to non farm activities will readily find not only justification, but will be required if the process of agricultural and social improvement is not to be impeded.
- ii. As local small scale non farm activities respond to expanding rural markets, they will respond to the stimulus of competition from other sources of supply. Some of the enterprises will not meet these challenges, others will adapt and grow; and most important, new enterprises will spring up in response to demand. In order to ensure the balanced progression of this process, enlightened, realistic programmes to aid the evolving small-scale sector will become clearly indispensable if a socially desirable balance in an integrated rural life is to be achieved;
- iii. The parallel growth of the small non farm sector with increased agricultural productivity will improve the cost benefit evaluation of resource allocation decisions with regards to strengthening of rural infrastructures, both social and economic;
- iv. The spontaneous growth and adaptation of rural non farm entrepreneurial activities has been seen to be subject to exceptional constraints. Lack of management and technical skills are an example. The climate of mistrust of "official" activities, which is fed by tradition, deficiencies in literacy and information dissemination, must be overcome. Re-investment of part of newly formed capital resources generated by agricultural modernisation, into needed productive and employment creating activities will not take place unless financial institutions are adapted, probably in conjunction with extension advisory services, to make themselves accessible and to respond to

the needs of the small entrepreneur. In order to make this response, policy makers must be prepared to make investment decisions involving scarce resources to provide what are in essence, social infrastructures necessary to achieve balanced rural development and social equilibrium. There is every reason to believe that such investment, if sensibly made, will be self liquidating both in terms of increased growth and indeed, in long term revenue collecting potential.

3. Social infrastructure mechanisms required in an SSI, rural development policy. Varying conditions will dictate the specific choices which will impose themselves on policy makers when designing broad policies for rural development which will include support for the non farm small scale activity. It is to be recalled that these infrastructures are not created overnight and that their most productive contribution will be made when they have been built into basic rural development programmes from their inception.

Some or all of the following types of infrastructures will almost certainly have to be adopted by Government to implement a policy of integrated rural development;

A. Government policy and physical infrastructures

- i. It cannot be sufficiently stressed that a deep and lasting high level government policy consensus must be the essential foundation to any programmes for the integration of small scale non farm activity to rural development. Sporadic or cosmetic efforts will not be successful and will, more likely, not only waste resources but be counter-productive and retard the whole process of rural development. Based on a firm and deeply rooted commitment on the part of government at the highest level, then, what are likely to be essential interventions in the form of programmes for integrated SSI-rural development?
- ii. The anticipation of physical infrastructure requirements in such areas as communications, i.e. roads, transport, public works, electrification etc. Many of such activities provide local employment and result in the learning of basic skills applicable in other activities. In many countries, government marketing boards are active, efficient and productive elements in the agricultural development process. They often can supply services which are too extensive and complex for the private sector. Such boards, of course, tend to become suppliers of seeds, fertilizers, agricultural chemicals and the like, as well as purchasing crops. A conscious effort should be made to encourage the phasing out of state bodies from those activities which can be demonstrably carried out economically by the informal sector.
- iii. Governments should not hesitate to maximise the use of local labour and providers of goods and services wherever possible. Often this can and will be proved to be less cost efficient than the use of "imported" inputs to implement infrastructure projects. However a thoughtful examination of long term social goals and careful weighting of cost/benefit disparities should be made before the adoption of quick and easy solutions to a specific problem. The scheduling the public works projects during slack agricultural periods is one way to avoid disruption and to maximise the participation of local workforce in the development process.

- iv. The provision of basic physical infrastructures such as roads and electrification leads inevitably to the growth of social infrastructures which accompany the growing expectations generated by improved agricultural productivity and income distribution.. Since small non farm activities also benefit from these infrastructure investments, they participate in and contribute to improved standards of living and levels of economic activity. Better roads give CSI access to wider markets, they facilitate the procurement of raw materials. Electrification allows the introduction of improved technicity. More and better social services such as schools, clinics, water supply etc. are drawn into the developing rural milieu as a result of demand pressure.

