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Small-Scale Industrialization
A New Perspective on Urban Employment Policies

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SMALL SCALE INDUSTRIALISATION

a new perspective on urban employment policies

Findings of an international Policy Workshop
held at the Institute of Social Studies, The Hague,
The Netherlands, 1987

by

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Introduction

This paper contains a summary of the findings of a Policy Workshop held at the Institute of Social Studies The Hague, The Netherlands, from May 11 - June 3, 1987. The focus was on small-scale industrialization policies in the context of Third World urbanization. As key issues the following were listed for close analysis: small-scale manufacturing and urban employment; the capacity of the small-sector to accumulate and contribute to a dynamic developmental process; strategic issues related to sub-sectors, regions and forms of ownership; aspects of institutional arrangements and of donor policies.

This format ensured that the analysis would concentrate on micro- and macro-policies. Perhaps the promotion of small-scale industrial activities has until now been too much dominated by a project approach and by the creation of institutional systems to deliver assistance. "Its evaluation however is bringing about greater awareness that projects can not substitute for policies. Both are necessary and complementary". And the brochure of invitation subsequently stated: "A new perspective therefore, is essential to make small-scale enterprises an efficient and integral component of the industrialization process. Seen in this light, its promotion becomes a key

development issues and the various linkages with medium and large industry and with other aspects of national and regional development policies become critical elements to be taken into account".

The workshop consisted of three stages. During the first stage representatives from 9 countries - both from research institutes and governmental organisations - analyzed case study materials with the aim of gaining insights in the issues that just have been listed; specialists in different fields, and associated with international organizations as well as research institutions also took part in this round of sessions. Then, on the basis of results obtained in the first stage, small groups were formed to articulate the policy analysis in a geographical setting: Asia, Africa and Latin America. The policy conclusions of this second stage then were presented to an International Seminar - the last stage - in which in particular representatives of international organizations which are involved with small-scale industrialization project took part.

The first part of this paper reproduces the edited version of a summarizing statement which was prepared by a group of participants towards the closing session of the International Seminar; the second part summarizes some highlights of the case studies: Indonesia, India, Pakistan, Egypt, Kenya, Nigeria, Peru and Colombia, Yugoslavia and Spain.

Part I]. A Policy Statement

It may not be inappropriate to begin by delineating the scope of the workshop. The general subject was small-scale industrialization and the main emphasis on policy. Since, however, policy cannot be profusely discussed without the foundations of concepts, experiences, objectives and perspective, the latter also formed an important part in the discussions. Second, a large part of the small-scale industrial enterprises is a part of the informal sector. The informal sector however also includes a number of other non-industrial activities organized on a small scale such as retail trade, restaurants, eating houses, etc. These were excluded, as the scope was restricted to industrial activities.

Third, the word industry is used loosely and bears a meaning depending upon the context. To illustrate, the International Standard Industry Classification use the term industry broadly to denote any activity - agriculture, mining, manufacturing, construction, trade, infrastructure, services, etc. In the context of the workshop it was used to refer to the second and the third digit activities of that classification labelled as manufacturing, which include processing and repairs. The workshop was restricted to industry in this narrow sense.

Fourth, small-scale industries really refer to small-sized industrial units. Without going into the specifics of the appropriate criteria and appropriate quantitative limits of smallness, we may say that we intended to cover small-sized units, varying all the way from tiny, cottage, household units to small-scale workshops. During the discussions, however, the crucial importance of the more modern units came up strongly, as in the long run the contribution of the sector to development depends upon succeeding in transforming itself into a more efficient, more modern production system.

1. The SSM Sector in the Development Process

The SSM sector in LDCs has developed in the context of a difficult industrialization process where import substitution strategies have conduced to an unbalanced sectoral composition and considerable bias towards large scale, capital intensive production methods. Yet, the small scale sector constitutes a significant part of this structure, and there are strong reasons to believe that it will continue to be so in the future. Small scale production methods are not a transient phenomena nor a simple answer to poverty problems. They are important in themselves and have a role to play in a number of branches and/or regions.

Small scale industrial enterprises have a special appeal in the countries of this workshop's concern for a variety of reasons. They are known to employ more labour, and produce in many cases more output per unit of capital in relation to large industrial enterprises. These features are in line with the factor endowments of these countries - namely abundance of labour and scarcity of capital.

