Small Business in the Third World

by Malcolm Harper

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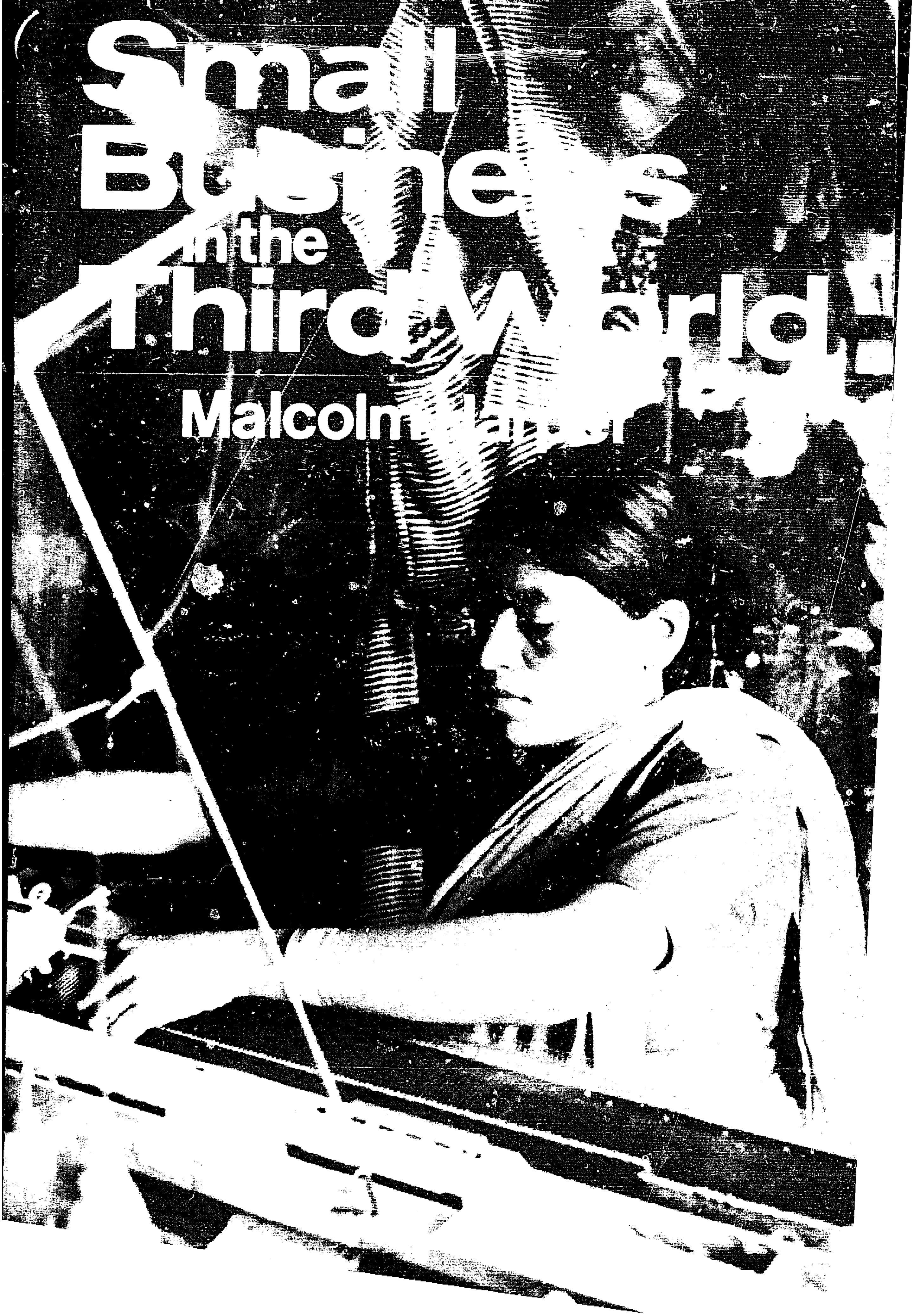
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SMALL BUSINESS
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GUIDELINES FOR PRACTICAL ASSISTANCE

Malcolm Harper

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CONTENTS LIST

PREFACE

It is thirteen years since I first stood up in front of a group of mildly curious African business people in Karatina, a small town on the side of Mount Kenya, and tried to tell them something about marketing. They were participants in a traders' course, and their main objective was to get their copy of the certificate given out at the end, which would help them to get a loan.

I was a newly arrived lecturer at the University of Nairobi, and I quickly realised that what I knew about marketing was of little use to these traders; I also realised that their businesses, and not the public corporations and multinationals for whom I was preparing students at the University, were the real businesses of Africa. Their needs were more severe, their problems in many ways more complex and their potential contribution to economic development far more substantial.

Since then, I have, I suppose, degenerated into an international 'expert', with experience of small enterprise promotion programmes in many countries throughout the world, but with actual responsibility for few of them. It will be clear to the reader from what follows that these years of irresponsible and superficial experience have produced a certain scepticism, not to say cynicism, about many of the programmes which are designed to assist small enterprises.

I hope, nevertheless, that the cynicism has not affected my continuing and ever-increasing respect for the small business people themselves. Many programmes which are designed to help them are indeed of some value, but one overall message which should come out of this book is that in many ways the best thing that can be done for small business people is to make them as independent as possible. It is paradoxical, if understandable, that people who genuinely wish to help small businesses often think that they can do this by doing for small businesses so many things that they themselves, or other small businesses, could do so much more effectively.

My admiration for small business people, and my concern for the effectiveness of programmes which are intended to assist them, may blind me to some of the more fundamental issues underlying their role in development. It can be argued that only a fundamental restructuring of society can correct the imbalances and inequities which are prevalent in many poor countries. Assistance to small enterprises, it is suggested, is no more than cosmetic tinkering or may reinforce the exploitative structure which must be destroyed. This debate is mentioned briefly in Chapter 2, but the political issues have been more than adequately debated elsewhere. The basic objective of this book is to help those involved in small business assistance to appraise what they are doing and to make practical improvements, even when these may involve reducing the scope of their own activities.

It is perhaps appropriate at this stage to admit, and to attempt to explain, the total omission of the Chinese experience from this book. I have not had the opportunity of working in China; a great deal has been written about what is happening in small enterprises in that country, and I prefer to leave the reader to draw his own conclusions from the literature, as I can add nothing from personal experience.

The objective of this book is not merely to inform, or even to irritate, but to help the reader actually to do something (and to advise against doing some things), in order to help small enterprises. The approach therefore is practical rather than academic; each chapter is preceded by a list of crucial questions which are dealt with in the text. If the reader feels that the issues are not the important ones, or none of the questions appear of interest, he should proceed to the next chapter. Each chapter is followed by a similar, but more direct and personal list of 'application questions'. The reader should ask himself each of these questions, in the context of his own country, or the particular group of small enterprises or assistance programmes with which he is concerned. This should be in some cases at least unsettling; if the reader does not know the answers, it is to be hoped he will try to find out. If he does, he may be prompted to try and make some changes.

Every chapter except the first is also followed by a case study, which describes a real business situation which illustrates some of what is covered in the preceding chapter. The reader should draw his own conclusions from the case studies; some ideas are included in a brief commentary which is given after each one, but if these serve only to confirm the reader's belief in a quite contrary view, the material will not have been wasted. Rather than promote universal solutions to changing problems I have tried to offer guidelines for evaluating situations and action, which I hope will be of continuing usefulness.

This is above all a dynamic and fast-changing field, and what is true today may well be nonsense tomorrow. The book, as the publisher knows only too well, has been a long time in the writing; the main reason for delay has been the need constantly to add new material which I have learnt in the course of contact with small businesses or people working with them. Sometimes it appears that what had seemed to be a fruitful approach is as doubtful as many others. More often, and more hopefully, I have met people, usually working in their own country with their own small business community, who have developed solutions to problems which previously appeared insoluble. Each time, a chapter has had to be rewritten and it is to be hoped that this process of learning will never end.

The group from whom I have learnt the most are the participants in the Cranfield programme on the Promotion of Small-Scale Enterprises in Devel-

oping Countries, who have come to the somewhat inhospitable environment of Bedfordshire in the autumn of every year since 1977, nominally to learn, but actually to teach me and one another about better ways of working with small enterprises. A number of the case studies used in this book were originally produced by members of this programme; those whose material has been used in this way are:

A. P. Amuro	: Nigeria
M. O. Anaba	: Nigeria
S. M. Kahumbi	: Tanzania
N. S. Khan	: Pakistan
F. M. Lubang'a	: Kenya
H. A. Quashem	: Bangladesh
F. O. Sogbetun	: Nigeria
M. Tala Dzudie	: Cameroon
S. Tapper	: Jamaica

Their contributions are gratefully acknowledged.

It is impossible to list all the other people who have, knowingly or not, helped in preparing this book, and it would be invidious to try. Much of the book is highly critical of assistance institutions, and, by inference, of those who work in them. It is clear to my colleagues that the main reason for my enthusiasm for small enterprises is my inability to work in or understand large ones. In advance mitigation of any offence, or even of plain ignorance, I should acknowledge my debt to staff from the following institutions (and many more, who will I hope identify themselves and accept my gratitude):

Colombia	— Fundacion Carvajal, Cali.
Federal Republic of Germany	— Deutsche Gesellschaft fur Technisches Zusammenarbeit, Eschborn.
India	— Birla Institute of Technology, Mesra.
	— College of Agricultural Banking, Pune.
	— Development Banking Centre, Gurgaon.
	— Small Industries Extension Training Institute, Hyderabad.
	— Xavier Institute of Social Service, Ranchi.
Indonesia	— Airlangga University, Surabaya.
	— LPPM Management Institute, Jakarta.
	— Department of Industry, Jakarta and elsewhere.
Kenya	— Faculty of Commerce and Institute of Development Studies, University of Nairobi.
	— Kenya Industrial Estates, Nairobi and elsewhere.

Nepal	—	Bhaktapur Development Project, Bhaktapur.
	—	Ministry of Industry, Kathmandu and elsewhere.
The Philippines	—	Micro Industries Development Programme and Bureau of Small and Medium Industries, Manila.
	—	Manila Community Services, Quiapo.
	—	University of The Philippines, Institute for Small-Scale Industry, Manila.
Sri Lanka	—	Industrial Development Board, Colombo.
United Kingdom	—	British Council, London and elsewhere.
	—	Intermediate Technology Development Group, London.
	—	Intermediate Technology Industrial Services, Rugby.
	—	Overseas Development Administration, London and elsewhere.
	—	Oxfam Trading, Bicester and elsewhere.
United States of America	—	Appropriate Technology International, Washington D.C.
	—	Partnership for Productivity, Washington D.C. and elsewhere.
	—	United States Agency for International Development, Washington D.C.
United Nations Organisations	—	The Economic Development Institute and other Departments, of The World Bank.
	—	The Food and Agriculture Organisation.
	—	The International Labour Office.
	—	The United Nations Industrial Development Organisation.

Most particularly, I owe an enormous debt to my colleagues at the Cranfield School of Management, who have so cheerfully accepted my preoccupation with a subject which is at best peripheral to the work of the School as a whole. Particularly, I thank my assistant Jackie Bilton for all she has done for me.

Finally, I should like to dedicate this book to the small business people of the Third World, who continue to survive and prosper in spite of all we do for them.

Malcolm Harper
August 1983

CHAPTER 1

WHAT ARE SMALL ENTERPRISES?

The crucial issues

— Are definitions necessary?
— Should quantitative or qualitative measures of scale be used?
— What are the effects of measuring scale by numbers employed?
— How can the capital investment in a business be accurately valued?
— Are there critical differences in management which distinguish small businesses from larger ones?
— Is it more important to define the maximum size of small businesses or to ensure that assistance programmes reach the very smallest enterprises?
— What types of business should be reached by small business assistance programmes?
— Why do manufacturers often receive more assistance than traders?

Small businesses are fashionable

This book is not about small business; it is about ways in which small businesses can be assisted. A great deal has been written about how small enterprises help development, and small business people themselves frequently call on those in authority to do more for them. Small businesses are said to need more credit, more training, more advice, more technology, more buildings, more raw materials and more markets, as if external assistance alone can solve all their problems and enable them to employ the growing workforce that can no longer be absorbed on the land, by Government or in large-scale industry.

Less has been said, however, about what must be done, by whom and how. Small is beautiful, and perhaps dangerously fashionable; large and increasing amounts of money are being spent on promoting small business, and some of the techniques are more successful than others. As with small businesses themselves, good programme management is more important than the details of the assistance programme that is being managed, but there are nevertheless some warnings and other lessons which can be drawn from the wide range of international experience. The first flush of enthusiasm should perhaps be followed by a somewhat sceptical reappraisal. The following chapters aim to provide some arguments for and against the most popular forms of promotion, together with some guidelines to increase their chances of success.

Why define?

It is important to be clear at the outset what is meant by 'small'; the point below which an enterprise is deemed to be small, and the way in which its size is measured, are the subject of some debate. The scale of a business needs only to be defined for a specific purpose, and there is no point in attempting to produce a universally or even a nationally acceptable standard. Any discussion of definitions should be preceded by a very clear understanding of the purpose for which the definition is to be used.

Quantitative definitions are needed when it is necessary to exclude larger enterprises from preferential assistance programmes which are designed to help small ones. Such programmes sometimes include a high level of subsidy and it is necessary to lay down rules as to which enterprises are eligible. The clients of other forms of assistance, such as training or consultancy, may be self-selected in that the programmes are designed to be useful only for the enterprises they are intended to assist. In these cases it is only necessary loosely to define the type of business for which the programme is designed.

Definitions must be clear and simple to apply. Small-scale enterprises, particularly in poor countries, are notoriously difficult to count, let alone to measure individually, and it is vital to select a practical standard of measurement. Even those measures which are apparently the most precise are subject to a large degree of inaccuracy; the difference between qualitative and quantitative measures is not so great as it might appear. Definitions are needed for some programmes, however, and they can broadly be classified into those which attempt to use a quantitative standard and those which rely on a more subjective judgement usually relating to the management style and method of operation. Table 1.1 briefly summarises the results of a survey covering seventy-five countries which was undertaken in 1975. It can be seen that the majority of the countries use quantitative measures and those preferring qualitative measures were more likely to be industrialised countries.

Table 1.1 Criteria for determining sizes of enterprises (Auciello *et al*., 1975)

Criterion	Developing countries	Industrialised countries
Number of employees	6 countries	9 countries
Assets employed	10 countries	1 country
Sales turnover	1 country	—
Employees and turnover	1 country	2 countries
Employees and assets	16 countries	3 countries
Turnover and assets	1 country	—
Employees, sales and assets	4 countries	—
Total sample	39 countries	15 countries

Employee numbers

The number of employees is the most commonly used measure in industrialised countries, and is immediately attractive for its simplicity. It has some problems of application, although perhaps less serious than any other quantitative measure. These arise from the seasonal nature of much small enterprise employment, from the prevalence of part-time work and from the extensive use of unpaid family labour including children; any statement of employee numbers must involve a relatively arbitrary and inevitably approximate weighting because of these factors, which mean that the measure has limited accuracy.

More importantly, most small enterprise promotion programmes have as at least one, if not their primary, objective, the creation of employment opportunities. If the standard of eligibility is measured by the numbers employed, this excludes those units which are contributing most to the objective. Most people, however, would probably agree that the number of people employed is the most generally acceptable measure of the 'size' of a business. If there is a need for an uncontentious, neutral and relatively easily applied definition for use in census data or research into features associated with scale, employee numbers is probably the best means.

The 1975 survey which is summarised in Table 1.1 shows a marginal preference for employee numbers; the table oversimplifies the situation, since most countries have more than one definition, and as promotion policies and programmes proliferate so also do ways of defining the enterprises eligible for them. Nevertheless it appears that many agencies recognise that it is perverse to use employment numbers as a limiting factor in programmes designed to promote employment, and far more countries are now using the value of the capital rather than the number of people employed.

The value of capital

Capital scarcity is generally associated with labour surplus, and a measure which disqualifies enterprises employing more than a certain amount of the scarce factor is immediately attractive. The measurement problems are, however, more difficult than for numbers employed. Every one of the ways in which a business can use its capital can be difficult to value; some figures may be unknown to the owner of the business, while it may be in his or her interest to conceal or reduce the value of others. The owners of small enterprises are notorious for their failure to distinguish between their personal property and that of their businesses, and this clearly makes the measurement of cash extremely difficult. Inventories or stocks, and in particular work-in-progress, may be valued in a number of different ways, even if the quantities are known, and only the total amount of money owed by customers is likely to be both known and admitted by the owner.

Capital equipment poses further problems: the machinery may be very old, or home-made, buildings are often used as dwellings as well as workshops, and in many countries there is no real market for land so that any valuation must be arbitrary and to an extent meaningless. It may be in the interests of a business to own or to rent its premises; there is presumably no reason to discriminate in favour of those enterprises which occupy rented premises, but any form of measurement which includes the value of capital employed in land and buildings must do this.

In India, where numerous preferential schemes of various sorts require concise definition, a number of the above problems are avoided by defining size in terms only of the value of plant and machinery; this is valued at its original cost, regardless of age or inflation, and out-of-pocket costs alone are included for home-made equipment. This has on occasions led to anomalies when a business has changed hands: the equipment is now valued at the price for which it was bought, and this can mean that a business ceases to be 'small' without any physical change having taken place.

Problems of this sort are however few and far between; it is important to realise that in most cases there is little doubt whether a given enterprise is small or is not; precision is only important at the margin, and many promotion programmes such as factory estates or machinery supply schemes are in any case designed only to be attractive to smaller enterprises, so that there should be few applications from those which are at the larger end of the scale. Some programmes involve substantial discrimination in favour of small enterprises, however, in terms of low interest rates, preferential purchases or raw material supply arrangements; the value of plant and machinery is likely to be easier to determine for those enterprises which are closer to whatever upper limit is selected, so that fewer problems actually arise in practice.

Other measures of 'scale'

There are a number of other quantitative definitions which are suitable for particular types of business. Sales turnover is a not unreasonable measure to define the scale of trading enterprises, although it is very misleading if different types of business are compared in this way, and it involves measurement over time which can be more difficult, and more subject to seasonal variations, than a figure of capital which can be measured at one moment of time. Value added, that is the difference between sales and the cost of purchased materials and supplies, is a further refinement and theoretically preferable version of sales turnover, since it measures the scale of what actually happens in the business, and excludes the value of materials which are merely bought and sold, but it does further increase the measurement problems; it is important to distinguish between figures which are sometimes necessary for analytical purposes and the more routine requirements of a working definition. Some 'technical' measures have also been used, such as installed horsepower or kilowatts, the number of vehicles, hotel rooms, looms or other machinery, or the output capacity of the equipment. Definitions of this sort are often the most effective, and easy to apply, for the purpose of determining which enterprises in a single industry are eligible for a particular form of assistance, but they are clearly inapplicable for comparing businesses in a number of different industries.

Labour intensity is frequently, but not necessarily, associated with small scale; since employment creation is the major objective of most small enterprise promotion programmes, and since both the number of employees and the value of some parts at least of the capital investment can be measured, it might be argued that enterprises should be defined not by their size, but by their labour intensity.

There are examples of large very labour intensive industries, such as the clove flavoured 'Kretek' cigarette factories in Java, some of which employ over 15,000 people and would be defined as large by any definition but which are presumably as deserving of special assistance as any smaller unit, if judged by their ability to offer employment for very low capital investment; it is possible that some industries of this sort have suffered because they are not deemed to be 'small' by whatever definition is used and cannot therefore avail themselves of preferential assistance schemes. For practical purposes, however, a measure of labour intensity should rather be a component in the appraisal procedure applied to any request for assistance rather than being the fundamental measure by which enterprises are defined. Employment creation is not the only benefit associated with small enterprises, and an absolute measure of capital employed in machinery and equipment is probably the most feasible definition to use.

The choice of a particular maximum figure will of course depend on the scale of enterprises in the country concerned, and the numbers which are proposed to be assisted. What is a heavily capitalised large industry in a small and very underdeveloped country may be a medium or even small-scale enterprise in a larger and richer economy.

Qualitative definitions

There are a number of qualitative definitions which are inevitably less rigorous, and wholly unsuitable as a means of determining eligibility for preferential treatment, but are perhaps intellectually more satisfactory in that they relate to the essential operating differences between small and large enterprises, rather than to arbitrary and not wholly acceptable quantitative standards. In Tanzania only enterprises which are 'within the reach of the people' are said to be small. This is eminently flexible, in that the actual scale of enterprises so defined will presumably expand as the people's financial, technical and managerial capacity develops, and although it poses more questions than it answers the political goal of promoting indigenous enterprise is clearly enunciated and imposed on those institutions which are intended to promote small enterprises. Small enterprises have been defined as those in which management lies 'in the hands of one or two people who are also responsible for the major decisions' (Neck, 1977, p. 9). Some very large corporations, such as the Ford Motor Company, have at times been considered to be managed in this way, but this definition does identify a critical feature of small businesses which may be of greater importance to those working in them, or doing business with them, than any quantitative measure.

The lower limits

The discussion has so far focused on the upper limits, beyond which enterprises are said to be medium or large-scale. It is more important, and less common, to debate or define the lower end of the scale. It is inevitable that the major beneficiaries from small business promotion programmes have tended to be those most able to take advantage of official assistance and least in need of it, namely the larger enterprises within the category of 'small', however defined. Some official definitions go so far as to exclude businesses *below* a certain size, while many programmes effectively exclude the smallest enterprises because they are designed for formally organised modern sector businesses, and excess demand for preferential treatment inevitably excludes the weaker members of the target group.

Special, additionally preferential programmes have been introduced in India, Brazil, The Philippines and elsewhere to cater for the needs of 'the tiny sector', 'cottage industries' or 'micro-empresas'; if such programmes are effectively designed, and if they genuinely reach the vast numbers of the smallest enterprises, including the unenumerated, informal and unregulated, there is of course no objection to excluding such enterprises from the more traditional small business promotion programmes. If, however, there is no special scheme for the smallest, or if such schemes are inadequate, it is vital that the official definition, and the impact of whatever programmes are implemented, should not exclude the very small enterprises which make up the vast majority not only in numbers of units but in numbers employed.

Such enterprises are more difficult to reach, and it is harder for established formal institutions such as banks, Governments or training schools to work effectively with informal enterprises. It is often necessary to design special programmes to assist this type of business and to select or develop special types of institutions to implement them, but 'tiny' and 'small-scale' enterprises are similar enough to allow both to be assisted by some at least of the same programmes.

It can be argued that the distinction between 'modern' and 'informal' is far more important than that between large and small. While there are no large informal enterprises there are many small modern ones, and these are often the main beneficiaries from most forms of assistance. It is far easier for an assistance agency to reach modern businesses, particularly if it has technical guidance from countries where there are few if any businesses of any other kind, but every attempt must be made to avoid the impression that a service which helps most of the modern small businesses in a given community is in fact reaching any but a very small minority of the total small enterprise population. A conscious effort must be made to reach the informal sector; since this usually requires quite different methods, it is argued that programmes should be differentiated not on the basis of how large their clients are, but whether they are informal or modern.

This is a reasonable argument, but a rigid definition of informality is impossible. The objective of reaching the informal sector is more likely to be achieved as a result of attitudes than explicit statements of policy or regulation. Anyone responsible for programme design and implementation must recognise that the vast majority of businesses are in fact in the informal sector. He or she must decide whether it is feasible to do more than help the modern minority, and, if it is, must ensure that the programmes genuinely reach the majority, rather than merely claiming credit for doing so. There are in fact very few programmes which do have a significant positive impact on informal enterprises, and many more which actually damage them. The distinction between modern and informal should certainly be more clearly recognised. This does not, however, invalidate the advantages of modern small enterprises over large ones, so that the scale and the sectoral definitions both have their value.

What types of business?

It is similarly important to be clear as to the type of activity which is to be included in the term 'business', 'enterprise' or whatever other word is used to describe the economic units which are the subject of this book. Although reference is sometimes made to 'the farming industry', 'the retail industry' or 'the catering industry', the word 'industry' is usually associated with manufacturing, or non-farm activity which involves changing the physical form of raw materials in order to produce certain products. National wealth appears to be closely correlated with industrialisation, as indicated by the proportion of people employed or share of gross national product produced by manufacturing industry. Large-scale manufacturing units have notoriously failed to bring improved income to the mass of the people in poor countries, and most small business promotion activity is specifically directed at small-scale manufacturing or at service activities, such as vehicle repair workshops.

Farms are usually by far the most numerous small businesses in most developing countries, but agricultural enterprises are generally excluded from small business assistance programmes. There are many similarities between small farms and small industrial businesses, and many of them are of course located in the same places and owned and operated by the same people. The distinction between agriculture and business is, however, enshrined in the organisation of Government, and farmers do tend to be more numerous, and more similar to one another, so that a package approach to credit, marketing, input supply or training is more likely to be successful with small farmers than with small business people. Development Banks, aid agencies and national Governments tend to separate farming from industry almost completely; this may be administratively necessary, because of the large numbers involved, but both sectors have a great deal in common, and agencies attempting to help small industries can certainly learn a great deal from the experiences of agricultural promotion.

Traders or manufacturers?

There are many reasons why trading enterprises are excluded from small business promotion programmes, and are regarded less favourably than manufacturers. It is less easy to appreciate the intangible values added by buying and selling than the physical changes made by manufacturing, and trading has a long history of disrepute, reaching back as far as the courtyard of the temple in Jerusalem. The perception of trade as a somehow less legitimate or honourable activity has to an extent been self-perpetuating; the distasteful task of marketing has been left to despised minorities or recent immigrants, who have on occasion exploited their resulting monopoly position; this has further strengthened the public contempt for traders.

Much anti-Semitism can be traced to this type of situation, as can the often profitable but increasingly invidious position of racial minorities such as the Lebanese in West Africa, 'Asians' in East Africa, the Chinese in South East Asia and innumerable smaller minority groups throughout the world, some of which may merely be members of a clan or tribe who have migrated from another part of the same country. Political independence and nationalism may lead to the expulsion of such minorities, or to regulations which prevent them from continuing their trading activities, but they have often been replaced not by indigenous small businesses but by Government marketing boards ot officially sponsored co-operatives. This type of organisation is rarely altogether successful, but only in a few countries, such as Malaysia, have deliberate efforts been made to assist traders as generously as manufacturers.

It may be suggested that traders do not need the same level of assistance, because it is relatively easy to start a small shop with little capital and no special skills. Experience suggests, however, that new small-scale traders suffer very similar problems to those of manufacturers, and may suffer a similar mortality rate.

Local small-scale traders play a particular and vital role in development; they supply and market many of the raw materials and products of larger and small-scale manufacturing enterprises, they supply inputs and market the products of agriculture, which is likely to remain the single most important sector of the economy for many years in most developing countries, and they provide basic necessities to the mass of the rural and urban poor in places, at times and in an environment which satisfies their needs. Even if small-scale traders did not in themselves play a vital role, most small-scale manufacturing enterprises evolved from purely trading activities; they should be encouraged as a source of industrial entrepreneurs.

The foregoing paragraphs may seem unnecessarily to have widened the scope of this book, in terms both of the size and nature of the enterprises with whose promotion we are concerned. There are indeed many special aspects of promoting the very smallest enterprises, and non-manufacturing units, and each of them, like each of the various ways in which small enterprises can be promoted, would merit a more specialised study on its own. Most of the institutions which are concerned with small enterprises must, however, cover the whole field. Because this field is so wide, they often concentrate on the politically more attractive or operationally less difficult clients, which mean that the smallest, or trading businesses, are often neglected. We shall attempt therefore to deal with all sizes and types of enterprise that are considered to be small, by whatever definition, in the hope that what is lost because this does not allow detailed treatment of every aspect will be more than gained by the fact that the book will alert those whose activities are at present concentrated on one particular type or size to the needs of those which are not being reached by their programmes.

Application questions

— Do all definitions which are used to determine eligibility for special assistance serve their purpose by excluding those enterprises not in need of help, and including *all* those who are the genuine target of the programme?
— Are different definitions used for different purposes, and types of business, or is there a standard inflexible definition which may be inappropriate for some programmes?
— Do some agencies or authorities spend more time determing and applying definitions than ensuring that their programmes reach those most in need?
— Do definitions by number of employees ever exclude enterprises which are capable of employing large numbers of people, at low cost, and should therefore be assisted?
— If invested capital is used as a measure of scale, are the values of sufficient accuracy to be of any practical use?
— Are assistance programmes focused exclusively on manufacturing enterprises, while trading and service businesses are more numerous and equally deserving and in need of help?

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CHAPTER 2

WHY PROMOTE SMALL ENTERPRISES?

The crucial issues

- How can successful small enterprise promotion programmes gain popularity for politicians?
- How can a newly independent country build a genuinely indigenous industrial sector?
- Is there a real choice between large and small enterprises?
- Are the products of large or of small businesses most suitable for poor people?
- Are workers happier in large or in small businesses?
- Do the research and development departments of big businesses develop locally appropriate products and technologies, using local materials and equipment?
- Which needs more 'management', a small number of large businesses or a larger number of small ones?
- Are large or small businesses the more profitable?
- Which types of business mobilise and re-invest the most capital, large or small?
- What are the arguments *against* small business, and how can they be countered or accommodated?

The political arguments

Poverty is caused by inadequate incomes, and incomes result in most industrial societies from employment; employment creation is thus perceived as the main goal of most poor countries, and small enterprises are believed to be a fruitful source of jobs. Employment is not the only way of relieving poverty, and those who have jobs are not necessarily no longer poor as a result. Nevertheless, small enterprises, broadly defined, have displayed a remarkable capacity to absorb labour, and it is reasonable for Governments and others to promote them, or to desist from destroying them, for that reason alone.

There are however many other powerful, and perhaps less contentious, reasons why small enterprises merit attention, and these are sometimes neglected because employment creation is perceived as being so important. Any Government which is concerned with the opinions of the mass of the people, and not only of wealthy and often foreign elites, must at least appear to address its policies towards the activities of the masses. The opening of a large factory may be dramatic and politically attractive, but the urban and rural poor are coming to realise that effective assistance to small-scale agricultural and non-farm enterprises is far more likely to benefit them. Small enterprise promotion thus becomes a political necessity; the daily newspapers in the Caribbean, the Philippines, much of Africa, India and elsewhere, even though small-scale business people do not usually read them, are full of accounts of new business schemes, industrial estates and other programmes which are considered necessary both to gain votes and to gain favour with the foreigners who disburse the aid on which so many countries depend.

The struggle for political independence has been won in most countries, but it is an empty victory if the economy is controlled by foreign interests or if local public or private enterprises rely on technology, methods and expertise from abroad. Small enterprises are almost always locally owned and controlled, and they can strengthen rather than destroy the extended family and other social systems and cultural traditions that are perceived as valuable in their own right as well as symbols of national identity.

Alien minorities, who may make up well under 1% of the population such as the 'Asians' in East Africa, or over 30% like the Chinese in Malaysia, often control a disproportionate share of the economy. The indigenous people may have been prevented from playing their due role in the economy, and their first attempts are likely to be in small enterprises. Small business promotion in Kenya, Indonesia, some parts of the Caribbean and elsewhere have more or less explicit, and politically necessary, racial implications. Indigenous businesses are usually small ones, and the most important objective is to promote not small-scale but indigenous enterprise.

Local products for the poor

The products of small enterprises tend to originate from indigenous craft traditions, and they are also more likely to satisfy the needs of poor people than are the products of large enterprises and foreign technology. In many developing countries there is a severe shortage of large numbers of commodities; it is more equitable if scarce promotion resources are used to assist enterprises which make things that poor people buy. Investigations into the demand for soap in Bangladesh, shoes in Ghana, furniture in Kenya and bicycles in Malaysia (Baron and van Ginneken, 1982, pp. 685–686) suggested that there is a tendency for local products, produced in small units using labour intensive equipment to be more appropriate for the needs of poorer people. Poor people also tend to be less well-informed and thus more susceptible to the appeal of heavily promoted and not necessarily appropriate branded products, so that it is not easy to define what their 'needs' really are. Nevertheless, even a brief examination of the goods stocked by a supermarket catering to the rich, and by small-scale shops patronised by the poor, shows that the latter have a higher proportion of goods manufactured by local small businesses. Farmers also are often ill-served by the products of large industry; the simple tools and equipment that are manufactured by local small factories are more within the reach and more suited to the scale of the holdings and technical ability of the typical farmer.

Because the profits of small enterprises are not dependent on long production runs they can manufacture smaller quantities of products which have a regional or even a more local market; this means that the peculiar needs of farmers in certain areas, or of minority tribal or other groups, can be economically served. Even in Great Britain, farmers use differently shaped sickles and other basic agricultural tools in different counties; this has enabled some small-scale manufacturers to survive, and has made the task of the larger firms more difficult. In poor countries, with less efficient communications, local differences are far more pronounced and only small enterprises can economically cater for them.

The same local differences which appeal to individual communities in a poor country are also attractive to the handicraft and 'ethnic' product markets in rich countries. Handicrafts provide a substantial proportion of the manufacturing exports of countries such as India, the Philippines, Bolivia and elsewhere, and the necessary skills and styles are only preserved and can only be developed by small-scale units.

Small enterprises satisfy local needs not only by making differentiated products but by being themselves scattered throughout a country, wherever people live. This ensures that whatever employment opportunities are provided are equitably spread throughout the country, more or less in proportion to population, and that raw material producers are able to find local markets.

Local indigenous technology is more likely to use locally produced raw material, and equipment, thus saving foreign exchange which might otherwise be spent on imports as well as internal transport costs which generally include a large element of foreign exchange. An integrated national market may be necessary and desirable for some products and in some circumstances, but when transport is expensive, and the whole infrastructure of internal communication is over-burdened, there is much to be said for local small units where local people use local materials to satisfy local needs.

In East Java the people of one village are fully occupied in the manufacture of traditional hats, and simple containers, woven from split bamboo. They obtain the bamboo from a nearby village, whose people have traditionally lived by growing and splitting the raw material for their neighbours. The products are used throughout the region, but are being displaced by modern hats woven from synthetic fibres, and by plastic bags. The new products are made from imported raw materials in large factories; the traditional products are aesthetically more pleasing, at least to an outsider's eye, and when they are discarded they decay and disappear. There seem therefore to be many reasons to prefer and promote the survival of the traditional industry.

Job satisfaction

Small businesses provide more jobs than large ones, and they also have rather different effects on the people who work in them, regardless of their number. It is difficult to measure job satisfaction, and indices of labour unrest are of limited value in countries where strikes are rather infrequent because of legal prohibition, weak trade unions and the desperate scarcity of jobs. Research in industrialised countries suggests that people who work in small enterprises are happier in their work than those who work in large ones, in spite of generally lower wages and poorer standards of safety, comfort and welfare facilities (Peters and Waterman, 1982).

It is dangerous to assume that intensive mechanisation and the lack of opportunities for close social relationships at work must necessarily be as painful in societies where wage employment of any sort is for most people a highly desirable novelty, as they are in wealthy countries, but as people become richer they are likely to become disenchanted with the typical dehumanised large-scale working environment, and to prefer employment in a small business.

Entrepreneurship and innovation

Entrepreneurship is a quality which is by no means only associated with small-scale enterprise, and which is as necessary in Government and public or co-operative enterprise as it is in private business. Individual small enterprises provide, however, both a nursery and proving ground for enterprise. The person who successfully starts a business may work with it until it becomes a large national or even international enterprise, or he may move through a succession of ventures until he finds the sector where his talents can be most fruitfully applied. Alternatively, and more often, he may find that he lacks the persistence, imagination and other qualities necessary for success, but whatever the outcome, small business also provides a valuable outlet, and training ground, for the entrepreneurial ambitions of people who are employed in Government. They could not be involved in a large business at the same time as holding an official position, because this would be too time-consuming and too obviously likely to cause conflict of interest. A new small enterprise, however, can easily be started and managed by a civil servant; 'moonlighting' may be forbidden as in Tanzania, but relatives can occupy formal positions and the earnings can be such as to compensate in part for the uncompetitive salaries paid in the public sector. These may, as in Indonesia, be one-tenth or less of equivalent salaries in the private sector. It may be unfortunate that Government cannot enjoy the full time services of talented people, but a small business venture at least allows these people to remain in the public service and to give some of their time to it.

Evidence from industrialised countries suggest that more genuine innovations are produced for every dollar that is spent on research than in large businesses (Natural Science Foundation, 1981). Very few small businesses in poor countries operate in industries where explicit research would be appropriate, and even less are likely to account for this activity in such a way that the cost, or the results, could be measured. The ingenious use of pieces of broken window glass to make up replacements for imported hurricane lamp glasses, or of domestic electric light switches as limit switching devices on a powerloom may not be patentable innovations. They are nevertheless highly innovative, and valuable for saving foreign exchange and generating local employment. Large firms are more likely to rely on foreign collaborators for their technology.

Employment for women

Much has been written in recent years about the role of women in poor countries; they all too often remain in rural areas as the hewers of wood, drawers of water and bearers of children, and their maternal responsibilities cut them off from whatever benefits are to be gained from wage employment in the modern sector. Small enterprises provide a valuable alternative source of income and personal development, whether it is in a home-based cottage industry or a rather larger enterprise to which a mother can conveniently travel for a few hours a day when her children are cared for by an elder sibling or other relative. Female-owned trading enterprises have a long history in many parts of the world, such as West Africa. Certain manufacturing activities, such as sewing, simple machine knitting, food preparation and many types of handicrafts provide more opportunities for employment and for outside contacts for women who have traditionally been confined to farming and domestic labour.

The need for management

The performance of many enterprises, of all sizes, suggests that the scarcity of competent managers is a more serious constraint on economic development than the shortage of finance. Small enterprises are preferred because they use less capital which is a scarce resource; it may be even more important to promote them because they use less management, which is even more scarce.

Managers organise, co-ordinate and control activities which are undertaken by other people; the need for management rises disproportionately with the size of organisations, so that a business employing a thousand people will need more managers, and some at a far 'higher' and scarcer level, than one hundred businesses each employing ten. Small business consultants who were advising village shop-keepers in Kenya were surprised that some of their most successful clients were illiterate. Their success may in part have been because they did not spend their time keeping written records which were taught in Government training courses but whose actual use nobody was able to explain. It was clear, however, that these people could not have successfully managed a large enterprise.

It was suggested earlier that an enterprise ceases to be 'small' when management becomes necessary as a separate full-time activity in addition to carpentry, selling or whatever else is the function of the business. Small enterprises defined by this standard do not need full-time management at all; this may be an extreme view, and 'management intensity' cannot be quantitatively measured like labour or capital; nevertheless, small enterprises are arguably less 'management-intensive' than large ones, and should be promoted for that reason.

Profits and investment

The profits of foreign-owned enterprises are often artificially reduced by distorted transfer prices, and a locally owned large private enterprise may minimise its publicly stated profit in order to avoid taxation and charges of profiteering. The profits of small business are even more difficult to determine, concealed as they are by inadequate accounting, tax avoidance and unrecorded withdrawals in cash or in kind, but such comparative data as is available suggests that the return on capital employed in small business is significantly higher than that earned in large ones (Harper, 1975). The capital on which the profit has to be earned is of course smaller in relation to the output and numbers employed, and owners of small enterprises may consider their own wage as a profit; if no alternative employment opportunity was available, this is not unreasonable.

A sample of some 170 small traders in Kenya was studied in some detail; the average return on investment, including the owner's earnings and any profit, was 47½% per year, while the return excluding the owner's drawings was 25%. A rather smaller sample of manufacturing enterprises, also in Kenya, were achieving an average rate of return of 115% on the money employed. The capital equipment in some cases amounted to little more than a few handtools, but all these figures are impressive when compared with large private or, particularly, public enterprises (Child, 1977). Profits indicate effective use of resources, and have the potential to finance further investment; enterprises which earn high profits thus deserve support.

Profits are not an end in themselves; if the high profits of small business were to be hidden under the mattress of the owner, held in a foreign bank account or spent on foreign imported goods, they would be of no value to the economy. The available evidence suggests, however, that the contrary is true; the owners of small businesses are less likely to spend money on imported goods, and more likely to re-invest a higher proportion of their profits in their enterprises themselves, than the owners of large businesses, whether they be local or foreign.

Frugality and enterprise are often closely related, and many small business owners continue to subsist entirely on whatever income they enjoyed before going into business; 25% of the small-scale shop-owners who were surveyed in Kenya were displaying remarkable restraint, in that they were not withdrawing any money or goods at all from their businesses for their own use. The average earnings of the remaining owners were only marginally above the current casual agricultural labour rate. 84% of the owners were re-investing at least some money in their business, in that they withdrew less than the profits; these enterprises were very small. and their growth may not have been dramatic, but the funds were certainly not remitted to other countries or spent on conspicuous and usually imported luxuries.

The profits of an individual small enterprise are likely to be higher than those of a large one in relation to the capital invested, but they may also be more precarious. For the economy as a whole, however, small businesses are likely to be more resilient to depression, and to offer a steadier level of employment than large ones; their activities and locations are diverse, they depend on a wide variety of sources and types of raw material, and their owners, if only for the want of any alternative, are likely to stay in business and maintain at least some activity and employment in conditions where foreign investors, or domestic owners who did not depend on the business for employment, would have closed their factories or even withdrawn their investment altogether.

Businesses not only use capital; they also create it, and it is appropriate to encourage not only those which use the least but also those which mobilise the most. Some large businesses may bring their capital into a country, through foreign investment, supplier credits or international funding, but many indigenous small businesses are funded, initially at least, with dormant capital that might not otherwise have been usefully employed. Under-utilised agricultural assets, such as marginally productive cattle, or savings invested in jewellery, are used to found new ventures, and to expand existing ones. Relatives of the entrepreneur may also mobilise similar resources as they would for investment in education, and these sources of capital might never have been tapped by commercial banks or other institutions which may be involved in financing larger enterprises.

Why are they labour intensive?

Comparative studies of large and small businesses, carried out in countries at all stages of development, confirm that small firms employ more labour per unit of capital, and require less capital per unit of output, than do large ones. There are inevitably occasional exceptions, and the differences related to scale may well be exceeded by those relating to the type of activity, but if policy makers are concerned to increase employment opportunities, evidence points conclusively to small business as a more productive source of jobs, per unit of capital invested or product produced.

Most activities can be carried out by small or by large units, and it is possible to identify alternative ways of producing most products, or at least of satisfying most consumer needs. There is no necessary association between small-scale and labour intensive technology, but there are many reasons why the owners of small units are more likely to minimise their capital investment, and to employ more labour per unit of output than their larger competitors.

Many people in poor countries go into business not in order to maximise their return on investment, but to 'buy' themselves a job; as with any other purchase, the buyer's objective must be to purchase as much of the commodity he wants, namely employment, for the minimum expenditure, or capital investment. If the expenditure buys employment not only for the entrepreneur but also for one or more of his similarly under-employed relatives, so much the better.

The rather more sophisticated entrepreneur may already have a job, and his primary motive for enterprise may be profit rather than employment. Nevertheless, he is more likely to use a labour intensive technology than is the investor in a large business. Apart from his desire, or obligation, to provide employment for his extended family, he is unlikely to have access to foreign exchange or to sources of sophisticated imported technology, which tends to be the capital intensive option, or to the institutional sources of capital from which he might obtain the funds to buy such equipment. If he depends on his own or his family's capital the total amount will be small, and if he attempts to borrow money from informal sources the interest rates will effectively discourage the capital intensive alternatives. He is also unlikely to be able to reach distant markets whether in his own country or abroad; the scale of his operation will therefore be limited by the size of the local market, which will incline him towards small-scale, labour intensive, flexible and locally made equipment.

Policy makers might in theory be able to ignore the scale of enterprises, and to promote only those which are labour-intensive, whatever their size. Individual investigation and prediction of employment and capital for every enterprise would, however, be a practical impossibility for any effective industrial promotion policy. The size of an enterprise is, however, fairly easily determined; if small businesses are effectively promoted, the ultimate goal of job creation is likely to be achieved.

The arguments against small scale

The importance of small business has been recognised in nearly every country; it is interesting that Great Britain, where modern industry may be said to have originated, has been one of the last countries to make any explicit arrangements in favour of small-scale enterprises. In poor countries, however, where labour is even more in surplus, and capital even more scarce, the arguments are overwhelming and programmes to assist small industries have been undertaken for far longer than in many industrialised nations. There are nevertheless powerful interests and arguments on the other side, and national concern for small enterprise is not always translated into serious programmes.

The industrial sections of national or regional economic development plans invariably refer to the expansion of various industries and they often give more or less precise figures as to the capacity which is to be installed. Planners are powerful people, and they not unnaturally like to see their plans become reality; it is far easier to initiate and promote the establishment of one or two large units, whether they are owned by private investors or the State, than it is to develop the same capacity through a multiplicity of smaller businesses. Politicians also, who are nominally the masters of planners, have more to gain from large businesses than small ones. They can claim credit for the establishment of a new factory, they can be photographed laying the foundation stone, and they can, in some cases, benefit from whatever inducements or bribes the investors are prepared to offer in order to ease their way through the bureaucracy. Small enterprises are less attractive; no individual unit is newsworthy, and whatever bribes they are able to offer are beneath the attention of national leaders.

Once the enterprises have been established, Governments may find it appropriate to direct or encourage them to adapt certain employment policies, to use certain raw materials or to direct their marketing effort towards certain markets, perhaps for political reasons. It is difficult enough to persuade or compel a large firm to conform to Government policy, but almost impossible to monitor and control the operations of large numbers of smaller businesses. The same applies to environmental, safety or product standards; a large firm might require no more than one high level contact, backed possibly by the veiled threat of sanctions, while ten or a hundred smaller firms providing the same output would need legislation, a force of inspectors and a schedule of penalties to ensure conformity with any particular standard which is introduced.

The large businesses, of course, do not necessarily do what is required of them. A foreign-owned tannery in East Africa causes massive pollution of the air and water in the otherwise pleasant country town where it is located, but the damage to the environment is at least mitigated by the rewards to senior politicians and officials who permit it. Smaller tanneries also cause pollution, although on a scale which the environment is more able to absorb. This damage is not, however, accompanied by significant rewards to those in authority.

Planners may forget in their enthusiasm for order that small firms are often guided by the market to do the very things that they ought to be persuading all industries to do; it is only natural that they should have a built-in preference for the types of business which appear more likely to be bent to their will, and where they feel that they can make a direct impact, rather than merely setting the stage in the hope that individual entrepreneurs will perform as expected. Because the activities of small businesses are largely undocumented, it is very difficult for planners to know whether they are or are not acting in accordance with national policies. Measurable results, even if they are unsatisfactory, may be preferable to some than total ignorance.

Income distribution

There is also a natural association of small business with inequitable income distribution. Society may be able to accept a small, largely urban minority of wealthy individuals, who work for foreign or national large companies, if only because they live in segregated suburbs and are unknown to the mass of the people, or are regarded as natural successors to the long-tolerated colonial masters. It may be more difficult to live with a numerous and more visible group, who stand out not only because they have recently become wealthier than their neighbours but also because they can provide, or withhold, the prized gift of employment.

