PROVIDING ASSISTANCE TO INFORMAL SECTOR ENTERPRISES:

THE NEGLECTED SIDE OF URBAN DEVELOPMENT

by

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I. Background - Small Informal Enterprises

Small enterprises are a significant feature of villages, towns and cities in all countries today. In less developed countries, where they are often referred to as "informal sector" activities, they may account for a significant proportion of total employment and economic activity. During the last decade, particularly within the international development establishment, widespread interest in small enterprises and in their potential contribution to economic development has spurred efforts to analyze and understand their dynamic characteristics, to define their relationships to larger or "formal" activities, and to design policies, programs and projects to promote their development.

Of these varying and complimentary analytical activities, that which has been most resistant to conquest has been the last: how can the development establishment - multilaterals, bilaterals, private voluntary organizations, etc. - mobilize and apply its not inconsiderable resources to have maximum beneficial impacts on this sector? Notwithstanding the large number of surveys of the sector which have been carried out (*e.g.*, by the ILO, the IBRD, USAID/Michigan State University, *inter alia*.), our growing understanding of the needs of, and constraints on, enterprises in the sector, and our models of intra-sectoral organization and inter-sectoral linkages, the fact remains that all this research and thought has not facilitated the operationalization of donor-sponsored policies, programs and projects which cost-effectively and with some precision in targeting provide developmental assistance to the sector.

II. The PISCES Project

In response to this perceived need for a more action-oriented approach in our concern for the informal sector in developing countries, USAID's Office of Urban Development in Washington implemented in 1978 a new R and D project titled the "Program for Investment in the Small Capital Enterprise Sector" (PISCES). The purpose of the project in its first phase was to ask and answer three questions:

A. What sorts of approaches/programs/projects are able to successfully identify and reach enterprises in the bottom end of the size distribution with meaningful developmental assistance?

B. What common systemic elements, if any, exist amongst these endeavors which enable them to achieve relatively meaningful benefits at relatively low costs, and how replicable are such approaches likely to be?

C. How can major donor organizations (like USAID) become involved in a more substantial way in promoting these programs and the organizations which run them?

PISCES Phase I recently drew to a close (May 1980) and has been followed by PISCES Phase II, which is concerned with the design and implementation of six new pilot projects by USAID missions worldwide. These pilot projects are intended to demonstrate the viability of A.I.D.'s new involvement in assistance to this sector. All of these six projects in Phase II are based on the research findings of Phase I. The remainder of this paper will deal with the nature of the Phase I findings, an explanation of the methodology used to obtain them, and with their larger implications for donor organizations desiring to become involved in this form of informal sector assistance.

III. PISCES Phase I

Three U.S. private voluntary organizations were contracted to implement the project.* All three had longstanding commitments to small enterprise development - either through research or the running of assistance programs in developing countries. Their activities centered in the first instance on identifying and describing projects throughout the developing world which seemed to be working effectively at the bottom of the economic scale. This involved interviews and data gathering from program managers and beneficiaries. These projects may have been run by government ministries,

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*ACCION/AITEC, Cambridge, Mass., were the main contractor. Subcontractors were Partnership for Productivity and the Development Group for Alternative Policies, both of Washington, D.C.

parastatals, church groups, local self-help or community development organizations, indigenous or foreign PVOs, commercial or development banks, or whoever. The notion was simply to find them and to learn what made them work (or not) and ultimately to make inferences as to how they might be promoted.

During this stage of activities the team split up and visited and documented projects/programs in over 20 countries. These included:

Africa: Cameroon, Gambia, Kenya, Swaziland, Tanzania, Upper Volta

Asia: Bangladesh, India, Philippines, Thailand

Latin America/Caribbean: Barbados, Colombia, Ecuador, El Salvador, Honduras, Panama, Peru

Case studies were undertaken of the programs which appeared to be most successful in their outreach capability and in their ability to deliver assistance on a cost-effective basis to informal sector enterprises. A bound volume of these studies will be available from USAID, Washington during August 1980. Following is a systematized synopsis of the principal findings and conclusions from the case studies.