Often, the existing heritage of skills and equipments embodied in the workers and their workshops can be augmented and be made more efficient by upgradation of their techniques of production without making them unduly large.

Being scattered, they may help serve the objectives of regional development policies. Being more numerous, they are an important vehicle of spreading entrepreneurship, risk-bearing activities, independent decision-making centres and technology, more widely among the population in the country.

They, thus, help subserve the objectives of industrial and economic growth and social objectives in a way not many other activities are likely to do.

Two further clarifications may be added here. First, the promotion of small scale industrial enterprises is not the only way to subserve these objectives. There are other activities and other instruments as well and they cannot be neglected. Second, it is not suggested that small industry promotion policy would subserve all of these objectives simultaneously. They may serve some and may be counterproductive to others. But such trade-offs are there in all policy issues.

Small-scale industrialization is an important means of promoting various socio-economic objectives, and in most cases may turn out to be a workable and acceptable half-way compromise between the two extremes of growth and efficiency without much concern for social objectives, and of social objectives without much concern for growth and efficiency.

It is against this background that the proceedings of the seminar have to be appreciated. While the limitations described above narrow the scope, they have also helped in sharpening the focus on the issues of relevance to small-scale industrialization.

2. The Heterogeneity of the Sector

Policy analysis and the formulation of policies for the small scale manufacturing sector is made more complex by its internal strong differentiation.

The small scale manufacturing sector is as heterogeneous as the whole industrial sector. Side by side with more modern factory-like industrial firms, a sizeable conglomerate of smaller units exists, exhibiting different degrees of 'informality'.

During the discussion, however, the crucial importance of the modern small-scale sector came up wrongly, as it was thought that economic development in the long run depended strongly on the importance assigned to this sector.

But the 'informal' manufacturing units also are especially important, since they often serve social objectives and may also have the potential to grow in the long run. The latter units may fall into two categories:

- a. firms that are merely surviving and hardly achieving a surviving income.
- b. the self-employment enterprises which operate in several sectors of the economy.

Given this diversity and heterogeneity there is little room for a general uniform policy. A strong conclusion of the workshop was that under the umbrella of general policy measures and effective institutional system sector- and region-specific policies are required.

Policy packages and institutional instruments will differ and will have to be carefully designed in each case.

Nevertheless, limitations on the knowledge of the sub-sectors and their future prospects make it difficult at this time to point out clearly such a differentiated policy orientation. Better knowledge is required and perhaps for the moment at least a tolerant and creative approach is needed.

3. Labour Earnings and Labour Conditions

The problems of the firms do not exhaust the considerations which will have to be taken into account: the specific needs of target groups, and especially women among them, who are normally excluded from a more active and productive participation in economic and political life, should also have a bearing in policy formulation.

It has been noted that policy discussions on small-scale manufacturing tend to over-emphasize the quantitative aspects of employment creation. Qualitative dimensions such as the meaning of employment and the level of earnings must be given more attention. In particular one may think here of

the number of working hours, conditions of health and occupational safety, of the role which youth employment plays through apprenticeship schemes and the consequences of female work for the total workload of women. An active policy interest in the working conditions may be fostered if research and monitoring programmes devote more attention to this than is the practice till now in most countries.

4. Macro economic Environment and Support Policies

4.1 Regarding the relation between macro-economic environment and support policies the following key issues emerged in the discussions. Support policies can play an important role in the form of specialized financial institutions, interest rate policy, infra-structural facilities, training etc., in influencing the supply side facing the small sector.

But on the other hand, income distribution policies, policies advocated by donor countries and international organizations, the development of regional and international markets as well as the growth of agricultural and industrial sectors, play an important role in influencing the demand for products of small enterprises.

Support policies aimed at developing the sector have to be seen therefore in the perspective of the macro-economic environment in which the small-scale sector operates. They can play only a limited role if the macro-economic setting is not conducive to the development of the small-scale sector.

Both, the internal as well as the external factors which shape the macro-economic environment need to be looked into. Among the internal factors, oligopolistic market structures, regional patterns of industrializations as well as the tendency of concentration of enterprises around metropolitan centres, are of great importance. The patterns of income distribution affect the demand for its products. The legal framework hampers in many

cases the required transformation of small informal enterprises into larger more modern ones.