Small businesses are not necessarily privately owned, although the record of co-operatives, and community or nationally owned non-farm enterprises is not particularly successful, but in any case such data as is available on income distribution suggests that a widespread, numerous and prosperous small business sector is more likely to be associated with relatively equitable income distribution than a smaller number of larger enterprises, whether they are publicly or privately owned. Centrally planned economies, in spite of their ideological commitment to equity, tend to have a small number of highly paid officials managing large public enterprises, while a policy of encouraging community or individually initiated smaller enterprises will increase the incomes not only of their owners or managers but also of all those whom they employ. In Tanzania, for instance, the poorest 60% of the population enjoy only 13.9% of national income, while in South Korea, with a policy of growth through individual enterprise, the poorest 60% have 15.4% of the country's income.

Small against informal enterprises

There are many other arguments against small enterprises, and the staff of small business promotion organisations are often the most vehement opponents of the informal sector, which they perceive as a threat to their own 'legitimate' clients rather than as enterprises equally deserving of their attention. Chambers of Commerce are usually controlled by a minority of businesses which have achieved fixed locations and official status. They may be regarded as the true representatives of the independent commercial sector, but their members have the most to lose from smaller-scale, more recently established businesses whose opening hours are unregulated and whose locations are determined by the needs of their customers rather than the colours on an urban master plan. Officials may genuinely believe that organisations of this type are the authentic voice of small business, if only because the informal sector has no voice, but established small- and medium-scale business people are often the first to propose limitation to the freedom which in fact enabled them to become established themselves.

Planners who like to see their plans followed to the letter, the police and others responsible for law and order, marketing board officials who yearn for undisturbed monopoly and senior officials who prefer to drive along uncrowded roads, all these have a vested interest in controlling or even destroying the informal sector, which constitutes the vast majority of small enterprises. This reaction is understandable, not only because of the genuine nuisance which is often associated with many small and independent enterprises, but because those officials responsible for policies are unlikely themselves to be major consumers of informal sector services.

There are of course some genuine arguments against small enterprises, and, in particular, the informal sector. The dividing line between criminal and legal enterprise is finely drawn, nearly everybody gains from at least a minimum of free traffic circulation and it is impossible to develop effective rural or urban infrastructure without some control or monitoring of business location. Complete laizzez-faire might lead to chaos; excessive regulation and control, on the other hand, stifle enterprise, encourage corruption and deprive the mass of the people of essential services. Everyone in Government and in particular those responsible for employment and small enterprise promotion must be persuaded to appreciate the economic significance of the smallest enterprises; they are the most difficult to assist, but their problems usually arise more from an excess of regulation than from too little official assistance, and the most effective and simple way of helping them, even if it is not attractive to the institution builder who wishes to enhance his authority, is to modify and withdraw existing legislation or programmes which actively damage the interests of the smallest enterprises.

The structural issue

There are, however, more fundamental arguments against small enterprises, or rather against attempts to promote and assist them. Most programmes reach only a small proportion of the total small business population, and these are usually the more modern enterprises. It can therefore be claimed that assistance is elitist and that its effect is merely to reinforce the dual nature of society, by strengthening those who are already in the modern urbanised elite, and assisting a tiny number to desert their less fortunate fellows and join the lucky few. If programmes are successful in reaching the informal sector, however, they are blamed for helping to perpetuate the division in society. Appropriate technologies, informal credit mechanisms and traditional products are idealised, so that the programmes do little more than preserve and strengthen existing systems, which are said to be fundamentally exploitative. Poor countries are kept on the periphery of the capitalist world, and a small minority within the poor country is seduced into preserving this dependent status because they themselves benefit from it. Similarly, it is argued, a few small businesses are assisted to climb into the exploiting class, and those who remain are encouraged to tolerate their oppressed condition by programmes which marginally alleviate some of the more obvious difficulties but avoid any fundamental changes. Society must be radically restructured, it is argued, and cosmetic tinkering at the modern or the informal level only serves to delay the inevitable revolution.

These views deserve attention, both because they are widely held and because the performance of many poor countries suggest that present solutions are ineffective. Wealth has not 'trickled down' and the difference between rich and poor people in the same country continues to grow, as does that between rich and poor countries. The issue has been exhaustively treated elsewhere, often by academics who clearly enjoy the privileges of the system they so eloquently deplore, and whose criticism is rarely accompanied by suggestions for practical and peaceful remedies. There are, however, real life examples of countries which have attempted radically to restructure their society, and to impose a policy of state or community ownership rather than relying on individual or foreign enterprise. Some of these countries have apparently succeeded in dramatically improving the lot of the mass of their population, while others have been equally dramatically unsucccesful. The revolution may have been violent or peaceful, but success is by no means inevitable. Similarly, other countries have kept to a basically capitalist or mixed economy approach, and again some have succeeded while others have failed. The secret seems to lie not in any particular political system so much as in the people's basic attitude to work, and to their willingness to take responsibility for their own destiny on a community or individual basis, rather than relying on the state. Few readers of this book, in any case, are likely to be in a position to institute radical changes, violently or peacefully. It is right to question the fundamental basis of any development activity, but perhaps even more important to ensure that whatever is done is done as well as possible. The ultimate goals must be discussed and clearly identified, but no goal will be attained if the measures to reach it are ineffectively implemented.

Schumacher published *Small is Beautiful* in 1973, and Adam Smith wrote of the advantages to society of a multitude of small shops in 1776. Today there is probably not a single Government of a poor country which does not at least pay lip-service to the need to promote small business. The commitment may go little further than a section in the five-year development plan and begrudging acceptance of a United Nations training project. One or two cosmetic small industry estates and a few training courses do not represent a genuine national commitment to the cause of small business, and it may still be necessary to persuade Government officials who are directly involved in industrial promotion that small businesses do merit their concern; this is not easy, since progress is equated with industrialisation which is perceived to mean large industries, but the arguments used in this chapter, backed by reference to local conditions, should persuade even the most conservative and least disinterested official that they do deserve his attention, either because he wants to help his country or because he does not want to miss a fashionable bandwaggon.

Assuming then, that the 'selling' job has been done, and that those in authority are convinced that small enterprises have a valuable role to play, it now remains to investigate the nature of small business problems and to identify ways in which official programmes can, and cannot, assist them.

Application questions

- — Are small enterprise promotion programmes designed to *appear* to be helping small enterprises, or do they actually help them?
- — To what extent are small enterprise promotion programmes actually intended to redress racial imbalances in the economy, rather than to promote small enterprises as such, and, if they are, do the social and political benefits outweigh the economic costs?
- — Are highly paid workers, working regular hours in good conditions in large businesses, really happier than people who own and work in small businesses?
- — What is the best school for indigenous management: a multinational company or an independent small business?
- — Where do foreign-owned companies carry out their research and development, and to what extent is it designed for developing country conditions?
- — Do publicly owned businesses make large profits?
- — If large, locally owned private businesses make good profits, does the money remain in the country, and if so is it re-invested in more employment-generating activities?
- — Do large businesses mobilise capital that would otherwise have been unused?
- — Where do new small enterprises usually obtain their initial capital from? Was this capital always being usefully employed before it was invested in a new venture?
- — Do small enterprise promotion programmes help *all* small enterprises, or only the more modern formal ones which are least in need of assistance.
- — Whose interests are *really* damaged by the unrestricted activities of the informal sector? Are the losers representative of the population as a whole?

Case study: Mrs Hirji's business

Mrs Hirji, like many other women in Bangladesh, was widowed in the Liberation War, and was left with four daughters to support. The Government gave her a pension of $15 a month, but this was not enough to support her family. She had some years before been trained as a tailor in a programme run by a Government Department, but since she had no money at all of her own and there were no jobs available she had no idea how she might use her skills to solve her financial problems.

A Government agency was set up in an attempt to help families which had suffered in the War. Mrs Hirji heard about their work from a neighbour, and went to see their local office. As it happened there was at that time a vacancy for a tailoring instructor in the agency. The local officer told Mrs Hirji about the opportunity and she applied for and was given the position, at a salary of $15 a month. With this, and her pension, she was just able to support her family. She trained other women as tailors, and was also responsible for obtaining orders for the goods produced by the trainees. In the course of her work she met many senior purchasing officials from different Government Departments, and from the Army. After working in this way for two years Mrs Hirji realised that she might be able to use her contacts to start her own business, if there was some way of buying a sewing machine; she could not possibly afford the price of $66. She sought advice from her employers; they were pleased to support her initiative and allowed her to buy a sewing machine from their stock at a wholesale price, to be repaid over several months.

Mrs Hirji continued to work for the Government agency, and worked on her new machine in the evenings. Her customers paid for the necessary materials in advance, so she did not need any working capital. After a few months her daughters were able to help her with the work, and in addition to some small contracts from the Army she obtained orders for ready-made clothes from a number of shops.

After three months she decided that she should devote all her time to her business, and resigned from her instructor's job. The agency continued to support her, and arranged for her to buy three more sewing machines and two knitting machines on credit. She hired five trained women and succeeded in obtaining further orders from the Army, from shops and for school uniforms.

After less than two years Mrs Hirji applied for a loan of $1,500 from an industrial financing institution; she paid off what she owed on her original equipment, and bought five more sewing machines and four knitting machines. She hired fifteen more workers, and moved her workshop from her home into a rented building next-door. She then decided to open her own shop; there were no shops available for rent in the market, so she converted the front of her workshop into a showroom. She hired a commerce graduate to help her manage the business and to keep the accounts, and her business continues to grow and prosper.

Commentary

The story of Mrs Hirji has been used to illustrate this chapter because, unlike so many of those that follow, it is a success. Most small enterprise assistance programmes are intended to help people who are most in need, but many fail to reach them; Mrs Hirji was a woman, and a widow, and was clearly in desperate need.

The agency was the means by which she obtained the necessary capital, contacts and support, and it is hard to see how she could have succeeded without their help. The idea, the initiative and the energy came from her, however; the agency provided the resources she needed, when she herself judged that she needed them, instead of forcing an integrated package of assistance on an unwilling entrepreneur.

Mrs Hirji had already been trained as a tailor, and the agency provided the means whereby she could use her skill to *create* a job, first for herself and then for her family and twenty-one other people. Other Government Departments also helped with orders from her new enterprise, but the assistance was certainly not handed to her on a plate. She herself identified the opportunity and persuaded the various officials to give her orders. The story as a whole shows how official efforts to promote small enterprises can be successful, and why the attempt is worthwhile. Mrs Hirji had the necessary initiative and skill, and the agency provided the means whereby she was able to use her resources to start a successful business. This is all that any small enterprise promotion agency can or should hope to achieve.

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CHAPTER 3

THE PROBLEMS OF SMALL ENTERPRISES

The crucial issues

— Is it possible to generalise about the problems of small businesses?
— What difficulties do small businesses have because they are small, and to what extent are these balanced by compensating advantages?
— How can the problems of small businesses be most effectively identified?
— Are small business owners and managers always aware of the main problems of their own businesses?
— Are there more viable business ideas than there is money to finance them, or is the lack of good ideas more of a problem than money?
— Are marketing problems the result of low demand or the inability of small business people to market their products effectively?
— How can small enterprise assistance programmes be made more sensitive to the real problems of the people they are trying to assist?

The need for analysis

The mere fact that a certain type of enterprise is agreed to be of greater benefit to the economy, and to society in general, than another type, does not necessarily imply that Governments or others not directly involved in such enterprises need take any action to assist or encourage them. People whose prestige and employment depends on the establishment and growth of official institutions will naturally propose new programmes to promote anything which contributes to national development; benign neglect may, however, be more effective than misdirected programmes which owe their origin to institutional self-interest or the need to be seen to be concerned rather than to careful analysis of the real problems of small businesses.

Small businesses are in a very real sense an extension of the personality of their owners, and any attempt to generalise about them or their problems is as difficult as any generalisation about large number of human beings. Small enterprise owners' perceptions of their problems may be coloured both by their inability to analyse their situation and their view of what might or should be provided for them by Government. We saw earlier that it is not easy to define the enterprises whose problems we may wish to alleviate; it is still less easy to discover how many enterprises fall into any particular definition, and to find out what their problems are. Some attempt must nevertheless be made to survey the small enterprise sector; precise enumeration is unnecessary and impossible because of the continuous change and mobility, and any promotion initiative must be based on analysis of the problems of a small and carefully selected sample.

Small business peoples' own beliefs

Most small business owners in Kenya, in Papua New Guinea, in India, in the United States and elsewhere believe (Harper, 1975, p. 366) that shortage of capital is their major problem. They may refer directly to their need for more finance, or they may mention their inability to invest in a particular asset, whether it be raw material, equipment, customer credit or finished products; this inability in turn they ascribe to their shortage of capital. A smaller number will complain about shortage of demand, while others will mention the difficulty of obtaining raw material or the shortage of skilled and honest workers.

There are two common features of nearly all business people's views of their problems; first they refer to one single problem, and appear to be under the impression that if this could be solved all would be well, and second, they identify problems whose solution they believe to be beyond their own control. People who are faced with the day-to-day pressures of managing a small enterprise are naturally likely to concentrate on whatever appears to be their most pressing problem and to ignore the difficulties that will most likely become more easily seen if the first problem is solved. They are also, like anybody else, more prone to blame external circumstances for their difficulties than to admit to their own lack of ability. This is particularly to be expected if the businessman is giving his views to someone from whom he hopes for help such as finance or other resources from outside.

While each small business has its own problems, there are certain difficulties which are shared by all small businesses, although these can be outweighed by their advantages of flexibility and resilience. These problems generally arise from the *difference* in size between small enterprises and other institutions, whether public or private, with which they have to deal. Small enterprises have their origin in small economic units such as villages or clans which have no links with others; one necessary feature of economic or business development is concentration, so that highly developed economies such as the United States or Western Europe are to an extent dominated by organisations which operate on a national or even multinational basis.

In wealthy countries such as the United States or the United Kingdom, small businesses occupy an important but minority position, accounting for around one-third of industrial employment and a rather lower share of output. The large firms therefore represent the majority of industrial activity, and are able to meet Government on more or less equal terms. In poor countries, small businesses account for two-thirds or more of industrial activity; the Governments of these countries are, however, no less and often rather more centralised than those of rich countries. They attempt to promote development on a national scale through national institutions, and small businesses are to an extent cut off from Government because of the very differences in their scale of operation.

This barrier matters far more in poor countries than in rich ones, because the small enterprises account for such a large share of industrial employment and production. If small businesses in a rich country are unable to influence Government policies or to make effective use of Government programmes only a small part of the nation's industry will be affected; when the same thing happens in a poor country, the majority of industry, and an even larger share of locally owned enterprises, is adversely affected.

The informal sector

The very large numbers of one- or two-person enterprises, usually mobile or operating from temporary premises, and often outside the law, clearly have rather different problems from the small but growing number of relatively modern businesses, which are legally recognised and may already be benefiting from one or another form of official assistance. If an entrepreneur has every day to struggle to maintain the existence of his business, not because of normal 'commercial' problems but because local or central Government does its best to put a stop to his activities, his main problem is not finance, raw material shortages or level of demand, but the regulatory system which makes it difficult for the enterprise to exist at all.

Many of the more recently established modern small enterprises were started in response to Governments' attempts to replace imports, to create employment in particular regions, to use a particular raw material or in some other way to be an instrument of official policy. Many of their problems arise because they are involved in attempts to push forward the boundaries of skill, supply or demand. Informal enterprises, however, arise in response to opportunities to satisfy urgently felt needs which may be neglected by planners, or may not be accepted as legitimate needs at all. Smuggling, prostitution, illegal liquor manufacture or unlicensed taxis are started because the law prevents people from obtaining a service they are willing to pay for. More legitimate activities such as mobile food vending, garbage picking or roadside vehicle repair may not be illegal, but their problems are more likely to arise from the fact that they are not generally taken into account as an acceptable form of economic activity. Many governments pay lip-service to the need to make allowance for this type of activity, but until this awareness is translated into action, usually involving the removal of restrictions rather than the initiation of any new programmes, the major problems of the informal sector will continue to be official neglect and opposition. In some parts of some countries this problem has been overcome. At this point, the more conventional problems outlined in this chapter also become of prime importance to informal sector enterprises.

Capital

The shortage of capital is in some cases an illusion, since closer investigation reveals that substantial sums lie unused in unproductive assets; large numbers of small enterprises, however, do succeed in employing the little capital which is at their disposal, in the most profitable way, and could make economic use of further resources. We saw earlier that their labour intensity, or low use of capital, was one of the major advantages of small enterprises over large ones; it can be argued that although capital scarcity is indeed a problem for the owners of some of these enterprises, it forces them to employ people rather than machinery, and thus to contribute more effectively to alleviating the universal problem of unemployment.

The virtues of labour intensity are, however, relative. The increasing use of capital is a function of economic development, and the aim should not so much be to deprive enterprises of capital altogether, but to ensure that whatever capital is available goes to those enterprises that are likely to create the most jobs with it. There are a number of reasons why small-scale enterprises are likely to find it hard to get even the small amount of capital they do need.

In most poor countries the shortage of viable investment opportunities is far more serious than any shortage of funds to finance them. Oxfam Trading, a British 'alternative marketing organisation', for instance, has a policy of returning a substantial percentage of the value of every handicraft suppliers' turnover with them each year, for investment in new equipment, stocks of new material or some improved welfare arrangements such as a crêche, a bicycle shelter or latrine. They ask only that the suppliers should state how they propose to spend their 'supplier dividend'. The majority of suppliers are unable to present any ideas at all, even after repeated requests and reminders, and the scheme may have to be wound up because of the administrative problems involved. The fairly large sum of accumulated unclaimed dividends could, it is felt, be put to better use. Is this type of situation consistent with any genuine scarcity of capital for small-scale enterprises?

In fact it is, since most small enterprise loan schemes fail because of the relationship between the institutional source of funds and the small businesses rather than because the enterprises themselves are not viable. The cost of appraisal, disbursement, supervision and recovery does not vary according to the amount of money lent, so that small-scale lending is less profitable than lending the same amount of money to one, far larger enterprise; since small-scale borrowers have usually not accumulated a great deal of property before making their first application for funds, they are unable to offer security in the event of loss. This factor means that even if the risk of loss is the same or even less for small businesses than for large ones, small businesses will still be unattractive to lending institutions.

Risk capital is even less attractive than loans from the point of view of the institutional investor; the typical small-scale business owner is a sole proprietor or possibly a partner with one or a few others; it is almost impossible for an institution to take a share of the ownership of an enterprise whose profits may be unknown or where the owner considers his own employment as the main return. The administrative problems of controlling a large number of small investments would be overwhelming, and any attempt by the institutional investor to sell his shareholding would be very difficult, quite out of proportion to the small sums of money involved.

Moneylenders and other sources of so called 'informal credit' are as ready to serve small non-farm enterprises as they are to lend money to small farmers. These 'loan sharks', as they are sometimes called, are in fact themselves small-scale business people who make a living by providing a service which is needed by other businesses. Those who complain about their apparently extortionate behaviour would be better to examine the reasons why so many small enterprises find it necessary to borrow from these sources, and should encourage competition rather than attempting to forbid unofficial money lending.

Because of what are effectively local monopolies, however, borrowers from moneylenders may fall totally under their control. They are tied to expensive sources of supply, or to customers who pay low prices, and they become little more than employees who work on their own premises and are nominally independent but actually wholly in the power of whomever provides their capital.

In one part of Magetan, a town in East Java, almost every house is occupied by an individual shoemaker. They take their day's production of two or three pairs of shoes to the moneylender every evening and collect sufficient material for the following day's work. The moneylender, who is also the supplier and customer, pays each shoemaker a small sum for each pair of shoes he delivers. He is nominally purchasing the complete article, less the value of the material which he has 'lent' to the shoemaker the previous evening, but the relationship is actually far more like that between an employer and his employee who happens to work at home than between two separate businesses. Only the incidental fact that they work at home, rather than in a factory, leads outsiders to enumerate them as separate enterprises, and to call for the abolition of the moneylenders, rather than regarding the shoemakers as underpaid workers in a larger business.

Since the supply of capital is the means by which the 'Mahajan', the 'Cukong' or whatever else the financier is called secures his control over the small business, this problem is often seen as a symptom of a shortage of capital, which can be remedied by providing it. It is hardly surprising that attempts to remedy this problem by providing alternative sources of finance have not generally been successful. People who have never had the opportunity or the need actually to run a business are not likely to acquire the necessary skills or attitudes just because somebody lends them money on reasonable terms, and efforts to convert independent outworkers into entrepreneurs are equally likely to be unsuccessful, whether they involve handicraft makers in The Philippines or handloom weavers in Nepal.

Lack of demand

Capital alone is often wasted or even counterproductive; the effect may be to convert a struggling but independent business into a struggling and deeply indebted one, and it is clear that finance is not the only, or even the most important problem for most small businesses. Lack of demand is probably the problem most business people will mention after the shortage of capital; this is not something which can be remedied by providing anything tangible, such as finance, a machine or raw materials, and the nature of small enterprise marketing problems must be clearly understood before any attempt is made to solve them.

We have seen that one of the merits of small businesses is that they are a part of the local environment, and that they tend to employ and serve the needs of the poorer people in their community. The very poverty of the people whom they serve obviously limits the demand for their products. Economic development is inevitably accompanied by increases in the size of communities and the growth of large institutional customers so that newer, larger sorts of businesses, even if their actual products are no more suitable or no less expensive, are necessarily at an advantage because they match the new scale of the demand.

Governments of all types tend to consume an ever-larger proportion of national goods and services, and they have to adhere to formal tendering and supply procedures when purchasing the vast quantities of every type of product and service which they need. These procedures, to say nothing of the informal 'inducement' which may also be necessary, are quite beyond the skills and resources of most small enterprises. As people become more mobile, they are less dependent on small local sources of supply, and can purchase more of their daily requirements from large suppliers in towns and cities. Small firms are also at a disadvantage when attempting to promote their products. Traditional personal links become less important, and are replaced by mass media such as posters, radio and newspapers. Advertising is only economic if its costs can be spread over a large volume of sales, so that these advertising media are out of the reach of small businesses. It thus appears that smaller enterprises are unlikely to obtain more than a small share of the greater purchasing power which comes with economic development.

This is, however, a one-sided view of the demand situation for small businesses; development is synonymous with change, and small enterprises are far more able to recognise and satisfy new demands. The capital and the skill necessary for imported large-scale technology are often absent, and enterprising small businesses can capitalise on the demand which is created but unsatisfied by large international firms. Consumers in Nigeria, Indonesia and elsewhere have become aware of the latest pop music and dress fashions before their foreign manufacturers are fully able to supply them. Local enterprises have successfully satisfied this demand by 'pirating' tapes and fashions; this may be unfortunate for the owners of the copyright, but is a typical example of the entrepreneurial response which can often overcome the disadvantages of small scale.

New large businesses need small-scale sources of supply and distribution channels; this again provides opportunities for the new and existing enterprises. Nevertheless, inadequate demand is often a more genuine problem than shortage of capital; it arises from inadequate access, disadvantages of scale and the lack of skill and initiative in marketing; assistance programmes can attempt to fill these gaps.

Raw materials and supplies

Shortages of raw material are also a frequent problem; these may arise from a shortage of working capital which effectively ties the enterprise to one high-priced, unreliable or low-quality supplier like the shoemakers in Magetan.

Handloom weavers in Nepal have a rather different raw material supply problem which they perceive as a shortage of working capital. The Government, in its efforts to save foreign exchange, has imposed import restrictions which mean that cotton thread for weaving is in short supply. The few suppliers are unwilling to allow credit to individual small-scale weavers, or to supply them with the small quantities for which they are able to pay cash. It is also necessary to travel some distance to reach the thread suppliers, so that it is in any case uneconomic for the weaver to purchase small quantities. They therefore need more working capital to pay cash for several days' or weeks' worth of thread at a time, but the problem might equally well be solved by a more suitable raw material distribution system.

Governments' efforts to 'ration' raw materials and to ensure that small enterprises get their share, such as has been done with steel in India, often lead to further difficulties. A few of the more powerful businesses, with better 'connections' in the right places, purchase the limited supply that is available and then sell it illegally to large businesses, or at very high prices to the small businesses for whose benefit the system was originally designed.

The small enterprise however also has some advantages over larger businesses in obtaining supplies. Whenever materials are available from scattered small producers, small-scale users are more able economically to purchase and use them in the limited quantities they need, without excessive transport costs. In Kenya, India and elsewhere traditional small-scale refiners of brown sugar, or 'gur' or 'jaggery', for instance, are able to make use of sugarcane produced by widely distributed small farms, while large-scale sugar mills must buy their cane from large estates which are within an economic distance of the mill.

Labour intensive methods of production which are typical of small businesses can cope more easily with variations in quality of materials. Village blacksmiths in East Java use steel which has been salvaged from wrecked cars to forge high precision industrial components for weighing equipment manufacturers, whereas a large producer, using more modern technology, would need regular supplies of steel sections to a particular specification.

Agricultural raw materials may only be available for a few months every year, and other supplies may depend on infrequent allocations of foreign exchange. A large-scale knitting factory could never be economic, for instance, if it had to depend on occasional deliveries of wool, but a small-scale enterprise, with two or three knitting machines costing perhaps $200 each, can still earn enough money to pay for the machines and make some profit if raw material is only available for three or four months every year. Labour is also often available only for part of the year, since people are fully occupied in their farms during the seasons for planting, weeding and harvest. A large-scale brick factory in Nepal, with expensive equipment must operate all year round to be economic, but small individual units need only work when farmers have harvested their crops and are free to dig clay and carry the bricks to market.

Equipment

Similar problems and advantages apply to equipment. If the market demands products which can only be made with foreign large-scale technology it is basically closed to small enterprises. However, there are very few products which can *only* be made on a large scale, and here again the ingenious and enterprising businessman has the opportunity to modify foreign methods so that they are more suited to the costs of labour and capital in a poor country. A mechanic in a small town in Nepal observed that local weavers wanted to buy powerlooms which had to be imported from India. He designed and built similar equipment, but using scrap steel sections, simple locally available electrical fittings and other similar components, so that he both satisfied people's need for the machinery and created a local industry to build it.

Spare parts probably cause more problems than original equipment itself, even if it has been possible for a small enterprise to import suitable equipment. It may be that the small amounts of foreign currency necessary for buying spare parts cannot be obtained; as with the case of raw materials, large businesses are better situated to obtain allocations of any supplies which are at the disposal of Government. Here again, however, this problem presents an opportunity for small business people. They can observe the need, and themselves manufacture local variants of the foreign spare parts. Larger firms are less likely to be able to make economically the small quantities of the variety of parts which are likely to be required.

Regulations and the law

In addition to the problems of selling to or buying from Government, small enterprises are also at a disadvantage when it comes to negotiating for exceptions from any forms of regulation, permission to operate in a particular place or any other privilege or right which is under the control of a large-scale central authority. The time and expenses required for negotiations may be the same regardless of the scale of the operation, and hard-pressed officials are naturally unwilling to spend time negotiating or deciding on applications when the final result will only be a small addition to national production or employment.

It is easier, however, for small enterprises to operate outside the law; their transgressions are less noticeable and the expense and administration involved in effective control are beyond the resources of most Government agencies. Where there are advantages to be gained from paying less than official wages, producing illegal products, operating unsafe working conditions or infringing environmental regulations, the small business can often take these advantages without being noticed by Government agencies, and without the difficulties of negotiating or 'buying' exemption from the law.

Application questions

— Are all officially sponsored assistance programmes based on a genuine understanding of what really are the problems of small enterprises?
— Do some programmes 'scratch where it does not itch', because they are directed at official preconceptions of what the real problems are, or because they provide resources which are convenient for the providers rather than useful for the businesses?
— When small business people themselves are asked what their main problems are, can they always be relied upon to know, and, even if they do, are they likely to say what they believe the enquirer wants to hear?
— When small business people complain about their lack of capital, does this necessarily mean that they are employing the capital they do have as effectively as possible?
— Is Government itself responsible for some of the problems which its assistance programmes are attempting to alleviate?

Case study: the Lagos Ruler Company

When the Government of Nigeria introduced free primary education, there was an immediate demand for all kinds of school supplies. An enterprising engineer from Lagos, who had at one time worked in a factory producing rulers in Europe, decided to grasp the opportunity and to set up a school ruler business.

He had little capital of his own, and applied for a loan of $70,000 to pay for the necessary equipment, which would have to be imported from abroad. The officials of State Loan Scheme always insisted that loan applicants should state how they propose to market their products; the engineer made some contacts with the Ministry of Education in Lagos and some neighbouring States, and with the three large companies which presently imported and sold school equipment. They all expressed interest in his products and placed large initial orders.

Since the engineer had no security to offer for his loan, he offered to pledge the equipment itself as collateral. This was at first refused, but after a long delay, including an appeal to the Ministry of Justice, the offer was accepted. The equipment was ordered, and duly arrived. It had to be installed by technicians from the foreign manufacturer, but the engineer was unable to obtain visas to allow them to enter Nigeria. After some months further delay, the technicians obtained visas and the equipment was properly installed.

As a result of these delays, the new company was unable to deliver on time, and the various customers had to place emergency orders with their previous foreign suppliers. When the new company finally started to operate, further difficulties arose because of constant electric power failures. The engineer had included a standby generator in his loan request, but this had not been approved. It was only possible to produce a very small number of rulers, but the skilled workers whom the engineer had by this time managed to recruit had to be paid the full daily rate in order to retain their services.

As a result of all these problems, the engineer found it impossible to repay the loan on time. He asked the Loan Committee either to reduce the monthly repayment or to grant him a monopoly for the supply of rulers to the State Controlled Schools. The Committee decided that it would be better to guarantee him a market. They asked the Ministry of Education to place all its orders with the new company.

Commentary

This business appears to have got into difficulties because its owner has chosen equipment, and distribution channels, which would be more suitable for a large and well-established company. The equipment had to be ordered from abroad, and it was not possible, as it might have been with a more simple method of production, to build up production gradually. It depended on foreign expertise for its installation, and operations could not continue without electricity. It seems to have been a typical example of inappropriate technology, so that the business failed to benefit from the special advantages of small scale.

The engineer was encouraged by the Loan Committee to sell through Government and large-scale private suppliers. They initially ordered large quantities, so that the business had to manufacture and deliver in bulk from the very beginning. If he had started gradually, selling to smaller customers, some of his problems would have been avoided.

Although the Government Loan Scheme was designed to assist small businesses, the availability of finance may have actually deprived the engineer of the benefits he might have gained if he had had to start on a very small scale and build the business gradually by re-investing its earnings. By agreeing to the engineer's request for a monopoly, the Committee may actually have made it even more difficult for the owner to establish a genuinely viable business. He will be protected from competition, which is the best form of training, and the schools will be tied to an unreliable source of supply. The new company is unlikely to provide the best prices or the highest quality, because there will be no competitive pressure to encourage them to do so.

This example demonstrates how important it is for the owners of small business, and Government officials who are trying to support them, to be clearly aware of the advantages small enterprises have over large ones. If a number of smaller units had been encouraged to satisfy the demand, using simple labour-intensive equipment, and selling to individual schools or through local small wholesalers and retailers, more people would have been employed, less foreign exchange would have been needed and society in general would have benefited from the higher level of service that could be expected from businesses which had to face competition.

The owner's own decisions, and the way in which the official assistance programme operated, tended to exaggerate the problems of small scale, by choosing equipment, methods and marketing channels which were more suitable for a large business. It may be possible to avoid some of the problems of small industry, but the best approach is to exploit the advantages as effectively as possible.

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CHAPTER 4

THE POLICY ENVIRONMENT

The crucial issues

— How c ı Governments help small-scale enterprises by ceasing to hinder them as well as by trying to help them?
— How do urban planning regulations make life difficult for small enterprises, and are the benefits outweighed by the costs?
— Do the employees of small businesses, and those who would like to be employed in them, really benefit from minimum wage regulations and attempts to improve working conditions?
— What effects do business licences have on the licencees, those who cannot obtain licences and the general public?
— What is the impact of regulations affecting small enterprises on their relationships with the police?
— Are fiscal incentives, which necessarily involve complicated claims procedures, an effective way of helping small enterprises, or do they actually injure them?
— What effect do highly concentrated assistance programmes, which reach only a small minority of small businesses, have on the remainder who do not benefit from them?

Official contradictions

Organisations, and people who work in them, are fundamentally concerned with their own survival. In a small private enterprise, survival depends on profits, and it is possible to make higher profits either by reducing expenditure by stopping doing something unnecessary, or by increasing revenue by adding some new product or activity. Most departments of large organisations, and in particular of national Governments or international assistance agencies, cannot so easily be judged by the criterion of profit. Because they do not actually sell anything their measure of achievement becomes the amount of money they spend, absurd though this may seem to a business person to whom expenditure is cost, the item he is always trying to reduce. In these circumstances, it is hardly surprising that people in Government, including those who are responsible for small business promotion, prefer to propose new programmes rather than to eliminate or simplify aspects of their own or other Departments' activities.

As a result of this natural tendency of official organisations to extend rather than to curtail their activities, small enterprises are both the victims and the beneficiaries of official regulations and programmes. Government policies may in theory favour small enterprises while official purchasing procedures at the same time prevent them from selling their products, a small number of special highly subsidised factory sites may be reserved for small businesses, while the vast majority of small enterprises are continually harassed by planners who object to their presence, and official training schemes train artisans in appropriate technologies while minimum wage regulations prevent small enterprises from employing them.

This ambivalence is an enormous waste of resources; any Government which is concerned to promote small enterprises should first of all examine very carefully the impact of all its existing policies and programmes on the small-scale sector. In spite of institutional reluctance, changes can be made; in Great Britain, small enterprises were relieved of the major proportion of their routine form-filling obligations, even though this caused some inconvenience to Government statistical departments, because the report of the Bolton Commission on Small Firms was considered a matter of national importance. The International Labour Office's Report on Employment, Incomes and Equality in Kenya recommended that the Government should simplify and indeed totally eliminate some of the licensing requirements demanded of informal sector taxi operators (ILO, 1972, p. 210). Its recommendations were accepted and implemented, with very positive results for the business people involved.

It is not immediately obvious which aspects of Government policy damage or unfairly discriminate against small enterprises, because this discrimination is not a deliberate attempt to assist large enterprises against their smaller competitors, but is wholly unintended. It is necessary therefore to identify the kinds of regulations which can damage small enterprises.

Inappropriate standards

First, and perhaps most obvious, are legally imposed standards, whether they apply to product specifications, buildings, environmental pollution or any similar aspects of industrial undertakings. Many such standards have come from industrialised countries, together with the techniques and often the actual companies which have initiated modern industrial development. The regulations may be suitable for large-scale foreign industries, and it is natural that the host country should insist that the new companies should not adopt lower standards than those prevailing in the countries where their firms or their technology originated. Small businesses find it quite impossible to obey many regulations of this sort, however, and Governments can neither inform small firms of the existence of the regulations or monitor their compliance. As a result the rules are widely ignored; they remain in force and are an obvious pretext for petty corruption since any policeman or similar official can be fairly sure of finding some regulation which a given firm is breaking. Compliance is quite beyond their reach, but a small 'tip' buys a blind eye until the next official is in need of ready cash.

Employee protection

Similar problems arise from measures which may appear to be designed to protect the interests of employees; what objection can there be to Government's efforts to improve working conditions or to ensure that minimum wages do not fall below a certain level? Clearly every country should be concerned to improve the lot of its citizens, but, as in so many ways, attempts to legislate improvements which are substantially inconsistent with the overall economic situation can be useless or counterproductive. As with product or building standards, regulations which cannot be effectively policed are an open invitation to petty corruption; more importantly, anything which tends to increase the cost of employing people beyond the minimum amount for which they would be willing to work will discourage the creation of jobs and encourage the substitution of capital for labour.

Regulations of this sort should certainly tend to lead rather than to follow the harsh realities of the economy; they should, however, only be imposed if they can be policed and if they represent an attainable and marginal improvement over the free market situation rather than a wholly irrelevant set of standards borrowed from industrialised economies. Small children finally ceased to be cruelly exploited in nineteenth-century British mills and collieries because of Lord Shaftesbury's legislation, but the growing wealth of the working population meant that parents were no longer compelled to allow their children to work in such conditions; the law marginally accelerated the improvement and ensured that it was universal, but it could never have been effective if the only alternative open to the masses of the people was starvation. Similarly it is said that the Civil War only marginally hastened the end of slavery in the South of the United States. Even a war could not impose a change which was too far ahead of economic realities.

Physical planners can be quite inadvertently the worst enemies of enterprise. New businesses are often started in people's homes; if they prosper they expand into additions or outbuildings, which can be environmentally substandard and are almost always untidy, disorderly and an offence to the planners' eyes. Such enterprises are unable to finance the sudden transition to modern premises, whose rents even if subsidised are inevitably more than the cost of operation in the home, and industrial buildings are usually sited in separate areas from people's homes. Children and other members of the family can no longer conveniently work for the family business, which has therefore to absorb higher labour costs at the same time as higher rent.

Special 'nursery estates' or other accommodation for small businesses may be provided as part of an urban plan, but they must be rented at some cost, and even if there are a number of different sizes and types they can never adequately cater for the diverse requirements of small enterprises which may be seasonal, and whose activities grow or contract rapidly and unexpectedly. The presence of such estates is often used as a pretext for prohibiting industrial activities in people's homes; a small number of enterprises may benefit but far more are damaged. Planners must ensure that their standards are appropriate and that they are not imposing uniformity in the interest of neatness and order for its own sake.

Fiscal incentives

Product standards and worker protection and planning regulations are designed to protect employees, customers or society as a whole; small enterprises are sometimes the inadvertent casualties. There are other measures which are specifically designed to promote and assist businesses themselves, rather than their employees or customers, and which nevertheless damage them. It is perhaps inevitable that any form of concession or privilege should be more easily accessible to the stronger members of whichever group it is designed to help. Tax incentives effectively discriminate against businesses which pay no tax in any case, and bonuses or subsidies, such as those offered to encourage exports, particular locations or staff training are of little value to enterprises which can afford neither the expertise nor the time to claim them. Small enterprises may in effect be exempted from many regulations because they are unenforceable, but they are also unable to obtain access to concessions which are introduced to benefit them. The most effective way of encouraging particular types of activity is not to impose taxes or other regulations and then offer special reductions or refunds which can only be obtained through complicated official procedures; it is far more simple not to impose the taxes at all.

Import duty drawback systems, accelerated depreciation allowances, export incentives and tax holidays are all measures which are intended to mitigate the burden of taxation for special cases; measures to exempt broad categories of enterprise from any form of taxation may be cruder in theory but are more likely to be effective and economical to administer in practice.

Licences

Licences are a further irritant which can be a major item of expense for the smallest enterprise; even if the actual fee is nominal in relation to the smallest business and the numbers of licences granted are not limited, which is often not the case, the time taken to obtain a licence is bound to be a proportionately greater burden to the owner of a small business than a large one. Licences are justified by the need to control numbers and to obtain information as to the ownership and whereabouts of licensed businesses, but the force of the market will inevitably overcome attempts to limit numbers if the chosen maximum is significantly lower than the number required to satisfy demand. An informal trade in licences forces up their prices, and at the same time large numbers of illegal operators will enter the market without licences.

The result is that official figures are wrong, customers are faced with lower levels of service and higher prices and the police are provided with a further opportunity for petty corruption. The actual licence fees may be a burden to the poorest and often discriminate against those least able to afford them, but they are at the same time often insufficient even to cover the cost of collection.

Governments are attempting to redirect the field officers of departments of trade, industry or commerce towards active promotion of and assistance to local enterprises; if they are perceived both by their own staff and by the small business community as licensors and controllers there is little chance that they will be accepted as promoters and assistants.

Education

Many small business problems arise from basically misconceived policies and regulations, which need to be drastically modified, or totally abolished, in order to allow entrepreneurs fully to play their potential economic role. Other functions of Government, which do not directly impinge upon small businesses, can nevertheless make a very positive contribution to the development of enterprise. Most school curricula, for instance, are designed to enable children to pass examinations and to proceed to the next stage of the education system. At the same time, successful completion even of a postgraduate degree is no guarantee of employment. Children need to be made aware of the fact that jobs are no longer something you can get from somebody else if you amass the right certificates, and that it may be necessary, and profitable, to create your own employment through individual enterprise. 88% of a sample of Nepalese schoolchildren in the thirteen- to fifteen-year age range said they would prefer to be Government clerks, teachers or soldiers rather than self-employed business people. Most were from artisan families, and their choices were affected by caste and other factors apart from school, but changes in the school curriculum could go some way to making these children more aware of, and prepared for, the need to create their own jobs. The 'Junior Enterprise' system, whereby schoolchildren go through the experience of starting a small business, managing its operation and sharing the profits or losses at the end, originated in the United States but has been successfully transplanted to many different countries. Black and white schoolchildren have worked together in a programme of this sort in Johannesburg, in an attempt by a voluntary organisation both to bridge the gap caused by the political system and to introduce both groups to the idea of self-employment. It is very difficult, and slow, to change an educational system, but new enterprise must be promoted in this way as well as in the short term.

Infrastructure

Small businesses, and in particular those which have links with larger ones, need communications such as roads and telephones. They also need electricity and water. Small businesses are obviously not the only beneficiaries when services of this sort are brought to an area where they have not previously been available, but they are less able to construct their own facilities than are larger businesses. They are also scattered in rural and urban communities, mingled with and often indistinguishable from farms and dwelling houses. A large number of modest roads, possibly constructed with help from the community, may not be as impressive as a modern four-lane highway linking the airport and the capital city, and serving the branches of multinational companies along its length, but for the same expenditure of public funds they can arguably benefit far more people, partly by promoting the growth of and employment in small businesses.

Small business people in rural areas of Kenya benefited significantly from improved market and supply information when they acquired telephones. The rural electrification schemes such as those undertaken by special authorities in India and the United States are probably the single most effective means of bridging the gap between the city and the countryside. Supply may be intermittent, and small businesses are less able than large ones to install standby generators, but when the workers live in or near the workshop they can cope more easily with random power-cuts. The workers in a small-scale steel re-rolling mill in a rural area of Bihar, in India, live around their factory. When the electricity comes on, by day or by night, they can quickly restart opeartion. This is hardly a satisfactory state of affairs, but if they had to travel a long distance from their homes to a factory in an urban area, the factory would not be able to take advantage even of the inadequate electricity supply that is available.

Misguided assistance

Finally small enterprises in general suffer even from those forms of assistance which appear to be most clearly designed to help them. Governments provide grants and low interest loans, and do not actively pursue defaulters unless the borrower has been blatantly dishonest; extension staff devote themselves assiduously to the care of individual enterprises and obtain orders from Government departments, negotiate raw material supplies and even arrange for full-time experts from abroad to be attached to one small business in order to help with its technical, marketing or management problems.

Inevitably only a few businesses can be served in this way; they may or may not benefit, but they cannot be allowed to die because of the official loss of face that this would involve. In the meantime the vast majority of enterprises must subsist without the benefits of such assistance and, whatever its real value, business people will come to believe that they are entitled to concentrated help of this sort. Since the majority cannot enjoy it, they will come to blame the Government for their lack of success, rather than realising that prosperity can come only from their own efforts, hopefully untrammelled by excessive Government interference, whether it is designed to control or to assist them.

Application questions

— Do small enterprise people actually view Government as a source of support or of harassment? How can this view most easily be changed?

— Is the cost of Government forms, and licences, both to Government *and* to small enterprises, in money and in time, really covered by the benefits to the country at large? What changes could be made?
— Are minimum wages significantly higher than those for which people are willing to work? If so, what effect do the regulations actually have on employment?
— Why do people continue to run their businesses in their homes, even if it is forbidden? Who actually suffers if they do?
— Are all small enterprises, particularly the smallest and most in need of help, able to take advantage of tax concessions and other incentives? How could the procedures be simplified, or would it be possible to eliminate the need for the concessions by abolishing the import duties or other taxes themselves?

Case study: Baba Didi's furniture factory

Alhaji Baba Didi started his furniture factory in 1972, when he was 32 years old. He had for some years before starting his own business been apprenticed to another carpenter. At first he relied on his own manual labour using a few simple hand tools and whatever supplies he was able to buy. He worked in a temporary shed and his total initial investment was under $200.

Because he had so little working capital, he was unable to make goods for stock. His main products were simple stools, benches, tables and shutters and he produced them only as his customers asked for them. He sold most of his products to his neighbours such as market women and housewives and because there was very little demand his sales were very low. He did not keep any records at that time, but he now thinks that he used to earn around $40 a week when he was actually working.

He was nevertheless very determined and did not give up. He carried on for about four years, doing his best to maintain his household. The business failed to expand in any way but his efforts were finally rewarded in 1976 when the Government introduced Universal Primary Education. This programme aimed to give free primary education to everyone and large numbers of new schools were opened. They needed benches and tables for the children and there was thus an enormous increase in demand for simple furniture such as Baba Didi made.

Early in 1977 he received a contract to manufacture furniture for two schools. He was able to pay for the materials with the little amount of money he had been able to save, and he was then able to expand his business, using his earnings from the school contract. 1977 was thus the turning point for Baba Didi.

He wasted no time; he moved to a new site, built a bigger shed with a showroom, and took on three skilled employees, two semi-skilled workers and one labourer. He bought a few carpentry machines and started to produce standard designs of furniture which were later improved in response to his customers' requests.

Although his records were very rudimentary they showed that by 1978 the business that had started with a capital of $200 six years before was now worth about $80,000. The equipment was worth $42,000, there was $15,000 worth of raw material in stock and the building was worth $23,000. Baba Didi had accumulated all this from the earnings of his business. He had not borrowed money from anyone.

As the quality of his products improved, Didi became the main supplier in the local furniture market. He soon found himself in competition with long-established large furniture factories but nevertheless obtained a reasonable share of the market. In 1979 he bought some more machinery and employed two new skilled carpenters. His sales rose to $160,000 per year, his annual costs were $100,000 and he continued to take only a very modest salary for himself. He re-invested the vast majority of the profits in expanding his business still further. He worked as hard as ever, and because of the good reputation his business had earned he had little difficulty in obtaining supplies of raw material and in selling his furniture.

In February 1981, however, disaster struck. A fire broke out in his workshop and burnt all the machinery and equipment and the stocks of raw materials and finished products. Nearly half a million dollars' worth of finished goods, machinery, equipment and materials were destroyed. Something was saved, however, since some of the finished products were kept in a separate showroom which was not destroyed.

Just before this disaster Baba Didi had approached the State Small-Scale Industries Credit Scheme for a $160,000 loan to purchase new machinery and to add to his working capital. The application was approved in principle, but because the scheme was short of money formal processing of the application and the disbursement was seriously delayed. Didi therefore had to use all his past savings to rebuild the workshop. He sold the finished products which had not been destroyed in the fire and purchased new machinery with the proceeds. He was ready to start operation again by 1st June 1981 and by the end of the year the enterprise was back on its feet and employing fourteen people.

Commentary

This story has been chosen to illustrate the chapter on The Policy Environment, because it describes the successful development of a business which, through luck or good judgement, was entirely unaffected by unnecessary Government interference or well-meaning attempts at assistance whose effect is often equally unfortunate. It is a success story of private initiative and determination, untouched by Government intervention.

