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The Netherlands' - Pakistan Programme on
Small-Scale Industrial Development: A Report

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This brief report serves as an introductory note to an innovative programme of development cooperation which was initiated in 1983 as part of a policy decision to devote more attention to problems of industrialization than had been the case till that time.

It first poses key characteristics of Pakistan's small scale industry. Obviously, without an understanding of the macro-economic issues any project analysis is bound to be seriously constrained. The second paragraph describes the nature of three projects in the metal-related sectors; automotive, basic metal trades, and light engineering.

The last section raises the credit dimension and presents an interim assessment of the results which at present are measurable.

General background

In the context of bilateral development cooperation between the governments of The Netherlands and Pakistan since 1983 a solid effort therefore has been undertaken to focus a substantial part of the joint development effort on labour intensive small-scale industrialization. Small-scale industry for many years has been an important dimension of Pakistan's industrialization process; also, Pakistan's successive governments - the present and draft five year plans are strong examples of such policy involvements - have paid considerable attention to policy formulation and resource allocation in this direction.

Small-scale industry in Pakistan had gained a solid reputation from a developmental perspective. Allowing for the usual reservations with respect

to the quality of available data, there exists a wide consensus that the growth record over the past decade has been high, that small-scale industry plays a vital role in the industrialization process, that its employment performance is a major developmental asset; and of considerable economic interest, that the efficiency is comparatively high by different criteria. It goes without saying that particularly the last point is of great relevance as it indicates that at least for a number of years to come the strengthening of this segment of industry may contribute much to the implementation of basic needs oriented development programmes. The draft Seventh Five Year plan 1988 - 1993 of Pakistan which was published recently confirms this strategy for the coming years. The Pakistan case thus represents an interesting example of experiences to be examined.

This brief statement is no substitute for an in-depth analysis of the phenomenon of small-scale industrialization in Pakistan; it rather briefly reports on the scope for international cooperation in a particular case and thus may be of interest to this conference as it provides facts on a five-year track-record of systematic policy-making and implementation. It is interesting that the recently completed "Thematic Evaluation of Technical Cooperation in Support of Rural Small Industrial Enterprises" by UNDP/ILO/THE NETHERLANDS in a global comparative study on this subject mentions The Netherlands' - Pakistan programme on industrial cooperation as an example which provides - in spite of its relatively short existence - important evidence to draw tentative conclusions from.

The programme consists of a series of projects to transfer technical knowledge to small-scale enterprises, mainly in metal-related sectors; it also has begun to develop a credit programme which is independent but provides for synergetic impact relationships. The nature of the statal organizations - parastatals with considerable independence - may explain the efficiency and effectiveness, which have been displayed till now; the project activities are carefully tuned to an harmonious balancing of public support and private entrepreneurial initiatives.

Transfer of technology

First, in the North-West-Frontier Province, NWFP, a vast province with some 15 million inhabitants, there is a recognized urgent need to accelerate a balanced industrialization process; the provincial industry has been lagging behind the average national record, also a high priority is given to rapidly promote downstream industries in relationship to a new major steel mill in the Karachi area at some 2000 km distance. In this province a project has been started which concentrates on extension to small-scale entrepreneurs by way of mobile workshops: in the automotive, basic metal and light engineering field. In this way the following three main policy objectives are being pursued: a) the mobile formula aims at accelerating the process of transferring technological know-how to the main regions and valleys of the province, areas which otherwise might be deprived of access to information for many years to come; b) the three fields are of critical importance as far as the role of industry in the provincial input-output matrix is concerned; and c) extension which focuses on the transfer of technology and associated dimensions addresses a central dimension in the range of bottlenecks which are faced by the local industrialists.

As it is well known that projects of this nature may face unfavourable benefit-costs ratios, much attention is consistently given to the "multiplier" impact of the various activities. For instance, selective extension to small enterprises is combined with relatively large-scale training; a loan scheme is attached to ease access to financial resources, which otherwise - for well known reasons - are inadequately available. It has been found that most existing learning material may be economized on considerably since it is rather the need to fill gaps in knowledge than the presentation of entire curricula which meets best with the expressed needs of entrepreneurs and workers in the small enterprises. Much attention is given to the pooling of existing technological information by way of microfiche and video systems; also it has been discovered that the development of local Research and Development by way of "appropriate prototype"

development is a policy component which offers considerable scope for heightening the impact of scarce resources. The entire package falls under the provincial parastatal agency which is to promote small-scale industrialization.

First tentative evaluations report favourably on the quantitative and qualitative initial achievements. The quantitative objectives in terms of enrollments are met within set time schedules; the qualitative aspect is being pursued, e.g., through in-depth monitoring and extensive surveying of the entire population as well as of selected clusters of entrepreneurs.