4.2 Small firms, using wage labour, up to ten, which due to their level of capital accumulation, marketing relations and technology, correspond strictly to enterprise units are often called "micro-enterprises". These units are very important in developing countries because of their contribution to the Gross National Product, the innovative technological methods they use, their labour intensity, and because many times they are the basis from which formal small scale units emerge.

A main problem that small scale industrialization policies will have to face relates to the necessary future transformation of the informal units. The evidence seems to suggest that a significant proportion finds this process quite difficult. Yet, failure in this respect involves very often their elimination, or permanent dependence upon support policies to survive.

The small-scale industries of the formal sector are composed also of a variety of sub-groups which behave differently. The organization and the problems faced by the owner of a fifteen-workers shop, for example, are not necessarily the same as those faced by an entrepreneur of an eighty-workers firm in the metal-working sub-sector.

The heterogeneity of the Small Scale Manufacturing Sector does not only refer to the internal characteristics of the firms. It also refers to their forms of relationship with the market (sectoral articulation) and their role within the capital accumulation process as a whole (macroeconomic articulation).

Specific forms of articulation offer different potentials and generate particular constraints for development.

From a different point of view, the SSM in less developing countries consist primarily of a large number of small firms which operate within domestic markets (local, regional, national), producing mainly non durable goods (food, garments, footwear, wooden furniture). But small firms integrated into more complex productive processes through subcontracting and participating in exports, though still incipient, are beginning to emerge.

4.3 In the external sphere it was recognized that restrictive trade policies of developed countries could constrain the further expansion of small export-oriented industries. Structural adjustment policies advocated by aid giving agencies may have a regressive impact upon small enterprises, and especially those which manufacture wage goods.

The policies of aid giving agencies have a strong impact in determining the orientation of support policies, and at times they are not really in conformity with the real needs of small enterprises.

Support policies aimed at developing the small-scale manufacturing units can be discussed with reference to the question of extending credit at subsidised or market rates, accessibility to credit and of financing small enterprises through specialized or existing commercial banks. The case of technical assistance has to be resolved with reference to government and non-government organizations and the question of marketing must be taken as a central problem. The selection of policy instruments and their various combinations will depend on the sector, country, as well as the objectives that are to be met.

Discussions throughout the workshop brought about some degree of consensus about the range of services to be provided to firms. Special importance was attached to base the design and implementation of such services upon the concrete characteristics of industrial units to be promoted, and the social and economic environment in which they operate. These or similar

methodologies can prove effective for the policy differentiation advocated earlier.

5. Small Industrialization Policies and Urban Regional Development

Incorporating regional dimensions to small scale industrialization policies, involved three main aspects:

- 1) The creation of new employment and income opportunities should be considered also from the point of view of their impact upon the spatial pattern of urbanization, and the evolution of inter- and intra-regional disparities.
- 2) SSI participants require flexibility in order to accommodate to variations on regional socio economic structures, since not all the regions in a country may have the same potential for the development of small scale industries.
- 3) The integration of programmes within local and regional processes, requires a regionally decentralized organization.

Many arguments seem to justify the need for an explicit regional approach and a regionally deconcentrated policy implementation system. Only in such circumstances, the application of the policy would obtain the flexibility required to adjust itself and focus upon specific "missing factors".

Considerable attention was paid to the eventual role of SSM policies in rural regions. A generalized view was that there is a significant scope for small scale industrial units in this particular kind of regional environment.

Nevertheless, the need to attain a careful integration between the agricultural and national small scale industrialization policies was stressed. In most cases the industrial sector of rural regions supplies local demands

derived from the income growth in the rural economy, and there is a potential there for further growth.

Nevertheless it was also agreed that in the long run the industrial development of rural regions depends upon the capacity of their industries to participate in national markets. National industrial and macroeconomic policies have played a role in the persistence of labour intensive industries in metropolitan centres as well as reducing the possibilities for regional deconcentration.

From the point of view of the industrial firms in rural regions, a successful integration into national markets requires the emergence of small scale production systems capable to attain the economics of scale required for efficient managerial and marketing systems. In general therefore, a broad approach, not restricted to a supply oriented policy, but emphasizing demand generation and improving the economic environment of small scale production units in these regions is advocated.

6. Institutional Framework

A number of issues emerged regarding the importance of building an institutional framework for better implementation of policies aimed at supporting the small industry sector. There was a consensus that the government efforts need to be complemented by NGO assistance and the local consultants. But since the provision of technical and other kinds of assistance to the small enterprises is a highly specialized function, the need for international aid agencies and donor countries to design training programmes for this purpose was also stressed.