3. Social Infrastructures

- i. Training. Unless training facilities at various levels are available in an accessible and well organised, integrated way, both for the agricultural and for the non farm sectors, balanced rural growth will be delayed and stunted. The non farm sectors, will require vocational training in both manual and business skills as they adapt and grow under the pressures of changing economic and social conditions. Vocational training programmes can take any form which will be most appropriate to the specific requirements of a given region and a particular programme. One element which is almost certain to be present will be a business advisory extension service which in turn will provide information about and access to, vocational, manual and technical training programmes. Such services are not cheap, although their costs need not be exorbitant if they have been well designed and organised. Their costs must be considered as part of an indispensable investment policy in social infrastructures. In some countries, notable India, training programmes have been successfully integrated with the introduction of a well planned programme for the creation of rural industrial estates. This last method may be found to facilitate the introduction of research findings in appropriate technology.

C. Financial Infrastructures

Credit institutions, both public and private, preferably closely linked with, but separate from, business extension advisory services, must participate in the rural development process by becoming both physically and psychological more accessible to the rural small non farm entrepreneur. They represent the only alternative to the almost invariably usurious informal lending sector whose practices traditionally have demonstrably strangled growth in the sector. The informal financial sector will not disappear overnight in any case. However competition from the formal sector, especially for the most attractive business in growing rural economies, may well have two effects. First, the informal sector will be obliged to moderate its demands on what is too often now, a captive market; secondly, informal sector holders of capital may, in some instances, find it to their advantage to deposit a portion of their resources at attractive rates of interest in exchange for the security offered by the formal sector lending institutions.

The administrative and financial costs of providing a widespread and accessible banking service in rural and provincial areas will in many cases go beyond the criteria of prudent banking management. Government policy making will have to take this factor into consideration and through Governments' own, and international assistance agency, mechanisms, make it possible for financial institutions to provide needed services without being penalised. Loan default guarantee schemes; the provision of business extension services to fulfill functions which otherwise banks would have to fulfill; and perhaps interest subsidy schemes are all possible approaches to the problem of encouraging banks to participate actively in this developmental activity. Thus, support of the financial sector by ensuring that it fills its essential role in the overall rural development programme, becomes another social infrastructure which will almost certainly require commitment of Government resources, whether self generated or drawn from international donors. The role of cooperatives and other forms of association should not be neglected in planning for the mobilising of savings and the availability of credit in the framework of rural non farm activities.

Conclusion

In general it has been shown that in the small-scale rural non farm sector, more jobs and higher incomes for the rural poor excess labour force will result when a minimum set of factors are present:1/

- a) There is a high elasticity of substitution between capital and labour;
- b) Wages are not driven too high, too rapidly;
- c) Access to technical skills and changes is relatively easy and is directed to increasing efficiency of both capital and labour;
- d) Product demand and price elasticity is strong.

Sufficient of rural non farm activities seem to reflect these conditions, to a measurable degree, to qualify as genuine distributors of growth generated benefits to the rural poor, through wages spread by economically and socially productive economic growth.

1/ "Employment, productivity and income distribution" Essays in honour of H. Singer, Holmes & Meier, New York, 1976.

CONCLUSIONS

1. Information on the development of small-scale industry

Information on the development of SSI is difficult to assemble. First, by its very nature, SSI does not lend itself to the collection of statistics. SSI entrepreneurs are often to be found in remote areas; in urban areas they can be highly mobile. Secondly, in order to be identified, they must be defined. As Governments develop policies and definitions, as institutions and programmes are put in place, it will become increasingly possible to establish reliable information which will greatly aid the development of the sector. Of the African countries visited, Botswana, one of the smallest in population, is undoubtedly the best documented. On a world wide scale, the IBRD is undoubtedly the best source of information, both general and particular, and such information as is available is readily accessible through a series of excellent policy papers, as well as more specialised reports. The ECA library has a wide selection of general and specialised texts, many of which are listed in the project "Background Paper".

2. Existing institutional machinery

As would be expected, institutional machinery for the development of SSI varies considerably from one country to another. This, both in terms of underlying policies, and in terms of definition. Each country's circumstances, with regards resources, administrative and economic; its socio-economic system, its geographic situation, will have contributed to a different institutional approach to industrial development, usually including SSI development, which will reflect these circumstances. In many cases the machinery will have grown on an ad hoc basis. Emphasis may be put on the development of that sector of SSI concerned with handi-crafts, for instance. Other countries may have developed institutional machinery to deal with the financial problem of SSI without necessarily giving sufficient attention to the indispensable ancillary machinery which would ensure a better use of financial resources devoted to these purposes. Still other countries have seen the growth, in the absence of a well defined national policy, of various institutions whose activities are imperfectly coordinated. This leads to duplication of effort and inefficient use of resources; indeed it can lead to contradictory actions which are demonstrably counter-productive. International assistance agencies are usually specialised in one aspect of SSI development, i.e. management, technicity, finance, etc. Their efforts, however laudable, may create areas of activity whose end impact is attenuated by their tending to be relatively isolated, rather than an integrated part of a clear and comprehensive policy and programme.

