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Small-scale Enterprises and Industrialisation

Although the industrialisation efforts of the developing countries have been rightly criticised, they are an essential prerequisite to a lasting improvement of living conditions in these countries. Their reorientation to provide more assistance for small and medium-sized enterprises seems advisable. While the first contribution deals with this subject generally, the second one concentrates on Africa and more particularly on Tropical Africa.

Assistance for Small Industrial Enterprises in LDCs

by Hans-Peter Wüstermann, Bonn*

Under the influence of the — in many instances justified — criticism of the industrialisation policy of the less developed countries (LDCs) public opinion in the industrialised countries has come to feel some misgivings about these industrialisation efforts. This has gone so far that the economic experts of the UNESCO Committee for Development Planning in the spring of 1974¹ felt obliged to declare that in their opinion industrialisation remains a cardinal element of the development process.

The Committee attributed the criticism in part to exaggerated expectations and to impatience. Since many developing countries had only just begun to set up industries, the industrial sector had to be allowed time to demonstrate its ability to make a contribution to the socio-economic macro-objectives of development policy. There was

admittedly a need for reorientation in the light of changes of emphasis on macro-objectives also in the industrial sphere. The industrialisation had to be adapted more closely to the needs and interests of the bulk of the population and help primarily to improve their working and living conditions, create more jobs, advance regional balance, etc. Cost depression achieved by producing goods for larger sections of the people as a result of a more even incomes distribution would itself have a reverberating effect on industrialisation.

Development through Industrialisation

The Committee's findings call to mind the emphasis on industry in the UN strategy resolution for the Second Development Decade (in October 1970). Production in industry was to be raised by 8 p.c. annually

compared with 4 p.c. in agriculture. While farm production is to be developed over the longer term more or less in line with population growth, the potential production of industrial goods and services must grow faster in order to achieve a greater improvement of living standards raising them above the subsistence level. Once the basic nutritional needs have been met, housing, clothing, health, transport, utilities and education inescapably attract greater demands which it is impossible to satisfy unless industry prepares for them in various ways before-hand. There is moreover a need in all sections of the economy for means of production to make work easier and increase productivity. For an improvement of living conditions it is essential that more of the

* Federal Ministry for Economic Cooperation.

¹ Report on the Tenth Session (March 25 to April 3, 1974) — E 5478.

means of production in particular should be produced in the developing countries themselves. Few of them would be able to cover their large requirements of industrial goods and services in the world market in exchange for agricultural or mineral products of their own.

An improvement of living conditions in the developing countries is indispensable if the mounting tension in their relations with the industrialised countries is to be abated. For this reason and in view of the close long-term correlation of living standard and industrial development level in many LDCs the industrialised countries will perforce have to pay more attention to the debate about effective forms of industrialisation policy and themselves contribute to it.

Insufficient Regard for Small Enterprises

The industrial statistics of the developing countries show over 95 p.c. of all enterprises (including artisan establishments) to be of small or medium size (with up to 300 employees). In some countries they account for over 80 p.c. of the industrial labour force. It therefore makes sense to lay the emphasis in industrialisation policy on assistance for small and medium-sized enterprises which are capable of further development. Most developing countries and donors however have until now paid insufficient attention to assistance for enterprises of this size even though these smaller firms contribute directly to the supplies for the population and the improvement of its living standards. It was only fairly recently that more thought was given to assistance for smaller enterprises in the LDCs themselves, by the various donor countries and by the World Bank.

Increasing interest in the development of the small and artisan firms must not however lead to antagonism to bigger enterprises. In many fields big and small enterprises urgently need each other's services (e.g., the automobile industry depends upon accessories and servicing facilities, and smaller construction firms need building materials such as cement, tiles, etc., from bigger works). Assistance must therefore be extended to both sides, with priorities and instruments carefully chosen to accord with the situation as it presents itself at the time.