An issue of wide concern has been the nature of the delivery system. Should there be a focus on specialised institutions or an one-window supply of services? And also, what are the guidelines by which a national policy

support agency is to be designed? And next, should the emphasis fall on institution building at the national or at the local level?

The question of a lack of coordination between donor agencies and countries as well as between donors and recipient governments was highlighted. The problem of delivery systems not being able to reach the target group of small entrepreneurs was also discussed. The need for entrepreneurs to organize themselves not only into cooperatives for buying raw materials and selling products in an attempt to increase their market power, but also to increase their weight in the political and social structure was emphasized. These institutional aspects of an innovative nature are to be explored in a systematic approach.

Lastly, research must be given new attention. This applies to technical "R and D", as well as to socio-economic monitoring. The promotion of small industrial development requires a conducive environment of which autonomous and independent universities and research institutions are an integral part.

Part II: A Case Study Perspective

A. The Asian Experience

In each of the three Asian countries which were examined in detail the small scale industry phenomenon is prominent in various dimensions. The least one may state, is that from a policy perspective in each of these three countries small-scale industry receives a high priority. The Indian case stands out for the comprehensive nature of its policy package; in Pakistan the supply-oriented infrastructural policies have been well developed - and thus may be assessed precisely as for merits and disadvantages - and in Indonesia the innovative credit schemes of the past years have gained a reputation for their far-reaching impact on the structure of the industrialization process and the role which small enterprises and cottage industry play in the transformation which the 'economy' continuously is undergoing.

Even more important, in each of these three countries small-scale industry has assumed a dynamic and at times controversial - position in the processes of growth and development. Let us summarize this statement by pointing at the quantitative data which indicate that small-scale industry - by whatever definition - till now has played an important role in the transformation of economic structures. The record of growth of value added, of employment creation, of fostering entrepreneurship reveals a strong performance. An increasing concern is found with respect to aspects of productivity which generally is such that the value added which is being generated permits very low earnings and leaves hardly scope for accumulation and profitable investments.

The India case tells about the potential of small scale industry in a very large -partly protected market. The modern small-scale industry produces over 5000 items. It has emerged as a major supplier of mass consumption goods like leather or leather goods, bicycle parts, plastic and rubber

goods, ready-made garments, sheet-metal goods, stationery goods, soap, detergents, etc. etc." (S.R. Hashim and S.S. Ahluvalia, p. 4). Rapid progress in terms of creation of opportunities for part-time and full-time employment, in terms of the number of units and the range of production, and even in export earnings have been recorded in recent years. Yet, Sandesara adopts a very cautious position when he raises the question: "How does one explain the survival of small industry?", and, subsequently, highlights as a main point of policy assessment with the following: "The case for preferential treatment to small industry by the State vis-à-vis large industry in a labour-abundant, capital-scarce country is generally made out on considerations that it inherits capital-saving and employment-promoting characteristics in relation to income and capital respectively. The findings of the empirical evidence cast doubt on these propositions, so that the foundations of the protectionist policy stand weakened. True, the evidence suffers from several limitations, but it is unlikely that these limitations would wash away completely the doubts raised by it." (J.C. Sandesara, p. 31).

These two quotations indicate the complexity of assessing the small-scale industrial performance in itself, but also show that no simple policy prescriptions are available. If, namely, already in the context of this case - which has gained such a wide international fame - these deeply probing questions are raised, what is the situation in other cases where both the phenomenon itself and policies are less articulated. The available evidence begins to suggest that "smallness" by itself implies some structural weaknesses. For instance, costs of production tend to be relatively high, labour-intensity is not always directly correlated with size, productivity records - mostly in terms of employment - compare unfavourably in small enterprises vis-a-vis large ones. But also, in terms of capital one finds controversial evidence which implies that capital productivity in small enterprises is not always as favourable as is generally assumed to be the case in these enterprises which have little access to this scarce resource. A serious dilemma poses itself for the policy makers: while

policy support in a number of dimensions is indispensable, it must be realized that "the assistance programmes tend to make the entry easier in an area where even otherwise for the above reasons there may already be too many cooks in the kitchen", (J.C. Sandesara, p. 38).