Baba Didi was not trained in an inappropriately equipped Government institution, but by another carpenter, who no doubt used the same tools and equipment that Baba Didi himself used when he started his own business. He received no Government start-up loan, and started on a very small scale, so that he was able to develop his own skills slowly as the business grew, rather than having to start at once with a complex enterprise demanding a high degree of management and technical ability.

Like the ruler manufacturer in the previous chapter, his first official contract came from the introduction of Universal Primary Education, but only from two schools. The quantity therefore was not beyond his capacity, and he only received the contract after he had mastered the business through four years of selling to individual customers. Even when disaster stuck, Baba Didi did not benefit from any Government assistance, although he had applied for a loan. If he had waited for money from the official scheme, he might have lost his workers and his market. Because he was forced to depend on his own resources, he rapidly and successfully rebuilt the business.

The main reason for Baba Didi's success was his own initiative, determination, hard work and resilience. There are people with these entrepreneurial qualities in every community, but they are often discouraged by Government restrictions, or diverted by Government assistance, so that they never build viable enterprises such as Baba Didi's furniture factory. People responsible for promoting small enterprises must recognise that their own contribution is at best peripheral; individuals like Baba Didi will play their part in economic development so long as they can operate in an environment which allows them the freedom they need to prosper.

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CHAPTER 5

CAPITAL

The crucial issues

— Is capital scarcity really the main problem of small enterprises?
— Should interest rates on loans to small businesses be subsidised?
— How should small business loan applications be appraised?
— Should fixed and working capital loans be provided by the same or by different institutions?
— Should the bank appraise small business loans itself, or should another institution carry out the appraisal?
— How can commercial banks be encouraged and assisted to offer better services to small-scale enterprises?
— Is money lending itself an appropriate small business activity, and, if so, how can moneylenders be encouraged to provide a better service to small businesses?

The capital scarcity illusion

Most small business people believe that shortage of capital is their major if not their only problem; at the same time they often have substantial resources uneconomically employed and are not likely to make optimum use of additional capital if they can obtain it. Over two-thirds of the Kenyan shop-keepers who were referred to earlier believed that their most important problem was their shortage of capital. At the same time, 72% of the shop-keepers had more than one month's worth of goods in stock. None of the shops were in particularly remote areas, so they could obtain more supplies without difficulty at least once a week, and there were at this time no shortages or threats of price increases which would have justified the holding of excess stock. They thus had at least some of their present capital uneconomically employed, and those who had received loans had merely accumulated an even larger stock of slow-selling goods, with no effect on their profits.

On the other hand, however, many entrepreneurs are prevented from starting a business only because they lack the initial capital, and some existing businesses are making remarkably effective use of tiny amounts of capital. A shoemaker in Colombia, with one employee, makes two or three pairs of shoes ever morning. He sells them at lunchtime to one of the retail shops where he is known, for cash, and with this money he buys the raw material for a further two or three pairs which he makes up in the afternoon. He sells these in the evening and repeats the process, thus turning over his working capital at least twice a day. He sells to and buys from a number of different businesses, and is not effectively the employee of one financier, like the shoemakers of Magetan who were mentioned earlier. If he had more capital he would not spend so much time buying and selling, and might pay lower prices for his material.

Other businesses, such as grain millers, jewellers and tailors are unable to compete with large manufacturers of ready-made goods because they have to wait until a customer provides them with the raw material, or money to buy it, for whatever he wishes to purchase. In industrialised countries people are willing to pay extra for tailor-made clothing, and made-to-measure shoes or personally designed jewellery are unheard of luxuries except for the very rich. Craftsmen in poor countries, however, are compelled to operate in this way because they have no alternative. A cobbler in Nepal was unable to afford to buy leather until he received an advance deposit, and because this was the normal practice he doubted whether anyone would buy ready-made shoes from him even if he was able to afford the finance to make them in advance. A loan of about $30 enabled him to make the attempt. To his great surprise, he sold his first pair of ready-made shoes very soon after he had finished them, and he was able to double his workforce, from two to four people, as a result of receiving this very small amount of extra money.

Capital is often the lever by which extortionate suppliers or customers effectively control and exploit small enterprises; if the owner obtains more capital and is prevented in one way or another from tapping new sources of supply or selling to new markets the situation is unlikely to be improved, but capital is still an essential part of any 'package' which may be designed to release him from the bondage which makes him in effect no more than an employee without the benefit of trade union or Government protection.

Small enterprises will lose one of their major advantages over larger ones if they attain the same level of capital intensity, but they must invest in equipment, even if this means less employment, in the interests of long-term survival and growth. Shortages of raw materials, however caused, lead to the need for higher stocks, while personal customer contact may mean that small enterprises can more safely extend credit than large ones. Capital is scarce in developing countries, almost by definition. It is therefore essential that whatever capital is available should be deployed as efficiently as possible, in order to maximise the creation of new jobs and the production of new goods and services, rather than being used to convert a very small number of businesses into modern capital intensive enterprises, without basically changing the dualist structure of the economy. The money must therefore be widely spread and effectively used. How satisfactorily are small enterprise financing schemes achieving this objective?

Sources of capital

Promoters of official support schemes sometimes act as if small enterprises have no other source of capital apart from banks and similar institutions. In fact, in both industralised and developing countries, the vast majority of initial venture capital and subsequent funds for expansion is provided from 'informal' sources. These include the entrepreneur himself, his business and his family, suppliers and customers, and moneylenders or other investors who provide capital in innumerable ingenious ways, often linked to supply, machinery, employment or customers.

While many small enterprises fail to grow, or even die, because their owners take too much money out of them for their personal use, other entrepreneurs are startlingly frugal; an underemployed subsistence farmer may go so far as to take nothing at all from the small shop or other activity which he starts in an attempt to improve his lot, so that any profits are automatically re-invested in the business.

Some business owners know exactly how much money their enterprise is making, or losing, without any formal accounting records. An illiterate blacksmith in Indonesia was asked how much profit he made in a month, and said he thought it was $37. He was then asked a number of detailed questions and his business was observed for some time. It appeared that his profit was indeed $37 per month. Others, however, are totally ignorant of how they are doing. A tailor in Kenya, employing some twelve people, was delighted to allow a number of school uniform contracts to replace his earlier work on general clothing, although it could quickly be calculated that the price barely covered the cost of materials. If he had gone on in this way for a few more weeks, he would have run out of money altogether. Ignorance of this kind can lead to excessive withdrawals, but, by the same token, an ignorant owner may not realise that he is making a profit and may thus continually re-invest his income in more stocks, machinery or other assets, without being aware of the point at which he is unnecessarily adding to the funds employed. There may nevertheless be a need for more capital as a complement to funds from informal sources, or from the business itself. How can money be most effectively provided, and at what cost?

Interest rates

Before considering the actual mechanisms and institutions through which finance may be made available to small enterprises, it is necessary first to deal with the vexed question of interest rates. If the intention is to help small enterprises, and in some ways to compensate for the disadvantages inherent in their small size, it is natural to suggest subsidised rates of interest. It is administratively simple, politically demonstrable and attractive, and small businesses are genuinely assisted because they have to pay less for a resource for which larger enterprises have to pay more. There are, however, powerful arguments against subsidised interest rates.

We saw earlier the inconsistency of providing capital for enterprises whose major advantage to society lay in their labour intensity; capital is of course needed, but if its price is artificially lowered below the prevailing market figure this will tend to encourage borrowers to use more of it than they would if it was more expensive. Demand will also be increased; the effect of low interest will thus be to attract a larger number of applicants, but to satisfy very few of them. The tendency will be towards a small number of relatively capital intensive enterprises, and a larger number of frustrated applicants who receive no help at all. Alternatively, the available funds will be evenly spread over a large number of applicants, so that no single borrower receives what he needs. Both situations are all too familiar.

Whenever the price of a commodity is artificially reduced below the market level, demand exceeds supply, and the market price tends to reassert itself through 'fees', corruption or other 'costs' that must be incurred in order to obtain supplies. This is as true for small business finance as it is for taxi licences or foreign exchange. The supply of funds must depend on Government grants, foreign assistance or other unreliable sources which are insensitive to demand, since the interest rate is not high enough to encourage local people to deposit money with the lending institution and more people will want to borrow money than can be accommodated. The businesses which receive the loans are likely to be those nearer to the maximum level of scale, however defined, which has been laid down as a condition of eligibility, since they can afford the time, the bribes, the administrative procedures and the travelling expenses which must be expended before a loan is obtained; they are likely to be those least in need of assistance.

Some small business lending schemes fail to lend the funds they have available, in spite of subsidised interest rates; does this not disprove the foregoing arguments? Such schemes have in fact erected a barrier of appraisal procedures in response to the overwhelming demand, so that very few enterprises can qualify; even if the loan is approved in principle, the controls are so strict that funds once committed cannot be disbursed.

A jeweller in Nepal wanted to borrow $150 so that he could buy silver and make jewellery for tourists, rather than relying on local people who advanced him the money, or the metal itself, for goods made to order. He applied to a bank for a subsidised loan. He received some help in filling in the forms, which were printed in a language he did not understand, but he also had to submit title deeds for his own hectare of land as security. The land in question was jointly owned by a number of his relatives. The formalities for obtaining a title deed dragged on for six months, and eventually the jeweller despaired and accepted an offer from a relative to be flown to Hong Kong and take up employment in a jewellery business there. Here again the market has reasserted itself, in that the real 'price' of the money, in terms of formalities and procedures, has been forced up beyond its value to the consumer.

There are many reasons for the high rate of arrears experienced by most institutions lending to small enterprises, but low rates of interest are often involved. When a borrower has to decide when to repay a loan, the interest rate becomes the only variable, since the principal will not change. If the penalty for delay is modest, and particularly if it is well below the prevailing rate of inflation, the incentive for delay is obvious.

The Nigerian State Governments set up special departments to operate a Small Industry Loan Scheme since they were aware that the commercial banks were unwilling to make medium- or long-term loans, at low rates of interest, to small businesses. The Scheme was originally funded by Central Government. When the initial allocation was lent, no more money was available from this source, and the borrowers not unnaturally delayed the repayment as long as possible, since the interest rate was well below half the current rate of inflation. Government staff were also reluctant to take defaulters to court or to seize security, because of the potential loss of political goodwill this would cause. As a result, many of the small business loan schemes ceased to operate because the money that had been lent was not returned for further lending. Banks or other private lenders, on the other hand, were even less enthusiastic than before, because their own far higher interest rates would have appeared extortionate in comparison to the rates widely publicised and charged by the Government.

High rates of interest will not automatically remedy all problems of arrears, but they have some influence on borrowers who can repay, at some sacrifice, and who cannot effectively be forced to repay. Extra penalty interest charges can be imposed after due repayment dates have passed; this is complicated to administer and difficult to explain to borrowers and an initially high market rate is more effective.

The effect on the lender

More important, however, is the influence of low interest rates on the lending institutions themselves; however effectively such an institution is organised, it is bound to be more expensive to lend small amounts of money to several small borrowers than large amounts to fewer borrowers. The cost of promotion, appraisal, disbursement, supervision and collection are not directly related to the amount of money lent, and smaller, less sophisticated borrowers may take longer to appraise, and require more skill, because they are unable themselves to present the necessary financial data. If the risk of default and the interest rates are the same as for large and small borrowers, large loans will be more profitable. If interest rates are lower for small businesses, the situation is even worse; funds may be provided through a special 'small business window' whereby the Central Bank re-finances all loans made to small businesses at a very low rate of interest which is intended to compensate the lending bank for the higher risks and costs. Alternatively, or in addition, there may be a guarantee scheme to reduce the risk of loss, but subsidised rates of interest are often so low that even if the lending institution pays nothing for its money it cannot itself cover its costs.

If the actual transaction costs are correctly calculated and charged to the loans to which they relate, it will still be clear that large-scale lending must subsidise lending to smaller enterprises. However much management may stress the importance of small business lending, it will be clear to the staff involved that it is a loss-making activity; if they are properly trained and motivated to judge their activities by the return earned from them, and to work in the interests of the long-term survival of their employer, they will inevitably tend to prefer lending to the largest enterprises eligible for whatever scheme they are operating, which is not what is intended.

Whether an existing financial institution is persuaded to implement a special subsidised small business scheme or a new one is specially set up for the purpose, they are likely to have few imitators if the interest rate is artificially low. Small businesses will be forced to rely on one source whose officials are continually aware that what they are doing is unviable, and this is scarcely a promising basis for an effective, mutually satisfactory, long-term banking relationship.

The effect on the borrower

The purpose of low interest rates, apart from any political aspects, is of course to help small businesses by lowering the cost of finance; it is important to examine how important this cost is to the small borrower, and how valuable the reduced interest rate actually is to them. All other things being equal, a lower interest rate would clearly be preferable to a borrower than a higher one; we have seen that from the lender's point of view at any rate low interest rates lead to excessive demand, unenthusiastic management and reduced competition. These factors must influence the level of service provided to borrowers, so that application delays will be lengthened, and applications will be less likely to be successful; will these disadvantages more than outweigh the advantages that might arise from cheaper money?

We saw earlier that institutional finance is mainly required to supplement existing funds, at least for existing businesses; the enterprise needs to remove a critical constraint such as the lack of a tool, or a shortage of raw material that is preventing economic use of a larger part of the resources employed. If a relatively small loan, even in relation to the quite small amount of capital employed in the whole business, can remove a barrier to economic operation, it can transfer a net loss into a profit of several hundred per cent of the funds employed, which will be even higher when expressed in terms of return on the amount borrowed. In these circumstances, even a large reduction in the rate of interest is far less important than the fact that the enterprise can operate at all.

This point can best be illustrated by reference to specific examples from Mexico, India and The Philippines:

(1) Vegetable stall holder in Mexico

	$
Daily sales	12.00
Daily cost of vegetables	10.00

Daily gross earnings	2.00
Interest at 1% per day (365% per year) on cost of vegetables	0.10
Net daily earnings	$ 1.90
Increase in earnings if interest rate halved	= $2\frac{1}{2}$%

This woman, like many others, borrows the $10 she needs to buy her day's supplies from a branch of a private bank which specialises in small business lending. The bank opens at 5.00 a.m. so that the women can get the money in time to buy their vegetables before the retail market opens. At the end of the day the woman returns her $10, along with ten cents interest. No security is required, beyond the bank's knowledge that she is a registered trader. The bank's operation is profitable, but not excessively so, because of the very high cost of operating large numbers of small branches in convenient locations, with very long opening hours, and because of occasional defaults.

(2) Handloom weaver in India

	$
Annual sales	300
(Material provided free of charge by customers)	
Gross annual income	300
Capital equipment = $200	
Annual interest at 25%	50
Net income	$ 250
Increase in earnings if interest rate halved	= 10%

This man has borrowed the money to buy his loom and related equipment from a welfare agency, which attempts to cover as much as possible of the costs of its various services by charging people what they can afford, but no more. No formal security is required, but it is understood that the agency can repossess the loom if a weaver falls behind in his payments. There has been some criticism of the high interest rate, when compared with that charged by Government-sponsored lending schemes, but the agency would have substantially to curtail its activities if its interest earnings were significantly reduced.

(3) Wood carvings producer in The Philippines

	$	$
Monthly sales		305
Wages (3 employees)	180	
Raw materials	20	
Total costs		200
Monthly gross income		105
Interest on $200 working capital borrowed monthly at 10% per month (120% per year)		20
Net monthly income		$ 85
Increase in earnings if interest rate halved	=	20%

This woman borrows about $200 every month from a local moneylender, who provides a similar service to a number of people in the community. She can have the money when she wants it, and vary the amount if necessary. She repays what she has borrowed, plus interest, when she has herself been paid for the carvings by the trader who visits the community at the end of each month.

In every case the benefit to the borrower of a reduction in interest would be relatively insignificant when compared with the lender's reduction in income. Lenders, whether they are banks or individuals, are encouraged by high receipts to provide a wider range of services, and to reduce collateral requirements. They can therefore pay more for their funds themselves, and thus attract more money for lending to more small businesses. It may be that some or all of the lenders in these three examples were making very high profits, as well as providing a valuable service to their borrowers. The remedy for this is not to prohibit private money lending, or to impose official interest rate ceilings which discourage people from lending, but to encourage as many individuals and institutions as possible to enter the market for financing small business. Competition will bring down interest rates far faster than legislation, as it already has started to do in India and The Philippines.

Transaction costs

Higher or economic interest rates are obviously not all that is required to ensure that small business lending operations will be efficient for borrowers and lenders alike; the appropriate level of service must also be provided, and systems must be designed to minimise transaction costs while still allowing individual and informed appraisal of every application. It is necessary, in effect, to reduce costs both to the borrower and the lender. The twin goals may appear fundamentally opposed to one another; borrowers need branches which are easy to reach and are staffed by well-trained responsible professionals who can assist them to apply and rapidly receive loans, while lenders need to reduce their operating overheads and to rely on rigorous centralised approval procedures which minimise mistakes arising from poor training or dishonesty.

On closer analysis, however, there are some common elements in the real costs of borrowers and lenders; it is possible that the same changes may benefit both parties.

The bankers' objections to small enterprise lending are familiar: the formal procedures take as long for a small business as for a large one. Eliciting a properly prepared application and approving this and confirming legal title to any security may well take longer for a small, distant and unsophisticated borrower than for a well-known company whose staff are familiar with the bank and its requirements. In addition it is said that small business borrowers often misapply their loans or mismanage their investment; it is therefore believed to be necessary to devise procedures to disburse funds only against approved purchases, regularly to supervise the borrower and to attach the funds necessary for repayment by arrangement with a customer of the enterprise. This takes a great deal of administrative time and money which is unnecessary for a large-scale borrower. Since the return is in the form of interest on the sum borrowed and the rate of interest is very rarely higher for small borrowers than for large ones, it is clear why small business lending is unattractive.

The banks' high transaction costs arise from the disproportionate amount of time that is spent on the small loan, but this time is equally discouraging for the borrower. Mysterious formalities have to be learned in order to prepare the application, lengthy and expensive visits are necessary to explain, request, record and revise the proposal, and if and when the loan is approved the money may only be able to be disbursed, or repaid, through tied transactions that are not necessarily in the best interests of the borrower. A rural bank in Malaysia moved its premises from a simple shop building in the market area to a purpose-built office on the edge of the town. It was expensive for the bank, and intimidating and difficult to reach for borrowers who were not used to dealing with financial institutions and did not have their own transport. A similar bank outside a small town in the Dominican Republic has a lavishly furnished reception area. Small business borrowers have to sit nervously on expensive armchairs waiting to be interviewed in the inner office. When they are finally admitted, they have to stand clutching their papers in front of the official's desk, while he sits comfortably and fires questions at them. The applicants waste time and are discouraged from applying, while the bank is spending far more money than it need on the whole process.

The necessary procedures and formalities also lead to delay. As a result the opportunity which the loan would have enabled the borrower to grasp may cease to be available, prices of what he proposed to buy may increase or his enthusiasm for the whole venture may flag. In any case delay is as expensive for the borrower as time taken negotiating a loan is costly for the bank.

It is therefore worth examining ways in which procedures may be simplified and expedited; both sides will benefit. Complicated application forms are expensive to complete and to process; they should therefore be simplified. Bankers may claim that all the information is necessary for a proper appraisal, but closer inspection of application forms as completed by the average small business applicant shows that much of the data is either unavailable or is the subject of ill-informed guesswork. Banks concentrate on unreliable quantitative data rather than on the character and ability of the prospective borrower, and experience suggests that an apparently marginal or ill-documented venture which is implemented by an energetic and enterprising investor is more likely to succeed than an appropriately presented and highly profitable proposal from a disinterested or incompetent applicant. Less successful still are those 'projects' which have been carefully documented and prepared and are then 'given' to so-called entrepreneurs who do little more than sign their names and show their willingness to put in whatever personal investment is required.

Head office staff cannot supervise and be personally familiar with every applicant; if some of the highly qualified analysts in expensive central offices are replaced with well-trained, low-level village or community bank managers, the bank may spend less and achieve better results. This may require that the whole system of management discretion, delegation and loan appraisal procedures should be changed, because existing systems which have been designed for a few large loans are quite unsuitable for large numbers of small ones. This in turn requires total management commitment to small business lending, which is itself difficult because of the very systems which make it unprofitable.

Loan appraisal

The bank spends money on sophisticated appraisal of applicant data, and the resulting delays, and possible requests for further estimates or guesses, take time which is expensive for the applicant. There are four types of appraisal; at the simplest level, the analyst must establish that the enterprise can generate enough funds to pay interest and principal; he is only concerned to protect the bank's interest and relies on the borrower to protect himself. At the second level, the analyst checks that the venture will earn a reasonable profit on the investment as a whole. It can be argued that it would be appropriate for the bank to pay greater attention to borrowers' repayment capacity and the resulting viability of the bank's operations than to attempt to protect the borrower's interest, implying that he is incapable of doing this for himself.

At the third level the bankers calculate the internal rate of return by discounting cash flows; they are here applying techniques which are far from universally applied in modern large-scale enterprises, and whose results are contentious at best, particularly in times of inflation. The exercise may provide comfortable employment for analysts who have been expensively trained in discounting techniques, but it appears to have little other value.

At an even higher level of sophistication the analyst may not only allow for the effects of time but may also alter the figures for wage costs, or foreign exchange earnings or expenditure, in an attempt to reflect the social as opposed to the financial costs and benefits of the proposal. Subsidised interest rates or artificially protected rates of exchange or unrealistic minimum wages may indeed motivate entrepreneurs to make proposals which use more scarce resources and less surplus ones than what might be the optimum 'mix' if factor prices were not distorted, but the best remedy is to remove the distortion rather than to attempt to allow for it by complicated appraisal techniques.

A non-Government lending institution in The Philippines is experimenting with microcomputers in order to accelerate small business loan appraisal. These are now so simple, robust and inexpensive that it is perfectly feasible for bank branches dealing with small business loan applications to have suitable equipment in each bank, together with programs for appraising applications at each of the above levels. The level of skill required for staff to operate the equipment is far lower than that needed to carry out the complicated analyses themselves. Since the calculation and analysis can be completed in a few minutes, this may help staff to realise that this quantitative data is relatively unimportant; what matters is the individual's enterprise, his competence and commitment.

If disbursements are only made against invoices from approved suppliers of the equipment originally included in the application, or repayments are drawn direct from remittances from approved customers of the enterprise, the investor may be prevented from taking advantage of unexpected opportunities to obtain cheaper equipment, possibly second-hand direct from the prior user, and may be tied to uneconomical suppliers, or customers, who are willing and able to conform to the bank's formalities. Closer supervision is unlikely to be able to compensate for lack of energy and interest, but may tie the borrower to his original plan even if this is no longer appropriate.

A vehicle mechanic in Kenya applied for a loan to buy a cylinder-boring machine. After he obtained the loan, he discovered that there was a good opportunity for a taxi service in his village. He used the money to buy a car instead. His taxi was very profitable and he easily paid the loan instalments when they fell due. After some time a field officer made a supervision visit and found that the borrower had never bought the machine he had applied for. The bank tried to repossess the car, but the mechanic was able to repay all he owed ahead of schedule. The bank regarded the whole affair as a failure, but the borrower increased his income far more than he would have done with the boring machine. The lender spent money unnecessarily on supervision, in an attempt to reduce its customer's income. It would have been far more economic to ensure that all borrowers repaid their loans by following up defaulters rather than those who are up-to-date in their payments.

Transaction costs may be reduced for both parties in these ways, but the major cost for the lender, which is a benefit for the borrower, is default. Default is, however, only a benefit to the borrower if the lender allows it to be, and most banks take a somewhat patronising view of small business borrowers. While they may go through the motions of obtaining security, the emphasis is on supervision and procedures which are intended to help the borrower to avoid being unable to repay, rather than on rigorous enforcement of relatively simple sanctions which will discourage him from being unwilling to repay. We have already seen that low interest rates are an effective encouragement to arrears, particularly if they are well below the rate of inflation. Higher rates, or cumulative penalties which are automatically imposed when repayments are overdue, are far more likely to lead to rapid repayments. It may be impossible actually to take possession of security such as houses or land, which are often unrelated to the business in any case; it is easier, and more reasonable, to impose a simple hypothecation agreement or floating charge on assets, which will enable the bank physically to seize actual raw material, equipment or stock in the event of default. Elaborate legal procedures may delay drastic action of this sort, but the security thus obtained is more likely to be marketable, and its seizure is more likely to be feasible.

Defaults and guarantors

Poor repayment experience is more likely to be the result of a history of lender weakness and political interference than the genuine difficulties of the borrowers, and it may take no more than a few well-selected exemplary cases of rigorous action to establish the fact that loans are intended to be repaid. A Government-sponsored lending institution in Kenya advertises the auction sales of properties it has siezed from defaulting borrowers. The advertisements have the ostensible purpose of attracting buyers, but they also serve to remind others that loans are best repaid.

An alternative approach may be to rely on social pressure rather than the force of bank itself. Guarantors are normally perceived as wealthy individuals whose resources would adequately cover the debt if the borrower defaulted; guarantors of this sort can be found but they tend to reinforce exploitative client relationships, and the new entrepreneur is unlikely to have contact with people of the necessary authority. A more positive approach may be to mobilise group pressure by demanding a number of guarantors, who may in fact also be borrowers themselves and whose resources may not be sufficient individually, or even jointly, to cover the loan. Informal groups of this sort have developed among Indian rickshaw pullers and fruit vendors in San Salvador. If each member of such a group realises that default by any one will lead not only to a demand for repayment from the rest but also to a bar on future loans to any of them, he will do his best to ensure that the group maintains a 'clean sheet'. Indian rickshaw pullers have even been known to seize a defaulting member's rickshaw and to drag it forcibly to the bank, even when the bank itself has no right to seize it, and the default rate in San Salvador has been under 2%.

Supervision and management

Field officers can also be more effectively employed as collectors than as supervisors. Field staff of the Mauritius Development Bank, who have no pretentions to be able to assist business people in the management of their enterprises, are informed of late payments on the morning of the day after the deadline has passed, and are required to visit the businesses that same day. Defaults fell from 25% to nil when this system was introduced along with a package of other effective management methods. The State Bank of India collects repayments on some very small loans on a weekly basis; the itinerant vendors, porters and other borrowers do not have to visit the bank, but are contacted on the job by agents who collect the very small amounts of money due, and are themselves remunerated by a commission. This is far smaller than the cost of the necessary decentralised bank facilities or the defaults which would inevitably arise if borrowers had to add to the weekly struggle to repay the additional sacrifice of valuable working time involved in visiting the bank.

Transaction costs can only be reduced, and repayment rates improved, by well-managed institutions. A bank with a large headquarters, generously staffed with well-qualified analysts, and a small number of well-appointed branches, managed by managers with high status but little discretion, is unlikely to be able to lend effectively to small enterprises but it can be managed, or at least administered, without too much difficulty. It is far harder to develop and manage an organisation with a small headquarters and large numbers of relatively autonomous micro-branches or village banks, staffed probably by two or three people each, who have reasonable but closely defined authority to lend and are regularly and rigorously supervised and controlled. The management, training and organisational implications are the same for any decentralised institution, and need not be dealt with here; it is relevant, however, to consider the type of institution which might be best suited to organise and manage an operation of this sort.

Commercial banks

The commercial banks would appear at first sight to be ideally qualified: they often have extensive branch networks already, even in rural areas, and they have the necessary administrative procedures to staff and manage more small offices if necessary. They are already lending short-term working capital to large and small enterprises of many different types; they offer savings bank facilities which are regularly used even by very poor people who would not normally qualify as current account holders or borrowers; they often have money to lend, and they are anxious to identify new lending opportunities, profitably to absorb surplus liquidity; they are also under pressure to reverse or at least reduce the traditional flow of funds from the rural poor to the urban rich. In many developing countries the commercial banks are wholly or partly foreign-owned or they may have been taken over from foreign interests relatively recently; they may be owned by local private interests whose political position is precarious. In any case, they welcome any opportunity to be seen to be contributing to national development. In spite of this apparently formidable list of qualifications, however, commercial banks have often failed to play a major part in officially sponsored small enterprise lending programmes, and have also failed to develop their own activities in this field.

It is necessary that banks should be conservative institutions, since they are dealing with other people's money and must above all be trusted as stable and secure repositories. This conservatism, however, effects every aspect of the organisation, and staff who are trained to adhere rigorously and correctly to daily procedures are likely to resist changes of any sort. One cardinal principle of commercial banking is to ensure that the loan portfolio is not committed over a longer period than the deposits which are the source of what is lent. This effectively limits most banks to working capital loans, which are perhaps the most important financial need of small business, but which also must be complemented by long-term finance to provide equipment, land or buildings. Large enterprises are able themselves to solicit funds from an appropriate 'mix' of sources, whose lending policies are suitable for the proposed investment. Most small enterprises are unfamiliar with financial institutions of any sort, and it is unrealistic to expect them to develop banking relationships with two or more sources of finance.

Commercial bankers are also trained to demand security, not in the expectation of ever having to foreclose but in the knowledge that the threat of such foreclosure will effectively deter the borrower from allowing repayments to be so delayed that it might have to be used. Many small-scale borrowers have no suitable security, and the tenure arrangements in their society may be such as to preclude the use of land for this purpose, even if they do effectively own it. A bank may also demand personal referees, or evidence of a satisfactory long-term banking relationship; if the prospective borrower is already outside the formal modern system, he is unlikely to qualify under these conditions. Small business people must in fact be in the financial system in order to be qualified to enter it.

Employment in a bank traditionally confers status and security, and people who have recently obtained these goals are the least likely to welcome others who are not so fortunate. Branch staff may therefore frustrate programmes designed at headquarters, by failing to implement them effectively, however well they may have been conceived. This is not only a matter of training; in a competitive situation it is not unreasonable for those who have reached a certain level to be reluctant to help others who may wish to equal or surpass their success through an entrepreneurial rather than a bureaucratic route.

Guarantee schemes

Before considering alternative organisations to commercial banks, we should ask whether it is possible to mitigate some of these disadvantages so that the powerful services of commercial bankers can be mobilised to assist small-scale enterprises. One way of eliminating, or more properly reducing, the risk is a guarantee scheme, whereby Central Government takes over the majority of the risk of default, in return for a premium which is paid by the borrower. The Indian experience may not be typical since so many banks are lending such large amounts, in total, to small business, but a premium of 1% of the amount lent has proved to be sufficient to cover the losses and to pay for the administrative expenses involved. Elsewhere the experience has not been so good, normally because the guarantor or reinsurance agency has been unwilling to trust the lender's appraisal. The loan has therefore to be appraised both by the lender and by the insurer, and this leads to further delays and expense, which add to the transaction costs of both parties. A guarantee scheme has recently been introduced by the British Government after detailed examination of similar schemes in a number of countries. The commercial banks appraise applications according to their normal procedures, and have only to submit a simple, one-page form to the Government Department responsible for administering the scheme. This Department gives its approval within ten days at most, and then guarantees 80% of the loan in return for a 3% fee which is paid by the borrower. The rather high fee has not discouraged applications, and twice as much money as had been expected was lent under the scheme in its first year.

Credit insurance or guarantees, however, cannot on their own overcome the problems of small business lending. They must be part of a package which effectively motivates the commercial bank and overcomes its natural reluctance. The Central Banks in The Philippines and in India operate a special 'small business window', from which lenders can borrow money to be lent to small businesses at a concessional rate. This can be used to reduce the interest rate charged to the borrower but should also allow the lender to pay the transaction costs which are bound to be higher than for larger loans, even if every effort is made to reduce them. It may also be possible, as is done in India, to require that a certain percentage of all loans be lent to the small business sector; both these policies require a quantitative definition of 'small', which may refer also to particular castes, tribes or other disadvantaged people, but in Korea the requirement that 30% of all loans should go to smaller firms has proved valuable and effective, in that many banks have more than exceeded their minimum and have made money by doing so.

Specialised appraisal institutions

In a number of countries the authorities have attempted to reduce the bankers' costs of appraisal and supervision by setting up separate institutions which are required to carry out these functions, leaving the bank to its traditional financial tasks of disbursement and collection of funds. This tends not to be successful, because the banker feels not unnaturally that he must double-check the conclusions of the promotion agency; since the aims, objectives and operating climate of a Ministry of Industry, or a special Small Industry Development

Organisation, are fundamentally different from those of a commercial bank, co-operation may be very difficult. This leads to disputes and further delays, which effectively constrain the flow of funds to small enterprises. In Kenya and Nigeria Governments have gone even further in their efforts to spare the commercial banks from functions which are unfamiliar to them. Long-term lending has been entrusted to a Development Bank or special Government Department, so that the commercial bank has only to provide working capital, and in Tanzania funds for land or buildings have to be solicited from yet another institution. It is inevitable that such a multiplicity of sources should lead to confusion, particularly when appraisal is in the hands of totally separate organisation with no financial responsibility; transaction costs are further increased for both borrowers and all those involved in the lending process. Attempts to break up the process of small business lending into separate functions appear basically ill-conceived; the contact must necessarily be concentrated, brief and personal if it is to be effective, and the organisation and individual involved in personal contact, information-gathering and appraisal must also be held responsible for results. The most positive approach appears to lie in making the total operation attractive to banks; Governments must not force down interest rates by offering subsidised loans which can necessarily reach only a small number but will nevertheless discredit higher charges, but should encourage competition between lenders in order to prevent interest rates rising to traditional moneylender levels.

Alternative sources

The aim should be to develop a diversity of sources of finance, rather than one monolithic and probably ineffective institution. Rediscounting facilities should be made available to any commercial bank which is capable of making use of them, and other specialised sources of finance should be encouraged to extend their services to small businesses whenever possible. Building societies or mortgage companies, for instance, often restrict their activities to domestic property but could usefully extend them to small business premises. Suppliers of equipment, whether new or second-hand, can often increase their sales by offering hire purchase facilities, and their staff can ensure that customers do not misuse or remove the equipment and at the same time provide technical services and assistance, and possibly deliver consumable supplies as well. This form of supervision is far more useful, and economic, than routine visits by a bank representative who has no function other than to collect outstanding debts.

Specialised venture capital or equity financing schemes, such as have been successful in the United States, are unlikely to be appropriate for the financial needs of small-scale enterprises in developing countries. It is difficult enough for an unsophisticated entrepreneur to appreciate the differences between his own investment and any loan he may have received. The distinction between short- and long-term financing adds a further complication. The addition of outside equity and the associated need for incorporation, shared responsibility and dividends as opposed to drawings is unlikely to be manageable. An attempt was made by an organisation in The Philippines to provide venture capital to small businesses. Entrepreneurs, however, were unwilling to accept joint ownership of their companies and the organisation eventually developed a novel and apparently effective scheme of short-term equity financing, whereby they provided capital to finance individual transactions and shared in the resulting profits.

Government and private agencies in The Philippines are also using small-scale business people themselves as channels through which finance can be brought to others. One agency operating in the crowded central area of Manila used at one time to lend very small amounts of money direct to market traders. As the popularity of the scheme grew the agency started to work through traders themselves, who had already borrowed and repaid money. 30 of these women are now acting as informal 'moneylenders'. They borrow up to $100 from the agency, at 2% interest per month. They then relend the money in amounts of $10 or $20 at a time to other traders, at 4% per month. This is well below the rates charged by private moneylenders and as a result of their competition, the far more numerous private moneylenders are now reducing their rates. This means that far larger numbers of traders than could be reached by the organisation on its own are now benefiting from its work.

Every country, and every type of enterprise, has a different range of financing needs, and private and public institutions should be encouraged to develop locally appropriate solutions to them. Banks can in fact learn a great deal from the operations of moneylenders, who are closer to their clients and who charge interest rates which may in fact be not very much higher than the true transaction costs of an effective service operated by a formal institution. A bank should press strongly for repayment, rather than encouraging further lending which leads eventually to virtual enslavement, and should charge as low a price for their money as is consistent with commercial operations, given the possibility of some subsidy of small business lending by larger loans and possibly from other sources as well.

Local community organisations can provide a further alternative channel for funds, particularly in cities where large numbers of very small enterprises are concentrated in a small area. It is not surprising that a strong feeling of group responsibility is more likely to be associated with an organisation which has its origins in the local community than with a distant commercial bank or Government institution. This advantage may not apply to a large charity with foreign funding and staff, but there are many examples of local voluntary organisations which have proved themselves capable of recycling funds already in the country or on-lending commercial bank finance.

In Ghana a national rural bank has successfully channelled loans through informal community groups which have come together in order to obtain finance. These are not formal co-operatives, but the bank has been willing to extend credit to individuals on the basis of guarantees from all the others in the group. The group organises the disbursement and recovery of funds for the bank, and acts in effect as a very small lending institution.

In Western Kenya, a voluntary agency has encouraged the establishment of village loan committees by advancing money for a revolving loan fund. Each member of the community knows that he will only be able to use the money if the others repay it, and group pressure has therefore ensured that the losses are very small. The traditional 'friendly societies' on which such community groups are often based had to rely on their members' resources alone. These groups can act as channels for money from larger official lending institutions which are flexible enough to recognise their potential.

Banks must therefore search out appropriate distribution channels through which their product, namely loans, can be brought to the target market in a way which satisfies the needs of small enterprises and of the bankers themselves. There are no standard solutions, and the alternatives such as local 'micro banks', private intermediaries, community organisations, itinerant commission agents or tightly controlled field offices must be examined and appraised in relation to the needs of the market place; there is little doubt, however, that loans can be economically provided to small enterprises which genuinely need them, providing that the problem is approached without preconceptions and the operation itself is effectively managed.

Application questions

— Are small business loan interest rates subsidised? If so, what effect does this really have on the borrowers themselves, and the lending institutions?

— Are small business needs for working capital as well catered for as the need for fixed capital? Is there any reason why both sorts of capital should not be provided by the same institution?

— Are many small businesses, particularly the weakest, still borrowing from moneylenders in spite of the existence of official lending schemes? If so, why do they prefer to obtain capital in this way, and what can the formal lending institutions learn from moneylenders?

— Can loan appraisal systems be simplified in order to provide quicker decisions?

— Do loan appraisal systems concentrate on the ability and need of the applicant or on abstract data which is likely to bear little relationship to what actually happens if the loan is granted?

— Could commercial bankers play a more significant role in financing small business? Would it be less expensive and more effective to encourage them to do this than to set up specialised small-scale enterprise lending institutions?

Case study: joint financing of small industries in Punjab State of Pakistan

Small industries in Pakistan employ more than 85% of the national industrial labour force and produce almost half the country's manufactured exports but the vast majority of industrial financing has gone to the larger sector. The Industrial and Development Bank of Pakistan (IDBP) is responsible for lending to small businesses, as well as to some larger ones not covered by other institutions, but out of a total of $390 million lent to industry, only about $30 million has gone to small businesses. It would appear reasonable that institutional arrangements should be improved so that they can obtain a larger share of the available finance.

The Punjab Small Industries Corporation (PSIC) was set up in July 1972 to promote and develop small industries in the Province of the Punjab. The provision of finance was seen as the major constraint on small business development and was taken as the main priority. PSIC was not itself set up as a lending institution, but was to provide the necessary appraisal services and guarantees to encourage banks to lend more money to small enterprises. Up to the end of 1980 PSIC had sanctioned loans to 1,421 small businesses for a total of $23 million.

Loans have been approved for industries with agricultural linkages, such as cold storage, poultry farming and rice milling, for light engineering industries, in particular those making agricultural tools, and for export-oriented industries such as those making ready-made garments, hosiery and other knitted goods. The National Small Industries Corporation made an agreement with the IDBP and a consortium of five commercial banks to finance small-scale industrial projects.

Under this arrangement one of the nominated commercial banks is responsible for the local currency element of loans and the IDBP takes responsibility for any foreign currency component. The Provincial Small Industries Corporation guarantees 75% of the foreign currency component of the loans, and 50% of the domestic funds lent by the commercial bank, and receives a ½% commission from the total 11% interest charge which is rather lower than normal commercial rates in order to assist the borrowers.

In the Province of the Punjab the arrangement is that the PSIC prepares an initial technical and economic feasibility study of the project in consultation with a local IDBP office; this application is then referred formally to the IDBP and is passed to their head office. At this point the IDBP head office again carries out a feasibility study following a rather more complex system because their methods are basically set up to cater for large businesses. A study of small-scale projects which were eventually sanctioned by IDBP revealed that it took on an average eight months for them to sanction projects and a further eight months for the entrepreneur to establish a letter of credit in order to import the necessary equipment.

The procedure for the local currency component of loans is rather different; applicants fill in an application at any PSIC office, together with an indication of the bank through which they would like the business to be transacted. The PSIC then applies to that bank for an assessment of the applicant's creditworthiness and ability to finance the equity share in his project. The agreement stipulates that the bank should reply to these enquiries within fifteen days but an analysis of 35 cases shows that the average time taken is actually 128 days.

When a satisfactory credit report is received the PSIC prepares a feasibility report and places it before the Loan Committee of PSIC for clearance. When this Committee has cleared the loan the application is sent to the nominated commercial bank for finalisation of the disbursement schedule. Here again the agreement stipulates that the bank should take a maximum of fifteen days for this but the average time is 99 days.

When the bank has finally agreed on the disbursement schedule the loan is sanctioned by a Joint Committee which is chaired by the Managing Director of the PSIC and includes representatives from each of the commercial banks and from the Punjab State Government. In a number of cases the representatives of the banks bring up more problems at this stage and thus further delay approval. Once this Committee has approved the loan the banks take still more time to complete the various documentation formalities. Actual disbursement of the funds is often further delayed because the banks do not have staff who are qualified or experienced in feasibility studies and the problems of small enterprises, and they generally have little interest in the programme as a whole.

Commentary

This is a typical example of a scheme that has been carefully designed with clearly designated procedures and responsibilities, but which fails to function as it should because too many different institutions are involved in what should be a simple, small-scale and rapid operation. The system is inevitably both slow and expensive; this both discourages the participating institutions and delays the appraisal and disbursement of loans.

The separation of the foreign and local currency arrangements may appear to be necessary because of centralised exchange control systems, but it should be possible to allocate block amounts of foreign currency, with general criteria for approval, to the promotion scheme.

Most seriously, the attempts to separate the appraisal function from the final decision and management of the loan has resulted in a cumbersome system of committees and a total lack of co-operation between the respective institutions. This cannot be blamed on individuals or on the lack of co-ordination; both functions must be carried out by one and the same institution, which will thus bear the complete responsibility for failure and earn full credit for success.

The PSCIC is unlikely to be able to cover the full costs of appraisal and guarantee for one-half of 1%, but the complete operation could be a profitable one for a commercial bank. Prospective borrowers would certainly prefer to pay a few percentage points more, if their applications could be appraised and their loans disbursed more quickly. Loans which take eighteen months or more to be disbursed, however low the interest rate, are of very little use to an entrepreneur who wants to grasp a business opportunity while it is available.

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CHAPTER 6

MANAGEMENT TRAINING

The crucial issues

— What are the most important management weaknesses of small business people?
— Can most small business people really learn anything in a classroom which they can usefully apply in their own business?
— Are some of the apparent management weaknesses of small business people the result of social or cultural factors, or a very reasonable understanding of their own environment, and thus not likely to be remedied by training?
— How important is book-keeping for small businesses?
— What should be the specific behavioural objectives of small business management training; what should it enable people to *do*?
— Can people be trained to be entrepreneurs?
— Who should conduct small business management training?
— What institutions can most effectively provide small business management training?

The reasons for training

Management, particularly in a small business where few if any people outside the owner's family are employed, is primarily a matter of making decisions. It became clear in discussions with a number of tanners, textile dyers, food processors, shoemakers and other small business people in East Java not that they lacked the skill necessary to make the right decisions, but that they failed to realise that 'management' decisions, as opposed to technical ones, could be made at all. They were certainly operating in a very rigid environment, where many commercial relationships were subject to the same traditions and were indeed closely related to social and cultural relationships, but change was possible, as a few of the more successful businesses had shown. The majority, however, acted as if sources of raw material, marketing channels, customer and supplier credit or pricing were as beyond their control as the weather. They were often brilliant technologists, who had successfully coped with new materials and customer demands, but were not actually 'managing' their businesses, in a commercial sense, at all. People of this sort clearly need to become aware of the possibility of management, before knowing how to manage, and it is not unreasonable to attempt to provide this awareness, as well as giving them the necessary skills, through management training.

Small business management training courses in Kenya, and many other countries, were originally started because of unsuccessful attempts to provide credit.

Many small business lending schemes have experienced absurdly high rates of default, arising in some cases to over 80%. Much of the blame for this can be ascribed to inappropriate lending procedures and to the borrower's more or less justified belief that the lending institution will not rigorously press for repayment of arrears. In many cases, however, the borrower has been unable to manage his enlarged enterprise. Brief analysis of small businesses often shows that they are not making the optimum use of their existing resources, so that they are unlikely to do any better, and will probably do a great deal worse, if they receive a loan and are thus required to manage a larger and more complicated enterprise. Whether the potential for mismanagement was evident before the loan was made available or not, it is not unreasonable to conclude that training is needed. The need for training has often only been appreciated as a result of poor repayment experience, but it is clear that training is unlikely to rescue a loan which is already in arrears. The right approach was therefore perceived to be to offer training before finance; this may enable the business owner to apply for and use a loan more effectively, or it may indeed so improve his use of resources that he can achieve his objectives without additional finance.

The attractions of training

Training is an attractive option to the policy maker or aid donor who is desperately searching for a politically neutral intervention: training courses and training institutions can be established without any necessity to make painful changes in policy or other programmes, the training itself can fairly easily be managed since it is generally centralised and under the control of its originator, and nobody ever objects to any form of education; it is perceived to be self-evidently valuable. Unlike lending schemes, training courses cannot easily be objectively evaluated, so that the sponsors are spared the embarrassment of explicit failure; it is also labour intensive and can provide employment for local or foreign staff and thus enhance the position of officials whose authority is directly related to the number of people working for them.

Training is therefore often introduced with little idea of who is to be trained and with what objective. Since training courses for small enterprises are usually free of charge, or heavily subsidised, they are not subject to the test of the market place. Participants may come either because they too are deluded as to the universal value of any form of education, or because they believe that attendance at a course will help them to obtain a loan. This belief is not wholly unjustified; research in Kenya showed that those businesses whose managers had attended training courses had a significantly lower rate of return on capital employed than those whose owners had not been trained; closer investigation showed that they were also those which had received loans, which had not increased their profits but had merely increased the amount of capital on which profits had to be earned.

The small business manager's task

The manager of a small business is not a full-time manager but is also a carpenter, metal worker, electrician, engineer, tool maker or other operator in his enterprise. He may originally have started the business on the basis of his technical skill, and this skill may continue to be the major reason for the enterprise's survival and success. He is also likely to be the owner and the board of directors, and has himself to carry out all the specialised functions which in a larger enterprise would be delegated to department heads, each served by a team of specialists. The level of skill required in all the various functions of management is not so great as for managers of larger businesses, but all must be combined rather than treated as separate disciplines. The integrated nature of the small business owner/manager's job clearly calls for a very different form of management training than typically provided by colleges, training institutions and other organisations which are in the management training 'business'.