Arguments in Favour of Assistance for Small-scale Industry

The socio-economic arguments presented in the international discussion for giving assistance to small enterprises include the following:

- ☐ Small enterprises cover a substantial proportion of the needs of the population.
- ☐ They are especially suited to small, narrow and specialised sectional markets and to the use of scanty regional or local resources.
- ☐ They offer scope for initiative in the form of entrepreneurial activities and training for suitable skills lack of which is hampering production.
- ☐ Their simple organisational structure makes for flexibility.
- ☐ Reflecting the true factor costs of capital and labour in a market situation unaffected by regulations on interest and exchange rates, labour and social welfare, capital requirements per working place are generally low.
- ☐ There is a good chance of transforming traditional artisan enterprises which would in the long term not be viable into small modern artisan or industrial establishments and thus to maintain or improve job opportunities.

☐ The economic structure of rural districts can be improved by assistance to small enterprises which do not need large markets or resources.

☐ Substantial new capital and additional employment can be created by using the considerable potential reserves in small enterprises to expand production and increase productivity.

Developing countries with very dissimilar socio-political aims have for these reasons acknowledged the importance of small industrial enterprises in their development plans and devised measures to assist them.

Criteria for Eligibility for Assistance

Small firms are to be found in almost all industries including the building trades. Their chances of progress certainly differ a great deal, but do not depend so much upon their size as on the kinds of products which they make and on their forms of organisation. In the longer term only "modern" establishments and such others as can be transferred to what is called the "modern sector" deserve assistance. They must satisfy the following criteria:

- ☐ Their production must be intended to meet a longer-term demand (possibly outside the region) in line with development requirements.
- ☐ The owner must be willing and able to adapt to changes in demand, enlarge his field of operations, improve the structure of organisation, and practise cooperation.
- ☐ Product design, materials, implements, procedures and organisation must conform to the needs in a given situation and moment in time and be constantly adapted to advances in technical knowledge and the economic environment.

☐ Efficiency in production must ensure the viability of the enterprise, fair prices for the customers and adequate employment and wage conditions.

For the Government it is of importance that industrial production can be enlarged and diversified more easily, at less risk and with a smaller resource commitment by assisting small and medium-sized enterprises than by establishing big enterprises under state responsibility. This however presupposes that the Government accepts and supports private entrepreneurial activities within parameters set by the state (by virtue of its general responsibility for social policy) and through appropriate taxation, social and economic legislation, currency regulations, etc., rules out any discrimination against small enterprises. To balance the intrinsic risk of loss of capital the entrepreneur must be allowed a chance to make adequate profits. No measure of government assistance can make up for lack of this incentive in the long term. Bureaucratism, cost manipulation and impaired efficiency would be more likely results.

Major Problems of Small Enterprises

The major problems of the small enterprises are due to circumstances specific to units of their size:

- ☐ The opportunities for job differentiation and management specialisation are slight.
- ☐ The small size of the distribution system restricts the market research and development potential.
- ☐ Access to sources of finance is hampered by the insufficiency of available securities and high credit handling costs.
- ☐ There is little scope for ordinary and advanced training of present staffs.

☐ Small order sizes add to the cost of purchased materials and, partly as a result of this, make it difficult to sustain constant product quality.

☐ The research and development potential is low.

The aid programmes for small enterprises must provide for these problems and develop suitable procedures for assistance at reasonable cost. The various programme elements must be selectively combined to fit in with the specific circumstances of the individual enterprise. Technical and commercial consultancy, training courses and financial aid have in practice been found to be most important elements of such assistance. Other suitable measures are special forms of management assistance, solicitation and negotiation of orders, equipment grants, procurement of technical processes and rights, provision of information services, and establishment of industrial estates.

Unanswered Questions

That much if scattered information has been published about assistance for small industrial enterprises cannot hide the fact that important questions bearing on its effectuation have not been sufficiently elucidated or hardly even mentioned in the available studies. Various arrangements have been suggested for industrial estates. There are proposals for area consultancy analogous to the agricultural consultancy services. Doubts have apparently been voiced in a few instances about the effective scope of the industrial estate concept. This calls for a comparison of the successes of the two concepts. It may be that the industrial estates, like the service centres, should only receive priority when certain preconditions exist. Industrial estates may in certain circum-

stances even have a retarding effect; if existing enterprises are moved too far away from the vicinity of their customers and the infrastructural advantages do not compensate for the disadvantage of higher costs.