Given these arguments, there are yet strong reasons to continue the support to small-scale industry. If only to neutralise a strong policy bias which otherwise might one-sidedly favour large and medium-sized industry. But also, it appears - and these areas have been insufficiently researched - that small industry contributes much to the widening of the base for industrialization in economic, but also in social terms; social groups which otherwise would face difficulties in gaining access to modern industry, through the small-scale "entry point" may gain valuable experience. From the perspective of urban deconcentration and spatial development it is likely that the small-scale production may play a vital role. And lastly, the social objectives relating to employment creation naturally are to be placed highly on the agenda of any government which wishes to implement a basic-needs development policy. Lastly, the concept of appropriate size may deserve closer scrutiny. To refer once more to Sandesara's report: "Unfortunately, and partly because of the slogans on this subject, empirical research on the question of size in India has been conducted in terms of 'small' and 'large' sizes. The statistical conclusions yielded by these researchers have tended to portray one or the other size as black or white. And yet we all know that there is a large intermediate area of medium-sized levels of efficiency and factor combinations. In many a branch the minimum efficient size may be smaller than the very large sized, but larger than the small sized referred to in the discussions on this subject", (Sandesara, p. 52).

On Pakistan we will here elaborate briefly, since in a separate paper we will devote attention to this case. The interesting side of this case is the very strong record during the seventies and eighties; a record which -

and this is the most likely hypothesis - is directly linked to macro-policies and - variables. Contrary to the previous case - and notwithstanding very weak statistical information - the available evidence suggests that the efficiency and productivity record of the small sector is a strong point from a developmental perspective; this, in addition to a positive score on aspects like employment creation, the share of small industry in manufacturing as a whole and the dynamics as proven by the important role which small enterprises play even in this country's export performance! Asghar Khan in this respect voices the common economic opinion well, when he states: "The growth of the small-scale manufacturing sector in the seventies and early eighties is attributable to both changes in government policies as well as in the economic environment." During the seventies a major devaluation undid a considerable part of the problems which small enterprises had suffered from during the preceding decade of heavy import-substitution. And in the eighties, the demand for products made in small enterprises was strengthened much by the inflow of remittances from migrant workers while at the same time agricultural mechanization offered many opportunities for small-scale activities in the metal sector in particular.

This case is the more interesting because the policy measures are of such macro-nature. At the same time there exists an extended bureaucratic support machinery and thus the interesting research question remains to what extent the institutional effort is to be associated with the actual performance of this segment of industry; we will return to this ⁱⁿ a separate paper.

The Indonesia papers put emphasis on the realization that an import-substitution strategy accompanied by a heavy emphasis on capital intensity implies such a low employment elasticity that structural unbalances are unavoidable. The urban employment situation has developed so alarmingly that policy making with the aim to rapidly create jobs has become a matter of great urgency. Hasibuan in his report lays heavy emphasis on restoring

"balance" in the process of industrialization. He concludes that the industrialization model of the past 15 years has had a deep impact on the restructuring of the Indonesian economy. Yet, at this moment, balance in industrial organization, in size-composition demands special attention for the small-scale segment of industry. Rahardjo searches for the potential of development within the vaguely defined small-scale segment of industry. He shows that statistically significant changes have occurred as between cottage industry and small-scale enterprises. His productivity assessment is interesting with the finding that cottage industry scores relatively high along with large and medium-size factories. SSI comes out unfavourably. It appears as if he approximates the observation made before - in the Indian case - when stating, "In practice it is not very easy to distinguish SSI from CI, even SSI from medium-scale, particularly within the 19-49 range." As it is our objective to report on the innovative aspects we will not report on the very extensive credit schemes which have been implemented in Indonesia. Also, during the conference no studies were referred to which were not already available through other channels. One aspect raised in all three Asian reports - and on which we will report in the context of the Colombian case - refers to the need to properly assess the meaning and potential of sub-contracting with large industry. While, perhaps, till recently negative points were given much attention - such as the heavy dependence and the bad working conditions - one now observes a positive appreciation of aspects like stability of demand and access to new technology and the intricacies of factory work and organization.

B. The African Reports

The contrast with the Asian cases was strongly articulated. Here, rather than taking a relatively successful transformation of the national economy as a backdrop and so doing situating small-scale industry - one observes in each of the three cases that were analysed a major concern about the potential of the sector and uncertainty about the adequacy of policies to be

designed. This may be well understood given the problems which the industrialization process as such faces in a large number of African countries. We refer here for instance to the relative position of consumer goods, intermediate products and capital goods in industrial production.