Institutional machinery then, must be a part of an overall policy for SSI development and be well coordinated with other institutional activities so as to constitute an integrated approach which reflects that policy.

3. Financial structures

It has been observed that financial institutions have a vital role to play in the development of SSI. None theless, that role has been over-stressed in many instances, while the supporting institutions which would permit the maximisation of financial inputs have been neglected or imperfectly coordinated with the activities of financial assistance programmes. It has been observed in numerous instances that a financial assistance programme, unaccompanied by advisory or extension services in management and technical skills, will not only lead to the creation of non-viable enterprises with their subsequent drain on resources, but it can indeed bring about the failure of relatively sound enterprises.

Financial institutions may be specially created for service to the SSI sector or existing institutions may be programmed to serve these needs. Usually it will be found that a mix of financial institutions, all working together within the parameters of an integrated SSI support policy and programme, will best meet the varied needs of the sector. It is to be recalled that in every instance studied and from observed experience of other assistance agencies, the too close association of any extension or advisory service with the actual financial assistance decision making machinery has proved to be unsuccessful. These functions should be complimentary but separate and not combined in one institution.

4. Long term programmes required for the development of SSI

Any long term programme designed to enhance the development of SSI will almost certainly incorporate the following basic elements:

- i. A government policy designed as a permanent feature of developmental planning which will set out the priorities and the objectives for developing a healthy SSI sector. This policy will be based on a realistic appraisal of the countries' resources in trained manpower, funding availability, existing structures of industry in all categories, infrastructures, and regional and international circumstances;
- ii. Government policy will be built on a clear and realistic definition of what is to be considered the SSI sector in the country. Such a definition will probably be based, at least in part, on surveys of the sector (See Morocco, Botswana, Country Papers);
- iii. Government will, in implementing long term policies, review a wide spectrum of administrative, fiscal, and resource allocation policies to attempt to eliminate constraints to the development of SSI which are built into the system. Where ever possible such a general policy review will take into account other areas of developmental policy. The integration of any SSI programme with rural and agricultural development programmes will be encouraged. Incentives will be institutionalised to ensure maximum participation of SSI in Government procurement policies and to encourage vertical integration of SSI with larger scale activities, through subcontracting, etc.

- iv. Financial assistance will be made available and accessible to SSI through institutions who will develop specialised capacity to deal with this category of borrowers. Such financial assistance will avoid becoming dependency making, subsidy mechanisms; loans will reflect terms practiced on the real world, formal banking sector. The financial institutions will coordinate their activities with training and advisory extension services, designed to assist the SSI entrepreneur to make the best use of available financial assistance.

5. Training programmes will be designed to cover the two basic needs of the SSI entrepreneur, fundamental management skills and technology which is appropriate to his requirements. One element of such training programmes for SSI entrepreneurs will be a corps of adequately trained, well motivated extension workers. Such personnel will be available in provincial and rural areas where they must be given the necessary means to be mobile.

Since many SSI entrepreneurs are only partially literate and may indeed have numeracy problems, audio-visual approaches to their training have proved very successful. Such programmes can be purpose designed and have great impact on potential audiences. Audio-visual devices are manageable for even the field extension worker and a choice of models exists which can be operated from internal power sources or car batteries. Audio-visual techniques can also be used for training extension workers. A leader in the field of the preparation of this kind of specialised audio-visual training material who has considerable experience in working with success for such agencies as FAO is: Tecmedia Ltd., 5 Granby St. Loughborough, Le 11 3DU, England. Tecmedia promotional material is on file with the ECA/UNIDO JED.

Another element of SSI training may be the strengthening or creation of centres, both day and residential, where technical skills which respond to clearly identified long term needs can be instructed. Incorporation into the programme of such centres of instruction in management skills for selected students and for students of technical disciplines who show aptitude, should also be planned.