The intensely personal nature of small business management also requires that the objectives of any training should be realistically selected and clearly stated. While it is impossible to generalise, a brief survey of typical small business management deficiencies will show that by no means all of these are readily susceptible to correction by training; courses, and still more courses, can never be expected to solve all the internal problems of small enterprises. One error, commonly diagnosed by business analysts who may themselves have been trained in management techniques suitable for larger enterprises, is that small enterprises may fail to keep accounts, or, if they do, that these are inadequate. The inadequacies may on closer inspection refer more to the analyst's need for data on which to base his appraisal than the manager's need for information on which to base his decisions, and the book-keeping systems commonly taught to small business people are often cumbersome, time-consuming and operationally valueless except as evidence of having completed the course, or, possibly, as a source of material for appraisal by an outside body.

Book-keeping

The illiterate owner may be an extreme case, but they are very numerous; these people are often asked to bring a literate family member to an accounting class, so that he or she can maintain the books. The books may indeed then be maintained, but it is very unlikely that the owner will have the ability to make any effective use of them. A complete book-keeping system, leading to a regularly prepared balance sheet and trading account, requires a comprehensive set of ledgers and a rigorously applied double entry system. Some small business people can and do usefully maintain books of this sort, but they are rare; it is more common for someone who has been introduced to accounts in this way to decide that since the system was presented as a whole, and he cannot possibly implement it as a whole, he would be better advised not to apply any part of it.

Attempts have been made to design simple single entry systems, which have been printed in book form and are sold or given to small business people. These are useful when the businesses are all very similar to one another, such as the Trade Stores of Papua New Guinea or the Malay-owned village grocery stores which the Government is attempting to promote; manufacturing enterprises are very different from one another, as is the background and education of their managers, so that standardised systems are of little value. Small business owner/managers need to be made aware of the type of information they need, and critically to evaluate their existing systems, which may rely on memory. If the necessary information is available as it should be, the owner should not be trained to believe that he should introduce an alternative method.

Book-keeping should not be presented as a form of magic which will in itself put a business to rights, nor should accounts kept to a certain system be considered as prerequisite for a loan or some other scarce privilege; business people may indeed go through the motions of record keeping on this basis, but once the promised magic has failed they will quite correctly stop wasting time and mental energy on procedures which are of no value to them. If a loan is 'granted', and because of reasons already discussed loans are often regarded as a grant or privilege rather than mutually profitable business arrangements, the records will be judged to have performed their promised function; they need not be kept again until another loan is required.

The DESAP programme of the Fundacion Carvajal in Colombia includes an integrated sequence of classroom training and individual counselling, leading to a loan. Participants are taught a specially designed accounting system, and are assisted to install and use it in their own businesses. Nevertheless, over 50% of those who receive loans were found to have abandoned the accounting system after one year, and almost 90% of failed loan applicants discontinued their book-keeping.

Instruction in book-keeping is attractive to business teachers, since they know how to do it, and the skills are clearly identifiable so that trainees believe they really have learnt something. Failure to keep records, however, is not in itself a weakness and if a superficial ability to keep them is acquired in a training course this is not necessarily going to be of any genuine benefit to the business. What are the management weaknesses of small businesses, which of them can be remedied, in part at any rate, by training, and how?

Small business training needs

Good management is making the optimum use of available resources; analysis of the deployment and the sources of funds in most small enterprises shows that they are not used in the most profitable way and that more money could often be obtained without recourse to a loan.

Small-scale traders often invest their slender resources in large quantities of slow-moving, high-margin stocks rather than in goods which can be sold and repurchased quickly; the concept of the profitable use as opposed to the mere possession of assets, and the importance of time as well as profit margins in determining profitability, can be introduced in a classroom to trainees of a certain minimum level of sophistication. They may subsequently carry on as before, because the psychic value of possession is to them more valuable than the 'actual' value of money earned, or because they fear that if their stock is frequently turned into cash they will not be able to protect it from the depredations of their extended family. If these are conscious decisions, made in full knowledge of the possible alternatives, the trainer need not feel that he has totally failed.

A trainer may similarly show business people how to separate their personal money from their business resources, in order to enable them to limit, or at least monitor, the amount of money they withdraw from their enterprise. They may not as a result reduce their withdrawals, but if they are aware of the potential of retained earnings as a source of new capital, and decide nevertheless that their families' immediate needs are more pressing, this is surely a legitimate decision.

Traditional craftsmen often distribute their products through traders who constitute an informal monopoly and thus prevent anything but the minimum share of the final selling price reaching the actual manufacturer. Governments may attempt to remedy this all-too-familiar situation by establishing State Marketing Enterprises or by encouraging the formation of marketing co-operatives; neither has a particularly outstanding record of success, and a more positive approach may be for one or more craftsmen to attempt individually to undertake the distribution of their own products.

Potters in Nepal are unwilling to do this because they believe that their caste restricts them to making pots. They prefer to allow traders of a different caste to market their wares, even though they themselves only receive a very small proportion of the final selling price. If such craftsmen can be brought to see that the option exists, and how it might be undertaken, training has done all that can be expected of it. The craftsman himself, possibly supported by other Government programmes, must decide whether he will risk the social and economic costs and attempt to break out of the traditional boundaries that constrain his activities.

Selecting trainees

Training can successfully introduce people to techniques which are common to large numbers of businesses, and can make trainees aware of the options open to them; it is important, however, that the trainees should be carefully selected. There are large numbers of small business owners who cannot reasonably be expected to take advantage of training opportunities because their businesses are too far away from the training centre and they cannot afford to neglect their jobs for the time necessary to take a full-time course. A number of organisations have arranged part-time training; this may be feasible in cities and heavily populated rural areas, but people who never learnt anything practical in a classroom, and whose schooling, such as it was, took place many years ago, find it very difficult to adjust to the classroom learning situation. It is even more difficult if they only have two or three hours to become accustomed to the idea, and must then return to the real world and try once more to adjust themselves to a classroom the following week.

Entrepreneurial success does not depend on education beyond the higher primary or lower secondary level; the vast majority of small-scale business owners in poor countries have only enjoyed a few years of primary education, and may indeed have gone into business for themselves because they lack the educational qualifications necessary for secure employment in Government or a large business. The connection between what goes on in a classroom and the reality of managing a small business is tenuous at best, but it may be quite impossible for a small business owner with little formal education, and that many years distant, to relate the classroom lessons to his daily activities.

It is very difficult to introduce improved agricultural methods in a classroom, but at least most agricultural training courses are attempting to introduce the same practices to all the trainees, and the trainees have no reason to fear each other's success or to conceal their problems from one another. Small business people are, however, very different from one another, in reality and still more in their own perception, and they tend to believe, sometimes rightly, that one business's success can only be gained at the expense of another's failure. They are thus unwilling to reveal their most important problems in a group learning situation, even if the trainer makes an effort to elicit them, and because their businesses are so different from one another, any material that applies to all is necessarily so general that it cannot easily be translated into the reality of any one.

The ability to identify, select and modify what is relevant in a general treatment of a subject and to apply it to a particular situation is very much a function of sophistication and education rather than the natural shrewdness and intelligence which lead to success in small business. Classroom training is therefore only likely to be effective for the rather small minority of small business owners who have at least completed secondary education, and probably only for those who have left school relatively recently. When combined with problems of time and distance, this seriously limits the number of small business people who can gain from classroom training.

Entrepreneurship development programmes

The problems which prevent the owners of existing businesses from attending courses for any extended period do not affect the unemployed who wish to go into business for themselves, and in many countries special courses, or 'entrepreneurship development programmes' have been conducted for people of this sort. Most programmes have three major components; the trainees are taught some elementary techniques of business management, with particular emphasis on sources of finance, project preparation and other aspects of starting a new venture; they are also given an opportunity, with more or less supervision, actually to survey the prospects for their chosen venture and to prepare a proposal for submission to a bank which is usually involved in the programme.

The third, and most contentious part is intended to train people to think and act in an entrepreneurial way. Much of this arises from pioneering work by McClelland and his colleagues from Harvard University which was carried out under the aegis of the Small Industries Extension Training Institute in Hyderabad.

The techniques used for identifying the dominant motives in people's personalities, and for reinforcing or even creating the achievement motive which is generally associated with entrepreneurship, have been 'packaged' and vigorously promoted throughout the world. Redundant business executives in the United Kingdom, tribal unemployed in India, black minority youths in the United States and aspiring investors in East Africa have all been exposed to the various tests and games which are said to provide the missing ingredient of entrepreneurship which is perhaps the only necessary condition for business success.

In an attempt to identify successful methods of entrepreneurship development, the organisers of 40 such programmes throughout the world were asked to provide some information about their activities. A selection of the results is summarised in Table 6.1.

There are numbers of different techniques which can be used in every part of an entrepreneurship development programme; one clear conclusion from this study is that such programmes cannot on their own train people to be entrepreneurs: they must be combined with other forms of assistance if successful results are to be achieved.

One course of this type was conducted for young people in one of the remote hill areas of Nepal. The trainees appeared very enthusiastic at the end of the course, but after one year it appeared that none of them had started a business, and the only effect was that three or four of the participants had obtained places on a technical skills programme in the capital city; they had no intention of returning to their homes or of starting a business, but hoped to be able to find jobs in the city after their training. A programme with very similar content and instructors has for many years been conducted for tribal hill people in South Bihar, in India. Approximately half of the trainees from this programme have successfully started, and sustained, new enterprises which employ themselves and in some cases a number of others.

The critical difference appears to lie in the follow-up and 'after care' service. The Nepali trainees returned to their villages after the course and had to overcome all the obstacles in the way of starting their businesses without further support. In India, the training organisation is effectively represented in

Table 6.1 Entrepreneurship development programmes

Selection

— 50%, on average, of applicants were selected.
— 66% of programmes prefer applicants to have a specific business idea when they apply.
— 62% of programmes have no minimum educational standard for application beyond basic literacy.
— 77% of programmes use evidence of previous initiative as a major qualification for entry.
— 69% of programmes do *not* use psychological tests when selecting applicants.

Organisation

— 62% of programmes do *not* pay participants a stipend for attendance.
— Average duration of programme, six weeks.
— 75% of programmes do not include technical skills training.
— 75% of programmes include simple management, project preparation and motivation training.
— 79% of programmes use successful entrepreneurs as instructors during the programme.
— 66% of programme directors themselves have small industry experience.

Follow-up

— 76% of programmes provide special access to credit for their trainees.
— 89% of programmes provide marketing assistance to trainees' businesses.
— 94% of programmes provide individual extension advice to trainees' businesses.

Results

— 39% of trainees actually start businesses after the end of the programme.

every village by field staff who have a number of other community development and welfare responsibilities. They do not attempt to do everything for the newly trained entrepreneurs, but they do provide a degree of moral support and links to other organisations. The transition from the wholly supportive training environment to the lonely world of entrepreneurship is the less dramatic, and trainees are sustained through the most difficult months when they are actually trying to start their businesses.

It is obviously difficult to measure the effects of programmes of this sort, because of all the different inputs involved and because some of the trainees may not actually start their businesses for some years after the course. The difficulties of genuinely rigorous evaluation, however, should not detract from what can be an extremely effective form of training, providing it is conducted by trainers who are not only properly trained themselves but who also have some entrepreneurial characteristics and can 'infect' their trainees with their own enthusiasm, initiative and energy. Such trainers may be Jesuit priests, United Nations employees, local academics or successful businessmen giving their services on a part-time basis, but the success of such courses appears to depend more on the personality of the trainer, and the enthusiasm and mutually encouraging spirit that develops within the group, than on the particular training techniques which are used.

Training methods

These courses also include material on small business management, sources of finance and marketing, and such material also forms a major part of courses for existing business owners or those who are being trained for small business extension. In these cases the aim is not so much to change the personality of the trainees in some way as to introduce them to new techniques, but it is still not a matter of regurgitation, passing examinations or even being able to perform certain tasks when told to do so; the trainee must as a result of his training actually want to do what he has learned, when it is appropriate, and to be able to do it. Hence both the personality of the trainer and the training methods are of vital importance.

People who are being trained to operate machines, or speak a language, can actually do in the classroom the thing they are being trained to do outside. The role of the trainer is to demonstrate what has to be done, and to correct trainees' attempts when necessary. The environment in which the task is performed, and the reasons for performing it, are not the same as in the real world, but the task itself can, if the training is effectively designed, be identical to that which has to be done after the training is completed.

Management is quite different; some skills such as book-keeping can be learned in a similar way, but the differences in the availability of data or the time pressures involved, in the classroom and in a small business, are such that success in the classroom is far removed from the ability to keep useful accounts in a real business. Keeping accounts is in itself, as we have seen, a cost rather than a benefit to the enterprise; unless they are used the effort of keeping them would be better employed in other ways. Even the most carefully designed case studies or class exercises cannot accurately simulate the pressures of a real business decision, and other skills such as marketing, human relations or negotiating ability are even more difficult to translate into the wholly alien environment of a classroom.

Any management teacher is faced with these difficulties, but they are all the more acute when the trainees are people with little formal education and little time to spend in the classroom. International management schools make complicated and expensive efforts to develop case studies, simulations, games and other devices to bridge the gap; small businesses themselves, or institutions attempting to train them, can rarely afford the very high investment and recurring training costs which these devices involve, even if the trainees are capable of learning from them. We have already seen that only a small proportion of small business owners or managers can benefit from classroom training at all, but they, and people who plan to start a business or those who are being trained to advise them, can in fact make use of a readily available resource which more than overcomes the difficulties of bridging the gap between the classroom and reality. This resource is small businesses themselves; unlike large firms, they are widely scattered, in large numbers, and because they are small it is not too difficult to obtain an overall view of the situation of a small business in a fairly short time. They are the ideal learning laboratory, apart from being the reality for whose management the trainees are being prepared.

There are a number of ways in which real businesses can be used as a training ground; the most obvious, is to write small business case studies and to use them in the classroom. Most literate small business owners can write very useful case studies about their own businesses, and their very simplicity and small scale means that such a study need not be so long or complex that it is beyond the time or intellectual capacity of the trainees.

Even the best case studies, however, suffer from the disadvantages of any form of classroom training. The objective should be to use the business as a substitute or adjunct to the classroom, but at the same time to give the advantages of structure, speed, reduced risk, supervision and immediate correction or reinforcement which constitute the rationale for attempting to teach anybody anything other than by making them actually do it. Small business training is difficult because small business people find it inconvenient, or even impossible, to absent themselves from their businesses for any extended period; if the course is structured so that they have continually to return to their own or other people's businesses, to collect data or to experiment with new techniques, this strategy will both overcome the practical problem and also provide a far more effective method of learning, so long as the trainees are sufficiently familiar with classroom learning to be able to readjust to it quickly.

Action learning

Small businesses also provide an ideal environment for 'action learning', such as has been developed by Professor Revans, and one of its early applications was to small-scale palm oil mills in Eastern Nigeria. This form of training is based on the assumption that the task of management itself is the most effective learning tool for those who wish to manage, just as speaking a foreign language, rather than some sophisticated 'simulation' of it, is the best way to learn a language. If this notion is carried to its extreme, of course, training as a distinct activity from doing disappears altogether, but the objective is to use the reality of management as a learning tool, not for the trainer to abdicate all responsibility for the process.

The Nigerian palm oil mill managers were attempting to improve the economics of their operations by minimising the price paid for raw materials; when they met together to share their difficulties, and visited one another's mills to gain greater insights into managing their own, they saw that this policy led to irregular raw material supplies and erratic operation. They returned to their own mills and increased the prices paid to the farmers; what had been a dying industry was rejuvenated at once, and it survived and prospered until progress was interrupted by the civil war (Revans, 1980).

Outsiders often exaggerate small business owners' unwillingness to share their ideas and problems with one another. The management of a small business is a lonely task, and much of the value of any form of training arises from the opportunity it gives such people to realise that they are not alone in their problems. If the content of the course is limited to formal lectures on book-keeping or banking procedures, the exchange of experience will be limited to the lunch breaks; it is far more effective to use the trainees' desire to share their ideas as a central part of the learning experience. There are many ways in which this can be done; the whole group, if it is not too large, may visit the enterprise belonging to one of their number, not merely to observe but to analyse and suggest new initiatives; trainees may exchange places and spend time in one another's businesses, preceded and followed by classroom sessions, and guided by instructors who also spend more time in the businesses than in the classroom.

Members of a small business training course in East Africa expressed doubts as to whether local retailers really had excessive stocks of slow-selling goods. They were unimpressed by survey results; the class then walked a few yards to the local market and spent half-an-hour asking traders to estimate their monthly sales of items which trainees could clearly see were stocked in some quantity. The results showed that stocks often exceeded one year's sales; the trainees were convinced, and were thus motivated to learn simple stock control techniques to avoid similar mistakes themselves.

Training facilities

This approach clearly requires that training should be carried out as close as possible to the small enterprises themselves; air-conditioned, multistorey management training institutes, far from the reality of enterprise, may or may not be an appropriate environment for learning how to manage a Government Ministry or large corporation, but they are certainly unsuitable for any sort of small business training, whether it be for owners, managers, aspiring entrepreneurs or those learning to assist and advise small enterprises. Such places may have elaborate educational technology, but there is little point in simulating an interview with a small business owner on closed-circuit television if real small businesses with real people in them, are available a few minutes walk from the classroom. The seats may not be so comfortable, or the blackboard so smooth, and the proceedings may be interrupted by the noise of passing hawkers or taxis shouting for passengers. These are all small businesses, however, and their presence provides a constant reminder of the need to test everything that is said in the classroom against the touchstone of reality.

Trainers

Classroom training should therefore be related as closely as possible to the environment in which the trainees are to operate, and should only be given to people who can genuinely learn from it; who should conduct training courses, and what institutions should organise them? Lecturers in management subjects such as accounting, marketing or human relations have often themselves been trained in an alien environment, or by foreign instructors using foreign books. They rarely have any management experience themselves, apart perhaps from consultancy assignments with large organisations. They may succeed in helping their full-time students to pass examinations in theories of management, but they find it difficult to relate either to small businesses themselves, or, still more, to their owners or managers who are not interested in passing examinations but want to be able to manage their own businesses more profitably when they return to them at the end of the course. University lecturers may add status and credibility to a course in the eyes of those who have an exaggerated idea of the value of formal education, but they are not likely to make a useful contribution in terms of improved performance; what alternatives are there?

A good manager is one who makes the best use of the resources available to him; many small business owners or managers fail to do this, not because they lack particular skills but because they do not know about the services that are available to them, whether they are offered by private companies in search of profit or public agencies which are trying to help small businesses for their own sake. An experienced and articulate bank manager, or sales representative, should welcome the opportunity to further his own interests and help a group of small enterprise managers by telling them of the services he can offer and showing them how to make the best use of them. Professional accountants, or lawyers who act for small businesses can similarly provide valuable instruction; small business people will learn how to produce figures for final consolidation and analysis by an accountant, or the ways in which the law affects their operations, and when they should make use of professional expertise. They may be encouraged to use the services of the particular professional who has instructed them, but if he has been properly selected this should be to their advantage.

A second source of instructors is small business owners themselves; not every successful or unsuccessful entrepreneur can also stand up and describe his experience to a group of business people, but small business owners can relate to and learn from one of their own number far more easily than when the instructor comes from a totally different environment. The very successful operator of a chain of dry cleaning shops in Kenya is also an articulate and challenging speaker. He has developed his business from nothing in a very few years, and people like him can provide the inspiration and excitement which is a far more important ingredient for success than intensive knowledge of any particular management technique.

A presentation of this sort should be carefully structured; the entrepreneur can be asked to describe his experience up to a certain critical point and then the trainees can describe what they themselves would have done in such a situation. The entrepreneur can then take up the story, and can thus lead the group through the experience of a particular enterprise. If trainees come from a sector of society which has not traditionally been involved in business, contact with a successful entrepreneur from their own ranks will be a far more effective encouragement and example than any formal lessons in business planning or book-keeping.

Representatives of service agencies, or successful entrepreneurs, must, however, be treated as a resource, like the real businesses outside the classroom or whatever case studies or other material are available; the key to successful training lies in the person who actually leads the course, whether he is called tutor, course leader or organiser. If a course is no more than an unrelated sequence of presentations, with no obvious continuity or link between them, small business trainees will find it very difficult to relate what happens in the classroom to their own experience. The learning resources must be marshalled, guided and interpreted to the group by someone who is wholly committed to the course from the time its members are recruited until its final evaluation has been completed. His background and qualifications are far less important than his ability to identify with the participants and to ensure throughout that the course is relevant to their needs.

Application questions

— How cost effective are small business management training courses, in terns of increased profits or employment which can be directly related to the training course?
— How many small business people who have been trained in book-keeping actually apply and continue to apply what they have learnt in the course, and, if they do, do they actually benefit from using the information?
— Is attendance on a training course, rather than actually ability and performance, used as a qualification for receiving a loan? If so, is there any evidence that those who have been trained are any less likely to default than those who have not?
— Are the contents of training courses, and the training methods used, directly relevant to the actual situation of small business people, or are they drawn from large business experience, or even from other countries?
— Is sufficient use made of small business people themselves as a training resource, such as case studies, attachments to other businesses, talks by successful and unsuccessful entrepreneurs or visits to actual enterprises?
— Are the trainers and the institutions responsible for small business training the most suitable? How could other institutions and individuals be encouraged to play a greater part?

Case study: the Manyu Soap Factory

The Manyu Soap Factory in Cameroon is a small-scale traditional enterprise manufacturing soap by hand; its proprietor, however, has more ambitious plans. He visited a national small business assistance agency, and presented a plan for expanding the enterprise and totally transforming its operations. He had already obtained estimates for the necessary equipment from a foreign manufacturer, for a total of about $450,000. He presented the quotation to the staff of the agency and asked for assistance in calculating the total capital required and in preparing a proposal for submission to a bank.

The agency staff estimated that if the necessary machinery alone was going to cost $450,000, the proprietor would need at least $700,000 in total to cover the cost of the machinery and the necessary buildings, vehicles and working capital. This estimate included an allowance for reduced customs duty, which could amount to $50,000 on the assumption that the enterprise would be granted a special exemption.

After making these preliminary estimates the investigating officer of the agency asked the proprietor to describe the results of his market studies. It appeared that he had undertaken no market studies and he did not even know how many soap factories were already established in Cameroon. When asked what his own financial participation in the project would be, the proprietor replied that he was prepared to invest $2,000. The officer realised that there was no point in continuing the dialogue and told the proprietor that the project was not feasible and that an ambitious venture of this type was beyond his present ability. He was advised to apply for a special tax concession which would enable him to obtain privileged prices for raw materials; he should take advantage of this concession and continue making soap by hand as he was doing, to gain more experience in soap making and thus to accumulate more personal funds before planning to move from a craft to a modern industry.

The proprietor became very angry and asked why the Government should not help him implement such an important project by providing him with the necessary funds; he stated that he would implement his project even if the agency was unwilling to help him.

A few weeks later the proprietor returned to the agency and said that he had been unable to find any help elsewhere; he asked them to give him whatever advice they could. The officer explained the situation to him again and suggested that he should not try to achieve too much at once; the agency prepared a submission for the concession on the interior tax in order to enable him to pay less for his raw materials; the final analysis of the project showed that his real problem was raw materials and not his need for more sophisticated equipment.

There are in Cameroon a number of importers who represent foreign manufacturers of machinery. Since these are traders with no long-term interest in their customers, they sell whatever machinery they can to local proprietors of small-scale enterprises; foreign machinery manufacturers without representation in Cameroon also try to do the same. None of these companies are concerned with the suitability of the machinery which they sell and they ignore factors such as the capacity of the local market, the need for rapid repairs in case of breakdown and training of their customers in the use and maintenance of the machines which they sell. The proprietors of the small-scale enterprises have no source of information on technology or its developments, and in most cases they buy obsolete or inadequate equipment.

Commentary

One immediate reaction to the situation might be to suggest that the applicant needs training; he needs to know how to prepare a market survey and feasibility study, and he needs more information about special concessions or other services that may be available from the Government.

One result of training might, however, be that the applicant would be deluded by the fact that he knew how to prepare the necessary documents into believing that he could actually manage a modern industrial unit.

Because of the shortage of entrepreneurs, and the difficulty of recruiting participants for management courses, small business promotion staff are often far too optimistic about what they can do for people and people themselves expect that Government can and should do everything for them. The agency officer was in this case very realistic in his assessment of the applicant, and thus helped him to understand his own position more clearly.

The applicant clearly lacks many of the attitudes and skills, as well as the resources, necessary for success in a larger and more complex enterprise. His technical skills as a craftsman should not be underestimated, but it must be supplemented by the ability to operate machinery, and he appears to have no understanding of financial management or the need for working capital.

Classroom training may in time play some part in remedying the deficiencies, but experience, sensible and individual analysis and advice such as he has already received, and personal exposure to large-scale modern soap manufacturing are also necessary before he can consider expanding his business in the way he has proposed.

It is easy to criticise the suppliers of machinery for their apparently unscrupulous approach, but it could be that they would respond favourably to a request that they should contribute to and participate in a programme of training and development for prospective customers which would certainly be in their own, the entrepreneurs' and the national interest.

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CHAPTER 7

TECHNICAL TRAINING

The crucial issues

— What technical skills should be taught?
— What equipment should be used for training?
— Is technical training on its own sufficient to enable people to find, or create, employment?
— Who should pay for technical training?
— Can small businesses themselves provide technical training?
— What institutions should provide technical training?
— How can technical training institutions ensure that their training is relevant and appropriate?

The results of technical training

Since one useful definition of a small business is that it is one in which the manager or owner spends much of his time actually carrying out the function of the business, whether it be selling goods over the counter, reboring car cylinders or weaving cloth, as well as managing other people, it is clearly impossible totally to separate management from technical training. Large amounts of money and effort have been invested in technical training facilities in developing countries, and many thousands of people have been trained. Such training has been provided not only in capital cities but also in less-favoured regions, and in many small towns the largest and most modern building is a local technical college, which may have been staffed, and paid for, by a foreign donor agency.

The results have been less impressive than the buildings and lavish facilities inside them. The training has not become an automatic passport to employment, in any sort of enterprise; like some forms of higher education, it has often served only to increase the frustration of those who have been trained. It may indeed have made them less rather than more employable, in that they consider themselves qualified only for the work they have been trained to do, and if this is not available they will not accept anything else. A number of participants on a course for underprivileged young people in a poor area of London were asked what they would do afterwards. The majority said that they hoped that the course they were on would qualify them for a further course.

Technical training institutes are often set up with little or no attempt to state their objectives, beyond the output of a given number of people trained in certain specified skills; the lack of these skills may indeed have been previously identified as a critical constraint on industrialisation, or on the wider use of tractors or other agricultural equipment, but the 'production' of people trained in them does not seem in itself to have solved the problems which were alleged to be caused by their shortage.

The training may not be appropriate for the needs of the country, and even if it is there may not be enough enterprises to employ the trainees and provide the needed service. Skills training alone will not lead to the provision of a needed service, and it may limit the trainees' perception of their own role and discourage them from taking the wider entrepreneurial steps which are necessary to provide an enterprise within which they can practise their newly acquired skills.

Appropriate skills

It may be asking rather more than is normally expected of technical training to enable the trainees actually to create their own employment opportunities, but it is more reasonable to expect such training to enable people to do things which they will not be prevented from doing after their training. One rural training institute in Kenya had a sophisticated machine tool which, the manager claimed, was unique in the whole country. This hardly implied that it was appropriate for trainees in a rural area where only a very small minority of the villages even had electricity. Foreign donors may try to justify such gifts to their own taxpayers by suggesting that people who are trained on a given type of equipment will in due course influence their employers to import more of it, but there are nevertheless more legitimate objectives which may lead a technical training school to train its students on equipment which is not generally available outside the institution.

Development is about improvement, and even the most passionate advocates of simple and 'appropriate' technology do not suggest that a country should resist every attempt to alter or improve on the machinery that is already in use. They are concerned only to prevent the introduction of technology which is totally inappropriate for the resource endowment of the country concerned but may be financially viable because of artificially distorted factor prices. New and improved equipment and methods can be promoted to existing enterprises, but people who are already doing something in a particular way are often reluctant to accept change; it is easier to train people to use the new methods from the very beginning, in the hope that when they start work they will be in a stronger position to promote change. Education is obviously designed not only to enable people to operate in society as it is, or even as it is likely to be, but to help them to change and improve society. Technical training, although working in a narrower field, should similarly aim to introduce change and not merely to respond to existing conditions. Much of the equipment in training schools cannot be explained on this basis, however. It is so different from what is being used in any but the most modern, large-scale units, where there are in fact the fewest opportunities for employment, that its use can only be explained by its donors' insensitivity to genuine local needs.

Training for self-employment

If the equipment on which students are trained is similar to, and only marginally 'better' than, what is generally in use in the mass of small enterprises where they will eventually seek employment, this will not in itself necessarily guarantee that they will find jobs. The training is usually similar in its approach to the methods adopted in most schools and even universities. Trainees work on set tasks or exercises, and they have to produce a wooden joint, a piece of metal cut in particular ways, or possibly a completed tool, a piece of furniture or a garment. The exercises incorporate a number of known and accepted techniques, and the teacher or supervisor can train the student to complete each section without any doubt as to which technique should be used for each task. The final result is a satisfying and often excellently produced article, and it can easily be compared with an objective standard. Any trainee with reasonable dexterity, aptitude and application can pass a 'practical' examination which consists of repeating a selection of the same tasks they have been trained to do beforehand.

This is, however, as inadequate a preparation for working in a typical small enterprise as rote learning is for living in the real world. Small businesses are typically 'jobbing shops'; they have short production runs, or every item may be different from its predecessor. This applies to vehicle maintenance workshops, tailors, builders and handicraft makers, as well as metal goods manufacturers or carpenters; it means that the owner or manager cannot devote the same amount of time to deciding how each job should be done as can somebody in a large enterprise which can afford generously staffed production engineering and tool design departments because the cost of developing, designing and implementing production methods can be spread over very large quantities. He must therefore expect his employees to be able to decide how things should be done, rather than merely to follow instructions or to do what was done the day before. Most technical training signally fails to enable its students to do this.

Some small businesses do not require this problem solving ability; when large numbers of a particular rather simple machine of the same type are used in a particular area, it may be possible to train someone to perform all the commonly expected maintenance tasks by rote, so that he can work for a maintenance workshop or even set up his own business based on a particular closely defined set of skills. Systematic rote learning of this sort has been successfully used in India to generate large numbers of small independent maintenance engineers for diesel irrigation pumps and bicycles; more frequently, however, a small business must deal with a wide range of products, and cannot rely on any central resource or facility for the exceptional occasions when training has not equipped operatives with a solution.

How can technical training be improved?

It is easier to account for failure than to suggest improvements; how can people be trained to solve problems they have not met before, or even to create employment for themselves rather than merely offering their skills to other employers? The Birla Institute of Technology, in South Bihar, India, has developed and very successfully applied an approach which is clearly effective with sophisticated modern sector small industries, and which may point the way to similarly useful initiatives at a lower level. Selected engineering students are invited in the last year of their degree course to carry out a research project to develop a practical solution to a technical problem which can form the basis of a small-scale engineering enterprise. Their answer to the problem is presented in writing and in laboratory prototypes where applicable, as part of their material for the final examination, but the students are usually by this stage quite unconcerned with examination results. They proceed immediately to a three-month course in entrepreneurship and small enterprise management, which is conducted in a special centre outside the Institute's premises, and they then start their enterprise. The most dramatic evidence of their success is the extensive small business industrial estate which lies just outside the Institute's gates. It is fully occupied by graduates of the programme (Carr, 1981, pp. 11–23).

The success of this programme is more the result of the initiative, commitment and inspiration of the people who run it than of any details of its structure or content. The Birla Institute is an independently financed establishment, and this may have made it more possible for its staff to start such an innovative undertaking since they were not bound by Government rules and procedures. It does, however, combine technical education with entrepreneurship and management training, and the students receive privileged access to resources such as premises, bank loans and Government contracts. This does not explain their continued expansion and success, but may in part account for the initially high proportion of students who actually start their own businesses.

The Birla programme is certainly elitist, in that it is only available to a very small number of students, who are selected from the student group which is in turn a very fortunate minority. The institution itself is funded largely by the second-largest private industrial group in India, which, it might be argued, has an interest in restricting the number of potential competitors. Technical training institutes, whoever is responsible for them, typically concentrate on training people for jobs in Government or large private companies rather than new enterprises. The fact that only a small number can take advantage of the Birla programme does not mean that other institutions, at very different levels, cannot improve the value of their technical training by directing it towards self-employment rather than 'jobs'.

The Village Polytechnic programme in Kenya attempts to do the same thing at a rather humbler level. Primary school leavers, who have been unemployed for some time, are given a six-month course in one or several simple skills for which there is a market in the village, such as vehicle maintenance, house building or carpentry. They also receive some basic business training in simple management, and it is made clear from the beginning that the objective is to enable the trainees to create their own jobs by operating independently, within their own community, as opposed to gravitating to the city in search of formal sector employment. Most importantly, perhaps, the training is conducted in a village centre, and the programme is not generously funded. Its relative poverty may have frustrated those responsible for its inception and management, but it has ensured that trainees are not exposed to expensive irrelevant technology or to rote learning of mechanical skills; they have to work with a minimum of equipment, and they therefore develop the ability to improvise and make the best use of limited resources, which is the key to successful small enterprise management. It may be significant that many graduates of this programme succeed in obtaining employment with large and small-scale firms, rather than starting their own business. The training which is designed to enable them to create their own jobs also produces a result which is more acceptable to an employer than someone who has enjoyed a more expensive and traditional formal technical training. A fair number, however, successfully establish their own village enterprises and provide much needed services to the community, as well as creating employment for themselves and in some cases others who may or may not have enjoyed the same training.

The gap between reality and training has been bridged in many industrialised countries, where jobs are not so scarce, by 'sandwich' courses; trainees spend only a few weeks or months at a time in training, and must then return to a job, where they carry out their normal function and may also work on a structured project which is part of the formal requirements of their course. This approach has been applied to postgraduate degrees, to basic technical skills training and to all levels in between, and it does appear to produce people who are more able to fit into and make a useful contribution to a business, because they have not been away from the real world for long periods. This approach may be valuable as a way of improving the performance of those who have jobs, but it cannot enable people to create their own employment, because they must be employed by someone else as part of the course, and even if they could start their own business during one of the periods they spend outside the training institution, they could clearly not desert the nascent enterprise after only a few months in order to return to training.

Apprenticeships and private training

Apprenticeship was for many years the only way in which people acquired technical skills. Those who are anxious to promote small enterprises should always look first at existing practices and institutions rather than attempting to start new ones, and they should therefore ask themselves whether existing formal or informal apprenticeship schemes or on-the-job training, with or without formal recognition or any intervention from a training institution, can provide the necessary skills for working in a small enterprise or for starting your own. Informal apprenticeships, whereby young people work for little or no reward for somebody else until they have learned enough to earn their keep, are the way in which most small business employees are trained. A survey of the modern informal sector in Lomé, the capital of Togo, revealed that some 88% of those who were employed were apprentices. They were apparently being well trained, as well as providing their 'masters' with cheap labour, and nearly all the business owners themselves had originally been trained in this way (Demol *et al.*, 1982, p. 374).

A girl with innate entrepreneurial ability in a remote part of Nepal was unable to obtain a place in an official Government-sponsored tailoring course. She managed to persuade a local tailor to train her, in return for free labour and a very small fee, and eventually established a viable business. Her success contrasts dramatically with the failure of people from the same area who had attended the official training course. They preferred to remain in the city where they had been trained, and to join the ever-growing number of job-seekers if they were unable to enrol themselves in yet another training course with its attendant stipend.

Like the tailor who trained this enterprising girl, a number of small-scale manufacturing entrepreneurs have recognised that the public demand for marketable skills may offer more profitable opportunities than that for their products, and have added training to their range of products. They levy a scale of charges, and offer trainees some form of certification or other evidence that they have achieved certain standards. They may themselves eventually employ their best trainees but they are less likely to frustrate, and may actively encourage, their ex-trainees to start businesses themselves since their success will be the best possible advertisement for the training business.

It is easy to criticise such enterprises, because their owners seem to have in some way dishonestly devised a system whereby they are paid to employ people. Critics should, however, compare these students' motivation with official technical colleges. Students at technical colleges may pay no fees at all, and may even be given free or heavily subsidised accommodation, while trainees at private training businesses pay for the privilege of allegedly being exploited. Their willingness to do this, and the relevance of the training to the real world, suggest that this form of training should be recognised as playing a useful role.

Technical skills and management

Training staff in any institution must appreciate the vital differences between the skills required in a machine shop of a large enterprise and in a small workshop, and should in particular ensure that management and technical skills are combined at every level of training for small enterprises. Technical problem solving at the most elementary levels still involves some understanding of business, and therefore requires decisions and the exercise of simple management, and the owners or managers of small enterprises must also be as familiar with the technology as are any of their employees.

The entrepreneur 'in a vacuum' who is 'given' a ready-made project by a small enterprise promotion agency, and does not have his own idea, must learn the technology if he is to have any hope of successfully converting the abstract project into a viable business; a skilled craftsman must similarly acquire some simple management skill before he can start and run his own business, but both technical and management skills can be acquired in many ways other than through training. People who have had an intensive technical training, even to graduate or postgraduate level, often admit that they make little or no use of this training in their day-to-day business, since basic ingenuity and common sense are more important than extensive technical training which, in the final analysis, can only cover what is already known. The unique new situation, compounded by inadequate equipment and raw material shortages, is the real test of a practical technologist, and skill in dealing with such situations comes more from basic attitudes, working contact with people who have these skills and personal unassisted experience in such situations. Many successful technical entrepreneurs, such as Clive Sinclair who developed the first pocket calculator, the first digital watch, the first miniature television and the first home computer, deliberately terminated their technical education at an early stage because they felt that they could learn what they needed from experience, and impatience with formal technical training may be a sign of nascent entrepreneurship.

Technical training is no substitute for ingenuity and inspired improvisation, and management training can only supplement and not replace basic shrewdness, common sense and a natural understanding of why people behave as they do. Trainers must recognise that training of any kind can only have a marginal effect at best, and that management and technical skills are inseparable in small business. They should not allow their desire for a neat curriculum, subdivided in the traditional way, to impose any artificial separation between the two skills which together enable somebody to run a small business successfully.

On-the-job training

Management must not be separated from technology, and small business training itself must not be separated from reality; the location of the training institution, the nature of its facilities and equipment and the instructors' approach to teaching must all relate closely to the small business environment. It is often desirable to take small business training out of the small businesses themselves because of advantages of structure, sequence, cost, group support and continuous guidance, but the onus of proof should rest with the advocates of the classroom over the training workshop. On-the-job training is increasingly recognised as a supplement to the classroom, but the classroom should only be regarded as a supplement to the job for small business training. Whenever any kind of off-the-job training is proposed it should be carefully justified and compared with its on-the-job equivalent; it should only be undertaken if the advantages clearly outweigh the dangers of irrelevance or failure to transfer what has happened in the classroom to the business environment.

Trainers, like doctors, tend to believe that their own particular service will cure all ills, so long as its quality is continually improved and it is provided in sufficient quantity. They should adopt a certain humility and accept, like bankers, promoters of co-operatives or builders of industrial estates, that they can only play their part in an integrated package of assistance, and that the package as a whole represents no more than a marginal input when compared with the presence, or absence, of the individual entrepreneur who takes the risk and earns the rewards.

Application questions

— Are the skills which are taught in technical training institutions actually those which are used in small businesses?
— Is the equipment used in technical training the same as that which trainees are likely to have at their disposal in small businesses?
— Are the trainers and equipment which have been provided by foreign donors fully appropriate for local small businesses?
— How important a contribution does apprenticeship make to the process of small business technical training? Is the contribution recognised and integrated with official training programmes?
— Are there any private, profit-making technical training schools? Why are people willing to pay for training, and can official training programmes learn anything from private training undertakings?

Case study: the Zimi Industries Training Centre

Over 95% of the people in Tanzania live in the countryside and depend on agriculture for their livelihood. In these rural areas there is a high degree of underemployment and unemployment; agricultural productivity is low, because only a small area is irrigated, people use hand tools and are generally unfamiliar with how to use improved seeds, fertilisers and chemicals. Although these bottlenecks in improving agricultural productivity are being tackled through rural integrated development programmes, it is the policy of the Government to diversify the occupational pattern in rural areas. One way of doing this is to set up small-scale village industries.

In order to achieve this objective, training centres have been set up for basic trades such as carpentry, metal working, hand loom weaving, shoemaking, garment making, machine operation, motor mechanics and so on.

The Government of Tanzania established a small industries development agency, one of whose functions is to provide training for small industries. This agency runs several training and production centres. One of these centres is the Zimi Industries Training Centre which gives basic training in carpentry, sheet metal work, blacksmithing and handloom weaving and also gives upgrading courses in these trades.

The Zimi Centre was established in 1973 and started its training programmes the following year. The Centre was to provide training to young people, preferably those who had completed primary education, and it was to be in various handicrafts so that the students would be able to start their own workshops with or without Government assistance in their respective home areas. The Centre was also to provide shorter courses in theory and practice to those who are already working as craftsmen, and in all cases preference would be given to trainees coming from rural areas.

The Centre provides training in the four basic trades of carpentry, sheet metal work, blacksmithing and hand loom weaving. All these are important to the rural areas of Tanzania. All courses are residential and the Centre provides full board and lodging free of charge.

The initial capacity of the Centre was for 80 trainees for the one-year basic training course. During the first year 78 trainees were taken, in the following year 106 were taken of which 85 were for basic training and 21 for upgrading courses, and in the third year 120 trainees were admitted, of which 94 were for the basic courses.

The trainees are taken from all over the country. During the first two years, trainees were sponsored by district authorities, by individual workshops and by individuals. A large proportion of the places were in this first year taken by people from the region in which the Centre is located.

The admissions system was reviewed in 1975 when it was decided that trainees should only be accepted when they were sponsored by village authorities, and that four trainees should be taken from each place in each respective trade. The reason for this was to ensure that the trainees when they returned could form a group and start a viable workshop.

The basic objective of the training programme at the Centre as it is now constituted is for the trainees to report back to their respective areas and start a village workshop; the village authorities are responsible for constructing the necessary work places. A follow-up study was made to ascertain how and where past trainees had been settled. This study revealed that only three trainees out of the second batch and 24 out of the third had returned to the jobs and places from where their initial sponsorship arose. None of the trainees from the first batch could be contacted.

Cast study: the Industrial Training Institute

An industrial training institute was established in a remote mountain State of India in order to create a qualified technical workforce and to enable local people to start their own businesses. Government Departments and existing firms in the State needed technically trained people, and it was hoped that a suitably trained workforce would form a base for rapid industrialisation of the State through growth of existing businesses and the establishment of new ones.

Electricians, motor mechanics and other qualified workers from other States were migrating to the area, both to find employment and to start their own businesses, but the Local Government felt that local people should have the opportunity to gain from the increasing prosperity of the area.

The Institute was affiliated to a national organisation whose function was to co-ordinate vocational training activities in the various States and to ensure that appropriate standards were maintained. During the first year training was started for motor mechanics, electricians, fitters, plumbers and civil engineering draughtsmen. The courses were scheduled to last two years each. A representative from the national organisation visited the Institute before the training started in order to check that the workshops were suitable and that appropriate tools were available. His recommendation was favourable and the training started.

Trainees were invited to apply through press advertisements and a Committee was set up to select suitable candidates. They had to have completed primary school but nobody over 24 years old was accepted. Residents of the State were given preference. Trainees could apply to change from one trade to another according to their interests and aptitudes until one month after their date of admission.

The first batch of trainees passed out in May 1978, but a number of problems arose. Sufficient applicants had not come forward and in order to attract more candidates the training stipend was doubled from $5 to $10 per month. Further applications were invited in order to fill the remaining places, and the educational standards were lowered; those candidates admitted in this way did not perform well in the training.

In addition, about 20% of the trainees dropped out of the course shortly after it started since they found jobs in Government Departments. Only about a quarter of those who completed the training and passed the tests obtained jobs in Government Departments or in private firms. The remainder could not find jobs as they were said to be inexperienced, but they were only interested in finding employment in Government Departments and showed no interest in setting up their own businesses although there were plenty of opportunities available.

Commentary

Both these attempts to create employment through technical training appear to have failed. There are a number of possible explanations for the poor performance. The participants were not required to make any sacrifice in either case, and in India they were given an enhanced stipend in order to attract more participants. It is very tempting, but dangerous, to distort the motives for attendance in this way. If people have to be attracted by stipends, it probably means that the programme is not perceived as being of any value for its own sake. Rather than offering increased stipends, the organisation should improve the training or the information provided about it.

The training is provided in an institution rather than on-the-job. It is difficult to do otherwise if there are very few existing businesses at all, but an attempt should be made to attach trainees to a real business for at least a small part of their training period.

In Tanzania, the participants were intended to return home and to participate in a co-operative; this form of enterprise is unlikely to appeal to young people and this requirement may have contributed to trainees' decisions not to return home. In India, those trainees who were successful or influential enough to obtain jobs with the Government obviously preferred this, but the remainder showed no inclination to create jobs for themselves by starting their own businesses. This may have been because entrepreneurship was not included in the curriculum or because it was not made clear from the outset to participants that this was one of the objectives.

Evidence from a number of countries suggests that self-employment is more remunerative than a job in a private or public sector, but it is obviously more risky. People who have acquired a technical skill which is in any case more appropriate for a Government workshop than a small business will naturally regard self-employment, or a job with another small enterprise, as a very poor second-best.

Technical training without clear objectives is unlikely to lead to self-employment. The Tanzania case demonstrates that trainees' decisions not to return to their proposed co-operatives in the villages may well be the right one from their point of view. If people are given skills they will, quite rightly, do their best to 'sell' them to the highest bidder, and potential entrepreneurs are unlikely to accept direction as to where they should work. It may well be, in fact, that some at least of the untraceable graduates of the Tanzanian programme had in fact started their own businesses, although not in their home areas, and the programme therefore may have been more of a success than its sponsors realised.

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CHAPTER 8

EXTENSION

The crucial issues

— Can individual one-to-one advisers teach small business people more than they can learn in a classroom?
— Are small business people willing to share the information that an adviser needs before he can help them?
— How many advisers are needed to make a significant impact on a country's small businesses?
— What kind of prior experience and education do small business advisers need?
— Should small business advisers be specialists or generalists and what sort of advice can they give their small business clients?
— Should small business people pay for individual advice or should the service be free?
— Can the benefit to the clients exceed the cost of providing the service?

Communicating with small businesses

Even the most effective training can only have a limited impact on a minority of small business owners; how else can new ideas and improved management be brought to small enterprises? It may be useful to approach the problem in the same way as the promoter of a product would consider his marketing task; he must design a combination of advertising, selling and distribution intermediaries that will inform his target market about his product, persuade them to buy it and enable them physically to obtain it. The promoter of small business improvement must similarly inform small business people about the various improvements he is 'selling', persuade them to adopt them and make the detailed instruction or guidance physically available to them.

It does not necessarily cost the small business owner any money to adopt new ideas or to change his basic attitudes towards some aspect of his business, and the assistance agency will probably in fact suggest the change because they are confident that it will substantially improve the profits of the enterprise. Change of any sort does however involve 'psychic' costs, in that it requires the owner to take a risk; his present situation may be far from ideal, but it is at least familiar and enables him to avoid starvation. A new practice may indeed be as profitable as its promoters suggest, but it may not, and known ability to survive is to most people preferable to uncertain ability to prosper.