A ready consensus was found among those which presented reports on Egypt, Kenya and Nigeria with respect to the following points. First, the integration of the development of small-scale industries in a wider context of macro economic planning had been insufficient up till now. An indication here is that industrial policy analysis too frequently ignores the size aspect of the industrialization process. Secondly, the availability of financial resources leaves much to be desired. For each of the three cases empirical evidence - based on survey studies - revealed "finance" to be perceived by the entrepreneurs as being a major shortcoming and problem. A third issue - and this runs as a main line of argument through all case studies - is a deficiency of demand. Intersectoral linkages are weak, governmental policies pay insufficient attention to this macro-economic parameter forward and backward linkages within industry have not been promoted in a satisfactory manner. In short, a vital condition for dynamic development of the small-scale industry mostly has been lacking. Another issue related to the mixed experiences with supporting institutions; too often highly unfavourable benefit cost ratios were the outcome of well-meant policy initiatives. It, furthermore, was felt that training and vocational training, in spite of numerous projects in this area, had not yet met with the needs of those working in the informal sector generally, and small enterprises in particular.

It is interesting that each of the three country reports laid emphasis on 'human dimensions'. In the Egyptian case study, Nadia H. El Sheikh raised female employment and women's working conditions as an important policy issue that is too often ignored entirely. Reasons distinguished between conditions in modern small industry and registered how little evidence be realistic till adequate data according to proper criteria of disaggregation

have been collected. His summary of existing research in Kenya tells about the existence of a great variety of earning levels as between different categories of small enterprises. As employment creation is an overriding concern in the Kenyan situation, he took the view "that most of these - problems - emanate from a lack of a comprehensive and suitable support policy for these enterprises (Wahome, p. 23). Olanrewaju in her "Urban Employment in LDCs and the Role of the Small-Scale Sector: a Case Study of Nigeria" shows convincingly that the kind of jobs may leave much to be desired. On close inspection of existing data it is found that a very high percentage of jobs created actually refers to learning periods of apprentices. And a precise scrutiny of reality reveals that a high percentage of the small-scale employment is characterized by very long working hours, by child labour, by unfavourable circumstances in terms of occupational and health conditions. In spite of elaborate schemes of supporting policies, she assesses such efforts very critically when stating: "In conclusion, the small-scale sector in Nigeria is yet to adequately address the problem of urban employment/income generation. Only a few people can be claimed to be genuinely employed in the sector and for these few the quality of their employment leaves much to be desired as income levels are pathetically low and hours of work are abysmally long. A sector on which so much optimism is based, is yet to live up to expectation and may never live up to this expectation unless a comprehensive policy package is designed to ensure the viability of the sector, guarantee continued labour intensity in the sector, set attainable employment/working conditions standards for the sector and educate operators in the sector on the positive correlation between the observance of safety standards and improve viability. Only then can the country look forward to a virile small-scale sector which can address our urban employment/income problems quantitatively and qualitatively."

C. Small-Scale Manufacturing in Latin America

More even than the scientists from the other continents, it was found that those who came from Latin America laid heavy emphasis on the industrialization process at large and the determining role of macro-economic policies. As one interim statement puts it: "In a general manner, Andean countries have a weak industrial sector which has developed on the basis of a strong import-substitution policy, with an unbalanced sectoral composition. In addition, the industrial sector is highly heterogeneous in terms of technologies, and an important share of industrial value added is generated by a reduced number of large establishments which have directly benefitted from protective policies and instruments. During the eighties the crisis in our regions has shown the limits of this kind of development processes and it has made imperative the need to revise the current development pattern" (Policy Paper on Latin America and Spain, Casis, Forero and others, p. 3).

The SSM sector conceptually is given an important role - not a decisive one - from a number of angles: balanced industrial development; employment generation, income distribution and - this point was made repeatedly - societal democratization. Research by Forero and Uribe indicates convincingly that the 'performance' of the urban labour markets in Colombia correlates closely with the cyclical behaviour of the economy; particularly in the eighties this has been found to be the case. Less than before is it possible to isolate the 'informal sector' or the 'small industry enterprises' from the economy at large. Forero speaks of a "gradual process of homogenization of the labour market and the breaking of the typical earlier segmentation..." (Forero, p. 13). It was found that the employment elasticity for permanent work is about 0.75 and for temporary employment amounts to 1.5. It furthermore has been found that mobility within the urban labour markets has increased much during the past decade. "The very interesting fact is that a progressive disappearance of earlier differences between formal and informal sectors seems to be occurring. In fact, differences related to gender, marital status, family position and origin have

almost disappeared, and educational differences have also steadily been reduced because of the increase of average educational level of the labour force" (Forero, p. 31).

