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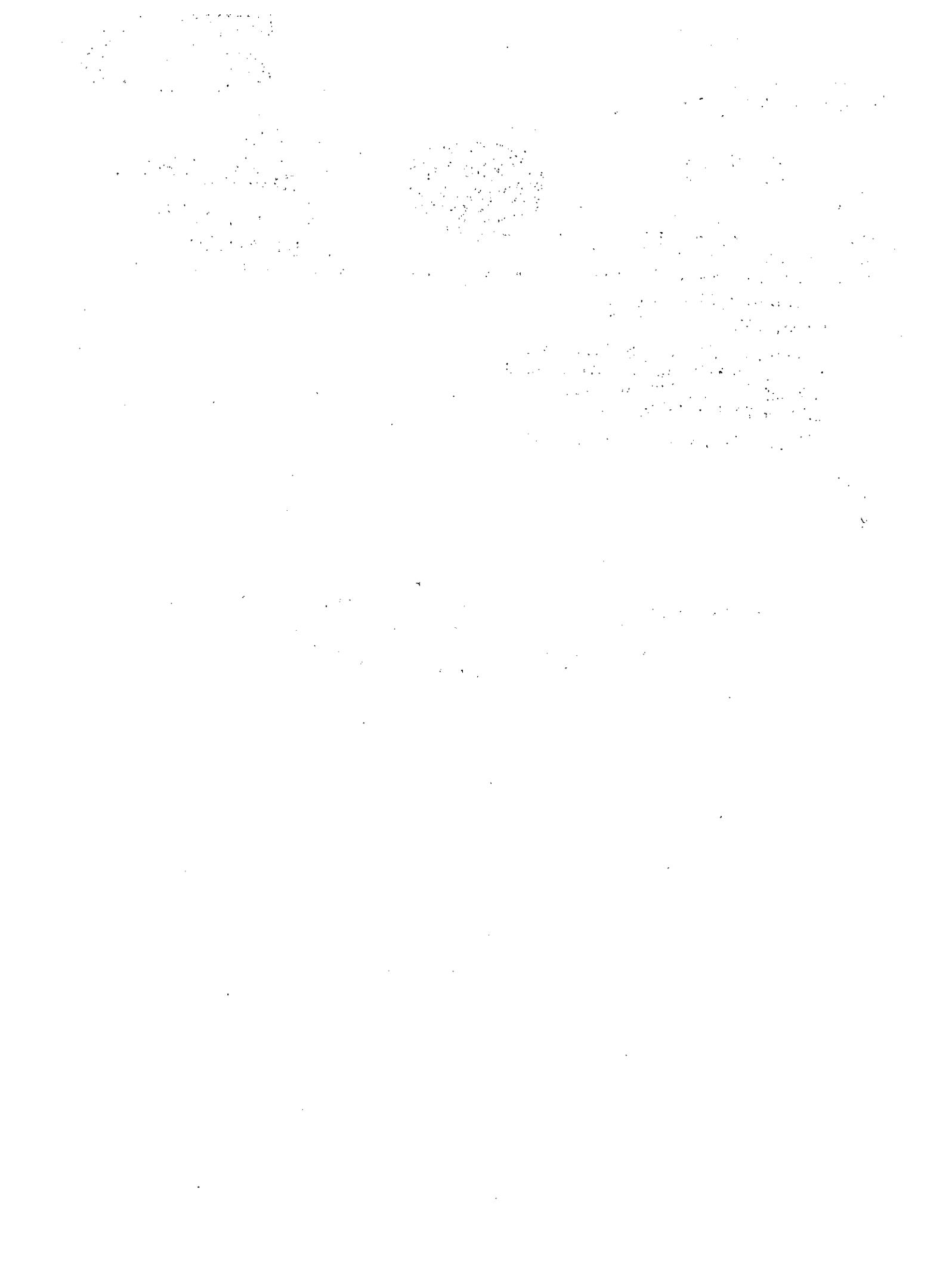
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ISSUES AND POLICIES IN THE PROMOTION OF SMALL-SCALE INDUSTRIES