It is therefore 'expensive' to adopt an improvement in a small business; the promoter must use personal contact rather than one-way communication through advertising. The printed word may be useful for individual study, or in order to announce training opportunities or other services, but it cannot play a critical or fundamental role in introducing change to small businesses.

On-site advice or classroom learning?

We should therefore look more closely at the 'travelling salesman', that is a person who visits small business clients in their own premises and assists, advises and teaches them individually. 'Extension' can be broadly defined to include any way of reaching out to a particular group, but we shall for convenience here confine its use to individual on-site advisers, consultants, counsellors or whatever else they may be called. We saw that there are many reasons why only a minority of small business managers are able both to attend and to benefit from classroom training; many cannot leave their businesses for the necessary period, the training centre may be a long distance from their businesses, and they may be unwilling to expose their own problems to the rest of the group although this is necessary to ensure that the training is relevant to each trainee's individual circumstance. Most importantly, most small business people cannot in the few days or even weeks during which they can attend a training programme adapt themselves to the classroom and connect what happens there to their various businesses. They lack the ability either to draw particular lessons from generalisations, or to generalise from case studies and other examples and once again apply those general lessons to the particular circumstances of their own enterprises.

The advantages of extension

An individual adviser can overcome many of these difficulties. He can travel to wherever his small business clients are located, and bring his service to the client rather than expecting the client to come to him. This overcomes the travel problems which discourage many small business people from attending formal training programmes, and an adviser can also reach even those businesses whose owners are unaware of training opportunities or are unable or unwilling to take advantage of them. Organisers of small business training courses often find it difficult to fill their classrooms, and have to offer inducements such as free transport, subsidised or free accommodation or even generous daily allowances. They may even have to imply that course attendance is a condition for access to some other services which are perceived to be valuable, such as loans, raw material supplies or space in an industrial estate. An individual adviser has no need for such devices. In Kenya only four out of some 180 small business owners refused to co-operate with a new extension service, and in Colombia well over 50% of the small enterprise managers contacted by the DESAP programme are willing to accept and pay for individual on-site advice. The number who will participate in classroom training without special inducements is far smaller.

There is no need for the client to be able to apply general lessons, or examples of other businesses, to his own enterprise; his business is the classroom, and his stock, his machinery, his products or his books provide all the 'case studies' that are necessary. In the same way as teachers of reading are encouraged to supplement reading books which describe imaginary people by children's accounts of their own experience, so that they will appreciate the relevance of what they are doing, the small businessman need no longer work on class exercises which require him to produce imaginary accounts for hypothetical enterprises; he can draw up his own accounts, and is altogether spared the problem of learning transfer which may be more difficult than the substantive content of the lesson itself. The meeting can be totally private; the client need not feel that he is sharing vital information with his competitors, and, more importantly, he is spared the embarrassment of admitting his ignorance to his peers.

There are many techniques which are useful to small business people everywhere, and which can be learnt in a classroom. Every business owner nevertheless feels that his problems are unique; if he is to learn and change, his perception of situation is more important than the reality, and there are in any case many different kinds of small businesses, each with its own problems. There are in rural areas far more farmers than non-farm enterprises, and farmers are in the same area likely to grow the same crops and to have similar problems. They are also unlikely to face competition from one another, since the effect of any one farmer on the market for his crop is infinitesimal. Small businesses are less numerous, more different from one another and more likely to be in competition with one another. One shop-keeper may find it difficult to believe that his problems bear any similarity to that of a similar shop in a neighbouring village, but a carpenter can scarcely be blamed for believing that he has nothing in common with a metal worker or a vehicle mechanic. If small business people are brought together for training, the results will be affected by their perception of their own uniqueness; individual on-site advice can be tailor-made as it is given to each enterprise, so that clients do not have to admit that they share common problems before being in a position to learn anything.

Diagnosis of business problems

If the trainer never even sees his trainees' businesses, or if his contact is limited to a brief follow-up visit after the training course, he will not be in a position to assist their owners to diagnose their problems. If the trainer responds to his trainees' perception of their own training needs, as indeed he should, he may do no more than reinforce them in the beliefs that are actually preventing them from making better use of their own resources. The most commonly stated problem is their need for a loan, and many small business training courses focus on how to obtain a loan; participants may even be recruited on the basis that attendance is a necessary condition for successful loan application. We saw earlier that the majority of small business owners need to improve their ability to make good use of their existing resources before being provided with any more; it is asking a great deal of a trainer to persuade his course participants that their major problem, and indeed their motive for attending the course at all, is less important than something else, and then to improve their ability to remedy the weakness of which they were previously quite unaware.

The individual on-site adviser need not, however, rely on his client's opinion as to the problems of his enterprise; like any consultant, his first and most important task is to define the problem and this may be the most valuable thing he ever does for his client. He can therefore be confident that his assistance does not 'scratch where it does not itch', and that he will be genuinely serving the best long-term interests of his client enterprises, rather than reinforcing their own misconceptions of their problems.

Small enterprise problems are not all a matter of internal management and the owners' ability to make the best use of resources. Many entrepreneurs simply do not know about sources of raw material, or assistance, or about potential customers, and since they may be unaware of the very existence of services which are available to them they may not be in a position to ask the right questions in a classroom. The individual adviser can diagnose the needs of the enterprise by physical observation, and can if appropriate refer the owner to suitable sources of what he needs. The operator of a small-scale stone quarry was in a good position to make profitable use of explosives, but because he believed that there was no question of his being allowed to buy or use them he never asked how he might do so. A visit to his quarry showed that his output was limited by the time taken to cut rough stones from a hillside, and his adviser was then able to put him in contact with the appropriate Government Department so that he could obtain a blasting licence.

A vehicle mechanic owned a veritable mountain of derelict cars, which he had bought one by one as cheap sources of spare parts. He never perceived this as anything more than a nuisance, and therefore never mentioned it when attending a training course or applying for a loan. His individual adviser could hardly fail to observe the vehicles, and knew that there was a market for scrap of this sort because a small steel mill had recently been established. He was thus able to put the mechanic in touch with the scrap buyer and the vehicles were removed. This cleared a large area which could be used for expanding the business, and also provided a substantial proportion of the funds which the mechanic believed could only be obtained from a bank loan.

An individual adviser can and should maintain contact with his client over a long period; he can increase or reduce the frequency of his visits according to his judgement of the client's need for support, and the necessary time to apply and test his latest suggestions, and need only terminate the relationship when he is confident that he has done all that he can for the client who should by that time be capable of maintaining the improvement on his own. There is no re-entry problem, since the client has never left his business, and the adviser can respond to and remedy any difficulties his clients may have in following his suggestions. Whenever there is a case for classroom training, because a client is ignorant of and is in a position to make use of particular techniques such as book-keeping or particular mechanical skills, the adviser can refer his client to an appropriate source of training just as he can introduce him to a bank, a supplier or a customer. He can ensure that the client is introduced to services that are appropriate for him, and can generally orchestrate an integrated package of assistance to his clients because of his knowledge both of the reality of the enterprises and of the variety of services that may be available.

Who will be the advisers?

There appear therefore to be overwhelming advantages in favour of individual on-site advice, either on its own or supplemented by classroom training directed at the minority of small enterprise owners, and topics, which can usefully be dealt with in this way. Why therefore are small businesses not served by advisers, much as many farmers are, who visit them on a regular basis in order to introduce them to new techniques, to enhance their ability to manage their businesses and to put them in touch with sources of material, markets, services or assistance of which they may be ignorant? Several countries have appreciated the need for such a service, but the number of advisers employed, and enterprises which are advised, is minute in proportion to the total population. The very large numbers involved have prevented any Government, or other organisation, from launching an extension service which reaches a significant proportion of a whole country's small businesses. It is obviously difficult to estimate the total number of small enterprises in a country which might benefit from individual extension. In Kenya there appeared to be very approximately three such businesses per 1,000 population, and one adviser can deal effectively with no more than 50 client businesses. On this basis, a country of ten million people would need 600 small business advisers, while India would need about 40,000!

It is clear that no country, or region, can easily be served in this way, and the numbers themselves suggest why not. The adviser's role, as summarised in the preceding paragraphs, is obviously a difficult one: he must be a good salesman, he must understand how to run a small business himself, he must have some knowledge of all the different types of industry he is likely to meet, he must be familiar with all the relevant sources of assistance or other services and he must above all be able to enlist the confidence and co-operation of an independent small business owner who may have survived thus far in spite of interference and harassment from official sources rather than as a result of positive encouragement. No country in the world has a sufficient supply of people with this rare set of qualifications, and even if there were large numbers of them, it is arguable that it would be wrong to employ so many as small business advisers.

Senior experienced consultants

It may be impossible to provide this type of advice on a national basis, but something which is valuable need not necessarily be rejected merely because everybody cannot enjoy it, and in a number of countries some attempt has been made to provide a service of the sort described. Individual experienced executives have given some of their time on a voluntary basis, official organisations have put together a small team of suitably qualified and experienced people or retired senior managers have been employed for nominal fees to make their experience available to others. The overall results of these initiatives have not generally been documented, if only because they are so often provided on an ad hoc basis, and it is difficult to measure the cost of something which is provided voluntarily, or to propose further extensions when the supply of potential advisers is so limited.

There have, however, been obvious and substantial benefits to some of the enterprises which have enjoyed this type of advice. The adviser has helped them with management problems, and many have gone so far as to keep their books for them, prepare loan applications and introduce them to the bank manager, who may of course have been well known to the adviser in his role as a senior executive of a large company. The businesses which have been assisted by advisers of this kind have obtained privileged access to scarce raw materials through their adviser's connections; they have also been able to sell their goods to large businesses, or to Governments, because their advisers have not only told them what opportunities exist but have personally led them through the intricacies of organisational procedures and formal systems which are associated with large organisations and which are often as important a barrier to the small business person as his technical or management deficiencies. The adviser can indeed become virtually an employee of his client's enterprise, and may take on the management, purchasing or selling function completely for a short period, thus effectively bringing the business into the modern sector from which the owner's origin, race or education may previously have debarred him.

Only an adviser with extensive experience and confidence, and a wide range of personal contacts, can provide this type of service; should Government or other official bodies attempt to encourage and expand it, by enlisting the services of foreign volunteers such as retired executives from the American SCORE Programme, by allowing large companies to deduct the costs for taxation purposes or by actually employing appropriate advisers, even though it is manifestly impossible for them to reach any but a small minority of the enterprises in their country? This question clearly raises issues of equity versus efficiency, but there are in addition important disadvantages to this form of intensive advice or consultancy.

Anecdotal evidence suggests that the changes tend not to survive the withdrawal of the service; a Kenyan farmer who occasionally helped geologists or local manufacturers by mining and processing small consignments of mica sheet, was intensively advised and assisted for six months; he started to employ numbers of local people, set up a regular cottage-based selection and processing facility with outworkers, and sent regular air freight consignments to Germany and elsewhere. His adviser found out what standards were required, obtained the orders, took the goods to the airport and introduced the owner to his own bank when he wanted to deposit the profits from the first consignment. The adviser had hoped that if the farmer concentrated on the mining and processing, he would develop his skills in these areas and would later be able to take on what amounted to the marketing and financial functions of the business. It proved impossible to persuade him to undertake these functions himself, however, and when the adviser withdrew the nascent business collapsed.

People who have assisted small enterprises in this intensive way will recall similar experiences; their help creates a dependent relationship, which may even reduce the client's ability to do things for himself when it is withdrawn, and certainly does not enhance it. Any form of advice runs the same risk but all the evidence suggests that the most effective external change agents, in terms of helping people actually to adopt innovations themselves, and not to have things done for them, are people who are as close as possible to their clients in every way except for their somewhat greater ability in the particular field where they are attempting to introduce change. A high level consultant is totally different from his client; he comes from the upper echelons of the modern sector and even if he is able successfully to relate to and work with people who are so different from him in every way, he is as unlikely to be able actually to develop most small business people's own autonomous ability as is a professor of philology to be an effective instructor for illiterates; the ends of the spectrum cannot meet.

Equity or efficiency?

There are occasions when the impact may be longer-lasting; the adviser may delay his withdrawal indefinitely, or the client may himself have come from the modern sector to start his own enterprise, so that he can find common ground with his adviser. Because the number of potential advisers is very small, however, and because this type of assistance demands long and frequent periods of contact, as well as time-consuming 'linkage' functions with suppliers of raw material, equipment, finance or with customers, only a very small number of clients can benefit. There seems to be an inevitable conflict between efficiency and equity. The same issue arises of course when deciding on policies for lending money, training staff, providing premises or indeed any other type of assistance; should resources be concentrated on the small minority who have high potential for success, or should they be spent on a far wider number? The issue of efficiency versus equity is as much a political as an economic one, but there is some evidence to suggest that for advisory services at any rate there need be no conflict; the most equitable service can also be the most cost-effective.

Inexperienced low-level consultants

In Western and Central Kenya some fifteen young people who dropped out of the education system after a total of seven years primary and four years secondary schooling are working with about three hundred small enterprises of many different types, providing them with simple advice in order marginally to increase their profits, turnover and the numbers employed. In North Eastern Brazil about fifty matriculates who failed to obtain university entrance are helping small businesses in various rural and urban communities, working primarily with potential and actual borrowers from a small business loan scheme. In Malaysia twenty people of similar education are advising small grocery store owners as part of a campaign to redress the inequitable control of economic activity between indigenous and non-indigenous people. In the city of Bhaktapur, in the Kathmandu Valley of Nepal, a small nucleus of young men, some with two years of intermediate education between school and university, and others who have only completed secondary education, are advising small-scale carpenters, textile weavers, garment makers and handicraft manufacturers. In the Republic of South Africa, young black matriculates who have been unable to proceed to university are working with black-owned small businesses in one of the sprawling townships outside Johannesburg, helping to prepare their owners for the day when they will be free of legal constraints on the place and nature of their operation, but when they will also have to stand up to unrestricted competition from the far more developed white business sector. Similar initiatives are being undertaken in Malawi, Indonesia, Botswana and elsewhere; how can people with no business experience, and limited education, provide any useful advice to small business owners who may have been in operation for many years, and may indeed be two or three times the age of their 'consultant'?

These programmes are helping different kinds of businesses, at different levels of technical and commercial sophistication and with different objectives, but they share certain common features. First, the advisers are young people, with no previous formal business experience, and they are educated to a level which is well above the average for their country; because education so often overtakes opportunities, however, they were, before working as business advisers, either unemployed or had positions well below their potential. Secondly, they have been briefly but carefully trained to follow a simple diagnostic and advisory procedure; by doing this they can identify the most common management weaknesses or other problems, and can propose appropriate remedies. Thirdly, they are regularly and closely supervised by somebody who has 'graduated' from the adviser level or has a rather higher level of experience; this controls client selection and calling frequency, and ensures that any basically erroneous recommendations are recognised and corrected before much damage can be done.

Cost-effective consultancy

Because they have had a relatively modest education, and no specialised business training or experience before becoming advisers, the advisers are not burdened by any irrelevant theories or preconceived ideas about how small businesses should be managed. Their educational attainments mean that they are of above average intelligence and energy, and their previous un- or under-employment means that they can be selected from a large number of applicants and can be motivated to work hard. Lower-level advisers of this kind may not make such an immediate dramatic impact on their clients as can the more experienced advisers discussed earlier, but they are also less likely to build dependent relationships with them. They can also be hired for rather low wages and do not expect cars or perhaps even motorcycles. Their services can thus be inexpensive per adviser, and per client, and the rather modest level of improvement in client profits, turnover or employment greatly exceeds their cost. In Cali, Colombia, clients of the DESAP programme pay for the advice they receive; this enhances the value of the service in their eyes and also helps to defray the cost.

Some of these programmes are in their early stages, so that quantitative evaluation is not yet possible, while others have incurred substantial 'start-up' costs which will not be repeated as they expand. Nevertheless some objective figures are available; in the first year of operation the clients of the Kenyan service added one hundred and twenty-two employees and the cost of the advisory services was $345 per job added. Their increased profit also exceeded the cost of the advisers by two and a half times to one. Observation suggested that during this period other non-assisted businesses in the area had changed very little. During 1979 the average cost per job added by the Brazilian clients was $700; this figure is less than one-tenth the cost of creating workplaces in large-scale enterprises, and no additional external resources were required.

Longer-term follow-up research in Kenya suggests that clients who had this type of advisory service some two or three years before maintain the improvements which they implemented as a result of the advice, and, more important, continue to improve their own businesses using the techniques of diagnosis and analysis which they learned from their advisers. These figures are based on rather small samples, and they beg many questions about the genuine long-term objectives of small business promotion; they nevertheless indicate that lower level advisers of this sort are susceptible to quantitative evaluation in a way that is unusual for much small enterprise promotion work, and that they can be cost-effective. A number of the advisers may be expected to resign and to start their own businesses as a result of their exposure to so many successes and failures; extension of this sort may be an economic form of entrepreneurship development as well as offering a valuable service to their clients on a generally equitable basis.

Application questions

— Do small business people who attend training courses actually apply what they have studied on their return to their own businesses?
— Are the individual advisory services that are provided for small businesses reaching any but a very small proportion of those businesses which could make use of the advice?
— Are the people who advise small businesses able to communicate effectively with them and understand their problems?
— Do advisers carry out a thorough diagnosis of their clients' problems, before offering advice, or do they try to introduce standard ideas or techniques without ensuring that they are really needed and able to be applied?
— Are small business advisers specialists, who can only deal with one type of problem, or generalists, who can find out what their clients need and refer them to the source of assistance that they themselves may not be able to provide?
— Is any attempt made to measure the costs and the benefits of small business extension?

Case study: the Luanda Bakery

Raphael Odinga is 67 years old. He served with the British Army in India during the Second World War and after the war he was employed as a cook by an English family. His employer realised that Mr Odinga was an able person and sponsored him for a bakery training course.

Mr Odinga then worked as a cook in an hotel for some time; he then went back home to his farm and a few years later he bought a plot of land at a County Council Market called Luanda and opened a shop. He turned this into an hotel and he and his wife ran this on a part-time basis; it was moderately successful.

In 1969 Mr Odinga thought that he could utilise his knowledge of baking by opening a small bakery in the back yard of his hotel to serve the local market. He built a small kiln of about five cubic feet using locally made bricks and he bought firewood locally to fire the oven; he employed two local boys to help him. The oven could only be used on a batch basis; the wood had to be allowed to burn for a long period, all the ashes then had to be removed and when the oven had cooled to the right temperature the bread had to be inserted. It was possible using this method to make only 600 loaves per day and he easily sold all this the same day as he made it. He bought wheat flour locally from an Asian wholesaler in the market and felt his business was a success.

Partnership for Productivity, an American-based organisation, had recently started a small business consultancy service in Luanda, and their Consultant decided to visit Mr Odinga. Mr Odinga knew about this service and was delighted to receive the Consultant. He told him right away that he needed money to buy more firewood and flour. The Consultant, however, noticed that the business was very badly organised.

Mrs Odinga operated the hotel while Mr Odinga ran the bakery although the two were in the same building and there was no attempt to allocate the income and expenditure between the two. There was no accounting system and no method of cash or stock control. Flour, yeast and firewood were purchased haphazardly and the premises were poorly organised and very dirty.

Mr Odinga used to buy a tractor-load of about seven tons of firewood every week for something between $25 and $40. It was sometimes very difficult to get a tractor to collect the wood and Mr Odinga spent a lot of time looking for firewood and then obtaining transport. He also had problems in obtaining regular supplies of wheat flour although he only needed two bags a day. Sometimes the wholesaler would be out of stock and Mr Odinga could not bake any bread on that day. Flour could also be obtained from a nearby town but the transport cost was prohibitive.

Mr Odinga was keen to work with the Consultant and since he himself was old and could not understand accounts the Consultant trained his son to keep the records. Soon both Mr Odinga and his son realised through their records that although the business appeared to be very successful and all its bread was sold in a matter of hours, they were making very low profits because the expenses were so high and they were only making approximately one cent profit per loaf.

The PfP Consultant concluded that more working capital was needed to finance weekly purchases of flour, and more firewood. He recommended that Mr Odinga should obtain a loan from a Revolving Loan Scheme which his organisation had sponsored in Luanda Market. Mr Odinga submitted an application to the Market Committee and was granted a loan of $300 to be repaid in twelve months with two months' grace period at an interest rate of 10%. He followed most of the Consultant's advice, and as a result his business started to improve and become more profitable.

The Consultant thought Mr Odinga could solve the firewood problem by introducing better methods of production which would also increase the amount of bread which could be produced. A PfP Specialist Technical Consultant designed a modern kiln with two baking chambers and ground firing which could be used continuously for 24 hours without refiring.

Mr Odinga accepted this idea and together with the Consultant he started to construct a new kiln, with capital from his own resources. It took them one week to build the kiln and production trebled. Mr Odinga was soon producing 2,000 loaves per day or even more at the peak season. His production costs were drastically reduced and his next financial statement showed that he was making a profit of $500 per month or 2½ cents per loaf.

After four months, however, the new kiln broke down and they found that the iron bars were unable to resist the high temperatures and the cement had dried up so that the bricks were not properly held together. Mr Odinga did not give up and with the Consultant's help he constructed a stronger kiln and started production again.

When this kiln was completed Mr Odinga was able to produce 4,000 to 5,000 loaves per day on a single shift of twelve hours. He now employed four more people which brought his total labour force up to ten; himself, his wife who was in charge of the sales, his son dealing with the accounts, four people in the bakehouse, one in the finishing and storage house and two others for miscellaneous jobs.

Commentary

This successful story includes many of the elements that can make individual consultancy a very effective form of assistance.

The Consultant was based in the local market and was therefore aware of the baker's experience and entrepreneurial qualities; he was not merely an occasional visitor. If Mr Odinga had attended a course on book-keeping, he would probably have learnt nothing; as it was, the Consultant was able to see that he himself was unlikely to be able to do his accounting, and to involve his son in the business.

The Consultant did not accept Mr Odinga's own assessment of his problems, but helped him to install a simple accounting system. More importantly, however, he did not treat this as an end in itself, but showed the owner and his son how to *use* the figures in order to improve the business.

Partnership for Productivity also sponsored a Revolving Loan Scheme, administered by Village Market Committees with a minimum of central supervision. Since there was effective liaison between the two programmes, the Consultant was able to refer the baker to the Loan Committee, and thus to help him to secure the finance he needed to expand his business.

PfP also provided specialist technical advice; the Consultant was not an expert in bakery oven design, but was able to refer his client to somebody who was. The Consultant was also willing actually to work with the client and to help him construct the kiln. Nevertheless, the client still had to pay for the service, and this probably enhanced its value in his eyes.

Many small business people experience difficulties with new techniques after they have adopted them. If they have been learnt in a classroom, or introduced by an agency which does not maintain contact, they may lose interest or fail to resolve their difficulties. In this situation, however, the Consultant was in regular contact with the baker and was able to provide specialised technical assistance as soon as the oven broke down.

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CHAPTER 9

APPROPRIATE TECHNOLOGY

The crucial issues

- What makes a given technology appropriate or inappropriate in a given situation?
- What is the difference between appropriate and intermediate technology?
- Why is inappropriate technology often preferred over that which is appropriate?
- Are there processes for which there is no choice of technology?
- Should technology lead or follow the general process of economic development?
- Is it necessary to develop new appropriate technologies?
- How can appropriate technologies be most effectively promoted?
- What role can foreign agencies, manufacturers of equipment, universities and Government play in the development and dissemination of appropriate technologies?
- Who really influences technology choice decisions?

What is 'appropriate'?

The term 'appropriate' might appear in itself to cast doubt on the necessity for all the nationally and internationally funded attempts to promote the technology it describes; if it is appropriate, why does it have to be promoted at great expense by outside agencies?

It is first necessary to decide what is meant by 'appropriate technology'. On the face of it, this is quite simple; technology is said to be appropriate when it is the most economic, that is the cheapest, way of performing a certain function in the context of the costs of resources where it is to be used. If it costs $1,000 a year to rent or own a machine which will save one man's wages, it is appropriate to use this machine if wages are over $1,000 a year and inappropriate if they are below that figure. The most obvious factors to be considered are labour, capital and raw materials; appropriate technologies will also be 'right' in their choice of raw material, and decisions as to whether to rework or to scrap defective products will similarly be a function of the respective costs of the materials and machine time lost versus the cost of the labour to be employed.

In one sense, whatever people are doing at the moment must be appropriate because they have decided to do it. The decision may be based on insufficient information, faulty calculations, fear or perceptions of appropriateness which differ from those of the outside observer, but even in these circumstances it can be argued that the cost of improved information, of greater ability to calculate or change individual perceptions is, in that context, greater than the cost of using whatever technology has been chosen. Development is about change, and if the concept of appropriate technology were to be thus rigorously applied it would effectively deprive technology of any formative development role; whatever methods are being used now are right for today's conditions, and change will only be appropriate when these conditions change as a result of intervention from some other agency which is not so concerned with appropriateness. Advocates of appropriate technology do not go to these lengths, but the danger is there; over-enthusiastic promoters must beware of idealising existing methods, and thus abdicating any responsibility for introducing change, precisely because these methods so perfectly match their environment.

The word 'intermediate' has generally been dropped in favour of 'appropriate'; they are in fact not alternative labels but are saying two different things. Appropriate technology is that which is most economic in a given set of circumstances, while intermediate technology is that which lies between the most primitive and the most advanced; it may or may not be appropriate in a given situation, but the word 'intermediate' is not wholly relative and may prevent both glorification or what is already being used as well as blind introduction of the latest technology from outside.

Technology at the 'leading edge'

Development is not an even process, any progress will only come as a result of imbalance. Rising expectations are eventually fulfilled, the educated unemployed find jobs, and lower death rates are followed by lower birth rates. Technology can and must play its role, and the appropriate technology, in terms of its contribution to development, may be one which is marginally uneconomic in the context of existing resource costs, but which will generate employment, create markets and stimulate improved skills so that it will draw the rest of the economy up with it. Those countries which were the first to industrialise were fortunate enough to have to develop new technologies for themselves, and even the most revolutionary inventions evolved naturally from what preceded them. The steam engine at first operated the same machinery as the water-wheel, and iron was smelted with coke more or less as it had been with charcoal. Countries which have enjoyed the fruits of the industrial revolution at second-hand have sometimes been considered fortunate, because they are spared the gradual process of evolution which characterised the original development of technology. Like some mythical god, they could spring immediately to adulthood, and be able to select the best technical, institutional and social forms from all the experience that had gone before.

Many have of course tried to do this, and the high barbed-wire fences which surround the Hindustan Machine Tools factories in India, the steel factories of Ciudad Guayana in Venezuela or the multinational assembly plants which stand beside the superhighways from African airports to city centres dramatise the resulting massive disequilibrium. The gap is too wide, the technology is too inappropriate and a dual economy which must be enforced by barbed-wire fences, by urban planners, or even by the laws of Apartheid, is the inevitable result. Technology can play a leading role in development, like the entrepreneurs who put it to work, but it must not move so far ahead that it loses touch altogether.

Non-economic factors

Appropriateness is not merely a matter of economic cost of capital, labour and materials. There are numerous other factors which affect and are affected by choice of technology, and which are less easy to quantify but still more dangerous to ignore. It is not easy to ensure long-term maintenance for new machines, or to forecast the availability of foreign exchange for necessary materials or spare parts. It is still more difficult to predict the effects of new technology on the people who will have to operate it. It may destroy or conflict with their social institutions, or it may demand attendance which is widely inconsistent with time honoured traditions of individual or group behaviour. The investor may be concerned to run his machine properly, while the policy maker should also spare some time for social consequences, but both may be disappointed.

On a more mundane but no less vital level, the likely future availability of electricity, water or other services may be questionable at best; air-conditioning may promote high office productivity, but buildings which are designed to make the best use of it are generally most uncomfortable without it. An automated spaghetti factory in Kenya uses more capital than a less modern version which produces the same product, but it only requires one Italian technician to supervise and run it. The more labour intensive plant would have required a larger labour force who would have had to be trained and supervised; the modern plant was readily available, easier to run and probably more profitable.

Is there a choice?

These considerations are all fairly obvious, if sometimes difficult to quantify, and any rational investor will take them into account when deciding between alternative technologies. One basic reason why apparently inappropriate methods are used may be that they are the only ones available for a given function; nothing is ideal, and if there is only one way of performing a particular task that is the appropriate way. One must therefore ask whether there are in fact real technology choices in most industries; can the small-scale business person, or whoever is advising or financing him, choose between alternatives or is he in fact compelled to take a particular package which may have been designed for totally different circumstances, because nothing else is available?

A visitor to showpiece small enterprises in many poor countries might conclude that there is no choice, but if he goes outside the neat small-scale nursery estates and beyond the reach of the international adviser he will find that choice does exist; investors who are guided by their wish to maximise their profits, and contrained by their failure to obtain subsidised loans, devise their own technologies which are altogether appropriate to their situation. It is well known that cloth for garments may be cut singly with scissors or in multiples by electric cutting machines or even laser beams; shoes can be made on a fully automated closing machine or the uppers can be pulled by hand around a wooden last. Similar choices exist in almost every other industry, and while there may be no alternative to rockets and satellites for interplanetary travel, there are few other tasks for which alternative technologies do not exist.

If somebody was asked to suggest products where there might be no choice he might well nominate gasolene or printed circuit boards. There is in Indonesia an oil refinery where the cracker is made of old oil drums welded together, and where usable gasolene and kerosene are refined from crude petroleum. During the Nigerian Civil War the rebel air force used gasolene refined in a similar plant. In India printed circuit boards are made by a cottage industry, and even saline drip for intravenous injection, where the most stringent hygiene conditions must be maintained, is made and bottled in a converted barn. The enterprise employs some five people, and its products have been shown to be of the same or a higher standard as those produced by international pharmaceutical companies with all their latest equipment. Cement, sugar, steel reinforcing bars, plastic containers, motor vehicles and even aeroplanes can be made on a small scale, using labour intensive technology which is appropriate for the resource costs of poor countries. The basic process of etching the circuit board, or passing the steel billets between rolls, may be identical to the most modern technology, but all the ancillary functions which move the material to and from the basic process, control its operation and otherwise support it, can be modified in order to save capital. An inventive entrepreneur, who has not been so thoroughly educated that he cannot break down the task into its component parts, can successfully design processes which are appropriate to his own situation.

Used equipment is also widely available, even if it is very little different from new machinery; it is cheap because it may break down more often, spare parts may not be easily available and a proportion of its working life has been used. Repair and maintenance is labour intensive and small engineering enterprises are used to making their own spare parts because foreign exchange is unavailable. It therefore makes little difference whether or not they are still made in their country of origin. Demand in the market area which can be covered by a small business may only require a few hours' operation of the machine every day or week. This allows regular maintenance, and means that the remaining life of the equipment, measured in years, will be far longer than if it was to operate around the clock to satisfy the demands of a more wealthy economy.

As incomes rise and labour becomes more expensive in relation to capital, manufacturers in rich countries are forced to discard equipment which has many years of useful life; it can then be purchased at very low prices for use in countries at the next stage of industrialisation, who may in time pass it on yet again to those behind them. This already happens with passenger aircraft, and industrial entrepreneurs with the funds and contacts are regular purchasers of second-hand equipment in Europe and North America. Appropriate technology should be more profitable for its users as well as more beneficial to society, and alternatives do exist; is the battle therefore not won, and can Governments, organisations and academics not turn their attention to other causes, secure in the knowledge that enterprises will choose, and banks approve, methods which will both maximise their profit and serve the national interest?

Why is the 'wrong' technology used?

The sole surviving defence of inappropriate technology might appear to be the basic economic distortions which were mentioned in an earlier chapter. If interest rates are allowed to rise to a level which will elicit sufficient funds to satisfy demand, if minimum wages in the modern sector are allowed to fall to a level which is not too far from the minimum at which people would be willing to work, and if imports are not subsidised by artificially protected foreign exchange rates, will not all be well? This is a big 'if', and may indeed be impossible to attain, but it at least narrows the field of conflict or persuasion; if these are indeed the only constraints, the promoters of appropriate technology should close their laboratories, their demonstration units and their newsletters and join the ranks of those who promote economic sanity to Governments.

There are, however, other reasons why inappropriate technology is used, and will continue to be used even if economic sanity prevails. A small-scale entrepreneur may have to choose between more or less expensive pieces of machinery, or even between home-made and purchased equipment. If he is a contractor, who has to excavate large quantities of earth, his choice may be between people with their own hand tools or an expensive machine, so that the labour intensive choice, which may be only marginally more 'appropriate', involves no capital outlay at all. Whatever options are open to him, he will attempt to obtain information about them. When one alternative involves machinery purchased from an outside supplier, whether it be local or foreign, this supplier will attempt to influence the decision in his favour by giving the entrepreneur clear and attractive information or by sending persuasive and well-informed sales representatives to plead the cause of their equipment. If the more 'appropriate' alternative is less expensive, its manufacturer will not be able to afford a similar promotion effort, because the importance of the sale is proportionately less. If it involves no purchase of equipment at all the labour intensive alternative will have no outside advocate; it will have to stand on its own merits, and the inexperienced entrepreneur may well be swayed by the attractive presentation from the machinery salesman when he compares it with his own rough estimates or his present unglamorous methods.

The capital requirement of a labour intensive alternative is bound to be lower by definition, but a greater proportion of the necessary funds are likely to be needed for working capital rather than for fixed capital. Many small enterprise lending schemes do not provide any working capital at all, but refer borrowers to generally unsympathetic commercial banks for all but their medium- or long-term requirements, while others are willing to fund 100% of fixed capital, but only 75% or less of working capital. The banker may also be as impressed as the entrepreneur by the equipment manufacturer's presentation; if a proportion of the money lent will eventually end up in the banker's own pocket via the supplier or the borrower, he is all the more likely to recommend expensive equipment.

Second-hand equipment

Second-hand equipment usually has to be sought out and bought at depressing auctions in derelict factories, or discovered in the poorly circulated and rapidly redundant lists of used machinery dealers. The dealers cannot match the promotion methods of the manufacturers of new equipment; it is in the nature of their business to distribute a wide range of types of equipment, so that the promotional effort required for one model cannot be spread over a larger quantity. Entrepreneurs in the poorer countries of the Caribbean have often had working experience in the United States and can easily visit their old contacts and find second-hand machinery bargains. 'Guest workers' from the Indian sub-continent or elsewhere sometimes repatriate their savings in the form of used machinery with which they can start a small business at home.

A biscuit manufacturer in East Africa was fortunate enough to have connections in Europe. On a three-week visit he found and purchased a tunnel oven which was immediately available and was ideal for his production volume. He would have had to pay three times as much and wait six months for a new machine which would have been too big. Such contracts, and the necessary cash, are not available, however, to the vast majority of small business people in the poor countries of Central and Southern Africa, Latin America and South East Asia.

Governments also play their part in discouraging the import of second-hand equipment; they may forbid it altogether, as has been done in Indonesia, or they may levy a punitive rate of duty such as the 30% charged in Colombia. These measures may have been introduced with the best of intentions; foreign investors have on more than one occasion artificially inflated the value of their investment in joint ventures by contributing over-valued second-hand machinery, business people who wish to evade foreign exchange controls often import second-hand equipment at inflated prices from suppliers who will bank a proportion of the price locally in the importer's name, and unscrupulous traders have on occasion successfully disposed of faulty second-hand equipment to ignorant investors in poor countries. It may be, however, that the cure is worse than the disease, and any Government which is tempted to forbid or even to discourage the import of second-hand equipment should carefully investigate different ways of achieving the same objective.

Large-scale, more capital intensive and less appropriate technology appears therefore to enjoy a number of 'unfair' advantages which may incline investors in its favour even when their own, and certainly the country's, interest would be best served by the use of different methods. How can the balance be redressed so that users and those who influence them will select what is most appropriate at a particular time, rather than succumbing to the persuasive arguments of the manufacturer selling his most expensive item?

Any intervention involves subsidy or distortion, and in this case one reason for the subsidy is the fact that the less appropriate alternatives are themselves being indirectly subsidised; this may seem perverse, but the promoter of small enterprise must take the world as he finds it, rather than complaining that it is not otherwise. Subsidies can reduce the purchase price of what is to be subsidised to the user, or reduce the costs of making it to the manufacturer. Inappropriate equipment is effectively subsidised by artificially supported interest or foreign exchange rates, but since the more appropriate method is often made by the user himself, or involves no equipment at all, any compensating subsidy for formally traded appropriate equipment would add a further level of distortion, and would inevitably discriminate against the informal equipment manufacturer or the user who makes his own.

'Marketing' appropriate technology

The problem may be stated in marketing terms: the 'product', that is actual equipment, designs for equipment or the potential for locally designed solutions to technical problems, already exists; it is, however, not being effectively marketed. The marketing failure in itself can be similarly analysed: some of the target consumers are not aware of the possibilities, some lack the skills to decide for themselves what technology is appropriate while others may appreciate the economic benefits but may be blinded by the glamour of the more modern solution. The promoter must therefore overcome the lack of information, the skill and the attraction and must also identify those who influence technology decisions, since they may be people who can be more easily reached than business owners and prospective investors themselves. Bankers and their field representatives, if any, are possibly the most important influence on small enterprise investment decisions, since they approve or reject loan applications. Appropriate technology may, however, mean no investment and hence no loan; bankers may welcome any excuse to explain rejection, but there is in fact a shortage of properly presented viable proposals; the banker will be very reluctant to turn down one of these because it happens to incorporate technology which is said not to be appropriate.

It may therefore be necessary to reach out beyond the banks to small business people themselves, in order to influence their plans and to discourage them from applying for funds to buy inappropriate equipment. This brings us back once again to training and extension; inappropriate technology is often the technology that other people use, while our own choice is correct, so any classroom treatment of the subject must, like any attempt to influence behaviour through training, relate specifically and obviously to the kind of decision individual participants are likely to make. Extension advisers can be trained to recognise unprofitable proposals, and to 'sell' more appropriate methods; they must in fact play the role of sales representatives in order to match the promoters of more expensive equipment.

Demonstrations and promotion

It is difficult to promote any technology without physical demonstration, but simple techniques, which may not require any purchased equipment at all, cannot easily be illustrated in full-colour catalogues or sales literature. The well-meaning foreign adviser may feel that his duplicated data sheets on recycled paper are a more appropriate form of promotion, but the prospective purchaser will be more interested in full-colour illustrations of gleaming equipment. Physical demonstration of capital intensive alternatives may be expensive for its manufacturers, and may dramatise its reliance on imported materials, electricity or highly trained staff. Locally made equipment, and equipment which the small business person can build for himself, are cheap to demonstrate and may encourage emulation. Agricultural demonstration plots are used both to promote new innovations and to develop locally appropriate variants; the same method is used to demonstrate appropriate technologies, and demonstration units have proliferated throughout the developing world.

Some of these are on university campuses, which are themselves physically and intellectually about as remote from the reality of small business as it is possible to be, while others are in pleasant suburban areas, conveniently close to the houses of the foreign experts who direct them. Some indeed are in industrialised countries, and are used to show visitors and students from the developing world the kind of technology they should adopt; this may be a necessary antidote to the irrelevance of much of what these people are taught or observe, but such efforts do beg the question of the appropriateness of training people so far from the countries in which they are to practise what they have learned. Other units are closer to their market, but the prototypes on display have usually been designed and even made in a university laboratory, in modern workshops or in a development research institute in another country; their promoters only rarely ask local craftsmen to make them.

Marketing support

In spite of all these efforts, there still seem to be two sets of appropriate technology: one is largely confined to demonstration units, manuals or full-colour photographs in the corridors of international agencies, while the other is designed and used in small enterprises. There is some overlap, when an idea is 'discovered' in one country and vigorously promoted in another, but the promotion process seems generally to operate on a different level from that of the enterprises it is intended to serve.

People adopt new methods either because they are exotic, exciting and impressive or because they have themselves developed them in response to their own changing needs. Introduced appropriate technology fulfils neither condition and remains in demonstration units and manuals, while in the real world outside small enterprise people work out their own salvation or succumb to the persuasion of international salesmen. The remedy may lie in either direction: the technology can be 'improved' so that it becomes as exotic and impressive as the inappropriate alternative, without losing its essential qualities, or the basic principal can be subtly introduced to the users or manufacturers themselves, so that they can themselves, if they feel the need, modify and adapt it and evolve their own solution which may or may not incorporate the principle which was being attempted to be introduced.

The first approach is best left to the private sector; local manufacturers should be encouraged to improve the visual appearance of their products, to advertise them properly and to employ salesmen to promote them to potential customers; Government can assist by training and advising them in basic marketing, by incorporating their equipment into standard business proposals and by treating any proposed import of competitive large-scale plant with great suspicion; manufacturers should also be allocated their fair share of scarce raw materials or other services.

Support of this kind achieves two objectives: it assists local manufacturers who are usually small-scale enterprises themselves, and it also assists the other small firms which will buy their equipment. This approach is particularly suitable for promoting local labour intensive milling enterprises which can serve a village market, can save transport costs and may produce a more nutritious product than their larger-scale competitors. These mills can be made and sold by local small-scale firms, and Government involvement in actual manufacture, or in distribution, is generally unnecessary since an entrepreneur can earn a reasonable profit by doing it himself. The technology exists, and if new ideas are developed, or bought from other countries, it is better for prototypes to be made and tested by firms of this sort; they will be only too glad to take on their manufacture and distribution if there is a genuine demand for them. University-based demonstration units are far less likely to be able to introduce new technology than a manufacturer who is in business to make money by making and selling what people need.

Indigenous technology

The other approach is necessary if the technology does not involve a machine whose manufacture forms the basis of a profitable enterprise, or if a particular group of entrepreneurs cannot afford to pay for such a machine. An individual enterprise, or a group, must be subtly encouraged to take over and adapt whatever is appropriate from a new idea, so that they will eventually and correctly believe that the final product or method is their own. In Tanzania and in India farmers have designed their own hand irrigation pumps; they have incorporated some design features from samples which were introduced from outside, but the pumps are basically local products, which fit into the local farming system, use local materials and can be operated by the women or children whose social role it is to take water to fields.

Far more innovations of this type, of course, are developed by small-scale technical entrepreneurs without any outside assistance or knowledge. A practical village mechanic, with no formal training, can design the most effective jigs and fixtures, and many village workshops have a full complement of guillotines, bending machines and other metal forming equipment which they have themselves manufactured, often from scrap materials. A manufacturer of vehicle door handles in Sri Lanka built a complete horizontal milling machine because he could not buy one to suit his requirements, while another technical entrepreneur developed a complete system for making multi-core welding rods, which he operated in his kitchen. Farmers have shown themselves capable of developing more productive new seed varieties than expensively funded agricultural research stations (Biggs, 1980, p. 23); research and development within small-scale non-farm enterprises can similarly yield new technologies, whose ready adoption proves how much more appropriate they are than the results of research in universities and technical institutes.

It is easy to measure the output of attempts to promote appropriate technology in terms of the number of bulletins, information centres, demonstration units and extension staff. These are in fact the costs rather than the achievements; they must be placed on the negative side and compared with the benefits in terms of equipment actually used or made, enterprises created and people employed. Many so-called 'projects' to promote appropriate technology, or even whole promotion organisations, would signally fail to show a positive balance if their work was evaluated in this way. The resources employed might be better used to promote and assist development and diffusion of appropriate technology by small enterprises themselves, or to persuade Government to change ill-conceived economic policies which artificially destroy the natural identity between the interests of the individual investor and of society at large.

Application questions

— Are the technologies that are being promoted by official organisations *really* appropriate in every way for local conditions?
— Are the demonstration units, bulletins, seminars or other methods of promoting technology themselves appropriate for the target audience who actually choose between various technologies?
— Are inappropriate production processes sometimes used because there are believed to be no alternatives, when in fact only one small part of the process cannot actually be changed?

- Are entrepreneurs and other investors encouraged and assisted to make the maximum use of second-hand equipment, of local or foreign origin?
- Do Government or other regulations such as foreign exchange control, import restrictions or the demands of banks discourage appropriate technologies by making inappropriate ones less expensive than they would otherwise be or more easily approved because they are quickly and easily appraised?
- Are private sector manufacturers being encouraged to play their full part in promoting the adoption of appropriate equipment they happen to make?
- Are allegedly appropriate technologies being newly developed or brought in from abroad, when more suitable methods are already being used by local small businesses and could easily be adopted by others?

Case study: animal feed from brewery waste

Until a few years ago the large-scale brewery in Kumasi, Ghana, was having every week to pay large sums of money to contractors to remove and dump 100 tons of spent barley which had been used in the brewing process. At the same time farmers who bred chickens, pigs and cattle had to rely almost entirely on imported feedstuffs for their animals.

Now, as a result of the initiative of one entrepreneur, and the work of the Technical Consultancy Centre of Kumasi University, the brewery in Kumasi and other brewers are selling their spent grain, farmers are able to obtain less expensive feeds made from local material, and a substantial industry has been created to convert the once useless by-product into a valuable raw material.

The Technical Consultancy Centre is an autonomous unit within the University of Science and Technology, at Kumasi, which was set up in 1972 by a group of lecturers who were anxious to make some of their expertise available to small-scale manufacturers in the area. The University made an initial grant of about $3,000, and the Centre's resources were substantially increased by further grants from the Univeruity and by assistance from abroad.

By 1977 the Centre had a professional staff of seven, all with a background in engineering, science or agriculture; its total budget was about $300,000 of which some 45% was raised from the sale of equipment and of finished products from the Centre's own Production Unit.

The staff of the Unit, and others within the University, have carried out a great number of research and development projects, in areas as diverse as weaving, glass bead manufacture, agricultural equipment, soap manufacture and non-ferrous casting. Large numbers of existing and would-be business people contact the Centre for advice on technical problems, or for ideas for new ventures, and the animal feed industry in fact originated from one of these contacts.

One of the Centre's staff had earlier considered the possibility of using the spent grain from the brewery, and had in fact obtained and analysed a few samples. Brewers in other countries, however, used highly automated large-scale presses and drying equipment to remove the high content of water from the waste products. The Kumasi brewery was unable to obtain foreign exchange for such equipment, and no alternative appeared to be available which was within the resources of local enterprises.

An entrepreneur who was anxious to start a business approached the Centre, and they suggested that he might like to take up the idea of converting spent grain. He eagerly accepted, and after experimenting with the help of the Centre's staff produced a simple but effective press to remove the excess moisture. They thought that the grain could be finally dried in the sun, during the dry season, but they started work on an oil-fired drier for use during the rain.

The entrepreneur had meanwhile acquired a site and constructed a suitable compound for drying the grain. He bought the press, on a three months' trial basis, and found that he could sell all the grain he could process. The Centre continued work on the drier, but the entrepreneur found that it was possible to dry the grain in the sun even during the rainy season. He eventually bought three more presses and now runs a successful business.

The Centre helped him to make an agreement with the brewery to guarantee his supply of raw material, and local farmers are benefiting from the ready supply of an economical and nutritious feed for their animals.

Commentary

We saw earlier that many attempts to introduce appropriate technologies are doomed to failure. What were the reasons for success in this case?