Training programmes for business advisory extension workers need not be over ambitious. Basic skills in accountancy, record keeping, inventory control, costing and pricing, dealing with institutions in the banking and administrative sectors, as well as the psychology of the SSI entrepreneur will be elements of any curriculum for extension workers.

Given the relatively basic requirements for extension workers, it is a mistake to select candidates for training who are overqualified. Such workers are likely to be discontent with the level of wages most probably available for such work and many of them will be disinclined to work in the more remote areas. Experience shows that excellent extension workers can be recruited amongst candidates who have obtained satisfactory results at one of the formal levels of secondary school leaving. By drawing from this pool of potential candidates, those responsible for organising an extension service can more easily balance such a service staff amongst different linguistic groups and amongst those from both rural and urban backgrounds. In many parts of Africa, certain lines of small-scale enterprise are traditionally dominated by women. It has been found that women extension workers are very effective in serving the needs of this sector and a conscious effort should be made to recruit women for any such service. Ideally, candidates will have had some business experience or will have characteristics of maturity and facility in dealing with people which will give them credibility in dealing with small-scale entrepreneurs.

More advanced training for the better qualified and most diligent of such workers will be, of necessity, more specialised and respond to the more particular needs of any countries' programme.

It is the opinion of the author of this report that, since the extension worker described above is relatively inexpensive to employ, more than adequate numbers should be in the recruiting and training pipeline. Considerable attrition can and should be expected amongst these workers. It will be an encouraging sign of the success of any programme if some businesses grow to the point where they can economically offer employment to members of an extension force; or where members leave the force to become entrepreneurs themselves.

(H.3. An excellent manual, discussing at length and giving detailed models for training programmes for SSI extension workers is to be found from: "Intermediate Technology Publications, London. Its title is: "Consultancy for Small Businesses, the Concept, Training and Consultants." ECA Library No. 659.2:330.4(H2955).

5. Many African countries could benefit from an opportunity to study and be made aware of experiences, and the lessons gained by trial and error, in other countries. Some of these countries may be insufficiently aware of international assistance available in various forms for the promotion of sound and active policies and programmes for SSI development. The establishment of contacts and the laying of foundations for practical co-operation with relevant undertakings and institutions would permit a better definition of the role of the SSI sector in industrial and economic development policy planning and programme implementation. It is clear from observations made during the course of this USAID funded, Joint UNECA/UNIDO Project, that precious time and inestimable savings in scarce resources could be effected by every country studied if it were possible for each of them to have access to the often painfully acquired success and failure experiences of other countries. On the basis of common experience and observable, demonstrable histories of attempts to develop SSI programmes, each country, within the framework of its own particular and often unique circumstances, can strengthen existing institutional machinery or can re-appraise existing policies, with a view to building a constructive and manageable SSI development policy which fits into the country development planning strategy.

One promising approach to the establishing of links and contact between countries interested in the benefits we have demonstrated as being inherent in a clear and well supported SSI policy would be at least 2 and perhaps more international workshops or seminars. These seminars would be organised along lines of common background and circumstances and in function of the administrative working language of the countries involved. These seminars could be based on policy considerations and the presentation of the strong arguments for a vigorous and well planned SSI promotion and development policy. Elements of the findings of the UNECA/UNIDO JED project on SSI could perhaps be used as a basis for the discussions in such seminars.

Another potentially interesting approach to stimulate greater cross stimulation between countries would be a bi-monthly news letter, in an english and french language edition. This newsletter would draw on the experience gained in different countries and make it available to others. Articles could be reasonably detailed and technical if the distribution of such a newsletter was carefully directed to those responsible for making and executing policy in the field of SSI development. Contributions could be encouraged from responsible officials in African countries and from international technical assistance agencies and their personnel.

Once a central stimulus provided by an intra-African organisation had organised a series of basic policy and planning meetings and sensitised decision making opinion in a number of countries, more specialised meetings, workshops and seminars could be organised in specific topics, such as training of extension workers. Agencies such as UNIDO and ILO could make constructive contributions to these meetings. The organisation upon whom had developed the responsibility of centralising multinational efforts and supporting national efforts could build up its staff with the view in mind of having specialist advisers available to requesting countries. These advisers would be specialists in the problems of developing SSI infrastructures and policies and would be familiar with the developments in the field throughout Africa.