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## ISSUES AND POLICIES IN THE PROMOTION OF SMALL-SCALE INDUSTRIES

### I. Definition of Small-scale Industry

1. The need for a clear concept of small-scale industry is obvious in any country with development programmes for this sector. Many developed countries have introduced special programmes of assistance to existing small establishments and of stimulation and promotion of new enterprises. In most cases, government assistance in the form of fiscal incentives and concessions is available to all industries whether small, medium or large, though the terms and conditions may vary between different categories of industries. But small-scale industries are in need of certain additional programmes of assistance and this often calls for special action by government authorities. Such action is aimed on the one hand at strengthening small-scale industries by locating them on common sites, e.g. industrial estates, promoting co-operatives and complementary arrangements among them and encouraging the establishment of subcontracting relationships between them and large industries; on the other hand, at providing them with assistance, servicing and training through institutions especially set up for this purpose such as small industries service institutes, industrial extension centres, financing institutions, etc. The government's action is intended essentially to assist small industries to overcome the disadvantages of smallness and achieve higher levels of efficiency. An essential pre-requisite of such action by the government is that the industries which have the potential for development and which are in need of assistance can be clearly identified and distinguished from others. Herein lies the importance in developing countries of a definition of small-scale industry based on precise and tangible criteria.

2. However, there is often confusion regarding the concept of small-scale industries and difficulties are experienced in evolving programmes for their development. A major source of confusion arises from grouping small-scale industries along with traditional occupations generally referred to as handicrafts, artisan crafts and cottage industries. A common factor for both groups is the smallness of their size or scale of operation, but this should be no ground for linking them together under a common definition. Traditional industries have their own problems distinct from those of modern small-scale industries and each category of industries requires special measures of promotion and assistance to suit its special needs. The first step, therefore, in devising a development programme is to distinguish small-scale industry from the traditional industries by adopting a clear-cut definition for each category.

3. The definition of small-scale industries would necessarily distinguish them from medium and large industries. While the distinction between small-scale industries and traditional industries is based on their differing nature and characteristics, that between small-scale industries and medium and large industries is mostly one of size of

establishment and scale of operation. There are also, however, qualitative differences between them, the main characteristic of small-scale industries being their comparative vulnerability. This arises out of a variety of factors such as lack of credit facilities, suitable factory premises, equipment and technical know-how, shortage of trained workmen and inefficient methods of management and marketing. Small entrepreneurs, because of limited knowledge and resources, are often unable to overcome their vulnerability by their own efforts and are, therefore, in need of assistance and support from developmental agencies. Large industries in developing countries are also in need of incentives and assistance, but not always of the same type and to the same extent as in the case of small industries. Hence, the need for special development programmes for small industries and for clear-cut criteria to distinguish them from other sectors.

4. Different criteria are being used in different countries for determining the size of industrial establishments and the scale of their operations; chief among them are employment, capital investment - either total or fixed capital only - volume of sales and consumption of power. These criteria are used either singly or in combination with different ceilings in different countries. It is obvious that there can be no uniform definition of small-scale industries, as conditions vary widely from country to country. An industrial unit which according to the definition in one country is small may be considered as large in another country. Smallness is a relative notion and it is not possible to arrive at a universally acceptable numerical definition. Sometimes definitions of small-scale industry may vary even within the same country. There may be one definition for one type of assistance, e.g., admission to industrial estates, and another for a different type of assistance, e.g., concessional terms of credit. Such variety is entirely justified since different formulations may be needed to meet different objectives and conditions. However, some degree of uniformity is desirable and possible in the choice of the components of the definition, the actual values assigned to the components varying according to the conditions and circumstances in each country.

5. In most countries which have definitions of small-scale industry, the main criterion adopted is the number of employees in an industrial undertaking. The employment criterion has some obvious advantages. Industrial employment data are widely available. They are required for a variety of administrative purposes such as administration of Factory Acts, municipal regulations, social security rules, etc. and it is easy to group industries on the basis of employment. But a definition based solely on the employment criterion may not reveal the real size and scale of operation of an establishment. Some industries require high capital investment but only a small

number of workers, and it may not be correct to classify such industries as small-scale merely on the basis of employment. Conversely, some industries require very limited capital but a large number of workers, and it may not be correct to exclude them from the category of small-scale industry. If a definition is based only on employment, it may result in including within the group of small-scale industry quite large firms with heavy capital investment and low employment. This would certainly defeat the main purpose of the definition.