This is by no means the only occasion when local entrepreneurs have successfully adopted ideas from the Technical Consultancy Centre, and it may be significant that the initiative for the establishment of the Centre came from staff of the local University, and not from any outside advisers or Government. The initial funding was also very meagre; the Centre was forced from the outset to rely heavily on revenue from its own work, rather than grants, and this has ensured that all the Centre's activities genuinely satisfy a local need.

The University where the Centre is based is a University of Science and Technology, and all the staff are practical people in the disciplines of engineering, science or agriculture. They are, perhaps, more likely to spend time in the workshop with a welding torch than in the office with a calculator, and their first priority is to produce reliable and locally appropriate equipment, which local business people are willing to pay for, rather than to work out elegant social cost–benefit analyses which are meaningless to the people who will actually have to run the businesses.

The spent grain idea was not a ready-made 'project' which was given to the entrepreneur. The equipment was designed and produced in consultation with him, and he was not forced to purchase the drier which practical experience proved to be unnecessary. He paid an economic price for the equipment he actually needed, and was able to approach the Centre for further assistance, with negotiations with the brewery, some time after he had set up his business.

The business uses local raw material and locally designed and manufactured equipment to make a product for the local market. Outside experts rarely seem capable of establishing genuinely viable enterprises of this sort, perhaps because their very origin blinds them to the ample resources and opportunities which are available in every country to those who rely on local entrepreneurs to exploit them.

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naturally sold elsewhere. The managers were unable to help with raw material supplies, because this was not their official task.

Governments may find it unpalatable to admit that private individuals can perform such tasks more effectively than they can, but the obvious solution is for the whole operation to be 'privatised', by selling the shops to private entrepreneurs. The Government may be able to persuade or pay the new owners to continue the debt recovery service, but there is no reason why this should necessarily be associated with the marketing outlet. Small business lending of this type is as inappropriate a function for a Government Department as the operation of retail shops; the Government should also hand over the loan scheme to a bank if at all possible, and should confine its own activities to indirect promotion and encouragement rather than direct operations in the commercial world.

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CHAPTER 11

CO-OPERATIVES

The crucial issues

— Are the principles of co-operation generally applicable to small non-farm businesses?
— What is the difference between a service and a producer co-operative?
— Why do co-operatives so often fail?
— What role can or should Governments, politicians and assistance agencies play in the promotion of co-operatives?
— What functions are generally associated with successful co-operatives?
— Should small enterprise promotion agencies with limited resources attempt to promote co-operatives at all?
— Is the co-operative form of organisation necessarily incompatible with the individual entrepreneurial attitudes which are necessary for small business success?

The middle way

The previous chapters focused on ways in which small-scale enterprises might be encouraged or helped to do for themselves, and for other small enterprises, those tasks which their small scale made difficult. It was argued that if small businesses cannot individually perform a certain function, that function can itself constitute an activity for another small business; middlemen should be encouraged to supply raw materials and market small business products, and moneylenders should not be rejected as a source of capital; if there is room for two or more small enterprises of this type, and if collusion can be prevented, small businesses will through their agency be able to enjoy the economies of scale which their own individual operations deny them. Alternatively, and less enthusiastically, it was suggested that State-sponsored organisations can sometimes carry out some of these functions, although they should regard themselves as complementary and competitive to private suppliers rather than demand monopoly privileges.

The analysis deliberately ignored the 'middle way' offered by co-operative activity; if small enterprises cannot do something for themselves, if other businesses exploit them and if the dead hand of Government bureaucracy is even less successful, why should they not get together jointly to provide themselves with those services that individually they cannot afford? This is an immediately attractive solution to almost every small enterprise problem, which seems to hold out the promise of allowing them to have their cake and eat it; they can retain their independence and function as individual enterprises, in every way that is economic, and can share with others in the same position the investment, the services and the profit to be made in carrying out activities which are beyond the scale of a single business. The possibilities are innumerable, and an outside adviser may be tempted to recommend joint activity as a solution to almost every problem. A number of independent water-tank makers in Kenya have to spend time and money having the corrugated steel sheets rolled to shape on a special machine, but their individual needs would only occupy the machine for a few hours a week; surely they should come together to buy a machine, and operate it jointly while continuing to make up and sell the tanks as independent businesses? Furniture makers in a town in Nepal are short of timber because no one unit can use enough wood to buy a complete tree and the timber contractors with forest cutting concessions are not interested in supplying less; why do they not get together to buy a whole tree and divide it among themselves according to their needs? Village confectionery makers in Indonesia cannot leave their businesses for long enough to travel to the cities to sell their products, and the profit margin on the production of any one manufacturer is insufficient to pay the cost of such a trip; why do they not jointly hire a full time salesman to sell their combined production to city shops? The same approach can be applied to credit, buildings, export marketing or other specialist tasks such as accountancy, maintenance, machinery, transport or training. The fact that an enterprise exists at all suggests that its main function is economic at the scale at which it is carried out, but there will inevitably be other ancillary services which require a larger volume to be viable; co-operative enterprise can overcome this problem, and enable small business people to enjoy their independence and to share the benefits of scale when it is necessary.

There are further social and political arguments which make the case even stronger. Services which are uneconomic for a single enterprise may in the past have been performed by aliens. National political independence is meaningless if such people have a stranglehold on the economy by monopolising certain key services, but if they are replaced by local citizens the effect may be merely to replace foreign exploitation by indigenous exploitation; the basic problem will not be solved, and domestic middlemen may prove even harder to dislodge than their foreign predecessors. Traditional agrarian societies are often based on principles of co-operation and self-help, whereby people come together to perform tasks such as house building, harvest or hunting which are beyond the power of one man. Many wealthier societies whose growth has been based on individual enterprise rather than co-operatives regret the loss of this tradition of family and community support which they also shared before they were 'developed'; should not poor countries be warned by this experience, and promote co-operative enterprises whenever possible?

Every developing country has appreciated the potential of co-operative activity. Some such as Tanzania or Guyana have incorporated the principle of co-operation into their whole constitution, while others have applied it in a more pragmatic way, but nevertheless extensively, simply because it is such an obvious solution to so many of the problems of reconciling the individual's interests with the need for larger-scale activity. Given a choice, it is politically far more attractive for an official organisation, or a foreign donor, to help a co-operative than to help an individual. The individual will gain the benefit of whatever goodwill his success may generate, and will also become richer; an outside patron can claim the credit for the success of a group and Government cannot so easily be accused of helping some individuals to become richer at the expense of the rest of the community.

Agriculture has of course been the main field of application; the transition from subsistence to a cash economy means that small farmers have to buy and sell while previously they only worked and consumed. Co-operative forms of organisation seem to be ideal for this purpose, whether they are introduced to replace extortionate private enterprises or at the first stage of farmers' entry into the monetary economy. This policy has entailed a substantial institutional and legal infrastructure; Registrar's Departments, Ministries of Co-operatives, Co-operative Colleges and Co-operative Banks have been established either as products or originators of co-operative development, and since the problems of small non-farm enterprises are so similar, it is obvious that the same approach should be used to help them.

Service and producer co-operatives

It is important at this stage to distinguish between two types of co-operative enterprise which share some common characteristics but are in fact so different in their origins and operation that it may be unfortunate that they are both known by the same title. The examples given earlier of enterprise problems which appeared susceptible to a co-operative remedy involved a number of independent businesses which, it was suggested, should jointly establish a separate enterprise to provide themselves with some service they could not individually provide for themselves. This would in no way affect the independence of their main activity; the individual business would be a member of the co-operative but would buy from or sell to it just as it might do business with another independent enterprise. The membership might be in the name of the individual or his business, if they are legally distinct entities; the co-operative pays some interest on the original subscriptions, which may or may not be equal for all members, and each member has in theory an equal say in its management. The profit, or surplus as it is more commonly called, is distributed on the basis of each member's use of the service. There is therefore nothing egalitarian in the arguments for such an enterprise, it is purely a matter of economics. This type of co-operative, whose role is peripheral to the main activity of its founders, although no doubt important, can be called a service co-operative.

A producer or workers' co-operative, however, is one where people get together to acquire not a peripheral service but employment itself; they subscribe or otherwise obtain the necessary funds and create their own enterprise, which may be large or small; one of their number will be the manager and they may in time employ non-members, but the members will constitute the Board of Directors, the shareholders and the majority of the workers. The members of a service co-operative start it, own it and direct it, but they are its customers and not its workers; the co-operative in fact supports and improves their individual enterprises. These are their major concern and there is nothing inherent in the principle of such a co-operative to prevent its members from competing with one another, from earning more or less money from it or indeed from ruthlessly exploiting the people employed within it. Producer co-operatives imply a less individualistic and more socially oriented concept of human relationship; they provide members with their complete livelihood, rather than being an adjunct to their main activity, and represent an approach to the control of capital and economic activity which is fundamentally different to the individualistic entrepreneurial model on which Western economic development has largely been based.

Most co-operatives in poor countries, and in rich ones as well, are of the first type; there are more farm co-operatives than there are co-operative farms. Since there is no shortage of small-scale farmers, this is perhaps natural but non-farm enterprises are rather different. Existing enterprises will not be able to absorb all the millions of new entrants to the labour market which national and international analysts say they must. It is necessary that there should be more small enterprises, to replace those that fail and to increase the total number. There may not be enough entrepreneurs with the necessary attributes to start their own private enterprises, or individual or national prejudice may prefer a social rather than an entrepreneurial basis to enterprise; in either case the producer co-operative is an attractive alternative. The target membership and fundamental purposes of the two types of co-operative are thus very different; one thing which they do share, apart from their name, is a history of failure.

Co-operative failure

Even the best-organised development banks have some part of their loan portfolio which causes concern or is perhaps best forgotten, and this is usually their loans to co-operatives. When co-operatives have taken over the marketing function from private intermediaries, the results have often been either that the goods are not sold at all or that the co-operative finds it necessary to impose even higher gross margins than the allegedly extortionate middlemen they replace. Co-operatives have in some parts of India and elsewhere developed into an even more effective device for extortion than the independent middleman, and impressive statistics as to the numbers of co-operatives which have been set up in a particular activity or industry are usually somewhat less impressive when the number which are inactive or insolvent is subtracted from the total. Innumerable training courses and seminars are provided for members, committees, junior and senior staff, relying on all the latest participative learning methods and audio-visual techniques, but the results are difficult to identify and in Tanzania at any rate there was no significant difference in the results of co-operatives whose staff had enjoyed extensive training and those which had received none; both were unsatisfactory. This failure is more evident to those people who are supposed to benefit from co-operatives than it is to those who earn a more secure living trying to promote co-operatives rather than having to depend on their success for their livelihood. In a number of countries the word 'co-operative' or its local equivalent, must never be mentioned when speaking to small business people; the history of failure is so well known and so painful to those who have participated, that the use of the word alone either prevents all further communication or even provokes actual violence.

Some of the reasons for failure may be illustrated by reference to actual experience. There are a number of small but successful stone crushing businesses near Delhi in India; they had no problem in selling their output but were frustrated by the poor service and high prices of independent transport contractors. None of them could afford or indeed make full use of a vehicle for themselves and they therefore formed a co-operative to own and operate a vehicle. The Society soon collapsed because members could not agree on how to schedule the vehicle or on the responsibility for the cost of repairs. In this case, as in so many others, the entrepreneurial and independent spirit of the individual businessmen was quite inconsistent with the co-operation and compromise required in a co-operative.

About fifty families in a village in East Java earned their living by making suitcases; they felt that they were exploited by alien traders who supplied their raw material and bought the finished suitcases, and an official from the Ministry of Co-operatives suggested that they should start a co-operative to undertake the supply and marketing tasks instead. They subscribed some money, obtained a loan and hired as manager a young man from the village who had some commercial education. He tried his best to find alternative outlets but this was difficult, and the original traders refused to do business with the new Society. A few of the suitcase makers started to do business with the traders again, although they tried to conceal the fact. The manager lost all enthusiasm and later absconded with the funds; the villagers returned to the alien traders who now exploit them even more than before.

The reasons for failure

This story illustrates many of the most common reasons for failure; the idea of co-operation was suggested by a Government official who himself had nothing to lose. The members, and the official, appeared to have believed that all that was needed to gain their freedom from the aliens, or 'Cukongs' as they are called in Indonesia, was some capital and the fact of acting together, but material supply and marketing were skilled activities, requiring personal contacts and experience. The members appointed a Manager from their own community, either because they could not identify, could not trust or were unwilling or unable to pay for somebody with experience. Many initiators of co-operatives, and their members, believe that a co-operative is a sort of panacea, which will solve all their problems. It is difficult enough to establish a co-operative for any task, however simple, but it is absurd to expect that a group with inadequate management and no experience can build in a few weeks or months a supply and marketing structure which can not only equal but overcome the opposition and improve on the efficiency of whoever performed these functions before. Many co-operative problems, in fact, arise from ignorance and neglect of marketing; co-operatives are set up as if manufacturing or growing crops was the only legitimate and skilled activity; trading is regarded as nothing more than a device of extortionate middlemen to exploit both producers and consumers.

A number of groups of workers in the United Kingdom have been encouraged to set up producer co-operatives in order to preserve their jobs when their employers have been unable to continue. This movement, if it may be so called, was vigorously supported by politicians who were committed to co-operative principles, and Government provided substantial funds, on very easy terms, to groups engaged in the manufacture of motorcycles, soft drinks and heating appliances among others. They failed in every case. Here, as so often, politicians confused what were essentially commercial ventures. Experienced companies had voluntarily relinquished the activities in question, which indicated that the chances of success were small in any case, but they were not improved by political exhortation or efforts to make members believe that they were the spearhead of a new era in industrial relations. When insolvency threatened, Government provided further funds, and the key to survival appeared to lie more in skilful solicitation of further grants rather than effective management of the business.

It is perhaps inevitable that co-operatives, and particularly producer societies, should be suggested, supported and in a sense exploited by politicians whose livelihood will not be threatened if they fail, but there is no necessary reason why service co-operatives in particular should be associated with any political ideology. Governments may protect co-operatives from competition by granting them monopoly rights to the sale or purchase of certain commodities, or they may burden them with tasks of political representation at the lowest level which may be perfectly legitimate but are irrelevant distractions to people who are trying to manage a business enterprise.

Eastern Kenya is the home of a vigorous wood carving industry, which was introduced in the 1930s by a colonial administrator and in one particular village the carvers found it difficult to obtain supplies of wood and to sell their completed carvings. They set up a co-operative, which also constructed some basic shelters where the carvers could work. The Society soon fell under the control of one particular member who was richer and better educated than most; he set up a trading business on his own, which bought all the co-operative's output at low prices, and he also sold timber to the Society. The members became little more than seriously underpaid employees of this man. the Society eventually lapsed and the carvers were then nominally independent businessmen but had no alternative source of material, premises or market than the leader who effectively destroyed the Society. It was suggested to them that they should start a new Society to extricate themselves from their plight, but they were no longer willing even to consider such a suggestion.

Co-operatives which include people of different economic and social positions are often taken over and exploited by a powerful minority within their membership; while some people are willing to lead in the interests of the society as a whole, most leaders are motivated by the desire for increased wealth as well as social status. The members in this case were probably right to resist further suggestions for more attempts at co-operation; many community industries of this sort, throughout the world, are nominally made up of large numbers of independent enterprises but are in effect private businesses, whose employees work on a piecework basis, being paid for what they do. As with the suitcase makers in Java, it is better to recognise the situation for what it is, and to treat any exploitation as a case of unfairly low wages and poor working conditions rather than injury to independent operators. The 'manufacturers' in these situations are not really entrepreneurs; they are taking no risks and their earnings may not appear to be so low when they are compared with minimum factory wages rather than with the profits of a private enterprise. Employees who want higher wages do not usually start by trying to supplant and replace the corporate entity which employs them, but many co-operative ventures are similarly misguided.

Examples of success

These three examples may serve to demonstrate the commonest explanations for co-operative failures; it is regrettably more difficult to identify successes but three further examples, from Colombia, Spain and Southern Africa, are more positive in that they suggest what circumstances are, rather than are not, likely to be associated with success. The population of Bogota, the capital of Colombia, is growing at a rate of 6½ per year. About half the population depends on independent small business activity for its livelihood, and these people are effectively neglected and outside the formal economy. In 1970 one of the Directors of a savings and loan co-operative called Cooperativa de Accion Social broke away from the organisation because he felt that its lending policy was too conservative; with some like-minded colleagues he set up a new co-operative called the Cooperativa Multiactiva de Desarrollo Social (CIDES). This is not explicitly a small business credit co-operative as such, but 10% of its members are full-time entrepreneurs who have founded or expanded their businesses from CIDES's loans, and a large but unknown proportion of the remaining 900 members are known to have used their loans for part-time business ventures. Members have to deposit a minimum of $30 before they can borrow any money. If they have no security they are required to form or join an informal credit group of a minimum of five members, all of whom will jointly and severally guarantee the loans of the others. A number of fairly substantial businesses have been started or expanded with the aid of funds from CIDES, and the arrears rate is under 5%. Although many of the members borrow very small amounts, they are not destitute because they have at least the amount necessary for the initial subscription (Farbman, 1981, pp. 193–210).

This modest but expanding organisation was initiated by private voluntary interests and not by Government; it makes no attempt to provide anything other than credit, and it is not involved in education, business advice or any other service. Its members have to make what is to them at any rate a real commitment to the organisation before they can borrow from it, and arrears are rigorously followed up. Defaulters' initial deposits are forfeit as a matter of course, collateral is taken up and guarantors are asked to pay if necessary; almost always, however, they themselves persuade the defaulting member to repay what he owes. Credit unions are probably the most successful forms of co-operative organisation in poor countries; members perceive them only as a source of credit, and thus as a useful means to an end rather than an end in themselves, and they are often run by members on a part-time voluntary basis. They are essentially peripheral to their members' main activities, and Government has little or nothing to do with them. They rely extensively on informal peer group pressures, and are generally fairly local in their scope. They demonstrate that co-operative forms of organisation can be successful if they have a single clear objective, in this case the provision of credit, and if members do not regard them as a panacea for all their problems but rather as a means to improving their income by their own efforts.

The most celebrated workers' co-operative is the Mondragon group of businesses in the Basque area of Spain. This was started by Father José Maria Arizmendi in 1956; there are now more than twelve thousand members and most of them work in companies employing between one and two hundred people. The original company, which is now the largest producer of refrigerators and other appliances in Spain, employs nearly four thousand people, however. Few of the individual companies are small businesses in the sense that is used in this book, but the organisation is so successful and so unusual that no discussion of non-farm co-operatives is complete without some reference to it. Mondragon is in the most industrialised part of Spain and the foundation and growth of the organisation has not depended on the satisfaction of any desperate physical needs; it is rather an alternative form of industrial organisation that is able to compete with traditional privately owned corporations. It developed out of a technical training institute, and has more recently been heavily involved in children's education; the members have never been destitute, and new members are now required to deposit $2,000 before joining. The surplus earned by the companies is credited to members' share accounts, rather than being distributed to them as cash, and a substantial financial institution has evolved in order to re-invest these funds in new enterprises. It is also a savings and credit co-operative in its own right, and has over a quarter of a million account holders.

The Co-operative Bank, the Caja Laboral Popular, is ultimately controlled by the worker-members in each of the co-operatives, and since the Bank is the major source of funds for the societies its numerous staff of highly qualified and committed advisers play a very influential role in the management of the societies. Major decisions are in the hands of the workers, but if the Bank recommends major changes, or even the dismissal of a society's managers, it is not taken lightly.

Labour relations have generally been very good, and the only strike to have occurred in the group was in ULGOR, the Society which employs nearly 4,000 people. Members are discouraged from leaving their society, since they lose 20% of their capital contribution and accumulated surplus if they leave for any other reason apart from retirement or ill-health. Redundancies have generally been avoided by transferring workers from one unit to another, since members are willing to change their work in the interests of the group and themselves. This attitude contrasts strongly with many trade unions' resistance to flexibility of this sort. One reason for the foundation and subsequent success of the Mondragon Group is the fact that until recently free trade unions were not allowed in Spain. The industrial co-operative provided an alternative for worker representation, which appears in this case to have avoided many of the restrictive practices often associated with trade unions.

The Basque people have traditionally been very proud of their national identity and very egalitarian among themselves. Like many enterprising minorities, they feel that the State to which they belong does not adequately recognise their nationality, and it may be that the Mondragon Co-operative is a peaceful form of national expression, as opposed to the terrorist tactics used by some Basques to press their demands for greater autonomy. It is perhaps unfortunate that tribalism of this sort, which is so common and so disruptive in poor countries, cannot more frequently be expressed in such a positive way. The Mondragon group has not enjoyed any official assistance beyond that which is available to any form of enterprise, and the initiative came from within the community rather than from Government or any outside advisers.

South Africa provides a dramatically different example; the Nationalist Government has set up so called 'Homelands' for the majority of the population who have no jobs in the industrial cities; they are not generally in the most fertile parts of the country and are seriously overcrowded. Their own 'Governments' have provided some funds for small business, and the Central Government is attempting to promote large industrial development in or around the Homelands to absorb the surplus labour, but there are enormous numbers of un- or underemployed people. The plight of women whose husbands are working in the cities, or who may have totally deserted their families, is particularly serious.

One such woman in a village near Pietermaritzburg suggested to some of her friends who were also members of the local church that in order to survive they must try to find some form of income to supplement their meagre crops from the little land they had. Most of the women thought that she was suggesting some form of employment; when they realised that they had to create their own jobs they lost interest. Four women however were so desperate that they were willing to try anything. They managed to subscribe $5 each, and made up a few simple aprons and other similar items. They managed to sell these to a sympathetic shopkeeper in the nearest town, and they re-invested the proceeds in fabric for curtains which were needed by the Church Seminary. These were successfully completed and paid for, and the group now has enough capital to continue making curtains for various customers, and to finance further batches of aprons, oven-gloves and other items as required. The results have not been spectacular but the five women have been able to double their meagre income; some of the other women who were at first sceptical have expressed an interest in joining, and the group is considering expanding into activities such as jam making and basketwork.

The reasons for success

This appears very different from the other examples of success; the women were desperate, the whole enterprise is tiny and is a very fragile entity on which to base any conclusions at all. There are nevertheless common features; the initiative came from the people themselves and not from outside, an enterprising leader was responsible for the original idea and the members had originally to make what to them was a very substantial commitment as a condition of joining. There was no compulsion to join, and those who did were people who recognised that they could benefit from the proposed group but that they would have to contribute money and labour for some time before enjoying any return. They also came from a group, which like the Basques in Spain or the urban poor in Colombia, feel themselves to be cut off from the main benefits of society; South Africa is white and male dominated, and black females are very much at the bottom of the economic, social and political scale.

Readers who have worked with co-operative enterprises will be able to recall similar examples of failure, and, although perhaps with more difficulty, even some successes. It is dangerous to generalise about any form of activity which depends so much on the personalities of those engaged in it, but it is probable that successes will show some if not all of the features already identified. In summary, official initiative, generous external support, any form of monopoly, initial conformity to regulations regarding constitution, minimum numbers and so on, excessive expectations and inadequate appreciation of the need fof skilled marketing and general management are likely to be associated with failure. Unusual individual leadership, which may be described as entrepreneurial, very small numbers of people in the group or sub-groups, substantial initial member commitment and a genuinely based perception by members that they are in some way outside the mainstream of the economy are common features of success. Both the very poor and the relatively well-off seem more likely to be able to establish successful co-operatives than the majority who are neither destitute nor approaching middle class status. The poorest have nothing to lose and can commit everything to the society, while the better off are more able to appreciate how a co-operative can help them further to achieve their objectives, and are unlikely to have exaggerated expectations.

There are no doubt exceptions to the above, but the implications for any external, officially sponsored promoter of small enterprises, as opposed perhaps to a voluntary agency or religious organisation, are fairly clear; while co-operatives have a valuable role to play and can indeed solve credit and other problems which appear insoluble in any other way, they are extremely prone to failure and are even less likely to succeed if they are initiated or promoted even by the best-intentioned officials. The resources for small enterprise promotion are scarce enough in any case; the agencies which are entrusted with them should direct their efforts towards forms of enterprise which are more likely to succeed and where their own involvement is less likely to contribute to failure.

Application questions

- Are there any services which small businesses need, but cannot economically provide for themselves? Can they most effectively be provided by other specialist small businesses, or by a jointly owned co-operative?
- Have small business or small farm co-operatives often failed? Can Government or some external agency be said to have contributed in some ways to this failure?
- Have any co-operatives succeeded? If so, were they initiated by Government, or by their potential members, and were they led by a single aggressive and entrepreneurial leader?
- What contribution have politicians and political dogma made to the success (or failure) of co-operatives?
- Have scarce promotion resources such as finance, training, advice or other assistance which have been provided to service or producer co-operatives, yielded as many viable enterprises and permanent jobs as if the same assistance had been provided to individual business men and women? Should resources of this kind continue to be devoted to co-operative enterprises?

Case study: the United Women's Woodwork and Welding Society

The Government of Jamaica was concerned about the peripheral role which women played in the economy, and in 1975 they established a special Women's Bureau to promote women's activities; in the following year the Government also started the Special Employment Programme, in an attempt to deal with the chronic unemployment problem, particularly among women. Large numbers of people were employed as street sweepers and in other similar jobs; they were paid a minimal wage which provided at least some support for the women and their families.

The Women's Bureau was concerned that these jobs did not give the women any opportunity to develop their skills and make a real contribution to society; after some discussion the Bureau selected 33 women from one of the most depressed areas in Kingston, the country's capital, and enrolled them at one of the Trade Training Centres where unemployed young men were being trained as painters, carpenters, welders and mechanics. They learnt to make furniture for schools and other institutions, wrought iron work and burglar protection bars for buildings, and they also had special seminars on the principles of co-operation and the management of money. Three of the women also went on a special management course, and the idea was that they should set up a workers' co-operative to produce and sell articles for the local market.

The Women's Bureau had no funds of its own, and they approached Christian Action for Development in the Eastern Caribbean (CADEC), a voluntary agency working in the area, with a request for initial finance. The Bureau argued that the women had completed their training, and the Government had offered them free space for their workshop. A local economist had prepared a feasibility study which showed that they would make a modest profit in the first year which would be more than doubled after two more years, and sample products had been shown to potential customers. Some private and Government buyers had said that they would be willing to place large orders. Two men, who had helped train the women and were themselves skilled at woodworking and welding, would supervise the quality of the products, the new society would have a clerk to keep its accounts, and its products would be sold by a commission agent. The Government was willing to subsidise the women's wages for the first year of operation, and the society would attempt to make products which were suitable for low-income people. On the basis of these arguments, the Bureau submitted a formal request for $20,000 initial finance and $11,000 working capital.

The CADEC Committee considered the request with care; since the project would employ women who had no other form of support, and was generally consistent with its aims, CADEC agreed to make a grant of $22,000 and an $11,000 interest-free loan, to be repaid over four years. The approval was conditional on the society being officially registered as soon as possible, and CADEC would supervise its operations until that had been done. The funds would be disbursed only as required, and CADEC would retain the right to repossess the equipment as collateral until the loan was repaid.

The Bureau and the women accepted these terms without hesitation, and operations were started at once. Certain problems were experienced from the outset, however; the official in the Women's Bureau who had initiated the idea left the organisation shortly thereafter and there was nobody else in the Bureau who was able to take a continuing interest in it. CADEC had difficulty in its funding at the same time, and when the money was able to be disbursed there was a severe shortage of timber and steel which were necessary raw materials.

No general manager was ever appointed, because it was not clear whether CADEC or the Women's Bureau was responsible for this, and in spite of their management training course the women appeared unable to manage the financial aspects of their business properly. Customers delayed their payments, material deliveries were delayed, and some of the society's working capital was used to buy groceries at wholesale prices in order the reduce the members' cost of living.

The products were not of the same high quality as the original samples on which the customers' initial reactions had been based, and because the women's wages were during the first year being paid by Government they had little incentive to work hard or to improve the quality. A number of them had small children at home and found it difficult to work regular hours, and some of the machinery was stolen from the workshop because of inadequate security arrangements.

After some months of operation the society appeared close to disaster; the working capital was exhausted and many of the members had lost interest. No loan repayments had been made and few if any of the customers were satisfied with the goods that they had purchased; although all was not lost, the original high hopes of the women, and of those who had promoted and supported this society, seemed unlikely to be realised.

Commentary

This example of a workers co-operative demonstrates many of the common reasons for failure. The whole idea of setting up the organisation came from external agencies, rather than from the members of the group themselves, and any potential leaders in the group were given no opportunity to establish their position until the society had already started and its original initiator was suddenly withdrawn; by then it was too late.

The sponsors of the society relied on technical and management training alone to instil the necessary ability to manage a business enterprise. None of the women had any business experience, and even if they had, they were not allowed to direct the society themselves at the outset. The management of any business, and in particular a co-operative enterprise, is far more than a matter of technical skills which can be learnt in a classroom, and co-operatives usually succeed only when they are initiated by one of their members, who has innate, or develops, technical, management and leadership skills, which have often been acquired entirely through experience without any formal training whatsoever.

The society was initiated by one organisation, and funded and to an extent supervised by another; while both might take the credit for its establishment, their roles were not clearly defined. Each could claim that the other was in charge of the situation while the members, who should have been in charge, looked to one or other of their sponsors for the management which they themselves should have been providing.

The society was supported with grants and subsidies, which were given without reference to performance. Temporary subsidies are unlikely to be able to create a permanent viable enterprise which can satisfy a need which no private entrepreneur has seen fit to exploit, particularly if the organisation is a co-operative one which is so difficult to manage. One outcome may be that the co-operative would become little more than an extension of Government, permanently supported by subsidies, but this would presumably not satisfy anybody's objectives.

Co-operatives of this sort which do survive without permanent subsidy have often become effectively private businesses, where one or two members exploit the remainder under the guise of co-operation. While this is not a desirable outcome, it is arguably better than total collapse, since some earnings, however meagre, are better than none. The external agencies may be tempted to provide further support for the society; they might be better advised to cut their losses and to avoid sending good money after bad. The scarce promotional resources may be better spent on promoting private enterprises which are likely to provide a sounder basis for long-term employment even if their origins are ideologically less attractive.

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CHAPTER 12

INDUSTRIAL ESTATES

The crucial issues

— What are the objectives of industrial estates?
— Where should industrial estates be located?
— What services other than buildings should be offered to tenants in an industrial estate?
— What disadvantages may enterprises suffer as a result of being located in an industrial estate?
— Are industrial estates a cost effective way of assisting large numbers of enterprises?
— Is it necessary to subsidise the construction and operation of industrial estates?
— Need Government be involved at all in providing buildings for small enterprises?

The reasons for industrial estates

Men and Govenments naturally seek simple solutions to complex problems; neither finance, nor training nor co-operatives is a magic key to small business development, but perhaps the answer is an easier one. The missing link may not be funds, ability or organisation, but a simple physical shelter, properly provided with communications and services. Industrial estates have something of the appeal which led early men to paint primitive representations of successful hunts on the walls of caves; they thought that if they could create the appearance of something happening, it really would happen.

This may be too unkind; there are obvious reasons in favour of clusters of small businesses, or other forms of organised site provision, but they must be weighed against the costs, and anyone who suggests a small business estate must be sure that it will not damage the enterprises which occupy it and that it will not deprive the remaining businesses outside the estate of whatever benefits are available. There are good and bad objectives for constructing industrial estates; the bad ones include the convenience of the promoter, the desire for tangible evidence of activity and the planners' interest in having everything in neat rows, where he wants it to be; what are the good ones?

The most obvious, and unfortunately the least likely to be achieved, is the objective of bringing industrial activity to places where it did not exist before. This has been tried in India, in Kenya, in Ecuador, in the United Kingdom and many other places but the results have usually been the same; premises alone will not create industrial enterprises, and there are still lines of empty sheds in many parts of the world to attest to the fact. As with so many aspects of small enterprise development, international donors do not improve the situation. A bilateral donor funded a small estate of eight sheds, four of which stood empty for two years; the donor withdrew when the 'project' expired, but was immediately replaced by another country which attempted to remedy the problem by building twelve more sheds; they also stand empty.

This failure can be explained by even a superficial analysis of the reasons why industry was not already located in the place in question. There may be no local demand, no raw material, no skilled labour or no local entrepreneurs, but physical space is unlikely to have been a constraint either in agricultural areas or even in decayed inner cities. Buildings on their own are, in such places, yet another example of a form of assistance which 'scratches where it does not itch'; they may give a superficial impression of activity, particularly during the construction phase, but they are all too likely either to stand empty or perhaps to be occupied by one or two heavily supported businesses which monopolise the attentions of the frustrated promoter.

Why small businesses are where they are

Buildings, whether in clusters or on their own, are of little value as a catalyst for small enterprise development in places where such development has not already taken place. Small industries spring up where there are people to start them, work in them and buy from them; this obviously includes the fast-growing crowded urban areas where there is a crying need for employment and for services, and where there is more likely to be a ready supply of entrepreneurs than in the countryside. Enterprises spring up almost as soon as people themselves settle in an area; the first businesses are shops, but repair and service enterprises follow rapidly and manufacturing is not far behind. Even if the market and the source of raw material are far away, labour is readily available and whatever rudimentary shelter suffices as a dwelling place can also be used to accommodate the beginnings of industry. Rent costs nothing, no time is lost travelling to work, and family labour can be employed from an early age; even nursing mothers can make some contribution since they need not leave their children behind. There is likely to be some sort of access for vehicles, and water and electricity should not be too far away. In fact the home is the ideal location from almost every point of view. The amount of space available in and around the home will depend on the density of settlements; official regulations may be a more significant constraint than actual space, since industrial activity may have to be confined to areas out of sight of the road, but the advantages of domestic location are such that even the risk of expulsion or the cost of regular petty corruption is a small price to pay.

Cottage industry is normally associated with rural areas, and temporary shelters, lines of identical low-income houses or even multi-storey apartment blocks would scarcely be described as 'cottages'. Nevertheless they house a vast range of industrial activity; in recently occupied areas of cities in Africa and Latin America, househould industries are mainly portable, and dependent on local demand. They betray their existence mainly by their noise; the whirr of sewing machines is everywhere, but it is often drowned by panel beaters, carpenters or tinsmiths. In older communities, such as Cairo or Calcutta, where the poor have lived in a city for generations, there is a far more complete range of industry. Iron foundries, spinners and weavers, metal pressing and machine shops, plastic moulders, printers and potters operate openly and more or less legally from domestic premises, with substantial fixed investment in plant and equipment which could not be moved.

Planners may prefer to colour housing areas yellow, trading premises red and industrial areas purple on their master plans, but before trying to turn these plans into reality they should be sure that their own perceptions of pollution, congestion and amenity are shared by the people whom they are intended to serve. A printer in Pakistan was told that he could only have a loan to finance the new machinery he needed if he moved from his crowded premises in the city to a new industrial estate outside. He protested that his business relied on its proximity to his customers, but to no avail. He decided eventually to prefer the slow decline in competitiveness which was the result of his failure to modernise, rather than the swift death which would follow a change of location.

When industry is at an early stage of development, there is unlikely to be a large number of small firms for which space really is an important constraint, and when the market, labour or raw material supply are dependent on a domestic and unplanned location it is not worth moving in spite of congestion. Elsewhere, however, particularly where small firms are making components for other businesses, large or small, or where they have started to sell their products through independent trade channels rather than direct to their final customers, it may be possible for them to move. In Turkey, and elsewhere small industry estates have been set up in or adjacent to official industrial areas for large firms, and have been occupied by businesses which have moved from congested inner city areas. They have been able to afford an economic rent, even if they were previously paying no rent at all, because space had been a fundamental bottleneck whose removal permitted an immediate increase in profitability (UNIDO, 1978, p. 13). There are, however, few businesses in most poor countries which can claim all these advantages.

Estates as part of a package of services

We have already seen that the scattered location of small firms is one of the major problems of any agency trying to help them. The cost of travel makes the appraisal and supervision of small loans even more uneconomic, business people themselves cannot easily attend training courses and individual advisers may spend more time travelling than working with their clients. Attempts to provide officially supported sources of raw material, marketing outlets or specialised technical services are doomed to failure because most of their potential users are so far away that it is more profitable for them to do without the service in question or to continue to rely on an expensive private middleman.

A cluster of small enterprises can obviously solve this problem, and will not only be more convenient for the promotion agency but will enable the tenants to benefit from an integrated package of services which would be totally uneconomic if the businesses were naturally scattered according to the original preferences of their founders. The arguments in favour of relocation of existing businesses appear strong, but it is even more attractive for a promotion agency to encourage new businesses to start in clusters of this sort; being new, they are likely to need more assistance, and they will not have to suffer the costs and disruption of moving.

Reference has already been made to the high technology new business development programme of the Birla Institute of Technology in India, and to the resulting cluster of small factories outside the gates of the Institute. The key to this success is not, however, the buildings; the venture had its origins in an original and effective form of practical education. When the potential entrepreneurs complete their formal education, they move from the Institute's buildings which are set among groups of trees into a less academic building, outside the Institute, which houses some common service facilities and teaching accommodation. The graduates have a three-month course on the practical aspects of starting their own businesses, during which they actually start to put together the enterprise, and they then move across the road into their own factory.

Here, as in many cases, the major benefit may be the fact that space is available without delay. Even if he has or can borrow the necessary funds, an entrepreneur may have to spend months or even years arranging for a site, negotiating the necessary facilities and actually having premises built. It is more economic to provide roads, electricity, water and other services to a number of small factories if they are in the same place, but the major economy may lie in the fact that the cost of one lot of negotiations, delays and discussions can be spread over several factories, and they can thus be built before their actual tenants are known. Any disadvantages inherent in a common design are more than outweighed by the fact that the building is ready when it is needed.

The graduates of the Small Industries Scheme of the Birla Institute of Technology retain their links with the Institute when they have occupied their factories, and they can in some cases make use of common services such as large machines which they could not afford to buy themselves. They can also continue to benefit from the high-level connections and influence which the Institute has with Government officials. Perhaps the most important benefit, however, is their association with one another. They are not generally in competition, and their main problems are ones of raw material and finance rather than demand for their products. They have formed an association which has evolved into an effective pressure group for improved electricity supply, greater efficiency in public sector purchasing procedures and other common needs. The industrial estate enables them to retain and use their links with the Institute and one another and it is perhaps a necessary, but certainly not a sufficient condition of success.

Other organisations have made similar attempts to promote clusters of associated businesses, sharing common financial, training and technical services, and sometimes including privileged access to raw materials or markets. If the businesses are mainly new ones, if the tenants have been selected from a large number of applicants on the basis of their personal and technical qualifications and if their activities are either similar or complementary to one another there is some chance of success. These conditions tend to apply more in India than elsewhere, where there are large numbers of small businesses in every conceivable activity, and groups of firms have been established on the basis of common products such as electronic instruments at Madras, or even a common large customer such as Bharat Heavy Electrical Corporation at Tiruchirapalli or the tractor factory near Chandigarh.

In smaller economies with fewer specialised opportunities in particular sectors and fewer highly qualified entrepreneurs, the results have not been so successful. The small firms estate in the industrial area of Nairobi is fully occupied, but little use is made of the machine shop service operated by the sponsors, and some at least of the tenants have moved into Nairobi from outlying towns, thus defeating one of the main objectives of small business development. Many of the tenants were entrepreneurs without a project; they had some money, some influence and some motivation, but no preference for a particular product. They were given ready-made 'projects', together with some training, but a successful civil service career, some funds and some initiative are scarcely sufficient qualifications for success as a manufacturer of shoelaces, plastic buttons or wire staples for paper stapling machines. A similar capital city venture in Kathmandu has never been fully occupied, and, as at Nairobi, the most impressive building is the headquarters of the promotion agency. The tenants include private and public-owned enterprises engaged in manufacturing biscuits, knitting wool, plastic pipes and experimental hydroelectric plant among other things. There is little opportunity for complementary activity, and the interests and ownership of the tenants are so diverse that there is no way in which any useful association could develop as it has at the Birla Institute of Technology.

The effects of industrial estates

Even if a small firms industrial estate is successful, however, in that it is fully occupied and all the tenants are themselves successful and profitable enterprises, this does not necessarily mean that it is an efficient way of promoting small business. By grouping small businesses together in one place, whether they are new ones or have been moved from somewhere else, the industrial estate is actually denying society one of the major benefits for which small enterprises are deemed to be desirable, even if the tenant businesses themselves actually benefit. Small firms create more jobs for the same investment than large ones; factories in industrial estates tend to be built to far higher standards than the typical building which a small enterprise would occupy outside the estate, and the roads and other services are of a far higher standard than those normally enjoyed by small businesses. In Sri Lanka the buildings and services themselves, without any plant or machinery, cost $1,135 for each job created in them, and this figure is higher than the average investment per small firm job including all the necessary equipment. The Nepali estate at Kathmandu costs $766 per job created (UNIDO, 1978, p. 78); here again, this compares with a total cost of under $200 per job in Nepali small industry. The availability of three-phase electricity encourages the use of more powerful equipment than could be used on domestic current, and favourable access to loans, technical services and scarce raw materials tend towards generating higher than normal use of capital and foreign exchange.

It might be argued that small firms in industrial estates should be expected to be more capital intensive than average, since they are likely to be engaged in more modern higher technology industries than those outside the estate; the benefits of technical progress outweigh the higher cost of creating employment. India is perhaps the only place where it is possible to compare a large sample of businesses making the same or similar products inside and outside industrial estates; Somasekhara's research on the efficiency of industrial estates in India shows that firms on the estates in Mysore at any rate are significantly more capital intensive and generally less profitable, than those outside (Somasekhara, 1975, p. 91). If these results are of general application, and there is no reason to suppose that they are not, the greater capital intensity of businesses inside estates is not balanced by any contrasting benefit.

Personal and national independence are also associated with small businesses; they provide a breeding ground for innovative and original entrepreneurs, and they reduce a country's dependence on foreign-owned businesses and technical assistance. Industrial estates contribute to neither goal; the business men and women who occupy them may be entrepreneurs, but their independence is reduced by their access to the concentrated package of assistance which is usually associated with premises of this sort. They may indeed come totally to depend on external support, and they may survive because of their success in obtaining further assistance rather than their ability as business people. An industrial estate is a large and visible monument, and if it is empty its sponsors may be embarrassed. They may therefore be tempted to rescue any tenant who appears likely to go out of business, at almost any cost, rather than have the problem of filling an empty space. The very proximity of the tenant businesses also makes them attractive subjects for advice and assistance, and in some estates they have become little more than semi-autonomous production departments, with their records, raw material supply and marketing being effectively in the hands of external advisers.

Because industrial estates are expensive, discrete and relatively dramatic they are often funded by foreign assistance agencies. Small business assistance of all kinds tends to attract foreign aid, but donors' enthusiasm for industrial estates has meant that the weight of expenditure, if not results, of some countries' small business development programmes has been skewed towards industrial estates when a dispassionate appraisal of alternative promotion strategies would have suggested a smaller allocation. Industrial estates can in fact become foreign islands rather like multinational corporations. The Swedish Government, for instance, has helped the Small Industry Development Organisation in Tanzania to establish an estate in Arusha, where not only the advisers are Swedish but each tenant is in fact the 'child' of a Swedish company that has been generously paid by their Government to assist in setting up a poor country version of itself in Arusha. The technology appears to have been adopted to local conditions, but each enterprise is to an extent managed by a group of Swedish advisers and supervisors, and it is difficult to see how this process can produce genuinely independent entrepreneurs, even after a lengthy period of apprenticeship. The total cost is also very high in relation to the number of jobs created; a small number of relatively advanced factories have been created, but they have closer links with Sweden than with the surrounding community.

The costs of estates

Enterprises on industrial estates tend to be more capital intensive, less independent and less profitable than those outside, but comparisons of this sort are not necessarily valid. If industrial estates can play some part in creating more enterprises, even if they are not altogether successful ones, have they not achieved their objective by creating jobs and extending the industrial sector further and faster than would have been possible without them? This argument is valid only if the results in terms of jobs and enterprises created are at least as good as could have been achieved by any other method. The quantitative impact of industrial estates is not impressive; in Si Lanka under 2% of manufacturing employment is in industrial estates but the total amount spent on them was an enormously much greater proportion of total industrial development expenditure. In India 5% of the new registered small businesses started between 1951 and 1972 were tenants in industrial estates, but about 25% of all Government support for small business was spent on these estates (UNIDO, 1978, pp. 57–59).

In Senegal the Government and French foreign assistance has spent over $2,500 for each job created in the nine firms which occupy their first industrial estate. Here again, this is out of all proportion to other forms of enterprise promotion, and only five of the firms are said to have benefited significantly from the intensive assistance which they have been given (UNIDO, 1978, p. 91). The opportunity cost of foreign donor funds is difficult to determine, and we have already seen that much expenditure on other forms of small enterprise assistance is wasted. It is nevertheless very difficult to justify expenditure of this order on such a small number of enterprises, particularly when the benefits to them are often questionable.

The effects of industrial estates are not altogether different from heavily subsidised loans. Only a small minority of enterprises can benefit from them, and it is not clear that they do in fact benefit at all. If the total package is very attractive the organisers can afford to be selective, but this can lead to jealousy and, more importantly, individuals who do not obtain a place may come to believe that a plot in an industrial estate is the only proper basis for business success. The estate can become a modern sector island, fenced round like a foreign company, with advanced technology, luxurious buildings, high wages and foreign advisers. Enclaves of this sort are of questionable benefit to society even if foreigners have paid for them; if they absorb funds which might otherwise have benefited larger numbers of small enterprises, or other development programmes, and if the tenants themselves are less successful than those outside there are few arguments in their favour.

Even heavily subsidised premises cannot on their own generate industrial activity if none was there before. If buildings are associated with an intensive and fully integrated package of services the estates may be fully occupied by businesses which survive and even prosper, but they often require a disproportionate amount of public funds to be spent on them. In spite of these real objections, businesses do need premises and there are many obvious reasons why they should sometimes be grouped together in clusters or estates. How can such facilities be made available to small businesses in poor countries, without the attendant disadvantages which have already been identified? We saw that lending money to small businesses can be profitable, and private competitive 'middlemen' can provide an effective raw material supply and marketing services to other small businesses, at no cost to the public purse. It may be that buildings are like capital or raw material; they are peripheral but essential to the main purpose of the business, and they can form the basis of a viable specialised enterprise themselves, serving the needs of other businesses.

Profitable industrial estates

Buildings make up a very important proportion of the total capital requirement of a small business, if they have to be bought; even the most rudimentary shelter, and the land on which it stands, can cost many times the price of the machinery, tools and material stocks which occupy it. The return on the assets apart from real estate is usually very high, if only because the value of these assets is so small, and rented accommodation is thus a far better proposition for any business which has gone beyond the stage of being situated in the owner's own dwelling. Land and buildings have one major advantage over other fixed assets however; they can be used as security for loans.

Small business borrowers often use their farms or homes as security for the money they need to start or expand their business located there or in rented property elsewhere, but freehold business premises are generally a very different form of investment from machinery and equipment. Their value usually appreciates over time, and the immediate return, whether in terms of rental saved or rental earned, is very low. Because their purchase can largely be funded with a secured loan however, the owner's equity need only be small and a fairly close margin between interest charges and rental will be sufficient to earn a high net return on the owner's investment.