Close to 800 trainees have received training in skills which relate directly to their job situation; more than 440 workshops have received assistance by way of extension activities which focus on aspects of technology. At the level of the provincial authorities the project activities are seen as representing an embodiment of a policy to stimulate industrialization in a balanced and dispersed manner. It appears that the mobile workshop formula, which generally has gained a rather negative reputation, in this case is being implemented in an effective and efficient manner. Apparently, a number of special conditions - such as a first rate office of coordination and excellent links of communication as between the decentralized activities and the coordination office on the one hand, and between the head office in The Netherlands and the coordination office in the second place (at least during an initial period) have been fulfilled in this case contrary to other experiments—where the mobile formula generally did not get off the ground according to the original objectives.

Most interesting is that next to the quantitative results the objective of reaching out into remote areas has been fully met. This makes for an interesting dimension as for the crossroads of small-scale industrialization in small remote towns and rural industrialization, which receives a high policy priority.

The major constraint, once technological bottlenecks tend to become overcome, lays with the market-demand. Here, in particular the scope for subcontracting in the light engineering sector is an area which is at present selected for further close examination and in-depth policy support, directed to promising growth points.

The costs-benefit calculation naturally in projects of this nature poses almost insurmountable methodological problems as the incremental value added calculations - given the virtual absence of data - can only be estimated in an highly imprecise manner. Given the relatively high investment expenditures of such industrial infrastructural programmes, this dimension deserves very close attention; soon the first comparative analysis on this aspect will become known.

The second area of project involvement has been in the Punjab, which makes up the core of the national economy. Here, in one of the districts - the Sialkot area - a very impressive tradition of small-scale industry had been established with advanced involvement in metal-related production and high sales in foreign markets. A similar prastatal organization - with some 2000 employees - is charged with supporting activities, which in this specific case are focused on a metal development research centre. This supporting structure will in the near future be a decisive factor in determining whether the small-scale nature of production can be sustained in the coming years. The technological demands namely are such that the small entrepreneurs do have to apply better techniques of heat treatment - which are far too expensive by way of individual investments - or otherwise face the risk of gradually losing the present market shares to a relatively small number of medium to large size enterprises. Unless supporting policies are designed and implemented to overcome immediate bottlenecks of metal-hardening and product diversification this up-till-now impressive record of small-scale industrialization soon will come to a halt; it is in this perspective that present joint efforts of developmental cooperation are

being implemented. An overriding concern in the design has been the need-assessment of small entrepreneurs and the initiation of a continuous process through which they may be able to increase productivity and so doing, build resources for further capital-accumulation. It may well be that a much sharper focus on the specific requirements of entrepreneurs in future will determine the characteristics of supporting policies in such circumstances.

In the same province - at a distance of some 600 km - a new nucleus of small factories has grown for the past 15 years; in all some 34 small firms have been identified in the production of agricultural implements. From a "small-scale industrialization" - perspective this is a very interesting phenomenon. This small core sells its products in provincial and even national markets; yet a strong desire for supporting policies has been expressed, particularly in the field of vocational training and transfer of technology. Two objectives here are to be noticed: first, the need for productivity enhancement; secondly, the search for product diversification and specialization is most urgent as these factories are competing heavily with each other. In isolation the requests are highly sympathetic; in a wider context one must assess whether in the long run such a small geographical core has a permanent niche in provincial and national markets; whether the benefit-cost calculations allow for such comprehensive supporting policies as heat treatment and the like. Again, it appears that fine-tuning of policy support is of critical importance. Withholding of such policies might have considerable negative consequences for the area concerned; imprecise and costly support could be equally counterproductive from a developmental perspective.

Concluding remarks

Aside from this three-pronged approach in the metal-related sector-support in an underdeveloped very extended region, support in a well established industrial area, and assistance in a small innovative industrial nucleus -

attention also is given to the credit lines which - in spite of extensive financing projects through the commercial banking system - are inadequately available to the small entrepreneurs. The joint efforts through developmental cooperation focus not just on increasing the supply of funds - the controversies in this respect are too well known and need not be repeated - but in particular on the search for organizational solutions to reduce the costs of lending without jeopardizing the economic soundness of such financial programmes. As for this scheme more time is needed to assess whether an efficient but independent linking of such supporting policies is feasible. This brief sketch illustrates complexities of policy-making and implementation in a sector which is of strategic importance for small-scale industry; metal-related activities. If the markets are available, there appears to be considerable scope to enhance the productivity of small-scale enterprises. However, the adequate implementation of policies which are primarily focused on the small enterprises, is still a problem area in which major questions are to be solved; questions both of technological and of socio-economic nature.

This implies the need for applied research which monitors policy implementation in a most comprehensive manner. As aspects of technology, of macro- and micro-economics, and of a social character are involved, only multidisciplinary monitoring can cope with the complexity of actual situations. A further complication is the need for longitudinal studies in order to assess the progress which is being recorded. Given the pressures of work which in reality are faced it is regrettable that too few studies which monitor the testing of specific instruments, such as for instance the impact of mobile training, or the record of success and even more of failures of small enterprises is available.

Once also the research dimension becomes an integral part of such a programme of technology transfer - which combines the human capital dimension with the provision of credit resources - the broad contours of a complete policy package in the area of productivity enhancing

entrepreneurial training may become visible. If such would be the case, this brief report of an as yet - and certainly on an international scale - modest programme may have a wider relevance for the examination of global small-scale industrial support policies.