7. Findings made during the course of the UNECA/UNIDO JED project missions to five selected African countries have been discussed in various sections, above, of this report. In particular, in conclusion (5) above it is suggested that a means must be found to permit African countries to share hard won experience in the vital area of developing realistic and productive SSI development policies and programmes. Many countries would welcome and greatly benefit from specialised advice were it available from a central, respected organisation.

UNECA is uniquely African organisation, enjoying international prestige and the support of numerous international assistance and funding organisations. UNECA is particularly aware of the opportunities for industrial/economic development which are to be exploited through the development and implementation of well defined and planned SSI promotion policies and programmes. UNECA is also familiar with the problems associated with the elaboration of such policies and programmes and is in a unique position to make available to member governments sound advice based on a synthesis of observed and analysed experience from a wide spectrum of countries. This experience has been recently brought up to date through the completion of a study which was made possible through the interest in SSI development, and the confidence in UNECA, of USAID. The experience thus gained, and which is encapsulated in the present report, demonstrates conclusively that there are common, basic factors which are applicable to virtually every African country if a successful effort for the development of SSI is to be made. At the same time, experience and observation shows that each country has circumstances and conditions which require specialised study and advice in order to permit the effective application of basic demonstrates formulae which must be the foundation of any viable and productive policy and institutional frame work for the productive participation of the SSI sector in the national development process.

Based upon its present expertise, UNECA is in a strong position to upgrade its already unique experience and knowledge of the subject and make available to African countries, both the basic and fundamental requirements for setting up SSI promotion policies and institutions; and to provide the specialised advice to permit the adaptation of these fundamentals to the particular situation of each country.

The best way to bring to bear the uniquely suitable abilities of UNECA will, of course, depend on practical considerations. One approach would be to obtain the agreement of the parties concerned that the implementation of a unified SSI promotion activity within UNECA be placed high on the agenda of the next Conference of African Ministers of Industry. Another possible approach would be to call a meeting of senior policy making government officials from selected countries. Such a meeting could be the vehicle for sensitising of Governments on the urgency of affording high priority to SSI development. The agenda could include such items as (i) definition of SSI in African context, (ii) administrative measures for facilitating trade in SSI production, (iii) regional colleges for the training of SSI extension workers and supervisors, (iv) joint approaches to international funding agencies for support of regional programmes, etc.

Part II

REQUIREMENTS FOR STRENGTHENING DEVELOPMENT OF SMALL-SCALE INDUSTRY

Preface to recommended measures for implementation

The theme of the following notes will be to suggest the desirability of developing between African countries, an institution whose purpose is to advance the achievement of common economic development policies in the field of SSI. Where such institutions already exist nationally, to reinforce them or to enlarge and strengthen their fields of activity. To these ends it would be imperative to galvanise all levels of African decision makers, towards an understanding and support of such policies and institutions, in order to assure that they will enjoy the necessary political, , public opinion and international support necessary to ensure their success.

There is a wide disparity between countries in Africa in terms of: state of economic development, natural resources, population, geographical location, linguistic and cultural character, economic policies, and other factors. It would thus appear desirable to think in terms of one common organisation for all of African at this stage of development. At the same time, should a series of powerful regional institutions emerge, their very existence would create a polarising force to draw almost all African countries into closer cooperation in matters of economic cooperation for SSI development.

In order to implement the measures outlined above it is clear that the encouragement, financial support and technical resources of a supranational organisation would have to play the vital role of catalyst. The most obviously suited for such a role is the UNECA. Since well developed patterns of cooperation between the organisation and most African States have already been developed over the years it would seem logical that the organisation and governments address themselves jointly to this challenge.

The experience and expertise which might be drawn from this African organisation would present two major advantages impossible to equal in any other context. UNECA represents a sum of technical and organisational competence which could provide the needed impetus in assisting African countries to achieve the institutional and technical mechanisms to successfully implement the creation of effective and interacting national and regional institutions. Secondly, a joint programme, implemented by UNECA and governments would represent much weight in influencing other African governments in this ambitious and complex endeavor. Both governments and International Cooperation Organisations would be obliged to give the most serious consideration and support towards the creation of such institutions, assuring that they would command the respect; financial, and technical resources, required for their becoming effective resources in the evolution of the New Economic Order.