6. One solution to this problem is to use the employment criterion in combination with capital investment. Here again there is need and scope to have uniformity in the concept of capital investment. In some countries "capital" includes fixed assets and working capital, while in others working capital is excluded. The main argument for excluding working capital is that a proper assessment of the size and scale of operation of a firm will not be possible if factors such as cost of raw materials, direct labour, manufacturing and administrative overheads are taken into account. There are several industries which require only small fixed capital investment, but very high working capital; if working capital is included along with fixed capital, they may fall outside the definition of small industry even though they may be typical small industries. Again, the costs of the elements constituting working capital may vary considerably from firm to firm, depending upon the structure and efficiency of management, turn-over arrangements and other factors which may be unrelated to the size of the industries. Fixed capital on the other hand provides a more satisfactory criterion for determining the size of the establishment either as a criterion by itself or in combination with the number of workers employed.

7. As regards the ceiling for capital investment, it should be determined taking into account the problems and levels of industrial development in the countries concerned and the objectives laid down by the Government for the development programmes of small-scale industries. However, the ceiling on capital should be sufficiently high if a quick process of modernization and mechanization in the small industry sector is to be encouraged. There is much scope for promotion of small-scale industries as suppliers of components and parts required by large industries and as manufacturers of a wide range of consumer goods and certain types of producer goods of high quality and standard. To that end, small industries should be encouraged to equip themselves with modern tools and machinery. Thus, the capital ceiling adopted for the definition should be high enough to enable small-scale industries to acquire the equipment and machinery they need for functioning on efficient lines. The actual limit of capital investment in the definition is a matter for each country to decide taking into account its special needs and circumstances.

8. Whatever may be the criteria adopted for defining small-scale industry, whether employment or fixed capital or both, it is very important that there should be adequate flexibility in the practical application of the definition. It should be flexible enough to admit easy adjustments to cope with the changing requirements of industrial development. In some countries definitions have a legal basis, but even in such cases there should be adequate flexibility to make changes and amendments as and when found necessary.

## II. Policies for Small-scale Industry Development

9. The basic policy should be to promote small industry development as an integral part of the overall industrial development of the country. The promotion of small-scale industry is not "instead of" or "by preference to" that of large industry. Industrialization of developing countries calls for industrial units of varying sizes and it is the duty of the national authorities responsible for industrial planning to decide on the extent of resources to be allocated to various sectors and the type of industries to be promoted in each sector. In all industrialization programmes the objective should be to develop a strong industrial structure in which small, medium and large industries not only coexist but are also linked together in complementary relationships.

10. One of the important policies in small industry development should be to promote the selective growth of such industries taking into account their viability, competitive strength and growth potential. While smallness should not be a handicap, it should not by itself qualify for promotional assistance either. In view of the acute scarcity of capital and human resources in developing countries, special care has to be taken to ensure that they are deployed in projects which offer the maximum economic benefits. In some cases the same products may be manufactured by both small and large industries and there may be scope for plants of various sizes to coexist. Smallness may be a stage of growth; industrial units may start small and may grow in terms of employment, size of plant, equipment and volume and range of output. In some cases production on a small-scale may be decidedly more economical and efficient than on a large scale. In other cases, small industries may be linked with large industries by complementary relationships.

11. The policy in small industry development should be to identify those industries where small-scale production offers the maximum advantage and give direction and lead to potential entrepreneurs into such fields. In the advanced countries there is usually much less need for any promotional agency to assume such a positive role, since entrepreneurs are qualified to make proper decisions taking most relevant factors into account. Even in these countries,

however, agencies providing certain forms of assistance have been set up. On the other hand, in countries at early stages of industrial development, small industries may not develop at all in the absence of promotion and assistance measures, or may be set up haphazardly, with consequent wasteful use of scarce resources and the emergence of weak industries which may have to be sustained by artificial props such as subsidies and concessions. It is true that even with careful planning and selection, some industries may need some measure of support and protection for a limited period. In such cases the period of protective measures and support can be considerably reduced by selectivity in development programmes.

