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The PISCES Project - Helping Small Enterprises Swim Upstream

By Elisabeth Rhyne, Managing Director, Center for Financial Inclusion at Accion

Elisabeth Rhyne joined USAID shortly after the seminal PISCES (Program of Investment in the Small Capital Enterprise Sector) studies were completed in the 1980s. From 1994 to 1998, she was the Director of USAID's Office of Microenterprise Development, where she developed and led USAID's Microenterprise Initiative. Today she is Managing Director of the Center for Financial Inclusion at Accion.

The breakthrough innovations that sparked the birth of microenterprise credit in Latin America occurred in the early 1980s, and USAID was very much the driving force. Through PISCES, the Program for Investment in the Small Capital Enterprise Sector, operational from 1979 to 1985, USAID and its partner organizations began to discover the principles of success for lending to the poor, opening the way for the microfinance industry.

To understand the origins of this microfinance strategy, it helps to visualize PISCES at a time when three streams of thought came together. First was the "Spring Review" on directed agricultural credit carried out by the rural finance gurus of Ohio State University, Dale Adams and Claudio Gonzalez Vega, with J.D. von Pischke of the World Bank. Their work revealed the waste and dysfunction of subsidized agricultural credit doled out by bankrupt government credit banks. These banks were swallowing hundreds of millions of development dollars annually. The Ohio State team's manifesto was that financial institutions must make credit decisions based on risk assessments, not politics, and charge interest rates that would allow operations to be sustainable. That review launched a gradual shift by USAID, the World Bank, and other aid agencies away from public development banks. But, if public development banks were sidelined, who would serve the poor?

At the same time research mainly by the International Labor Organization (ILO) revealed the importance of the "informal sector," small-scale businesses operated by low-income households. These were especially important in urban areas as a source of livelihood for a vast portion, and sometimes even the majority, of the poor in developing countries. (Why this was a revelation was a mystery to me – one has only to stroll through the poor areas of a developing country to see the scale of the informal sector.) The ILO's work excited the interest of USAID's Office of Urban Development. Michael Farbman and his colleagues there wanted to figure out how development organizations could assist the proprietors of small and microenterprises to improve their businesses and work their way out of poverty.

Finally, with the election of Ronald Reagan to the White House in 1981, USAID adopted a pro-private sector stance. Although the businesses of the informal sector were small, interest in them received a political boost from the Reagan Administration's new team, as did experiments in supporting vehicles other than government to deliver services.

With all those ideas fermenting among the staff and partners of the Office of Urban Development, it was only natural to design an action research project to push insights toward practice. USAID charged three organizations to go forth and search the world for entities that were doing a good job in supporting the enterprise credit needs of the poor, and to identify success factors. Accion, the overall lead, was assigned to investigate organizations working in Latin America, the Development Group for Alternative Policies in Africa, and Partnership for Productivity in Asia.

This work bore fruit in Latin America, because it was through the work of PISCES that Accion began to learn what it needed to know to build successful microfinance institutions across the region. Jeff Ashe, Accion's lead researcher, made the following fundamental observation, which set the stage:

Once it is recognized that business owners are the best qualified to decide how to use the credit provided and that business advice will be provided informally by other business owners in the community, the process of designing programs to assist existing micro-enterprises translates largely into how to provide the right amount of credit to the small business owners quickly and economically while ensuring that the loans are paid back promptly1.

With this perspective, Ashe identified organizations in several countries that made loans quickly and economically and that had high repayment rates. In El Salvador, FEDECCREDITO, a local NGO, made very small loans to solidarity groups of five to eight people. Using that methodology, it offered credit to 2,735 businesses in 18 months, vastly more than the usual few hundred beneficiaries of most programs – and with much higher repayment rates.

While writing up the results for the PISCES report, Ashe was busy inside Accion arguing for the solidarity group approach and urging the program to test the methodology on the ground. In PISCES II, he got the chance.

Accion used USAID funds to implement a solidarity group lending project in the Dominican Republic with tricicleros -- vendors who sold wares from three-wheeled pedal cycles throughout Santo Domingo. The tricicleros project was partly successful and demonstrated that the core principles were sound, even if the execution needed honing. With each subsequent project, Accion revised and improved its methodology in a process that led to the creation of BancoSol, the first microfinance bank in Latin America. Today, nearly all of Accion's affiliates in other countries are regulated financial institutions.

In Africa, PISCES focused on Kenya, and the project led directly to USAID's creation of the Kenya Rural Enterprise Project (K-REP). K-REP initially worked as a support organization to local enterprise development NGOs, but years later after a visit to Grameen Bank in Bangladesh, the leaders of K-REP decided to implement a lending operation that eventually became K-REP Bank, the first microfinance bank in Africa.

From these small beginnings a significant portion of the microfinance sector emerged, using the Ohio State team's principles to create profitable, private financial institutions serving the poor. Other parallel finance streams began at nearly the same time and with USAID backing. In Latin America under a USAID contract to deploy excess local currency in Bolivia during a period of hyperinflation, John Hatch created the village banking methodology and FINCA (the Foundation for International Community Assistance).

As I dust off my ancient copies of PISCES reports, I'm struck by the spirit of inquiry that permeates them. USAID and its partners formed an intellectual community of seekers. These trailblazing leaders, who often disagreed vehemently with each other (an interesting story too long for this post), sought the answers to questions they considered of great importance. Later they spread and applied that knowledge around the world to benefit the poor. I hope this same spirit is alive and well among USAID and its community of partners today.

Note: This blog title was inspired by Galen Hull in "Link to Experiments in Small and Microenterprise Development."