Of particular theoretical and policy relevance has been research on regional differentiation as between various departments. Basic differences in industrialization may be identified and as a result different patterns of small scale industry are found. And thus "important is the conclusion pointing to the risk of inefficiency in policies oriented only to the improvement of the firms performance" (Forero, p. 76). The nature of agricultural development and the character of urbanization - in particular the position of small, intermediate cities - here is to be analysed further. And rather significantly, Forero concludes: "It is not clear therefore that informal small-scale manufacturing can develop independently of the conditions which will also generate intermediate/large firms. This does not mean that small-scale manufacturing can only develop producing inputs to the larger ones. The most important relationship may be dependency of SSM on a demand structure as generated by income levels and distribution of income which are characteristic of 'modern industry'" (Forero, p. 86).

In the Latin American context - and particularly in Colombia - much attention is being given to the so-called 'micro enterprises', which form a segment of the informal economy which is to be distinguished from 'small business'; the first category has less than 10 workers, the second from 10 to 50 workers. In the Colombian case - as is also found more generally - the micro enterprises play a dominant role as employment creators. Research e.g. by Quintero (Quintero, see list of papers) has revealed that within the category of micro enterprises small highly dynamic segments - mostly with 6 to 10 workers - exist which possess a strong potential for development. While the greater part falls in the category of 'survival' firms, it is this small segment which in his view must be given special attention from an industrialization perspective. "Evidently, its very presence and reproduction show that they play a productive role in the economic space and that

they have some competitiveness in some markets. It is also true that many of them are appendices of large enterprises and therefore don't have any self-determination nor constitute a productive unit able to take independent decisions in various markets (Quintero, p. 5).

A consequence is that rather advanced technologies have found their way to these small enterprises, thus also enabling earning levels to improve considerably. It was reported that e.g. in Brazil and Colombia this segment of small scale industry is attracting much governmental support. Evaluative programmes of technical assistance and credit lines recently have become operational to institutionalize the assistance rendered to micro-enterprises generally and the dynamic segment foremostly. Initial evaluation tells about an increase in the average number of jobs from 3.12 to 4.3 employees; this is important as many experts expect that the usual result of such programmes is an increase in the number of enterprises rather than in their actual performance. Source data suggest a considerable increase in earnings for owners and workers; more research needs to be undertaken in this respect. Sector- and region-specific research will soon be undertaken to find out whether more specific policy recommendations are to be made.

Conclusion

The foregoing has presented the gist of papers and proceedings of an intensive exchange of views by experts involved in policy execution/formulation and independent researchers. The case has been made for a more balanced complementarity as between a project and a policy approach towards small-scale enterprises.

The role of intermediate cities and the labour dimension appear, furthermore, to be aspects of the phenomenon which have received insufficient attention both in policy making and research monitoring.

Case studies tend to present evidence of relatively low productivity and efficiency in the 'real' small enterprises; at the same time, a small segment of 'micro-enterprises' and the medium-size category may deserve more attention just from these perspectives.

It is to be expected that the 'efficiency' issue will provide cause for intense debate and controversy over the coming years. Generalisations are not feasible on the basis of one well researched case: the Indian one. And even in this case more research is needed before conclusive statements may be formulated.

It, of course, should be realized that a verdict on one score should not decide on the relative merits of policies to support small-scale industry in the context of a wider range of developmental objectives. It, however, sounds a solid warning against unprofessional and over-enthusiastic support for the small entrepreneur. The Colombian study as well as the research report on Yugoslavia by Patrin succeeded well in making a strong case to give small-scale industry a well defined place in industry at large. The entrepreneurial talent and the decentralizing of the development process may only expand rapidly if small-scale industry has been given a rightful place within industry. If this is not done, democratization of the economy may

suffer; also, there is a greater danger of stagnation and lack of innovation if the entrepreneurial initiative is lacking in any society.