12. This selective approach towards small industry development raises a major policy issue in developing countries. This is the future of some of the artisan trades and crafts. In most developing countries the overwhelming majority of establishments engaged in industrial activities are of the traditional type. Modern technology and industrial processes have made many of the traditional crafts obsolete and wasteful. Factories are steadily replacing artisan workshops in the supply of furniture, agricultural tools, textiles, etc. The impact of new products, changes in social structure and rising income levels result in reducing the demand for many artisan products. This does not mean that the growth of the factory has in all cases to be at the expense of the artisan crafts. There are certain fields where the artisan workshop can coexist with the factory and even function in complementarity with it. Such skills and crafts should be identified and assisted so that they would develop further. At the same time artisans who are engaged in obsolete and declining trades should be diverted to more fruitful areas of industrial activities so that modernization does not result in the destruction of the existing industrial structure, but instead, contributes to its strengthening. This is very important in developing countries where technological unemployment can have disastrous results.

13. In some developing countries attempts have been made to shelter traditional artisan crafts from competition by modern factories through protective measures such as quantitative restrictions on production by modern factories, special tax incentives and concessions, price subsidies, etc. It is obvious that such policies do not help either the traditional crafts or the modern factories in the long run. In some cases extension services and, in particular, training programmes, introduced to assist all types of traditional crafts have contributed to the perpetuation of certain skills and trades which are no longer necessary for economic progress. As already observed, some artisan crafts or trades do not deserve encouragement, or are not capable of development in the changed social

and economic pattern of society. On the other hand, some others, e.g. handicrafts or crafts which produce goods of artistic value and require artistic skill in production, or goods for exports or sale to tourists, have an important place in any industrial structure, and may have to be assisted by special extension and development programmes. Even though such crafts cannot and need not always be transformed into modern industries, there is scope for their improvement through techniques of modernization.

14. In some cases the traditional skills of artisans can, with proper counselling and training, be adapted to meet the demands of modern service and construction trades. With the change in the pattern of life in rural areas, the demand for the services of repair and maintenance men for irrigation pumps, diesel engines, tractors, agricultural machinery, radios, etc. has increased considerably and a major difficulty in most developing countries is now the shortage of skilled workers in such trades. The plumber, the electrician, the mechanic and the radio technician have become the new "artisans" of the technological age, and it will be good policy to help some of the traditional artisans to acquire these new skills.

15. In a few cases there is scope for transformation of traditional artisans into modern small industrialists by the process of mechanization and modernization of existing installations. Given proper counselling and support, it should be possible to modernize artisan shops in carpentry, blacksmithy, shoe-making, etc. into efficient modern small-scale industries and thus make industrialists out of artisans. As observed earlier, the scope for such changes is not uniform in all artisan trades or in all places within the same trade. The policy should be to assess the scope and potential for transformation and assist in such transformation wherever feasible and desirable.

16. Selectivity in location of small industries should be an equally important policy in developing countries as selectivity in the choice of industries to be developed on a small-scale basis. A special problem of developing countries is the absence of industrial infrastructure in many areas. Vast regions of the developing countries lack facilities such as power, transport, communication, water, housing, etc. and this severely limits the choice of location of industries. In economically advanced countries, even though certain areas may be comparatively less developed, they usually have the basic infrastructure for industrial development, and, given certain incentives and support, can provide good locations for industries. Further, the industries located in such areas, even if small, are not necessarily weak, and do not suffer from any special handicaps as in developing

countries. In these circumstances small industry promotion can prove to be an effective means for the dispersal of industries and the development of so-called "depressed areas". But the position in developing countries is different. There may be a few "islands" with the necessary infrastructure and growth potential in a developing country and the choice of location is limited to these. It will often be uneconomical to induce the location of small industries outside these "islands" for socio-economic objectives such as dispersed growth of industries or balanced regional development.