Great importance attaches to the establishment of industrial enterprises in rural districts as a means of regional balance and structural improvement, but this involves many problems which can only be solved alongside the development of agriculture and an adequate if minimal infrastructure. Moreover, assistance for small industrial enterprises in an agrarian area involves higher costs on account of the larger distances which may necessitate special forms of organization. This entire complex does not yet seem to have received much attention. The relative competitive position of small industrial enterprises in rural and urban districts also needs investigating, especially where competing products are made by different processes (e.g., earthenware, metal and plastic receptacles).

Programme development and efficient organisational arrangements would benefit from empirical and planning data on the suitable duration and frequency of individual consultancy visits, time allocations for extraneous and sequential services, typical travelling times, apportionment of time spent on several objects, etc., and corresponding data on organisational aids and appliances such as questionnaires for compact analyses, reports on visits, operational statistics, evaluation of reports on visits relating to special training, credit and procurement programmes and the continuous improvement of overall programmes. Criteria for the selection of enterprises for priority treatment are occasionally mentioned, but do not yet

seem to have been elaborated or tested methodically.

These remarks cover only a few of the unanswered questions which should be elucidated by LDC researchers in the light of practical experience. The results would be of considerable help to planners, aid programme managers and operational consultants.

Movement of Productions to Developing Countries

It is in the industrialised countries' own interest that small industries in LDCs should be encouraged. The high oil prices and growing awareness of the scarcity of raw materials have given rise to concern about future supplies and precautionary efforts to safeguard them. Besides, employers and trade unions in the industrialised countries are faced with locational advantages of production in developing countries due to lower wages and increasingly also to availability of raw materials and ecological considerations. Changes in industrial structures as a result of cost changes which will reduce job opportunities in some productions must be anticipated. The opportunities for absorbing technologically the cost increases and possible raw material bottlenecks are limited in this type of productions. At the very least they will necessitate expensive and venturesome promotional efforts.

Shifts in production and plant location are nothing new in the economic history of the industrialised countries. Although the consequent adjustments mostly involved hardship for those directly affected, the new and expanding industries eventually contributed to increased efficiency and higher individual incomes in the economies concerned. There should be no mistake about the extent of the

adjustments required in future but it would certainly be wrong to concentrate passively on the possibility of preserving industries and in doing so miss the alternative production opportunities which would be opened by an early response to the needs of the developing countries. Since such changes do in any case proceed gradually, the challenge can be met by entrepreneurial thought and action together with flanking measures of the state if such are necessary.

Utilisation of Comparative Cost Advantages

It is rare for sparsely populated developing countries to have the benefit of favourable raw material conditions and ample financial resources in such an advantageous combination that all the prerequisites exist for the establishment of large capital-intensive enterprises. Most LDCs must strive to achieve better supplies of essential industrial goods for large sections of the population when the capital and foreign currency cover is scanty (even though their earnings from such raw materials as they possess may be rising), their infrastructure still far from adequate and the employment situation unsatisfactory. Small and medium-sized enterprises are especially well suited to such conditions and may therefore be expected to determine the economic structure of the developing countries for a long time to come. The output of these enterprises is intended largely for the domestic market and geared to the needs and purchasing power of the local population. The industrialised countries cannot lose any significant markets to them because such did not previously exist. Besides, some oil countries apart, it would not make economic sense or be physically possible to import supplies of a suitable quality for large sections of the population.

Considerable imports of capital goods are needed to establish and maintain these small and medium-sized industries. Consultancy services and special materials, tools, aggregates, etc., must be provided which for technological or economic reasons are not produced in the developing country concerned. The continuing progress of the small and medium-sized enterprises thus opens opportunities for substantial sales by the industrialised countries. The "barter" of the required means of production against raw materials and labour-intensive components or other products needed by industrial countries would be an acceptable and on comparative cost grounds economical solution for all concerned.