The research findings imply that many resources may be wasted if no account is taken of conditioning factors like the geographical area or the aggregate supply and demand conditions. More positively, it was hoped for that during the coming years intense debate and exchange of experiences will provide new insights in designing adequate and efficient policies and policy infrastructures.

Annex: Papers produced by participants in a Policy Workshop on Small Scale industrialisation at the Institute of Social Studies, The Hague, The Netherlands, 1987.

Colombia: Small Industry in Colombia (Clara Ramirez Gomez)
 Urban Employment and the Expected Role of the Small-Scale Manufacturing Sector in Colombia (Edgar Forero Pardo)
 Micro-enterprise and Development Policy: The Colombian Case (Victor Manuel Quintero U.)

Egypt:
 Egypt and its Small Industries: Industrial Development Policies, Strategies and Institutions (Malek El-Ashker)
 The Economics of Small-Scale Enterprises in Egypt (Nadia El-Sheikh)

India:
 Policies Towards the Small-Scale Manufacturing Sector in India (S.R. Hashim & S.S. Ahluwalia)
 Small-Scale Industrialization - The Indian Experience (J.C. Sandesara)

Indonesia:
 Small-Scale Industry Development in Indonesia (Sayuti Nasibuan)
 The Development of Small Scale Industry in Indonesia (M. Dawan Rahardjo)

Kenya:
 Kenya's Policy on Small Scale Enterprises: A Survey (Ong'ol Odidi)
 Issues Relating to Small-Scale Industrialization in Kenya (James G. Wahome)

Nigeria:
 Urban Employment in LDCs and the Role of the Small-Scale Sector: A Case Study of Nigeria (O. Olanrewaju)

Pakistan:
 Role of Small Enterprises in Relation to Urban Employment and Economic Development in Pakistan (Ch. Abdul Hafeez)
 Growth and Structural Change in Pakistan's Small-Scale Manufacturing Sector (Ghazir Ashiqar Khan)

Peru:
 Industrialización e Industrias de Pequeña Escala: El Caso del Perú (Maximo Vega-Centeno)

Spain:
 Policies to Promote and Support the Small and Medium-Sized Enterprises in Spain (Blanca Sierra Ferraz)
 Firm Size and New Forms of International Investment in Lagging Regions of the Developed World: A Case Study of Spain (Ruth Rama)

World Bank Experience in the Financing of Small Enterprises (Jacob Levitsky, World Bank)
 Urban Employment in the Third World: Some Critical Perspectives Based on ILO Experience (S.V. Sethuraman, ILO)
 Contributions of Recipient NGOs (Enrique A. Fernandez, Solidaria)
 Rationale and Likely Implications of Choosing Specific Subsectors, or Branches, for Concentrating Promotional Efforts in Small-Scale Industry Development (Ch. Zimmermann, UNIDO)
 Evaluation of the Impact of Projects to Promote Small Scale Industrialization (R. Young, USAID)

ADDITIONAL RESOURCE PAPERS

Speech of Mr. Bukman to ISS Policy Workshop on Small Scale Industry (P. Bukman, Minister, Development Corporation of the Netherlands)
 Fifteen Theses on Development Financing (B. Breuer, DSE, Berlin)
 Scale, Organisation and Efficiency in Footwear Production: An Analysis of Some Ghanaian Data (Jan van Wassen, ISS)
 The Role of International Aid (Ir. K. Kuiper, Ministry of Foreign Affairs, The Hague)
 The Transition of Handicraft and Small Industry in Nicaragua (Arie Laenen, University of Nijmegen)
 Estado y Cooperativismo en la Pequena Industria en Nicaragua (Arie Laenen, University of Nijmegen)
 A Strategy-Based Conceptual Frame for Entrepreneurial Initiative Analysis in Industrializing Countries of South and East Asia (H.S.S. El-Namaki, RVB, Delft)
 Urban Labour Markets and Small Scale Industrialization (Hank Thomas, ISS)
 The Conditions of Women in the Industrialization Process (Thanh-Dam Truong, ISS)
 Urban and Regional Issues and Small-Scale Industrialization Policies (Francisco Uribe-Echevarria)

Additional resource notes were presented by Charles Cooper, E.V.K. FitzGerald, M. de Jong, E. Kengen, R. Rahman, K. Verhagen, P. Wils, and Y. de Wit.