Industrial estates for large and for small businesses are profitable businesses in their own right in most industrialised countries, and there is no reason why money should not be made from appropriately designed clusters of factories in poor countries as well. In Argentina private investors have developed estates in and around Buenos Aires; sixty people are on average employed by each tenant, and the profit from the first estate has been sufficient to finance the development of the second (UNIDO, 1978, p. 50). Local Government bodies have also developed small business estates in more remote parts of the country. The returns are not so dramatic, but the investment will eventually be recovered and the authorities are satisfied to cover the cost of investment and administration, with little or no surplus, because of the benefits to the community and the additional local tax revenue which the new industries will in time generate.

The profits from industrial estate development may not always be sufficient to motivate a private investor, but if the need is genuine, and rents and associated services do not have to be provided at a substantial loss which ultimately fails to benefit even the tenants, there should be sufficient revenue to cover the interest payable on the funds and the management expenses. This may not be of interest to an entrepreneurial private investor, but any organisation, private or public, which has a vested interest in the provision of industrial premises should be able to construct and operate an estate on this basis. The new town development corporations in the United Kingdom have successfully developed estates for all sizes of businesses, which are in the long-term internally self-financing but whose tenants also contribute to the balanced economic development of the new community.

In Turkey small business owners themselves have taken the initiative: central city congestion is such that space has indeed become the significant constraint for many businesses and their owners have formed co-operatives to buy and develop new industrial areas on the outskirts of the cities. Nearly two hundred such estates have been or are being constructed or are being planned and over fifteen thousand units are located in them. Most of the businesses doubled their numbers employed as a result of the move, thus demonstrating that space was the bottleneck, and Government involvement has been very limited; in some cases no public assistance at all has been provided, while in others the Co-operative has received some help in land assembly and low interest loans (UNIDO, 1978, p. 100). Like the credit unions in Latin America, these co-operatives have functioned effectively because they are providing a discrete specialised service to well-established existing businesses. Co-operative ownership has also been tried in India and in Ecuador; if the co-operative is imposed on the tenants after all the initial land purchase, construction and letting has been completed by Government, it is likely to fail, but if the co-operative is set up as a result of prospective tenants' own initiative it is more likely to succeed.

As with so many aspects of small business promotion, the best test of need is economic viability. If an estate cannot easily be filled, or if it requires a disproportionate allocation of promotion funds which cannot possibly ever be recouped from the tenants, it should probably never have been established. If an estate can be a viable economic enterprise in its own right, however, this shows that it is satisfying a genuine need. Such a return might not pass a private entrepreneur's tests of viability, if alternative investment opportunities are available, because of political uncertainties associated with land ownership or the commitment to any one particular area or a type of activity. Governments, and in particular regional, district or town authorities, or the tenants themselves, are, however, committed to local success and are unlikely to damage the economic interests of their own venture. There may be occasions, such as have occurred in India, when a particular type of small industry is urgently needed for strategic reasons, or to complement a large venture, or when there is a need to assist a particular group, such as unemployed engineering graduates, to start their own businesses. In these cases it may be appropriate to establish small industry estates as part of an intensive integrated package of assistance; their sponsors should recognise both that the costs will be very heavy in relation to the number of enterprises, and that the buildings are only a small part of the total assistance package, although requiring a very large proportion of the expenditure.

Application questions

- Are the buildings on industrial estates always occupied? If not, and the buildings are suitable and rents are subsidised, why are small businesses not queueing up to occupy them?
- Are industrial estates built where business people want to be, or where Government thinks they should be?
- Does relocation in an industrial estate always help an enterprise? What are the effects on the employment of family labour and access to raw material supplies and customers?
- Do the businesses on industrial estates receive more or less assistance than those outside, in terms of subsidy, common services and other assistance? Could the resources spent on them have been more effectively used to assist larger numbers of businesses?
- Are industrial estates established to satisfy planners' wishes to segretate industry from other activities, to provide politicians and aid donors with dramatic evidence of achievement, to make it more convenient for the promotion agency to provide assistance or for the good of the tenants?
- Are common facilities genuinely useful to all or the majority of tenants?

Could the services be provided by an independent small business rather than by a department of the estate organisation?

— Need rents be subsidised? Could industrial estates be effectively and profitably constructed and operated by independent property development businesses rather than by a Government agency?

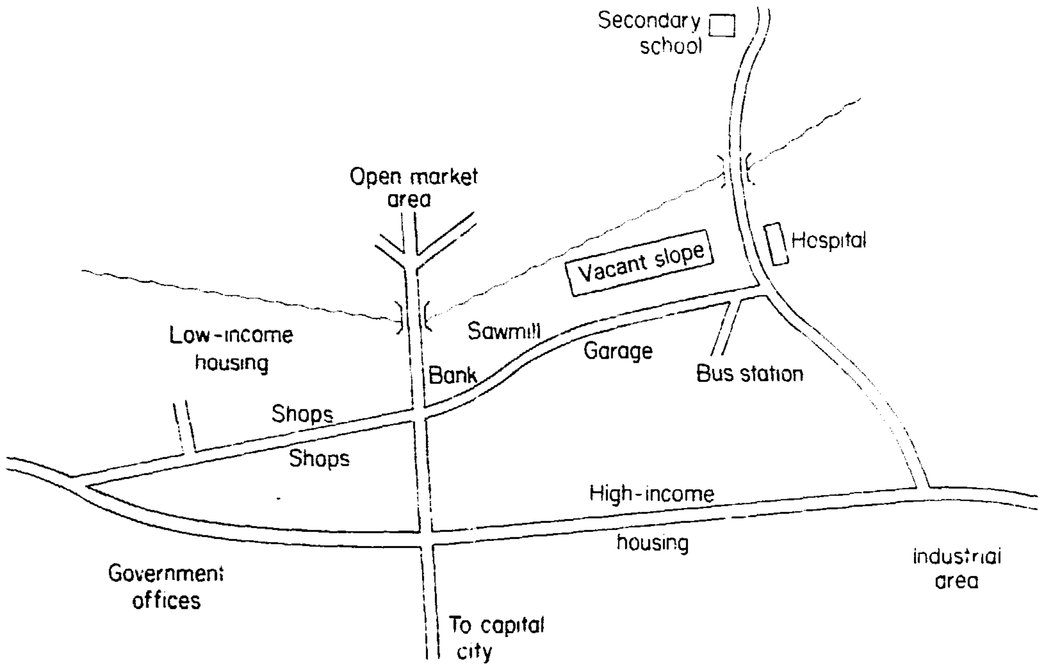
Case study: the Makalu Industrial Area

Makalu is a town in East Africa of about 5,000 inhabitants and its economy is based largely on the Regional Headquarters which is located there. The town is only about 70 kilometres from the capital city, and there is a good tarmac road between the two places. In 1971 the Government selected Makalu as a major growth point as part of its policy to divert activity to rural areas, and the expansion of local non-farm industry was of paramount importance in this policy. The Govermment found it difficult enough to persuade foreign firms to invest in the country at all; a few large new industries that had been started there were located either in the capital or, when they used agricultural raw materials, in the better-watered and more fertile parts of the country. The Makalu region is dry, the majority of the population are subsistence farmers and many families are sustained only by remittances from relations who work in the army, in Government or in industry elsewhere.

Industrial growth in Makalu is inevitably dependent on the growth of local enterprises. The region provides a fair market for simple products such as water tanks, lamps, kitchen utensils, animal feeding troughs, gutters and pipes, furniture, clothing, shoes and so on, which can be produced locally on a small scale. Most of this type of product is nevertheless brought into the region from other parts of the country and the Government intends to promote the development of local industries so that they can satisfy regional demands and ultimately develop the capacity to supply other regions as well.

Early in 1972, as part of the growth centre planning procedure, the Town Council undertook a study of the problems of overcrowding and disorganisation of the market area. Shop-keepers, produce traders and farmers had for some time been complaining about the shortage of plots, the filthy conditions and the noise and danger created by workshops located among the trading premises in the market. The accompanying map shows the location of the market area, and of other places referred to.

As a result of the study, the Council resolved to exclude all non-traders from the market area. Notices were issued to 45 carpenters, mechanics, shoemakers and metal workers, saying that by the end of 1972 they must remove themselves to the new industrial area where plots would be made available at a low rent or outright purchase. This new industrial area had been designated in a long-term planning document of 1960 as the site for all future industrial development in Makalu. It was a large, flat area which was muddy during the rains but well suited for proper industrial buildings. A confectionery factory employing 20 people, a corn mill employing 15 and a hide and skin dealer



employing 12 were the only occupants of this site by 1972 and there was more than enough space remaining for the accommodation of the craftsmen who had been told to leave the market area. None of them employed more than two people, and most had been doing business in the market for many years, selling their products direct to the public from the plots where they manufactured them. By the end of the year, however, none of the craftsmen had moved from the market place.

Early in 1973 the owner of the land adjacent to the market area on the other side of the stream, who operated a saw mill and hardware warehouse employing 20 workers next to his only tenant which was the bank, offered his vacant land at a nominal rent to the Council as a site for the small-scale craftsmen. He was not entirely disinterested: most of them bought their timber, corrugated iron or other supplies from him. The vacant land sloped steeply down to the filthy stream which drained the market area and the poorer housing area of the town, and there was little chance of alternative use for it in the short to medium term. In the 1960 plan the area had been designated for 'business premises'.

The Council delayed a decision on this offer, but the craftsmen soon heard of it and immediately started to move out of the market place on to the slope. They subscribed together to hire a bulldozer (from the owner of the land, who also had a construction business) and made some rough terraces on the slope, together with drainage ditches. They quickly re-erected the temporary shelters that they had removed from the market place and the slope was soon a hive of activity. The craftsmen paid no rent, the landowner did not object, and customers from rural areas found it convenient to buy the craftsmen's products since they were now even closer to the bus station.

After a few months, however, the hospital authorities complained to the

Council about the noise from the slope and the main garage owner, who was also Chairman of the Council, complained that the mechanics who had moved to the slope from the market place were competing unfairly with his garage for the bus, car and bicycle repair business which originated in the bus station. The Chairman did not object to reasonable competition, he said, but these mechanics paid no rent, their working conditions were appalling and he could not be expected to meet their prices.

Towards the end of 1973 the Council voted to reject the offer of the land and told the owner that the craftsmen must be cleared from his land since all industrial development must take place in the industrial area designated in the 1960 Industrial Plan. He replied that he had not invited the craftsmen, nor were they paying him any rent and since he did not object to their presence he did not see why he should have to drive them away.

Early in 1974 the Council asked the police to take strong action against the craftsmen. During the year the police gradually built up the pressure, culminating in December in the forcible destruction of the wood and metal shelter occupied by the tank maker on the corner opposite the hospital. The craftsmen responded by forming an Action Committee; they complained to their Member of Parliament, and said that they would forcibly resist any further attempts to remove them.

Commentary

This problem appears to have arisen because the authorities failed to understand the way in which small manufacturing businesses in the informal sector operate. Regulations demand that manufacturing activities should be neatly segregated in an industrial estate separate from trading, but these craftsmen are in fact carrying out both activities on one site, and they cannot afford the cost of a separate marketing outlet.

Many of the activities demand close personal contact between the manufacturer and the customer, and the manufacturers have no contact with formal distribution channels, even if they could afford to give away the necessary discounts.

It is unlikely that the provision of modern buildings, or common services in the industrial estate would have made the move any more attractive. As with any viable business, customers must come first, and an ideal physical environment at minimal cost could not compensate for the absence of buyers at the proposed location.

In addition, the authorities have taken the side of the 'legitimate' business, against the far more numerous, less sightly but highly competitive informal sector. The garage owner, like many established small business people, also enjoys political influence, and is able to protect himself against what he considers unfair competition.

There is nevertheless a genuine problem; while the noise, dirt and congestion caused by the informal manufacturers may be more upsetting to Government servants and visitors passing in their cars than to the ordinary people who move on foot, the complaints from the hospital must be taken seriously and the instability and unhygienic conditions of the present site have obvious disadvantages for the craftsmen themselves, their customers and the population in general.

Official attempts to promote co-operative activities by small-scale business people usually fail, but the craftsmen of Makalu have responded to local authority pressure by forming an apparently effective association. Even at this late stage it may be possible for the authorities to work with the craftsmen's association by accepting the offer of the land and offering a long-term lease to the craftsmen on condition that they relocate the noisiest businesses furthest away from the hospital and co-operate in the installation of drainage and other simple but necessary facilities. The slope might then become a form of industrial estate in itself, but one which is consistent with the development of the area, and the needs of the craftsmen and their customers, rather than an imposed and alien solution which satisfies nobody except the planners.

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CHAPTER 13

EVALUATION AND APPRAISAL

The crucial issues

— What are the objectives of small enterprise promotion?
— Why should promotion activities be evaluated?
— What techniques should be used to appraise proposals for new small enterprise promotion activities, and should they be the same as those used for individual business proposals?
— Should evaluation be carried out by programme staff or by external specialists?
— Should evaluation be a routine and continuing activity, or should programmes only be evaluated at infrequent intervals?
— How should the costs of assistance programmes be measured, and how should foreign assistance be accounted for?
— Should benefits be measured in terms of institution building, programme activities, innovations adopted, loan repayment, client opinions, jobs created or improvements to client revenues and profits?
— How can the effects of assistance programmes be isolated from changes to clients which may have arisen from other causes?
— Should clients be asked to pay for the assistance they receive, and can such payments be used as a form of evaluation?

Objectives

Evaluation, like small businesses themselves, is fashionable; no proposal for technical assistance is complete without a ritual paragraph describing how it is to be evaluated, and foreign 'experts' are quickly followed, and sometimes outnumbered, by teams of evaluators. The owners of small enterprises which have been assisted by a 'project' may have been bewildered by the experience, but this confusion is further compounded by subsequent efforts to measure its effects on them. Like all fashions, evaluation has its merits but can be overdone; it is important to know the objective of anything before attempting to evaluate it, but evaluation itself can be a major activity, and it costs money. It too must be justified and its objectives clarified.

Some activities are relatively easy to evaluate; commercial enterprises make a profit or a loss, and the profit can be compared with alternative investment opportunities. Vaccination campaigns are clearly intended to prevent disease, family planning programmes to reduce population growth and adult literacy projects to enable adults to read and write. It may be very difficult to measure the benefits, or to associate change with a particular programme, but the objectives, like profits, are clear, and evaluation difficulties are associated more with technical problems of measurement than with fundamental problems of principle. Other activities, such as primary education, social services or defence, are almost impossible to evaluate as a whole. It is possible to compare the effectiveness of different ways of teaching children or defending a country, but the overall objective is so diffuse that decisions as to resource allocation between activities of this sort are political rather than quantitative.

Small business promotion lies somewhat uneasily between these two extremes: its objectives are quantifiable, in that they include higher incomes, employment, saving of foreign exchange and dispersal of economic activity, but they are often inconsistent with one another and are hard to measure in themselves. Those engaged in small business promotion want to evaluate and be evaluated, but they recognise the difficulties involved; evaluation has therefore become an important and expensive activity in its own right.

Why evaluate?

It is important, however, not to allow the general desire for evaluation to conceal the necessity for asking why it should be done at all; the method, type and frequency of evaluation cannot be determined without first being clear as to who is to use the results, and for what purpose. The first question that anybody responsible for any aspect of evaluation should ask, is 'What difference will this information make?'; if the answer is 'none' the evaluation programme or the particular question should be omitted.

The police conduct a postmortem examination on bodies of people who have died from unknown causes, in order to help them find who or what was responsible for their death. There is a need for postmortems on small business promotion but the objective is not to apportion blame but to improve performance in the future. There are three levels at which this can be done; first, those responsible for the activity can change and improve their performance in order to make it more effective; for them, evaluation is an essential continuous feedback which shows them what to do next, like a driver's eyes as he moves along a road. Secondly, evaluation can be used to improve similar activities which are to be carried out elsewhere; mistakes may be irremediable in one place, but if they can be identified they need not be repeated. Third, whoever is ultimately responsible for decisions whether or not to continue, extend, reject or cut whole programmes can use evaluation as a basis for decisions; these people are interested in the overall results of a particular programme, and are not concerned with short-term changes of direction.

It is perhaps to be expected that the second and third types of evaluation have received most attention from academics and analysts in large international organisations. Senior decision makers and those who provide them with information, have more resources for analysis and evaluation than junior and middle-level staff who actually have to execute programmes in the field. More attention has therefore been paid to the development and teaching of sophisticated techniques of long-term cost–benefit analysis than to ways in which field programmes can be evaluated and improved on a day-to-day basis. It is rather as if cartographers devoted all their time to small-scale maps showing whole countries and continents; these are essential, but specific journeys and building decisions can only be taken on the basis of detailed large-scale plans.

Appraisal of proposals

Evaluation after something has been done is clearly not as valuable as careful estimates of what are likely to be the results if it is done in the future. It is better to prevent mistakes than to discover that they have already been made. The process of appraisal, or assessing future costs and benefits, is the same as evaluation except that the data consists of forecasts rather than facts. Investment proposals and loan applications from individual businesses, plans for the growth of a particular industry and complete small business promotion programmes can all be subjected to sophisticated appraisal techniques. It is important to avoid over-using the word 'project', and to be clear whether one is talking about a particular business or a business promotion programme, and even more vital to remember that detailed appraisal is no substitute for effective management, of a business or an assistance programme.

Individual small enterprise proposals and loan applications should clearly not receive the same detailed appraisal as a proposal for a large assistance programme. The estimates of future costs and returns are bound to be very approximate, and the appraiser should concentrate his attention not so much on the data as on the record and character of the individual entrepreneur.

All types of proposal should be appraised as is appropriate; this work should not be allowed to detract from the far more important and more difficult task of ensuring that they are effectively implemented. International agencies and planning organisations are naturally concerned more with appraisal than with the evaluation of what has been done, since they are responsible for allocating scarce resources; foreign aid agencies in particular tend to be judged more in terms of what they spend than the actual results. Evaluation tends to be regarded as a massive exercise conducted at the end of a 'project', to compare its results with the initial appraisal; it is far more important that everyone who works in the 'project' should be able to evaluate their own contribution, in such a way that they can improve it themselves if necessary from day to day.

Government Departments are generally less effective than autonomous smaller organisations, whether they are running training courses, operating industrial estates or supplying raw materials. The traditional functions of Government such as defence, law and order and public administration are impossible to evaluate as a whole in quantitative terms. The working climate and reward systems in the public sector are therefore not based on measurable results so much as on adherence to procedures. Government has in recent years extended its activities far beyond administration and defence; the record of public and para-statal corporations has not generally been impressive, even if the only formal difference between them and private businesses is that the share capital is owned by the State. The State has usually taken over or initiated these sorts of operation because their functions are considered to be too important to leave to private enterprise. Whatever the merits of this policy, it presumably implies that the task is vital for national wellbeing, and therefore that it must be continued at any cost. No private enterprise can be continued at any cost, and the threat of closure is ever-present as a stimulus for improved performance.

'Terminal' evaluation

Small enterprise promotion may be important but it is not vital to national survival; no programme should be initiated or continued unless the benefits, however measured, are greater than whatever else might be achieved with the same resources. The benefits are difficult to measure, and most programmes are operated by Government which has no tradition of evaluation. The result is that while senior officials or outside donors may impose occasional detailed evaluation studies the operating staff have no regular measure of their performance. The small businesses they are trying to assist are under day-to-day pressure to perform, not merely to earn greater profits, but in order to preserve their jobs and their livelihood. We saw earlier that those who aim to help small business people should be as similar to them as possible, and small business promotion staff, at any level, should share the same concern for results as do their clients. The best way to do this is to allow the promotion function to be carried out by private enterprises themselves, since the providers of services to small businesses are other small businesses. If this is not possible, small business promotion agencies should attempt to develop methods of evaluation which simulate as nearly as possible the pressures under which small business management must operate.

Programmes can be evaluated from the top down or the bottom up; many evaluation studies are carried out by objective external evaluators, who descend on the programme at occasional intervals. They divert operating staff, transport and other resources from the task in hand, and their costs may even exceed the cost of what is being evaluated. Their enquiries may also suggest to small business clients that the programme itself is suspect. Their work is sponsored and directed by an external agency, with little reference to the day-to-day needs of the programme itself, and the results may not even be communicated within the programme at all. The purpose of such studies may be to satisfy donors, to help sponsors decide whether or not to renew a project or merely to conform to the official requirement that projects should be evaluated at certain specific intervals. It may not be difficult to delude evaluators of this sort that results are better than they really are, because they are not familiar with the day-to-day details. Programme staff may feel that the effort is justified by the continuation of the project, and thus of their jobs, but the evaluation itself is irrelevant to current performance and is of no benefit to clients.

Continuous evaluation

The other form of evaluation is built up from basic detailed operating data. Individual bank branch operating costs, disbursements and repayments, data about the performance of individual client enterprises, figures for attendance at courses, the costs of training and the resulting benefits to trainees are recorded in the field, when they happen, and the data is collected, aggregated and compared with costs and earlier performance in order to produce a continuous measure of results and source of ideas for improvements.

Evaluation measures of this sort should be a fundamental and basic component of any form of enterprise promotion from the outset; summaries of lower-level results can easily be passed to higher levels within the organisation, and to external agencies when necessary, but their basic purpose should be to maintain and improve the standard of day-to-day performance. Business advisers in Botswana, for instance, record the result of each client visit. They use this information to remind them what to cover on their next visit, but it is also collected and summarised so that supervisors can evaluate each adviser, and the results of the whole advisory service can be collected and compared with its costs.

Staff apathy is often a characteristic of business promotion programmes; one reason for this is that people often have no way of telling how well they are doing, and their supervisors rely on superficial indicators such as time keeping, observation of regulations or routine filling in of forms as a measure of success. Staff can and should welcome the opportunity to provide themselves with a tool with which they can measure the value of what they are doing.

Measuring the costs

Unless the promotion organisation is actually a commercial enterprise, selling its services at an economic cost to small enterprises or other organisations willing to pay for its support, the staff cannot benefit from the genuine stimulus of the need for economic viability. The aim should be, however, to come as close as possible to this, if necessary by introducing surrogates for sales or revenue; the easiest and most basic measure, however, is the cost of operation, and it is important to be clear as to what costs should or should not be collected in order to be set against the benefits that result.

Effective cost control is by no means unknown even in Government and any organisation should have a system for recording its costs of operation and allocating them to the activities for which it is responsible. This seems obvious, but many small business promotion programmes have evolved as sidelines of other activities; we saw earlier that the operating costs of HANDICO, the State trading corporation for handicrafts in Tanzania, were effectively unknown because of its close links with its parent the Small Industries Development Organisation. It is inevitable that cross-subsidy of this sort will occur; small-scale industrial buildings may be let at the same price per square metre as their larger neighbours, but management costs are bound to be higher per building and the smaller ones are subsidised by the larger.

One way in which organisations can finance the extra costs involved in lending to small enterprises is by allowing the profit on larger loans to subsidise the higher transaction costs of the smaller ones. Training institutions rarely hope to cover the costs of small enterprise training from fees; the surplus generated from larger firms helps to pay the costs of training people for smaller ones. Small enterprise promotion should not be artificially separated when it is an integral part of an institution providing services to many other types of firms; the true costs should, however, be estimated for evaluation purposes.

Foreign assistance

Many assistance programmes are staffed in part by foreign experts; some aid donors, such as the British Government, attempt when possible to limit their contribution to a 'topping up' element over and above the local salary in order to attract foreign staff. The institution still pays the same salary as it would pay to a local recruit, were such a person available. This minimises the expense to the donor but, more importantly, it does not discourage the local institutions from replacing the foreigner, since no extra expense will be involved in hiring a local person. Other donors such as the United Nations, the United States or the West German Government pay the full cost of foreign advisers, apart perhaps from accommodation or transport. This may be administratively more simple but it often tends to discourage local replacement, since costs will increase when the foreign aid is withdrawn. If a small enterprise programme includes people of this sort some estimate of the cost of an equivalent local person should be included in the figures.

Small enterprise promotion programmes should not encourage small businesses to spend foreign exchange, but some imported equipment and material may be essential for the development of new industry. If this involves special licences, if the cost is substantial and if the free market costs of foreign exchange differ significantly from the official rate, foreign currency costs should be increased by an appropriate multiple in order accurately to represent their real cost to the economy.

Some estimate should also be made of the cost of any staff or equipment that has been donated. The ultimate objective of any small business promotion activity should be to develop a genuinely viable operation, whose benefit exceeds its costs. If a programme's costs are understated its management and staff will be deprived of the information they need to monitor and improve its operations. Land, existing buildings, vehicles and other resources should be valued at their market price; if the principle of autonomy and independence which was outlined earlier is followed, small business promotion organisations will actually have to buy these items on the open market, and will not be allocated them from Government pools or anywhere else. Even if they are not purchased, however, the value should be included in the costs of the project.

The use of 'shadow prices' to adjust foreign exchange costs or benefits, real values for donated items and estimates of the value of hidden subsidies may seem inconsistent with the goal of a simple, low-level operational evaluation system. A loan officer, a trainer or an adviser cannot be expected to understand or to calculate factors of this sort when evaluating the costs of his own work in order to compare them with the benefits. People should only be evaluated with reference to costs they themselves control. Field staff of the University of Nairobi Extramural Department, for instance, conduct short training courses for small-scale business people. They can control transport and accommodation costs of trainees and incidental expenses associated with the course such as visiting lecturers or training material. These are recorded and compared with budgets and past experience. All the other costs, including their own salaries and associated overheads are added to the costs which are under their control and presented as the total cost of their activity. They themselves control only a small part of this, but they need to know the total in order to be able to appreciate what it does cost to mount a course, and to assess the benefits accordingly.

Measuring the benefits

The benefits are clearly far more difficult to measure than the costs; the most important general principle is that promotion agencies should cultivate a genuine sense of humility; they should realise that their own efforts are at best marginal; the key to small business formation and growth is the individual entrepreneur, and external assistance can do no more than support and encourage him. The courage, the initiative and the basic ability come from the owner and his colleagues in business. When they are asked how well they are doing, many small business promotion staff reply that they have 'started' so many businesses or that they 'have' so many others. This phraseology reveals an exaggerated sense of the importance of their programme; the entrepreneur has 'started' the business, and the present owner or manager 'has' it. The outsider may have provided some critical assistance or support, but he cannot take all or even a large part of the credit for the success of the business he has assisted. The same people may blame the incompetence or dishonesty of business people for failure; they may be correct, but they cannot claim credit for success at the same time.

The actual benefits to be measured must depend of course on the objective of whatever is being evaluated, and objectives in turn may be defined at a number of different levels. The accompanying chart (Table 13.1) attempts to illustrate a hierarchy of objectives of typical small business promotion activities.

Table 13.1 Small business promotion — a hierarchy of objectives

	Industrial estates	Training courses	Extension services	Loans	
1	To build an effective industrial property institution.	To build a training institution.	To build an extension service.	To build a credit institution.	1
2	To construct sheds.	To run training courses.	To call on a certain number of clients.	To elicit a certain number of loan applications.	2
3	To let the sheds.	To enable trainees to pass tests.	To make recommendations to clients.	To approve and disburse loans.	3
4	Tenants to pay rent on time.	Trainees to apply what they have learned.	Clients to follow recommendations.	Borrowers to repay their loans.	4
5	Clients willing to pay the economic price. Clients to create more employment opportunities. Clients to earn greater profits.				5
6	To develop the health of the small enterprise sector. To promote welfare and development.				6

Institution building

'Institution building' is important, although it relates entirely to the costs of assistance rather than the resulting benefits. It is certainly true that the complicated tasks involved in small enterprise promotion cannot be carried out by ineffective institutions, but they are best carried out by small ones, while the process of institution building implies an increasing scale and number of employees. Institution building can become an end in itself, and in many countries there are large numbers of institutions involved in small business promotion which appear to be more concerned with their own survival and growth than their contribution to small enterprise development.

It might even be suggested that the destruction of institutions is an equally valuable objective; organisations which have been set up to 'Africanise' wholesale and retail trade in some parts of Africa, for instance, have more or less achieved their objective; although no obvious role remains for them, the staff inevitably create new programmes which ensure their own survival. Because business promotion is so difficult to evaluate, it is not immediately obvious that the programme contributes more to institutional self-preservation than to the needs of business enterprises. If as many activities as possible are carried out by small self-accounting locally based institutions this will encourage initiative and effective performance, and will also ensure that institutions which have outlived their usefulness go out of business just like some of the enterprises which they are intended to serve.

There is, however, one valuable by-product of small enterprise development institutions which cannot be accurately valued as a benefit but is still a valuable bonus. The staff of small business promotion institutions, and in particular the local level field representatives, often leave their jobs in order to go into business for themselves. This may be irritating for the managers of the institution which is faced with high staff turnover, but frequent contact with a large number of successful and unsuccessful small businesses is in fact a most effective form of training, which should enable an enterprising staff member to set up his own business and avoid many of the more common mistakes.

Experience in Kenya suggested that a one-year period of service as a small business adviser was a more efficient way of training people to start their own businesses than some other programmes whose stated objective was to produce ready-made entrepreneurs. It was less expensive even if no value at all was placed on their service to clients and the results of the institution were measured only in terms of the entrepreneurship training it provided. This is not a benefit which can conveniently be measured, but personnel officers who are frustrated by high staff turnover should realise that their departing employees may be one of the most valuable products of their organisation.

Programme output

The next level of the hierarchy is the output of the institution which has been built. The number of sheds constructed, loans applied for or courses given is used as the measure of achievement. It is tempting to equate this output to the sales of a commercial business, but the critical difference is that a business cannot produce goods for very long unless customers are willing to pay the economic price for them. Demand might be a reasonable measure of value, if the price covered the cost of production, but the demand for subsidised buildings, free training courses or low interest loans cannot be taken as an indicator of their true value.

There is also a danger that if an evaluation system which is based on quantitative measures of output is used to motivate staff performance, they may be encouraged to sacrifice quality in the interests of quantity. In the early stages of an extension service for small-scale traders in Kenya, results were initially measured in terms of the number of visits made by the advisers to their clients. The advisers not unnaturally reacted by maximising the number of visits they made, so that they had not enough time to ensure that their clients really understood what they were trying to teach them. Large numbers of sheds, more frequent training courses or large amounts of money lent are not necessarily indications of a useful service. Private businesses which use indicators of this sort to evaluate and measure their employees are rapidly reminded by their customers that quality is also important; client pressure is not so immediately obvious to a small business promotion organisation.

Output can, however, be used as an immediate form of evaluation at a relatively low level. The quality of loans, training courses or advice cannot be measured in the short term, and evaluation at the lowest level should provide immediate feedback. If a promotion agency is well managed, the quality of its output should be maintained through regular supervision; if this is done, crude measures of output can be used as the most rapid indicator of performance.

Adoption of techniques

Private consultants can evaluate their performance like any other business; small business extension advisers whose services are free or heavily subsidised cannot evaluate their performance in the same way, and need a more searching indicator than the number of clients they have called on. Agricultural extension officers can by observing their fields count the number of farmers who have adopted new varieties or improved cultivation practices. Technical improvements can also be observed in small businesses, but management changes are often more necessary and are not so easy to enumerate. The objective of training or field advice is to change behaviour; field advisers, like trainers, must find ways to measure behaviour change.

The need for concrete and observable indicators of performance can lead trainers and field advisers, and those responsible for supervising them, to design and promote innovations because they can be measured rather than because they are actually in the interests of the trainee or client. Advisers in Nepal taught their clients to keep their cash books in a particular way, and distributed pre-prepared account books for the purpose. It was then easy for the advisers, or anybody evaluating the service, to see at a glance whether clients were in fact keeping the books as intended. Procedures of this sort can also simplify the training and advisory activity itself. Trainers and advisers have merely to learn the procedures themselves, and to teach them as instructed; their work can be evaluated by reference to trainees' or clients' adoption of the procedures, and the complete process is an effective evaluation system.

Unfortunately, however, standardised content and ease of evaluation are not necessarily or likely to be associated with real benefit to small businesses. Every small enterprise has its own problems, according to the industry in which it is engaged, its customer and supply situation and, more importantly, the ability, aspirations and energy of the owner. Small business people may be deluded into believing that irrelevant procedures are useful for them, and if adoption of them is a precondition for approval of a loan application the system will be further reinforced; it will not, however, necessarily contribute to the genuine success of the enterprise.

If the clients of a training institution or advisory service are all running the same sort of business, and have similar problems, it may be appropriate to measure success by adoption of procedures, so long as these have been carefully designed on the basis of research into small business problems and the level of ability of their owners. The accompanying figures (Table 13.2) were collected in an attempt to evaluate an extension service for small-scale indigenous retailers in Malaysia; they show that it is easier to count recommendations made than the number which are accepted, but since this particular extension service is closely linked to a wholesale supply organisation which monitors the value of client purchases, and their problems are reasonably homogeneous, this may be an appropriate form of evaluation.

Table 13.2 Results of Pernas Edar Bumiputra Retailer Extension Service

Total number advised = 1398
Loans granted = 725
Traders adopting special single entry book-keeping system = 913

Recommendations made and accepted:

Recommendation	Made	Accepted
To keep a record of income and expenditure	82%	58%
To reduce the level of credit sales	70%	not known
To apply for a loan	67%	not known
To calculate profits	65%	not known
To rearrange the shop layout	62%	48%
To clean and tidy the shop	not known	52%

Source: Address by R. Lambert, Consultant to Pernas Edar S.B., 1977.

Loan repayment

Banks traditionally view loan repayment experience as the single most important measure of success; if arrears and default can be kept to a low level, financial losses will be minimised and the scheme may certainly be commercially viable. It is also not unreasonable to assume that if a small business borrower succeeds in repaying his loan on time he has been able to make good use of it so that the project has achieved its objective. A loan scheme may have more complex objectives than commercial viability, such as employment, exports or the adoption of a particular technology. If there is any conflict between the objective and the profitability of the borrower, however, so that good repayment figures do not necessarily mean that the objective has been achieved, the basis of the scheme may well be at fault. The owner of a business is the best judge of how any new capital should be invested, and any attempt to influence this judgement should be through financial incentives which will make it more profitable rather than through encouragement or compulsion.

Operators of industrial estates may similarly regard success in letting their sheds to tenants who regularly pay their rent as sufficient evidence of the success of their programme as a whole. A commercial property developer depends on rental income for his success, and it is reasonable for the managers of industrial estates to use the same indicator.

Enterprise performance

All evaluation measures which have been discussed so far relate closely to the activities of the promotion organisation. Programme output, however, may have no impact whatsoever on client businesses, while loan repayment, rent or the adoption of specific innovations relate only to the services provided from outside. There is no necessary connection between these programmes and the achievement of the social and economic objectives used to justify any form of small business promotion. It may be necessary to measure increases in employment, profits, turnover or investment, and to compare the changes in client enterprises with the experience of other businesses which have not been exposed to whatever service has been evaluated.

Before considering how and whether this can practicably be done, however, and whether such measurement provides a practicable form of evaluation which can help staff within an assistance programme to improve their performance, it is important to recognise that attempts to measure performance in this way assume that the aspirations of the owner of the enterprise and of society as a whole are approximately the same. Soap manufacturers do not continually measure whether their customers are in fact cleaner as a result of using their soap; they are content to use the sale of soap as an indicator that people are satisfying their needs for cleanliness by buying it. There are many ways in which small business promotion agencies can measure clients' satisfaction; if the arguments in favour of small business are valid ones, small business people's satisfaction is sufficient evidence that a service is useful.

Client opinions

Most small business assistance programmes are free or heavily subsidised; we have already discussed the disadvantages of subsidies, but their removal is politically impossible in many countries and some element of subsidy is often necessary. This makes it all the more necessary that the providers of subsidised services should attempt to measure client satisfaction. One way of doing this is simply to ask clients their opinion; the accompanying data (Table 13.3) was gathered from clients of the same indigenous retail consulting service in Malaysia, and appears to some extent to justify the confidence that adoption of innovations was related to the success of clients' businesses.

Willingness to pay is a more rigorous expression of client opinion; if political or other constraints mean that it is totally impossible actually to charge for a promotion service, it is still possible to pretend that a charge will have to be made in the future and to ask clients whether they will wish to continue on this basis. Obviously this device can only be used once, and willingness to pay is not the same as actually handing over money, but if a decision must be made as to

Table 13.3 Indigenous retailer extension service: clients' perception of the most important results of the advice received

Better control of expenses	82%
Better buying terms	77%
More cash available and less credit outstanding	68%
Less money tied up in slow-moving stocks	67%
A better-looking shop	68%

Source: Address by R. Lambert, Consultant to Pernas Edar S.B., 1977

whether or not to extend a particular programme before the actual results of client enterprises can be assessed, this method can be used. The 170 clients of a prototype extension service in Kenya were asked whether they would be willing to pay $1 each per month to continue the service, after six months of experience. 69% said they would, and some even tendered money; later research showed that those clients who had agreed to pay were generally those who had benefited most from the advice in terms of improved sales and profits.

Should businesses pay?

There are of course many arguments in favour of charging for promotional services, apart from the need for evaluation. These charges can help to defray costs and allow the service to be offered to more clients, participants in training programmes or adviser clients will ensure that what they are learning genuinely relates to their needs if they have paid for it, trainers and advisers will be made to feel more accountable by their clients themselves and small businesses will value and make better use of something they have paid for than something they have received for nothing. Some charges may be so small that the cost of collecting them exceeds their value, but the most important argument against any form of charge is the danger that it will disqualify the poorest people who most need help.

The decision whether or not to charge must obviously depend on the nature of the assistance and the situation of the target clients, but any organisation which is providing free services should at least consider imposing a charge; this may not be imposed at the beginning, since experience of the service may be the only way in which clients can appreciate its value. The British Government operates a small business counselling service where the first session is free of charge but subsequent assistance has to be paid for. The counsellors are paid the same in any case, and are thus not tempted to use the first session primarily as a means of selling subsequent advice. The system appears to be a useful way of demonstrating what may be a useful service and automatically selecting those clients who can make more extended use of it.

Isolating the effects

As soon as evaluation goes beyond the inputs of a particular programme, and attempts to measure their effects on the business as a whole, it is enormously complicated by the problem of isolating effects. Academic researchers can set up rigorously monitored experiments, whereby the group of businesses which receive a service are matched by a similar 'control' group which does not receive it. If the performance of the two groups is compared, the effect of the assistance can be measured. Research of this sort, such as Somasekhara carried out on firms in and outside industrial estates in Mysore in India, is very valuable as a general indicator of the merits of programmes but is quite impracticable as a routine form of evaluation. The Irish Productivity Council selected twice as many participants as they could accept for a new long-term training programme for owners of small businesses; they went so far as to accept fee deposits from all of them. Half of them were then selected at random and rejected. Their fees were returned and their performance is being monitored so that it can be compared with those who have been trained. We have already seen that assistance programmes are at best peripheral; the individual entrepreneur takes the risk and makes the decision, and local and national economic conditions have a far more important influence on small businesses than any assistance programme. It is therefore impossible accurately to measure the total effect of any small business assistance programme without at the same time measuring the change or lack of it in a control group.

It is generally impossible, and would probably be wrong, to attempt to deprive a significant number of qualified clients of the benefits of any particular programme in the interests of evaluation. The very act of examining members of the control group, and in particular of attempting to measure their profits, will also affect the results. The difficulties are such as to discourage many organisations, and external evaluators, from attempting to measure the effects of their programmes on the overall performance of the client enterprises, and to justify the use of simpler but less valid measures of performance.

Regular evaluation — an example

Table 13.4 shows a quarterly report produced by Partnership for Productivity to measure and monitor the results of their small business advisory service in Western Kenya.

Client's profits have generally increased so substantially that it is most unlikely that similar results would have been achieved by a randomly selected group of businesses in Western Kenya which were not being advised by Partnership for Productivity. The total figures are, however, less important than the difference between the results achieved by each of the thirteen advisers; the table is itself a summary of thirteen such tables, one for each adviser, which shows the individual data for each client, and it is obvious that the information is a valuable guide both for the managers of the programme

Table 13.4 Partnership for Productivity, (Kenya). Summary of Adviser Performance, 1st quarter, 1976

Adviser	Current active clients	Total improvements adopted	Previous qtr. average profit per client	Current qtr. average profit per client
A	22	28	$71	$357
B	27	111	$143	$243
C	14	158	$55	$188
D	15	42	$70	$306
E	19	178	$405	$1,622
F	15	143	$73	n/a
G	17	170	$80	$340
H	23	73	$49	n/a
I	16	76	n/a	n/a
J	24	50	not started	$388
K	17	76	not started	$353
L	31	291	not started	$280
M	4	12	not started	$57
Total	244	1408	$17,812	$77,592
Average	19	108	$73	$318

Source: Partnership for Productivity, Kakamega, 1976.

and, most importantly, for each individual adviser. The total cost of the service for the quarter was $12,000; this figure can be compared with increased profits of $59,780 earned by clients during the period. The service can be confidently stated to have justified its existence.

Employment created

This, however, begs the question of the fundamental objectives; is the intention to benefit the owners of the enterprises by improving their profits, or is it to create employment? Most people, in most countries, would rate employment as the first priority, and it has the additional advantage of being relatively easy to measure. Seasonal or family labour can be converted to full-time equivalents without too much difficulty, and the numbers employed can in most small enterprises be physically counted very easily. A bank, a training institution or advisory service need have only the most tenuous contact with its present and past clients in order to monitor the number of people they employ, whereas it may take a long period of training or advice before anyone knows the profit of a small enterprise. It is also possible to relate the number of jobs added in client enterprises to the cost of the service; the World Bank compares proposals by reference to the investment required per job created, while other non-financial interventions can be compared in the same way. Different types of programme, different staff members and different clients can be compared with one another in the terms of the cost required to create one additional job, and the programme can be adapted to achieve the optimum use of its resources.

It can be argued that poverty is caused by insufficient earnings rather than by a lack of jobs, but if small businesses create new work places, which people are anxious to fill, it is presumably safe to assume that the average level of earnings is being increased. Job creation is politically far more attractive than any other objective, it is the stated goal of most internationally funded projects and it is relatively easy to measure and compare; there seems to be no reason why every small business promotion programme should not be evaluated, as a whole and in every part, by the number of jobs created and the cost of creating each one. There are, however, good reasons for preferring alternative indicators, even if they are far more difficult to measure and are politically less acceptable.

In the eyes of small business owners, employees are an expense, which should be minimised like any other. If an enterprise has more employees than its competitors it will, other things being equal, be less competitive and will eventually go out of business. Long-term employment must depend on efficiency, which may in the short term require less people; successful assistance for small business depends first and foremost on its acceptance by the businesses, and it is vital that any small business promotion agency should be perceived, at every level, as an aid to greater prosperity for businesses rather than a promoter of employment even at the cost of less profit.

Labour is cheap in poor countries, and even if capital is also cheap because it is subsidised, it is difficult to obtain. Bankers, trainers and advisers should obviously not finance or recommend changes which displace labour and are not in the long-term interests of the particular business. A miller in Kenya, on the other hand, was advised to dismiss a labourer in order to reduce costs so that he would thus be able to compete with flour from the city. He followed the advice, his business survived and eventually expanded, employing several more people than it had before. Development means change, and incomes can only increase if the productivity of labour is increased. This improvement must inevitably involve reductions in the number of employed from time to time. If job creation is viewed as the sole objective and measure of achievement in a promotion agency, staff will refuse to credit any reduction in numbers and will therefore lose credibility with the owners of small enterprises.

Governments should frame economic policies so that it is in the best interests of small enterprises to employ people rather than capital, to prefer locally produced material and equipment, to search for foreign markets and to locate themselves in areas where economic activity is most needed. An individual promotion agency, or staff member working in it, should not aim alone to compensate for inappropriate national policies which discourage small businesses from doing what is actually good for the economy. Active and profitable small business firms which do the wrong things are perhaps better than dead or dying ones which have been persuaded to do the 'right' ones, even though they are against their own individual interest.

Business profits

It should not be difficult to measure client profits, at least for some organisations. Advisers who are calling regularly on particular enterprises should as part of their routine ensure that the owners know how to calculate their profits and how to use this information, so they should have little difficulty in measuring change, at least after an initial period of instruction. Bankers should demand some estimate of present and projected profits in a loan application, and should aim to monitor adherence to plans as part of their regular supervision. Trainers are not so well placed; many of their trainees may not know their profits when they first come on a course, and they may not learn enough to calculate them afterwards.

Special sample surveys should be undertaken to assess the actual effects of training, but for operational purposes it should be enough to work at a more elementary level in the hierarchy; all trainees should as a matter of routine be asked at the end of any course to state what they are going to do differently on their return as a result of having received the training. The training institution, and preferably the trainer himself, should be sure to assess by personal visit to at least a sample of their trainees whether they have succeeded in implementing their plans some six months to a year after the end of the course. The apparent quality of the plans, and the proportion which are implemented, should be sufficient evidence of the quality of the course itself.

The small enterprise sector as a whole

Individual promotion organisations should not be expected to evaluate the results of their work except by reference to their clients themselves, who may if possible be compared to a control group; they should also not be held responsible for the health of the small business sector as a whole. The Ministry of Planning or some other organisation which is not committed to any particular form of assistance should sponsor a routine audit of the health of the small business sector as a whole, which would assess the major problems of small businesses, measure the proportion of those who are receiving assistance of any sort and make general suggestions for the directions of future promotion programmes.

At the most general level of resource allocation, we have seen that small business promotion is relatively new in most countries, and is fashionable everywhere; it is also very difficult to achieve success. Individual assistance agencies should not be expected to compare their achievements with what might have been achieved with the same resources in totally different ways such as agricultural development, but policy makers in Government or elsewhere should not be pressed by foreign donors or imaginative consultants into allocating excessive funds to small business development which might more usefully have been employed elsewhere. If marginal land is still under-used, or if agricultural productivity is still well below the point at which returns to further investment start significantly to diminish, resources may well be better employed to produce more food and to improve the incomes of farmers who make up the vast majority of the population of most poor countries and are by far the largest group of small-scale businesses.

Application questions

— Are the objectives of every small enterprise promotion programme clearly defined and measurable?
— Are those who are responsible for small enterprise promotion programmes genuinely aware of the impact of their activities?
— Is reluctance to evaluate caused by the difficulty of evaluation, or by fear of the results?
— What is the cost of evaluation, including the time of programme staff diverted from their normal activities?
— Who uses the results of evaluation studies and are programme staff, at all levels, able to learn from them in order to improve their performance?
— Are the real costs of foreign assistance fully taken into account when measuring the costs of promotion programmes?
— Are increases in the coverage or scale of a promotion agency's activities, or the adoption of changes it recommends, genuinely useful to its small business clients?
— If a given small enterprise employs more people, is this necessarily making a long-term contribution to its viability?
— Are small enterprise clients always totally frank when asked to express their opinion of a service they have been receiving from a promotion agency?
— Could more clients be asked to pay for the services they receive, and if so, how would payment affect their willingness to make use of the service and the performance of the staff providing it?
— Would it be possible to measure changes in clients' business revenues or profits and to relate the value of any improvement to the cost of whatever assistance they had received?