The industrialised countries cannot be interested in frantic efforts to maintain productions which can be undertaken in other countries economically and under more favourable ecological conditions if compensatory productions allow them to hold their own level of employment and possibly derive greater economic benefits from increased exports of high-grade goods. That higher raw material prices will be compensated by enhanced overall productivity in the industrialised countries need not be ruled out *a priori*.

Need for Greater Technical Assistance

The argument that the developing countries will in due course also produce more of the means of production which they need and thus cause further shifts in the location of production facilities is refuted by the fact that the bulk of world trade is currently taking place among the industrialised countries, that means between countries with similar structures. In spite of commercial rivalry the complexity of industrial productions

results ultimately in an inter-industrial division of labour which is to everybody's advantage. Like Japan for instance before them, the developing countries of our time can be brought into this process.

In view of these facts the industrialised countries should actively influence the restructuring process which is in the long term unavoidable. In the light of previous experience and the

strong integration tendencies in the world economy an isolationist approach can hardly be considered conducive to safeguarding employment and prosperity. While the industrialised countries can carry through a restructuring process by themselves, albeit with certain difficulties, because they can draw on a store of experience, the same cannot be said without some reservations of the efforts of the developing countries to

set up efficient small and medium-sized enterprises. The latter should therefore be offered more technical assistance for measures in support of small industries, in addition to the financial aid which they are already receiving (e.g., through development bank credits). In the framework of the necessary economic cooperation such assistance would indeed be in the own long-term interest of the industrialised countries.

Promotion of Manufacturing Activities in Africa

by Dr. Hans-Gert Braun, Stuttgart*

This article concentrates on Tropical Africa and more particularly on the establishment of small private industrial enterprises. The industrial development is too variegated however to allow a representative picture to be given here of the whole continent. Instead a few fundamental problems of African industrialisation, illustrated by the example of the Ivory Coast, are brought into focus.

The State of Industrial Development

The African states embarked on their industrialisation when they had achieved independence in the fifties and sixties — much later than the other less-developed regions of the world. That their level of development is still very low need not therefore surprise. In Tropical Africa the per-capita income from industry is only 1/40th — and from manufacturing industry 1/60th — of that in the industrialised countries. Even compared with Latin America the industrial per-capita income is only 1/10th¹.

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Most African industry is concerned with the production of consumer goods². Almost all African countries make soft drinks and beer and process cereals and, provided they have a suitable agricultural basis, fruit, fruit juices and vegetables. Oil and sugar are extracted and in part exported by a number of them. The textile and clothing industry has made quite good progress but textiles are still being imported on a substantial scale. The bulk of the cotton crop is sent abroad for spinning. The demand for shoes can be met largely from African production.

As far as semi-manufactures are concerned, simple metal articles are made in almost all the countries of Africa, mostly from imported steel. The steel production in Africa is still insignificant. Iron ore, and non-ferrous ores likewise, are exported almost entirely in an unprocessed form. The situation is similar in regard to woods. Paper industries exist so far only in North Africa. A major part of the demand for cement, on the

other hand, can be covered in North, East and Central Africa from production in these regions. Crockery, of a simple kind at least, is made in all the countries of the continent. What there is of a chemical industry does not, a few oil refineries and fertilizer plants apart, extend significantly beyond the production of insecticides, explosives, paints, distillates, perfumes, sulphuric acid and matches; moreover it is often only the final stage of the production process which is carried out in the country³. There is no significant production of capital goods in Africa.

Foreign Control and Dualism

An important note must be added to this sketch of the industrial scene in Africa: Industry in Africa does not necessarily

¹ W. Roider, Zum Stand der Industrialisierung in Tropisch-Afrika (On the State of Industrialisation in Tropical Africa). In: Ifo-Schnelldienst, No. 15/16, 1971, p. 9.

² cf. A. F. Ewing, Industry in Africa, London-Oxford 1968, and Industrial Growth in Developing Africa from 1950 to 1968 and Prospects for 1980. In: Economic Bulletin for Africa, Vol. X, No. 1, 1970, p. 1 ff.

³ W. Roider, *Ibid.*, p. 12.