Close liaison and permanent consultation could be maintained with concerned governments and, where appropriate, with Interanational Organisations. Already existing regional, linguistic or other groupings could be encouraged and supported in efforts to extend their responsibilities and authority to appropriate actions of in this vital, SSI area of economic activity. As such groupings function in an

increasingly effective way, an ECA instrument created for the specific purpose of stimulating and encouraging the creation and growth of SSI would have a new and vital role to play. This would be to encourage and coordinate the closest possible collaboration between the regional groupings on matters affecting both SSI development and in negotiations with other, world-wide economic entities.

Areas of application

Should the above recommendations receive favourable consideration, its implications would extend to such areas as: i.e.

- Reorientation of industrial policies and strategies, restructuring instruments for action;
- Enhance economic independence, self-reliance and self-sustaining industrial development by creating the conditions for the growth of vigorous SSI sectors in the widest sense of that concept, in turn leading to the development of more extensive medium and large-scale sectors;
- The will to develop would most certainly be strengthened through the process of mutual support and the economic power that would come from less fragmentation;
- Industrial cooperation, whose development is dependent on trade. Areas of greater trade opportunities in the form of expanded markets should stimulate co-operation through pooling of resources, technologies and the avoidance of duplication of effort. Greater self-sufficiency would then result, with consequent lessening of dependence on imports of goods, services and technology;
- Industrialisation and human, natural and agricultural resources. It is axiomatic that increased, rational industrialization such as can best and perhaps only be achieved by encouraging the SSI sector, will in turn lead to more productive and socially rewarding use of all resources;
- Capital formation is perhaps one area where the adoption of coordination policy would show the first and most immediately necessary results in the technical process leading to the overall goals discussed in this paper;
- In the general climate of increased trade and improved infrastructures, such as transportation, exchange facilities, and the many predictable, as well as unforeseen benefits of co-operation stimulated by regional co-operation, it is difficult to imagine how small-scale industries would not benefit. It is rather to be expected that the benefit would stimulate what might well become an entrepreneurial explosion with its own multiplier effect in terms of employment generation, self-sufficiency and improvement in the quality of life.
- As this recommendations is largely concerned with industrial infrastructure and industrial co-operation the above must be considered as a few brief observations on the advantages of institutionalizing both of these concepts within the framework of economic co-operation and development, coordination and assistance by a central organisation.

RECOMMENDATIONS

Introduction

The experience of the past thirty years suggests that industrialization has played a critical role in overall development. Countries with rapidly growing industrial sectors have been able to handle development problems, particularly those of employment, much more easily and effectively than those countries in which industrialization has lagged. This does not mean that other sectors, particularly agriculture can be neglected. On the contrary, if it is to be successful, industrialization must have a symbiotic relationship with other economic sectors, rather than growing at their expense or without regard to them.

In many developing countries industrial growth and accompanying urban development are necessary to relieve pressures on agricultural land and permit its increased productivity, to provide markets for primary producers, and supply competitively priced locally manufactured goods for consumers and other sectors. Despite the considerable progress already made by the developing countries in these directions, the pace of industrialization, particularly in the lower-income countries, is still far from satisfactory. It is commonly recognized that the pace and structure of industrialization in any country depend on such factors as the endowment of human and natural resources, size and geographical location, and the international environment, all of which affect access to markets, capital and technology.

The influence of industrial development policies, however, has not been so clearly recognized. The wide range of industrialization achievement in the past, among countries with similar economic endowments, strongly suggests that policies do indeed play a critical role in industrial development. They influence the use of existing and the development of new resources. They help determine the technical and economic structure of manufacturing, affecting capital-labour ratios, competitiveness, and the barriers to entry by new enterprises. These, in turn, are the characteristics that determine the quality and pace of industrial growth.

Resources are not just physical; they cannot be assessed without reference to administrative capacity. To a large extent, the policy maker is always a victim of the past. Policies and their administration create interest groups which call for their perpetuation in the economy and within the bureaucracy. Policy changes can thus be difficult to implement. Most politico/economic systems have structural rigidities. Workers and entrepreneurs may not respond immediately to structural changes. Consumers notoriously prefer imported to local goods, often regardless of significantly higher prices.