Case study: small business consultancy in Bhaktapur

Early in 1981 an experimental small business consultancy service was set up, with the assistance of the German Agency for Technical Cooperation, in Bhaktapur, a town of some 100,000 people twenty kilometres from Kathmandu, the capital city of Nepal. The objective was to improve the economic well-being of the community, whose average income per head was under $60. If the service was successful, it would be continued in Bhaktapur and might even be applied in other parts of the country.

Because this was an experimental prototype, only two consultants were employed. They were trained in a specially designed six-week programme, along with six other staff from banks and other institutions who were not actually to be employed in the experiment but who were involved in other types of small enterprise development work in Bhaktapur and elsewhere.

A total of 34 small businesses were surveyed in some detail in March 1981, after the training but before any consultancy started. Information was collected about their investment, sale turnover, value added, employees and profits. Only in a very few cases were the businesses keeping comprehensive records, but it proved possible, using techniques which had been extensively tested elsewhere, to produce reasonably accurate data. The procedure for obtaining this information was in any case a basic part of the consultancy method which the consultants had learnt. The businesses were involved in a wide range of activities, including rice milling, garment making, weaving, knitting, food processing, shoemaking and carpentry. 26 of these businesses were then randomly chosen as clients for the consultancy, while the remaining eight were to be controls; they had no further contact with the consultants at this time.

The 26 businesses were divided between the two consultants, and for the following twelve months they called on them regularly. They followed the procedure taught in the course, attempting to define their problems and to recommend appropriate improvements such as new marketing methods, better record keeping, stock control systems and better use of capacity. They also suggested to a number of their clients that they should apply for loans, and assisted them in filling out the necessary forms and dealing with the bank.

In May 1982 it was found that two of the controls had gone out of business. The 26 clients, and the remaining six controls who had received no advice, were again surveyed, and the same data obtained from them as had been obtained the previous year. The results, compared with the previous year's data, were as shown in Table 13.5 The consultants' records of their progress with their clients were summarised as shown in Table 13.6. In addition, the consultancy clients were asked their opinions of the service; in summary, 20% of them were very enthusiastic, a further 70% were satisfied and only one client said that the service was of no value to him.

Table 13.5

Measure	Average increase per client	Average increase per control	Difference attributed to consultancy	Total difference for 26 clients	Total annual difference for 26 clients
Sales per month	$ 155	$ 83	$ 72	$ 1,872	$ 22,464
Value added per month	$ 63	$ 18	$ 45	$ 1,170	$ 14,040
Profits	$ 50	$ 16	$ 34	$ 884	$ 10,608
Jobs	1.0	0.6	0.4	10.4	not applicable

Table 13.6 Consultancy clients — recommendations made and followed

Recommendations made 104	: Average per client 4
Recommendations followed 73	: Average per client 2.8

Recommendations followed classified as below:

Book-keeping improvements	= 29
Marketing improvements	= 9
Improved stock control	= 5
Increased production using existing capacity	= 6
Improved debt collection	= 2
Applying for a loan	= 13
Other improvements	= 9

It was not possible to obtain comprehensive information on the results of the loan applications prepared with the consultants' assistance, because of the delays involved in obtaining information following the necessary procedures. Two loans had, however, been approved, a further five were awaiting approval, and six more applications were being prepared.

The local costs of providing the service were approximately $4,750 per year, including supervision, office accommodation and the consultants' salaries. They in fact spent a third or more of their time during the year on other duties, but no allowance was made for this in the evaluation.

The benefits can therefore be related to the local costs as follows:

Local costs		*Annual benefits*	*Benefit–cost ratio*
	Value added	$ 14,040	2.95/1
$ 4,750	Profits	$ 10,608	2.2 /1
	Jobs	10.4	$ 457 per job

These figures do not include the cost of advice and assistance which were provided by a foreign donor. These costs will not be repeated, since they were only necessary for the experiment, and further local consultancies can be provided for the local costs only. If this service alone was to be continued, however, and no others were to be introduced, the return on the foreign donor's assistance might be calculated as follows:

Initial investment by foreign donor	= $ 70,000
Results in terms of increases in clients' value added net of local costs	= $ 9,290
Results in terms of increases in clients' profits net of local costs	= $ 5,858

'Pay back period' in value added	=	$7\frac{1}{2}$ years
'Pay back period' in profits	=	12 years
Return on foreign investment in terms of value added	=	13%
Return on foreign investment in terms of increased profits	=	8%

These figures were based on the assumption that improvements to clients' businesses would last only for one year. It is to be hoped that this is a very pessimistic assumption, but since the evaluation had to be completed immediately after the end of the first year's experiment, it was not possible to find out for how long the improvement might have been maintained. At the end of the first year, approximately half of the clients were dropped, in the interests of equity, and the service was extended to businesses which had not yet been advised.

The foreign donor was then in a position to be able to compare these figures for return and pay back with comparable data from other assistance projects and to draw conclusions as to the emphasis of future programmes.

Commentary

This evaluation demonstrates that it is possible, at least on an experimental basis, to evaluate a small enterprise promotion programme. Results were obtained at most of the 'levels' of evaluation, and it is clear that the comparison of costs and benefits provided a reasonable measure of the results.

The numbers of recommendations made and accepted, and the financial data for the assisted enterprises, were taken from the forms which the consultants used as an essential part of their consulting procedure. The only extra work required for the evaluation was some sample checking to ensure that consultants' records were valid, and the enquiry about the clients' opinions of the service. The evaluation process did not therefore substantially distract the consultants or their supervisors from their routine work.

The group of businesses on which the results were based, and in particular the control group consisting of only six enterprises, constitute too small a sample for the conclusions to be definitive. The exercise does, however, show that rigorous evaulation of this sort is a practicable possibility, and the same methodology could be applied to an experimental loan programme, industrial estates or training courses. Routine evaluation, without comparison with a control group, can be continued after the initial experiment. The performance of particular types of businesses, and of individual consultants, can be regularly compared and used to monitor and improve programme performance.

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CHAPTER 14

INSTITUTIONS

The crucial issues

- Should the Government undertake all aspects of small enterprise promotion, or should numbers of different types of institution be encouraged to play a part?
- What role can small enterprises themselves play in providing the services needed by other small enterprises?
- How can Government find out what the problems of small enterprises really are?
- What role should Government, commercial banks and private money lenders play in financing small enterprises?
- Who should provide training and extension for small enterprises?
- How can appropriate technology be most effectively developed and brought to the small business who are to use it?
- Are public or private enterprises most likely to provide effective marketing and supply services to small enterprises?
- What role can large business play in assisting smaller ones?
- How can a private voluntary agency be encouraged and assisted to help small businesses?
- Is there a need for services to small enterprises to be co-ordinated with one another, and if so, how should this be done?

Who is to do what?

The foregoing chapters may have given the impression that very few of the generally accepted ways of promoting small enterprises are effective, and that the major task for Government, or indeed anyone attempting to improve the lot of small business, should be critically to appraise what is already being done. Perhaps some programmes should be stopped altogether, while others may need drastic change, and the role of Government itself should be reduced since so many functions can more effectively be carried out by small enterprises themselves. This scepticism is deliberate; ten to fifteen years ago Governments, private organisations and foreign assistance agencies had to be encouraged to recognise the potential of small enterprises and to initiate programmes to support them. Organisations tend to respond favourably to suggestions that they should broaden the scope of their activities, and there are now so many institutions and programmes in this field that reappraisal is needed rather than expansion or even reorganisation. There are nevertheless ways in which Government can and should assist small enterprises, in many cases indirectly, and as with so many aspects of economic development it is perhaps even more difficult to decide who should do the things that have to be done than to determine what has to be done.

It is also important to recognise that the 'correct' institution is not necessarily the one whose title and nominal responsibility and existing activities appear most appropriate for the particular promotion task. The 'wrong' organisation, if it is itself well-managed and responsive to the needs of the small business community rather than to the career objectives of its own staff, is more likely to be effective than the 'correct' one if it is mismanaged. It is difficult to test this objectively; as with small businesses themselves, it may be preferable to allow and even to encourage a degree of inter-institutional duplication and competition, so that 'the best man wins'.

Monitoring Government policy

Before making any suggestions as to which organisation should do what, it is necessary to summarise the necessary tasks, and to recall such aspects of them as might be expected to have an important bearing on the types of institution which should do them. The first, most important and least attractive task is to remove or modify as many as possible of the various official regulations, procedures and policies which inadvertently or otherwise damage the interests of small business. This requires an appraisal of the existing situation, extensive political manoeuvring in order to improve it as necessary, and a continual watch on every aspect of Government activity which affects small business. Who is to do this, and to press for changes when they are necessary?

The most obvious people to monitor and protect the interests of small businesses are the owners of the businesses themselves, through their own associations. Farmers, large businesses and other interest groups are represented in most countries through their associations. Cannot small business people effectively speak to Government through Chambers of Commerce or similar organisations? The graduates of the small enterprise programme at the Birla Institute of Technology, in India, have formed an association which effectively represents them to banks, Government bodies and others at the local level. Attempts to promote larger national associations, in India and elsewhere, rarely succeed. Small business people are by nature independent and unwilling to allow themselves to be led by others. Joint activities, whether they are co-operatives or associations, usually split up into rival groups or are allowed to collapse because of member apathy.

Well-established associations, such as Chambers of Commerce, may also come to represent only the interests of the more influential larger businesses, whose main aim is to prevent newer businesses from competing with them. Chambers of Commerce in the United Kingdom are vigorous opponents of longer opening hours and other innovations which they see as a threat to their own position, but which can be used by newer more vigorous businesses to gain a share of the market. It is very dangerous for Government to treat such organisations as genuine representatives of small businesses, since they can be very resistant to change and improvement. Some Chambers of Commerce, such as those in Nigeria and Indonesia, run very effective training programmes for small businesses, but they are not usually themselves a useful representative of small business opinion.

Because small business people are unable to present a united front themselves, a common way of trying to represent their interests in Government is to set up a 'high-level committee' made up of representatives from all the relevant Ministries. Small firms are unlikely to be the main concern of any Ministry, but if a special Ministry is set up to deal with them it is unlikely to be as influential as established Ministries for large-scale industry, agriculture or education. The most likely effect will be that all the other Ministries and Departments, whose activities may affect small enterprises, will cease to have any concern for small businesses because responsibility for this sector is now in the hands of another body.

High-level committees usually become nothing more than 'talking shops', or cease to meet at all, because their recommendations, if they ever make any, are never implemented. A small, autonomous monitoring body, such as the Small Firms Division in the United Kingdom, with little responsibility for actual programmes, is far more likely to be effective than the Secretariat of a high-level committee. Such a unit must have aggressive and entrepreneurial leadership, but must not be allowed to grow and become a promotion agency itself; its director should be someone who can cultivate links with powerful political and administrative individuals, recognising that this is as much a part of his job as the monitoring of Government programmes. As always, there is the problem of an appropriate ministerial base; complete autonomy is an open door to unconstrained institution building in the interests of the institution's own staff rather than small businesses. The British Small Firms Division, with under twenty staff, efficiently performs the function of a watchdog and internal pressure group for the interests of small businesses from within the Department of Industry. The ramifications of small business are even more likely to affect every Ministry in poor countries than in industrialised ones, and a 'neutral' location such as the Office of The President may be preferred. The unit should not, however, rely for its influence on the prestige of its position in a particular Ministry or Department, nor should it attempt to co-ordinate, rationalise or otherwise control the activities of all the other institutions, public or private, which may be attempting positively to promote small business; the task of protecting small businesses from damage is more than enough.

Providing capital

Capital is the most obvious resource which is needed by at least some small businesses and whose supply is ultimately under the control of Government.

We saw earlier that lending money to small businesses can be very profitable, and that the diversity of their circumstances and locations suggest that the financial needs of small enterprises are best served by a range of services rather than from a centralised source. The experience of Government, and of voluntary and private commercial organisations in The Philippines, shows that the best way to ensure that capital reaches the vast mass of very small traders and craftsmen is to work through small-scale business people themselves, by putting them into the business of moneylending. Commercial banks also have an important role, but they, and other potential sources of capital such as development banks or large firms, need to be stimulated, assisted and perhaps compelled to do what they will probably find to be in their long-term interest.

The Central Bank is usually the appropriate organisation to operate a guarantee scheme or any other form of encouragement for commercial banks to lend to small businesses by reducing the risks or the costs. Effective leadership, willingness to allow non-Government organisations actually to implement the programme and resistance to the temptation to 'empire-build' are, however, more important than the precise institutional location. The British guarantee scheme is supervised by a small group within the Small Firms Division of the Department of Industry and this seems to work very effectively.

There may also be a need for research into the financial needs of small enterprises, or for regulations such as apply in India, where banks must lend a certain proportion of their funds to small businesses. Research and programmes of this sort are best carried out by a small group or cell at the headquarters level, such as is proposed by the Central Bank of Zambia. They can keep in touch with the financial needs of small businesses and the ways in which they are being satisfied. When appropriate, such a unit can design and promote within the Central Bank appropriate schemes to satisfy these needs. The Chief Officer who is responsible for small business affairs in the State Bank of India plays a similar role; his Department is not represented at the branch level, but he endeavours to ensure that the programmes and policies of the Bank are designed and implemented in such a way that small businesses are considered as an integral and important customer sector by all staff in every one of its over 31,000 affiliated branches throughout the country.

Management and technical training

Inadequate management and technical ability is in fact a more important constraint to small business development than the lack of capital; training cannot solve all these problems, and may be able to make very little direct contribution to improving the performance of most small enterprises. There are some weaknesses in some small businesses which can be remedied at least in part by training, however, particularly if it can be designed on the basis of correct identification of training needs and if it aims to develop autonomous individual ability to do useful things rather than to recite rules, pass tests or obtain certificates. There is also a more important training task; bankers, Government officials, extension staff, employees of large firms and all the other people who come into contact with or assist small businesses need to be trained to identify problems, to advise them so that both their own employers and the small business will benefit, and to communicate effectively with them. Who should provide this training?

Small businesses are scattered and diverse, as are the various organisations which come into contact with them. Training must be similarly diverse, and there are few economies of scale which favour large centrally organised and funded training institutions. We saw earlier that training is best left to local and individual institutional initiatives; some marginal financial support might be provided from a central budget administered by the Ministry of Education, but local and foreign gunds are probably sufficient to finance whatever training is really needed. Large organisations such as banks or Government Departments should recognise their staff training needs and should be able to find and pay suitable specialised training institutions to satisfy them. The market is the best co-ordinator of training; banks, suppliers, customers, export promoters or others should be in a position to identify ways in which training can help their small enterprise clients to make more effective use of their services, and should, in their own interest, sponsor appropriate courses. There are in most countries too many rather than too few training institutions, and they should benefit from competition with one another. Successful small business training depends on a committed individual or small group, whatever the institutional base; Brawijaya University in East Java has an impressive record of achievement in small business training, while other institutions in Indonesia, although under similar pressure, have achieved little or nothing. Chambers of Commerce have played a useful role in Nigeria, and management institutes have been similarly effective elsewhere. The LPPM, an independent management training institution in Jakarta, Indonesia, has recently introduced a one-year course to train people in large businesses to promote and work effectively with small ones. Initial demand suggests that the programme will be self-supporting, because large businesses recognise that it is in their own interest to buy from and sell to viable small enterprises. Polytechnics, local technical institutes, church-based organisations and many others have also produced effective programmes. If training is provided in response to demand, rather than because institutions exist to provide it, it is far more likely to be useful to small businesses and to those whose objective it is to serve them.

Advisory services and extension

There is a far greater need for on-site advice than for classroom training, and if all the small businesses which could benefit from an individual adviser were to have access to such a person there would in most countries have to be hundreds, and in some cases thousands of extension officers to provide the necessary service. At the small individual business level the need is for general advisers, with access to more highly qualified specialists; the advisers must be continually supervised, and they need to be in close and regular contact with financial institutions and other organisations helping small businesses. These specifications suggest a national system, organised perhaps on the same basis as an agricultural extension service, with a clearly defined hierarchy of supervisors and specialists and with formal and informal links with other organisations at every level. This may be attractive in principle, but such a scheme has never been effectively implemented, anywhere; ambitious attempts have been made to set them up, such as the Indigenous Business Advisory Service in Gambia or a similar system in Papua New Guinea, but the difficulty of recruiting suitable staff, and the concentration on access to 'convenient' clients in accessible areas are such that the service has failed to reach out to the most distant, and neediest, enterprises.

Many attempts have been made to develop formal links between extension services and banks at the national level. This has been done in Ecuador by inter-linking directorates, by sharing technical staff in Nigeria, by setting up a national extension service as a sub-division of a bank as has been done in Colombia or, as in Tunisia, by demanding that borrowers must make use of extension services as a condition of being granted a loan. Co-ordination depends, however, on local relationships, and the need for such co-ordination does not imply that extension should be organised on a national basis.

Extension staff should not be in a position to sanction or even formally to recommend loans to their clients, but they should be able to work closely with financial institutions so that clients who genuinely do need and can make good use of finance can be assisted to obtain it, and borrowers can benefit from the regular contact that a bank cannot itself provide. This type of link may appear impossible unless it is initiated and supported from the headquarters level, but experience in a number of countries suggest that local informal contact, at the branch or district level, is far more likely to result in effective working relationships than any form of co-ordination which is imposed from above. Partnership for Productivity has established very effective working links with a Barclays Bank branch in Western Kenya, not so much because of headquarters contacts but because of local initiatives, and Bank staff are willing to lend money to businesses which have been informally recommended by extension staff, without any guarantee or other safeguard.

In Indonesia the relationship at the local level between staff of the Department of Industry who advise small businesses, and bank staff of the commercial banks, appears to have a much more important bearing on what banks lend how much to small businesses than any Central Government directives. The UNO extension programme in Recife and Salvador in North East Brazil provides on-site advice to several hundred small businesses and assists a large proportion of them to obtain loans to finance expansion. Their repayment experience and co-ordination between extension staff and the banks has been very satisfactory. This is a regional programme; its success is based mainly on contacts with the bank at the local branch level.

Government is seen by most small business people as a source of harassment, tax demands, delay, regulations and irrelevant requests for information. Even if this view is inaccurate, and if staff of Government organisations are anxious to help small enterprises in every way possible, it takes people a long time to change their views. Extension staff should not therefore be employed by Government; who else can provide a service for which clients will possibly pay nothing initially, and which is unlikely ever to be financially self-supporting? Small-scale businesses themselves can service the needs of other small enterprises more effectively than large ones. Small local non-profit institutions are also more able to advise small businesses than can large, centrally controlled authorities. One adviser can cover about 50 small businesses; a district of half a million people is likely to have 1,000 or more small businesses who would need twenty advisers. An organisation employing twenty advisers, along with the necessary supervision and support, would already be far bigger than most of its clients. If it was in turn part of a national structure, along with many other similar organisations, it would effectively behave like a large bureaucracy.

A more effective approach, is for a number of rather smaller organisations, with varying origins, to be encouraged or allowed to provide advisory services in different ways and for different kinds of business. In The Philippines, for instance, extension is provided by a Department of the Ministry of Industry in some parts of Manila. In Angeles, a nearby city, the Local Government has taken the initiative by running courses and providing on-site advice with help from the Small-Scale Industry Institute from the University of The Philippines and a local university. In Baguio, another town about 200 kilometres away, a church-based organisation is working with individual female entrepreneurs and the Small-Scale Industry Department of St Louis University, also in Baguio, is providing advisory services to businesses employing rather more people.

There are inevitably overlaps, but if these cannot be settled by amicable agreement they should ultimately be resolved by small businesses themselves choosing to make use of the service they find the most effective. Government should therefore limit their involvement in small business extension. Instead, local or foreign voluntary organisations, churches, professional associations, trade groups, universities, polytechnics, large firms and private, profit making consultants may all have something to offer, and a measure of institutional untidiness is a cheap price to pay for effective, relevant advice provided by small organisations which are in close contact with the clients they intend to serve.

The development of technology

Appropriate technology requires not so much to be developed as to be diffused. Small enterprises, and organisations working for them, need to know more about production methods which absorb more labour and are still competitive. These generally have less glamour than more capital intensive 'modern' alternatives, which are also heavily promoted by their manufacturers. Someone must promote appropriate technologies as effectively as the alternatives. Technology is normally associated with research and development, rather than with promotion, and universities have often been selected as the natural home for any initiatives concerned with technology for small business. The Technology Consultancy Centre at Kumasi University in Ghana has, as has been described earlier, successfully modified and proved the local application of a variety of appropriate technologies, working in close conjunction with local entrepreneurs. A number of businesses have adopted the final results of the Centre's work, and have been intensively supported by the Centre's staff. The Development and Technology Centre at the Institute of Technology in Bandung, Indonesia, has developed into a centre for small business and entrepreneurship development as well as a laboratory for the development of technology, and has used its continuing association with local business people to introduce to them many of the ideas developed in their laboratory.

It is unusual, however, for a university to maintain close contacts with the small business community, and most academic attempts to develop appropriate technologies, like those of Government research laboratories in developing countries, end up in neatly bound reports and theses, or demonstration units which are shown to foreign visitors, rather than in the workshops of local independent small enterprises.

As with extension, a small, locally based institution may be the most effective way to introduce new technology. A small volunteer group in Tanzania provided designs for a simple pump to the leaders of a very poor village, and lent them tools to make it. The men built a pump, but it had actually to be operated by women and it was not properly designed for them. One of the village people whose interest had been aroused saw a similar pump in a neighbouring village and designed a new version combining the virtues of both. The outside agency did no more than lend tools and suggest sources of material. The new pump was ideal for its purpose, and the village then set up a small informal co-operative to make and sell the pumps to the State Water Authority and to other villages. Success stories of this sort are very rare where designs and prototypes are provided ready-made or when external advisers effectively take over the local effort to develop and use something that is locally applicable. Meagrely funded voluntary or part-time local initiatives can achieve more than wealthy research institutions, and, as with extension, the origin of the responsible organisation is less important than its commitment, small size and local contacts.

Marketing and supply

The most effective way to provide small enterprises with sources of supply and with customers is to allow, encourage and promote other small merchants and traders to perform these functions. This is no more than an extension of the small enterprise promotion task itself, and it must be recognised that traders can perform as valuable a role as manufacturers. It may be necessary for Government to play an active role in order to provide competition when an alien trading community has, through informal links, effectively created a monopoly. Governments should attempt, however, not to eliminate private trade, but only to encourage and if necessary assist more people to become involved.

Attempts to limit trade in scarce commodities to Government have in India and many other countries enabled enterprising traders to purchase the commodity in the name of the small business and then to resell it at a profit. This demonstrates that small business people are willing and able to trade in whatever items are involved. If Government allowed, and even encouraged, as many traders as possible to buy and sell it, competitive pressures would force the prices down to whatever was economic. A Government monopoly will be no more benign than a private one, and a Government-sponsored intermediary, whether it sells scarce raw materials or buys the products of small businesses, should in the long term at any rate aim to 'put itself out of business'.

It is necessary to ensure that Government maximises its own purchases from small businesses; this requires a broad knowledge of Governments' needs and of small industry capacity, and the task is probably best carried out by a small unit within the Ministry of Supply, or whichever Department is responsible for most Government purchases. The unit might have officers posted in other Departments which are also major purchasers of items which are made by small businesses, but the preferential purchasing system must be one which purchasing departments can operate for themselves.

There should be, as in India, a clearly defined list of items which should be purchased from small-scale suppliers, together with an unambiguous ruling as to any price preference they should be given. In the United States, where a certain proportion of Government contracts must be 'set aside' for small firms, the system is operated by each individual purchasing department. The Small Business Administration is only involved in cases of disagreement.

Large firms often provide the most effective assistance to small business marketing and supply problems, because they can increase their profits by doing so. Governments would in any case be better advised to encourage large firms to do more business with small ones, than to become directly involved in marketing and supply.

Nearly every country has a Ministry or other Department responsible for Co-operatives, together with appropriate legislation to govern their affairs. This may have been set up to deal with agricultural co-operatives or consumer societies, but there is no reason for small business service co-operatives, or workers' co-operatives, to have their own special Department. Successful co-operatives in any field are rarely those which owe their origin to official initiatives, and attemptes to impose regulations and registration on small informal groups are doomed to failure. The Ministry of Co-operatives, the Registrar's Department or whatever other body is charged with promoting and supervising co-operatives should therefore play a passive role, at least in relation to non-farm enterprises. If the members of a group feel that registration and official assistance would be in their interest, they should be encouraged to make enquiries and to join the 'formal' co-operative sector if they wish. If on the other hand they prefer to retain their informal arrangements for the purposes for which they were originally made, no Government body should attempt to coerce them into the official system. This policy involves some risk that unscrupulous leaders will exploit other members or that the group will make irreparable mistakes; this can also happen to officially recognised societies, however, and compliance with official regulations is more likely to stifle genuine local initiative than it is to protect groups from dishonesty or ignorance.

Buildings and property

Most small enterprises must obtain buildings for themselves, since industrial estate programmes can never reach more than a small minority. Private developers should be encouraged by planners and financial institutions to develop individual factories for small enterprises and groups of such factories in estates. Local authorities, or prospective tenants themselves, who have an interest in the property beyond the rent to be paid for it, are perhaps the best-qualified developers when the returns are not such as to attract private investors. There may be instances when particular groups of enterprises justify the expense of an intensive programme which includes one or more industrial estates. Here again an initiative of this sort should be funded and carried out by the particular Ministry, local authority or other body which has an interest in the groups in question. The Development Corporation responsible for the new city of Milton Keynes in England wished to promote a balanced growth of industry, including new small businesses in electronics and related high technology fields. They constructed a special set of buildings and offered a complete package of assistance to entrepreneurs of this sort. The buildings were let at commercial rents but the high management costs and associated services required a substantial subsidy; the Corporation was willing to pay this in the interests of balanced industrial development.

Voluntary organisations

Government organisations are often not the best home for small business promotion activities, and the foregoing paragraphs have frequently referred to the role of commercial banks, independent training institutions and small private enterprises themselves. Voluntary organisations have also been suggested; these may be local, national or foreign, and may be religious or secular in their origin. They may be generously funded or they may depend on self-financing initiatives, subsidised only by the willingness of one or two people to work for less than they could earn otherwise. Voluntary agencies used to be described as 'charities'; although this term has patronising overtones it does identify the critical difference in motivation. Private enterprises are in business to make a profit and to employ their proprietors, Government bodies sustain themselves by adhering to procedures and fulfilling politicians' expectations, but private voluntary organisations are always established, and usually continue, because their sponsors and employees wish to help people less fortunate than themselves.

These organisations share many characteristics of the people and enterprises they aim to serve; they are poor, they are small, they are dependent on one or two devoted individuals, they are often suspect in the eyes of Government and their staff may have had little or no formal training. They have themselves to design and test solutions to their problems as they meet them. Individual change agents are likely to be successful if they are similar to their clients in every way except for their knowledge of the innovation they are promoting; in the same way voluntary organisations may be more effective than others because they are more like small enterprises themselves. The larger international agencies such as Oxfam, Care, Brot Für Die Welt or Misereor have their origins in famine relief; although they are still heavily involved in this work, and have shown themselves more effective than United Nations' agencies in dealing with massive problems in places such as Kampuchea, Uganda or the Ogaden, they have long been aware of the maxim, 'if you give a man a fish, you give him a meal; if you teach him how to fish, you give him a livelihood'.

Local voluntary groups

Less well-known, but perhaps even more effective, are the small local voluntary groups which exist in various parts of some countries such as Brazil, India or The Philippines where there has been an indigenous wealthy class for several generations. Some people from this class are sufficiently secure in their own position to be able to show some practical concern for others who are less fortunate. In other countries where the only wealthy people were, until very recently, foreigners, it is perhaps unreasonable to expect people who have just succeeded in extricating themselves from poverty to attempt to help others to succeed in the same way.

Some voluntary agencies are involved in a wide range of activities, over a large area, while others work only in one town or village. The Fundacion Carvajal, in Colombia, operates schools, recreation facilities and food distribution outlets in the city of Cali and the surrounding area, as well as the DESAP small enterprise programme which has already been referred to. It was set up by the owners of a large private company; their policy is to involve the beneficiaries of each programme as much as possible in its management, so that it can eventually be handed over to them as a viable enterprise.

The Asepada, or Consultants for Development programme, in Honduras, on the other hand, has a total staff of two full-time and two part-time workers. It provides credit, training and advice to market women in three of the eight markets in Tegucigalpa, the capital of Honduras. During the first eleven months of operation the fifty beneficiaries borrowed an average of fourteen ten-day loans each, for an average sum of $57. Arrears were insignificant and interest payments have more than doubled the original loan fund of $1,250. A number or courses have been given in the technical aspects of market trading, a regular bulletin is produced and widely distributed and the market women have set up a rudimentary credit union and the beginnings of a marketing co-operative. Apart from the initial loan fund of $1,250, the activity costs $6,300 for salaries and $25 for the initial office furniture and equipment.

The results of this one small programme may seem insignificant, but it is far more cost effective than most large-scale organisations and will be even less costly when it expands beyond the initial prototype stage. The organisation has no aspirations for national coverage or continuing growth, however; it is planned to expand until 150 women are involved; by this stage the co-operative should be soundly based and the whole programme should be self-sustaining and independent of assistance from Asepada or anybody else (Farbman, 1981, pp. 227–240).

Government and voluntary organisations

Programmes of this sort, whether they are funded from local or foreign sources, are often harassed by Government; this increases their sense of identity with clients who suffer in the same way, but does not otherwise make their work any easier. Perhaps it is natural that Governments should obstruct organisations which demonstrate the inadequacy of Governments' own attempts to remedy the problems of the poor. They should, however, find it possible either to allow such organisations to play their part in national development or even to co-operate with them, by providing funding, legitimacy or logistical support.

This can be done: Manila Community Services was set up by a group of religious and business leaders who were concerned to help the mass of unemployed in the city. They have worked closely with the Department of Social Welfare, the National Manpower and Youth Council and the Ministry of Industry of The Philippines, and they also have close contacts with larger local and international businesses and with foreign voluntary agencies. They have carried out surveys and conducted training courses directed towards industrial and self-employment, and have retained their independence and social motivation in spite of close links with Government and industry.

The National Christian Council of Kenya (NCCK) is an interdenominational body which represents some forty local and international churches and other voluntary organisations. Their Urban Community Improvement Programme has assisted in the setting up of community industries in the slum settlements of Nairobi; they operate a very small-scale loan scheme for small enterprises, and have assisted a number of groups of small business people to obtain loans or other facilities. They also propose to develop two small industrial estates in the squatter area of Nairobi, and it is planned that these will ultimately be handed over to Kenya Industrial Estates, which is the Government body responsible for small business promotion. The NCCK also works closely with the Kenya Export Trade Authority and the Ministry of Co-operatives and Social Services in providing export marketing and simple management advice and training to the co-operatives and individual enterprises which they assist. The Government has provided professional expertise and long-term support, while NCCK enjoys the confidence of the squatter community, which generally mistrusts Government's intentions (Farbman, 1981, pp. 63–81). Governments should be alert to the potential contribution of voluntary agencies; like private enterprises which serve other enterprises, they cannot be set up directly by Government action, but they can be encouraged, recognised, permitted and tactfully assisted to fill gaps which may exist in small business services, and if there are not enough local voluntary organisations it is usually possible to select a suitable candidate from the large numbers of foreign agencies who wish to offer their services.

Co-ordinating small business programmes

An attempt has been made in this chapter to suggest the kinds of institution which may help to provide finance, training, advice and other forms of assistance to small businesses. Little has been said, however, about the task of overall co-ordination and control. It is important to be clear as to exactly why some form of overall direction is supposed to be required. A large number of different Government Departments and other organisations may be involved in helping small business. Apart from obvious candidates such as Ministries of Trade, of Industry and Co-operatives, there are obvious occasions when Labour, Health, Education, Public Works and Transport may have an important role to play, not only by eliminating constraints but also by positively promoting small enterprises. Outside Government, large firms, voluntary agencies, foreign aid organisations and universities have a role, and there are in fact very few organisations which cannot play some part in promoting small business. The common objective is to create employment through the promotion of a viable and growing small enterprise sector, and this would seem to demand a single-purpose Government organisation. We have seen that there are good reasons against such an approach, but the alternative, involving large numbers of different organisations, surely needs some form of overall co-ordination and control.

We have seen in earlier chapters that there are many arguments against a centralised approach, particularly in developing countries where communications between Central Government and the rest of the country are inadequate and where there is a severe shortage of people with the skills needed to manage large organisations of any kind. The alternative approach involves large numbers of different organisations. Like small businesses themselves, their activities do not need to be co-ordinated or controlled, but there is sometimes a need for a neutral forum where they can communicate with one another and with Central Government.

In Mexico, for instance, the Nacional Financiera, a national financial institution with responsibility for policy issues, has been designated as the 'administrator' of a number of separate financial and non-financial programmes, including guarantee and equity funds, industrial estates, support for pre-investment studies, an information service, training, extension and research and development institutions. The individual programmes remain autonomous and the Nacional Financiera provides a forum for discussion and exchange of information, as well as a channel whereby national policy can be communicated to existing organisations and they in turn can convey information about the small business sector to the highest levels in Government.

Central Government recognises that the very smallest enterprises tend to be neglected by all programmes, and is anxious to reduce this imbalance. They have not succeeded in significantly changing the emphasis of the various assistance programmes through the medium of Nacional Financiera, however, and the most effective initiatives for very small enterprises are still those undertaken by voluntary or other unofficial agencies.

In The Philippines, on the other hand, the Ministry of Industry, and not a financial body, co-ordinates the small business promotion activities of all the various Ministries and financial institutions, as well as the numerous voluntary agencies which are engaged in this field. The Ministry has not prevented an enormous number of institutions from being involved in small enterprise promotion, nor have they attempted to do so; there is in theory a great danger of overlap and poor liaison, but the total national effort is fairly well co-ordinated because of individual contact between committed and highly motivated staff in the field. Small enterprises are not the major concern of most Ministries, and official programmes therefore suffer from lack of staff commitment; the resulting gaps are often filled by voluntary or other private initiatives, but these arise from local interest and not from suggestions by the Ministry of Industry in its capacity as a central co-ordinating body.

In Kenya both the Ministry of Industry and the Ministry of Commerce run financial and training programmes, while other financial initiatives are directed by the Ministry of Finance. Various forms of training are undertaken by the Ministries of Industry, Commerce, Housing and Social Services, Co-operatives and Education, as well as through the Office of the President. There are frequent calls for a national co-ordinating or executive body, which have generally foundered because no one Ministry is willing to subordinate its programmes to the supervision of another. There is a certain amount of duplication and competition; this may be frustrating for the staff actually involved and administratively 'untidy' in the eyes of an outside observer, but there is no evidence that small business people suffer anything other than the difficulty of deciding which programme will satisfy their needs most effectively.

In Indonesia Bappenas, the National Economic Planning Board, attempts to exercise a similar co-ordinating and controlling function, but the Ministries of Industry and of Trade, and the banking sector, pursue their different programmes with little reference to one another. Official support, and the preferences of international agencies, may swing from one agency to another, but like any form of competitive enterprise, agencies which suffer a temporary reverse in the battle for funds or recognition may either redouble their efforts or, they may cease operation altogether. This is more painful for their staff than any problems of inter-institutional co-ordination, but small enterprises themselves are not unduly inconvenienced by competition between the organisations which exist to serve them.

In Nigeria the struggle is more complex because of conflict between State and Federal authorities. State small business financing schemes are intended to use the Federally funded Industrial Development Centres for appraisal and supervision but there is little effective co-ordination between them. Some States have attempted to develop their own capacity but the lack of funds has made this very difficult. The Ministry of Industry pays for training at Federal and State level through a 2% levy which is imposed on the payroll of all organisations employing 25 or more people; since some of these funds are used to train staff from smaller enterprises, this has a minor redistributive effect, but attempts to use this money to compel training institutions to comply with national policies are usually unsuccessful because they find the procedures for obtaining Government support are too slow. It is more effective to encourage local programmes to obtain money locally, and the local Chambers of Commerce and local branches of the Nigerian Association of Small and Medium Industries run fairly effective quality control and training programmes in some places where they have committed and talented staff. They enjoy no central subsidy or other funding which is not directly related to their own success, but are reasonably effective nevertheless.

We have already seen that there may be a need for a small central body to monitor the effects of Government policies on small businesses and to press for change where necessary, and for similar very small central cells to promote the cause of small business in the financial sector and as a supplier to Government. These units should act as advocates rather than policy makers or executing agencies, since the small business sector tends inevitably to lack the capacity to lobby effectively on its own behalf. It may also be desirable to sponsor a university or a similar institution to undertake a continuous survey, on a sample basis, in order to monitor the health of the small business sector and to identify needs and opportunities as early as possible. The information could be made widely available and could be used by the various authorities both as a basis and a public justification for their programmes. If the urge for a co-ordinating body is irresistible, it may be useful to set up a small committee in the Central Planning Ministry to fund the information and advocacy units and to suggest overall policy.

Conclusion

A commitment to small enterprise is the antithesis to centralised control, and a Government which recognises the economic potential of independent small businesses must, to be consistent, recognise the futility of attempting to control and steer this potential from above. All they can hope or expect to do is to set general policy guidelines and to ensure that the field is free for small businesses to make their proper contribution; programmes for the promotion of small enterprises should be as free of restrictions and control as small businesses themselves, and, like the businesses, the programmes will be the more effective if they are allowed to evolve, compete, flourish or decline in response to the needs of the community.

The reader may have been irritated by much of what he had read in this and earlier chapters, but if this irritation results in action, or in objective reaffirmation of his existing views, the book will have achieved its aim. The intention has not been to present a balanced view but to provoke reappraisal, and, when necessary, change. Some suggestions are certain to be wholly inappropriate in some countries, but they should not be rejected out of hand; the reader should be clear why he rejects them, and why his present methods are more effective.

Most readers will clearly not be in a position to make major changes in fundamental policies for small enterprise development, and can only play their role in the narrow aspects covered by their particular job. It is easier to suggest changes in national policy than to identify ways in which one programme, or one individual within a programme, can offer an improved service to small enterprises, and it is still more difficult to implement necessary changes. Many of the problems identified in this book arise not from faulty policies but from mismanagement of the institutions responsible for implementing small enterprise assistance programmes. If the reader can identify one small way in which his own activities can be improved, can persuade his superiors and subordinates to allow him to make the change, and can actually put it into effect, he will have achieved more than the writers of national plans or the members of national co-ordinating committees.

This requires a realistic appraisal of small businesses and the ways in which they are at present being assisted, but, far more importantly, the imagination and initiative to act on the basis of what has been decided. This is difficult in any organisation, but far more difficult in a large national bureaucracy. It has been suggested that decentralised and autonomous organisations, whether public, private or voluntary, are more similar to small enterprises, and more able to assist them, than any large institution. The reader who is not so fortunate as to work in a small autonomous organisation can only do his best to maximise his own freedom of action within the bureaucracy. If he is unsuccessful, he is more likely to satisfy his own and his country's needs by resigning and starting his own small business.

Application questions

— Is Government genuinely the most suitable institution to carry out all the small business promotion functions it is at present undertaking?
— Are all small business promotion agencies actively encouraging small enterprises themselves to provide services such as moneylending, marketing and supply?

— Are large companies fully aware of all the ways they can profitably assist small enterprises, and is Government encouraging them to become involved in this work?
— Do Chambers of Commerce or other associations which are said to speak for small businesses really represent the views and needs of the whole small enterprise sector?
— Is the Government fully aware of what can be done by international and local voluntary agencies, and are such agencies encouraged and assisted, or ignored or even harassed?
— Are the organisations responsible for technology able not only to develop and test new ideas but also to diffuse information about them to the small business community?
— Are the problems which are believed to arise from a lack of co-ordination between programmes actually problems for programme staff rather than for the enterprises they are trying to assist?

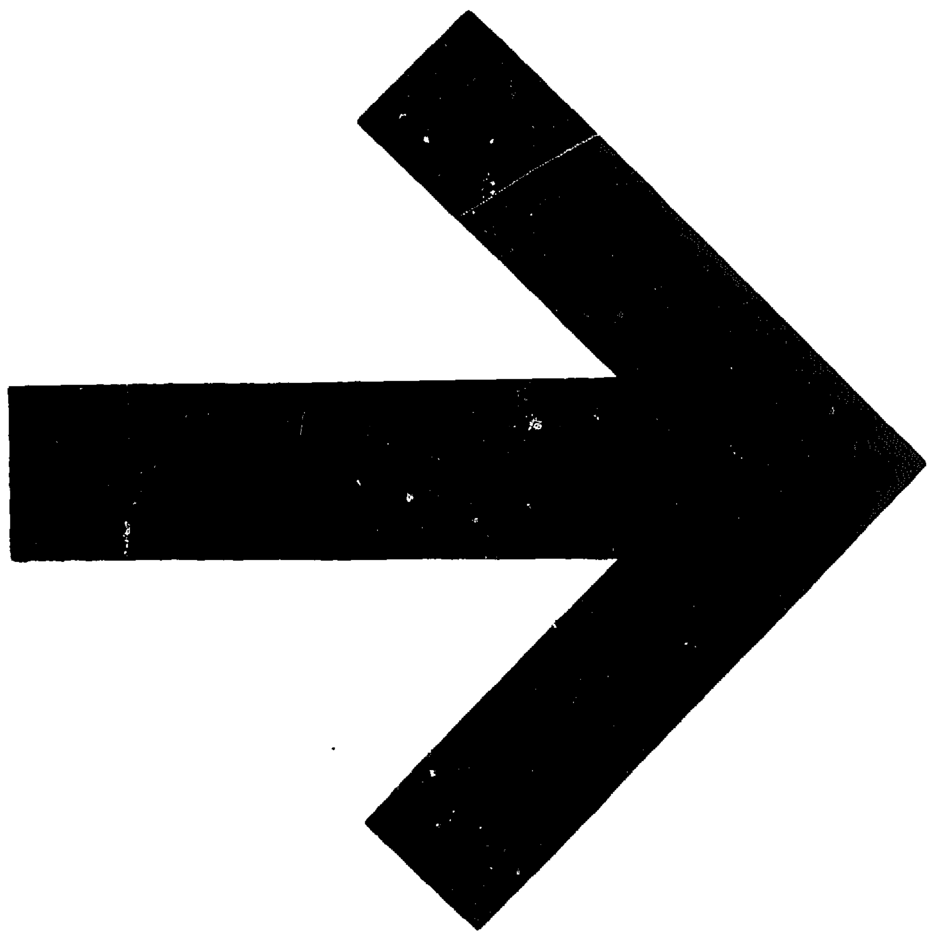
Case study: the suitcase proposal

Ram Gopal was an intelligent young man who had taken his degree in liberal arts. He found it difficult to obtain employment in Delhi where he lived; since he had heard so much about the advantages of self-employment and the various ways in which Government helped entrepreneurs he decided to go into business for himself. He thought that he would manufacture suitcases, since so many people seemed to be travelling so much more than they used to.

He called first on the Directorate of Industry, thinking that they would have all the necessary information. The staff agreed to help him, and took him to see two existing manufacturers. They were both very encouraging, saying that there was a great deal of scope for travel goods in Delhi. The staff then took Ram Gopal to a bank, but the Manager was not interested. He said that there was too much competition from travel goods manufacturers in Bombay, although he did say that one suitcase factory which he had financed was doing quite well. The staff then took Ram Gopal to another bank; here the Manager said that Gopal should spend at least two years trading in travel goods before starting to manufacture them. In that way, he thought, he would be able to gather the necessary information on which to base his own plans.

Ram Gopal was now rather confused, so he called on the local Small-Scale Industries Service Institute to see what they could do for him. The Manager was very encouraging, and gave him a 'project profile' with full details of the equipment and finance required. He also suggested that Gopal should manufacture a rather wider range of travel goods than he had in mind.

This Manager then sent Gopal to the National Small Industries Corporation to arrange for hire purchase of the machinery. The staff were quite sympathetic, but recommended that he should first undertake a market survey, particularly in order to find out whether he should make plastic or leather suitcases. They thought that he might be well advised to approach the Directorate of Industry for some advice.



Gopal was by now thoroughly confused and discouraged. He had expected useful assistance, but felt that he had been led on a wild goose chase round one institution after another; he decided to give up the idea of starting his own business and to continue his search for a job instead.

Commentary

This story seems to be a typical case of duplication and inadequate co-ordination. The entrepreneur was given conflicting advice by a number of different contacts and there was no clear indication as to which was responsible for providing what kinds of advice and assistance. If he had been able to go to one organisation where he could get consistent advice, a clear indication of what he should do and how he should obtain funding we might suppose all would have been well.

Unfortunately, however, small business investment decisions are not 'right' or 'wrong', and the responsibility for the decision to start or expand a particular business, and its successful implementation, must rest with the entrepreneur himself. The problem is not the differing opinions of the various institutions be visited, but his belief that there should be a 'one stop service' where he could get all the right answers. This idea may have been fostered by official publicity designed to encourage people to start their own businesses. This is not necessarily a bad thing, so long as agencies themselves do not lead actual applicants to believe that they have all the answers.

The frustrating series of visits in fact provided Gopal with a great deal of useful information and suggestions, which he should have been able to use in order to investigate the market and plan his business. An entrepreneur needs clear objectives, and must be able to select and make use of whatever external resources are appropriate. Gopal's decision not to continue indicates that he lacked the necessary perseverance and interest, and in no way reflects on the various agencies he contacted.

There is always a danger that people will expect too much from Government; the only mistake made by these agencies was that they tended to give the impression that they could do too much for Gopal. This gave him the impression that he need do very little for himself.

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INDEX

SMALL BUSINESS IN THE THIRD WORLD
Guidelines for Practical Assistance
Malcolm Harper, *Cranfield School of Management, UK*

The development and promotion of small enterprises is agreed to be one of the most difficult and important fields of aid and administration in the Third World. This book is intended for administrators and staff of government, private or voluntary organisations in the Third World, and students and teachers of management and development studies.

The author deals with the methods of promoting new and small enterprises in developing countries, and with issues such as the role of small business in social and economic development, appropriate administrative and funding institutions, training and appropriate technology. The approach is essentially practical and although many of the conclusions are contentious they are based on first hand experience and reinforced with examples and case-studies drawn from many different countries.

The book also covers ways in which large businesses, whether of local or foreign ownership, can profitably promote indigenous enterprise and sets out an approach to evaluating small business situations and administrative action, which will enable programme managers and field staff, administrators and policy makers to appraise, formulate and improve their own activity to assist small enterprises.

Malcolm Harper has degrees from Oxford University, Harvard Business School and the University of Nairobi. He worked in a medium sized British Engineering Company for some years, and has had almost 15 years experience in teaching, research and consulting in Business Development in the Third World. Since 1974 he has worked in over 20 developing countries on various aspects of small enterprise, based at Cranfield School of Management where he is a Professor of Enterprise Development.

Contents: Preface; 1 What are small enterprises?; 2 Why promote small enterprises?; 3 The problems of small enterprises; 4 The policy environment; 5 Capital; 6 Management training; 7 Technical training; 8 Extension; 9 Appropriate technology; 10 Marketing and materials; 11 Co-operatives; 12 Industrial estates; 13 Evaluation and appraisal; 14 Institutions.

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