17. Industrial estates have proved to be among other things, an effective device for providing the basic facilities and services for the development of small-scale industries in certain backward areas. The grouping of industrial enterprises in an estate makes it practical and economical to provide facilities such as power, water, transport, etc. However, even the location of an industrial estate presumes the existence of certain basic facilities in the area concerned. It will be uneconomical for the estate projects to bear the entire cost of basic facilities and services.

### III. Services and Facilities for Small Industry Development

18. As stated earlier, small-scale industries are in need of assistance in a variety of fields - financial, technical, managerial, marketing, etc. The experience of developing countries which have implemented programmes of assistance to small industries has clearly demonstrated the fact that, to be effective, assistance measures should be integrated. There is very little advantage in providing good factory accommodation to a small industrialist in an industrial estate if he has no means of acquiring modern machinery and plant. Similarly, there is little advantage in providing credit facilities if the small entrepreneur does not know efficient methods of management. Very often the small entrepreneur may not even be aware of his own deficiencies and may be in need of diagnostic assistance to know where he could improve. Thus, a development programme for small industries should include guidance and advice to the small entrepreneurs to identify their problems correctly and sustained assistance in various fields to overcome their difficulties.

19. In countries at early stages of industrial development there will be very few existing industries and therefore little demand for a counselling service designed to improve existing industries. The main problem in such countries is the stimulation of entrepreneurship and an important objective of a development programme should, in such circumstances, be counselling and guidance leading to the establishment of new small-scale industries. The agencies for industrial development should seek out potential entrepreneurs from among all groups of people - university graduates,

importers, traders, artisans, businessmen, workers, government officials, etc. - and try to stimulate their interest in industrial activities.

20. The governments of developing countries have to play the major role in devising proper programmes for development of small-scale industries and setting up suitable agencies for their implementation. The extent of initiative and responsibility to be taken by the government would vary according to the conditions and circumstances in each country. In most cases, the government has to assume the sole responsibility for sponsoring and managing the institutions for small industry development since small entrepreneurs can hardly be expected to take the initiative and organize self-help facilities. In a few cases, however, it may be adequate for the government to provide assistance to private institutions or to groups of industrialists such as chambers of commerce, associations of industries, co-operatives, etc. for organizing certain services. Such assistance may be in the form of grants or loans or of allowing the use of the facilities of government workshops, laboratories, etc. The government may also take the initiative in organizing certain facilities for industrial development, for instance, industrial estates and common service facilities, and subsequently transfer them to the management of private groups of industrialists.

21. In countries in the early stages of industrial development, Governments may have to undertake not only the responsibility for sponsorship and management of industrial development agencies, but also to provide advisory and other services free of charge to small industrialists. Such services are primarily intended for a class of people who are not able to manage them on their own resources, although they may be able to meet the cost of such services and facilities after they have acquired sufficient strength and stability.

22. A common argument against making advisory services free is that this would encourage industries to ask for them indiscriminately and lower the quality of the service. The resources and staff of the extension agencies are limited and the services offered by them would lack in quality and depth if they were to meet every demand. The extension agencies would spread their services over too wide an area, and the needs and requirements of the really deserving might often be ignored. On the other hand, the obligation to pay for the services, it is argued, would make the industries more responsible and discriminatory in asking for such services. It would also make the extension staff more responsible in the discharge of their duties.

23. These arguments, however, may have some validity only in countries which have achieved some progress in industrial development. In countries which are truly underdeveloped, there will be few industrialists asking for such services. The problem in these

countries will be primarily one of promotion of entrepreneurship, and industrial development agencies will have to take the initiative and leadership in seeking out potential entrepreneurs. As stated earlier, most of the existing small industries may be too backward and weak even to identify their own problems and it will be the duty of these agencies to visit such units without waiting to be asked, and assist them in improving their efficiency. The obligation to pay for such services will discourage many small industries from getting the assistance they need and deserve, and may defeat some of the objectives of the service. It will, therefore, be advisable for such countries to make industrial extension services free for small industries.