The main weight of plan and strategy implementation in most developing countries rests on industrial development policies. These have an impact on the decision-making of enterprises, both private and public, in two ways: first, by across-the-board policies which affect the relative prices at which enterprises buy and sell goods and services; second, by direct measures of control, tailored to individual firms or industries, such as production licensing, price controls, or public ownership, which stipulate the conditions firms must meet to enter into, or remain in, production. Social cost-benefit evaluation is increasingly used to rank the social

value of manufacturing projects subject to such direct controls.

It is extremely difficult to design policies that are clear and direct, yet flexible in the sense that they can reflect changing circumstances over time. Undue flexibility may enable those with political-economic power to bend the system to their advantage. The real world constraints on policy formulation mean that in practice policy choice is likely to be limited to second-, third-, fourth-best, or even worse solutions. If policy makers can, however, set out a national hierarchy of policies from first to the best possible and select policies by moving systematically down it until constraints no longer bind, they are more likely to avoid costly mistakes than if they opt for policies without such analysis.

(a) Government Policy

Government must decide, in light of country specific conditions, resources and goals, how great a policy priority they wish to give to the integrated development of small-scale enterprise in the overall framework of economic, social and industrial development planning.

When a policy decision has been taken, at the highest level, Government will probably incorporate formally a statement of SSI policy and objectives in the published expression of national developmental planning.

- i. Government will determine definition of what is meant by the small-scale sector, in view of the countries particular circumstances;
- ii. Government will study the situation and nature of the small-scale sector in the country. Based on this study it will identify administrative constraints which hinder the growth of the sector and eliminate them in the most practicable manner;
- iii. Based on study of the sector, where appropriate with the assistance of a specialise technical assistance agency such as UNECA, government will identify areas where specific actions can be initiated which will encourage the growth of the sector;
- iv. Government will bear in mind, in defining a small-scale sector development policy, that the sector is not isolated but is an integral part of the whole economy. Recognition will be given to the fact that the requirements of the sector will cut across lines of administrative authority. Consequently, most Governments will probably find it desirable to create a new institution or strengthen an existing one, which will have sufficient central authority and access to other administrative bodies to guarantee that its voice will be heard in the advocacy of SSI development;
- v. Government will consider small-scale non farm activity development and encouragement as an essential part of any programme designed to promote rural development.

(b) Specific Programmes

- i. Extension service in order to implement Government Policy for the development of SSI, a well trained, carefully organised business advisory extension service will be as widely spread as possible. They will be trained to instruct SSI entrepreneurs in simple management skills and to assist them in dealing with government and financial institutions;
- ii. Financial mechanisms. A programme involving the formal financial sector, which may include DFCs, the commercial banking sector, and specialised institutions, will be developed to allow access of the SSI entrepreneur to reasonable credit. Procedures will be kept as simple as possible, interest rates will reflect market place realities, and lending operations will equip itself to be able to offer technical training in circumstances appropriate to the requirements of the SSI sector.

II. Role of UNECA - Recommendations

(a) It is recommended that UNECA set up a small-scale industries unit. This unit would have as its primary functions:

- i. The provision of expert advice to governments in elaborating policies and definitions. The organising of workshops and seminars in SSI development;
- ii. Assistance to Governments in implementing and organising of specific programmes such as extension advisory services, financial institutions, technical training facilities and integration of SSI into programmes for rural development;
- iii. Seeking practical means to develop inter-regional cooperation and joint activities in encouraging SSI training programmes, exchange of practical experience and promoting trade in SSI productions;
- iv. Serve as liason and intermediary in facilitating project programming with specialised agencies.

Prepare the directory on project profiles for creation of a net-work of possible types of small-scale and rural industries with special reference to access to technological processes, equipment, raw materials energetic sources and markets.

(b) In function of policy decisions regarding the setting up of a small-scale industries unit and with regards to the availability of necessary resources, UNECA will probably find it usefull and productive to draw up a five year action programme. This programme will define objectives, set targets wltthing a realistic time frame and allocate man-hour and financial resources.

(c) In order to implement the 5 year work programme, and after objectives and targets have been defined, recruitment of additional specialised staff will be required. Most probably the experts required to make up the SSI unit team will include at least one specialist in training and organisation of extension services, one financial specialist, one appropriate technology specialist and one policy and administrative specialist.