A. Description of the Sector

The PISCES research confirmed many of the cherished notions of what the informal sector is and does: It is a major source of employment for the poor in developing countries - usually at least 20%, and sometimes in excess of 50% of employment in urban areas is accounted for by this sector. Overlap with USAID and most other donors' "target groups" is substantial. The sector has been growing more rapidly than the formal sector and looks like continuing to do so, particularly in urban areas with high in-migration rates. In all regions of the world and in nearly all countries, the sector ranks as an important producer both of goods and services for other urban poor and of inputs for the formal sector.

Precise definitions of the sector as such are nearly impossible to formulate. The nature of what is broadly understood to be the informal sector may vary across cities of differing sizes and from region to region and country to country. Nevertheless some core characteristics did stand out to the research team: (a) ubiquity - hawkers and vendors, repairmen, small manufacturers and artisans are found in all urban areas; (b) small-scale - this characteristic applies to the number of workers as well as the amount of fixed and working capital; (c) localized - activities meet the needs of local final and intermediate consumers; (d) labor-intensive; (e) low income - although not everybody in the informal sector will have low incomes, most will and these will usually be lower than unskilled earnings in the formal sector; (f) low profit and little opportunity for autonomous capital formation; and (g) competitive markets.

The research team also confirmed the presence on a widespread basis of many of the familiar macro constraints thought to be faced by small informal activities, particularly the impacts of adverse government policy, both negatively directed toward them and as a result of its being positive toward larger enterprises. Complex licensing and registration requirements and official harrassment were almost always identified. At the same time, on the micro side, enterprise viability seemed to suffer from lack of management capacity, inappropriate technology, poorly developed human capital, limited access to raw materials and imported capital, poorly developed and limited markets for goods, and perhaps most importantly, limited access to credit.

B. Conceptual Framework for Analysis

A major output of the PISCES research was a means of systematizing for analytical purposes the different types of enterprises that constituted the sector, and derivatively of matching with them different assistance approaches. The classification system arises out of the non-homogeneity of the population in the informal sector. Among the more important characteristics which differentiate the population are: (a) extent of urban experience; (b) degree of business orientation and skills; (c) extent of poverty; (d) distance from the market place. These characteristics are summarized in Table I in terms of "assistability." Further refining these four characteristics, beneficiaries of projects studied during PISCES Phase I can be grouped into three levels, reflecting differing basic orientations, strategies, needs and growth potentials:

Level I (Marginal). Would include the poorest people working long hours at low productivity occupations,

TABLE I

CHARACTERISTICS OF BENEFICIARIES

	City Experience	Business Orientation	Poverty	Education	Residence
Providing Assistance Less Difficult	Established Urban Dwellers: - "street wise" - good contacts with suppliers, buyers, money lenders, officials, etc. - oriented to urban values.	- Grew up in community surrounded by business activity. - Parents work as artisans or vendors. - Personal experience working with business from early age. - Grasps business notions of credit, costs, markets, etc.	Near Poverty Line - can meet basic needs of family. - some capacity to reinvest savings. - access to basic services.	Basic reading, writing, and arithmetic skills.	Lives in central city. Markets, supplies, and raw materials close at hand.
Providing Assistance More Difficult	Recent Immigrants: - little urban experience. - few contacts outside of family or recent migrants like themselves. - oriented to rural values.	- Parents farmers - No personal business experience. - Little exposure to business activities in rural community. - Little grasp of concepts of credit, markets, etc. - Few or no marketable skills.	Extreme Poverty: - fundamental concern is day to day survival. - virtually unable to save enough to build a business. - little access to basic services.	Illiterate	Lives in settlements distant from central city. Transportation to markets costly and time consuming.

just barely able to subsist. They are often recent migrants to the urban environment with no previous experience in self-employment. They do not think of themselves as entrepreneurs and have no business knowledge or skills, although they may possess traditional craft skills. They are amongst the poorest workers to be found in the sector.

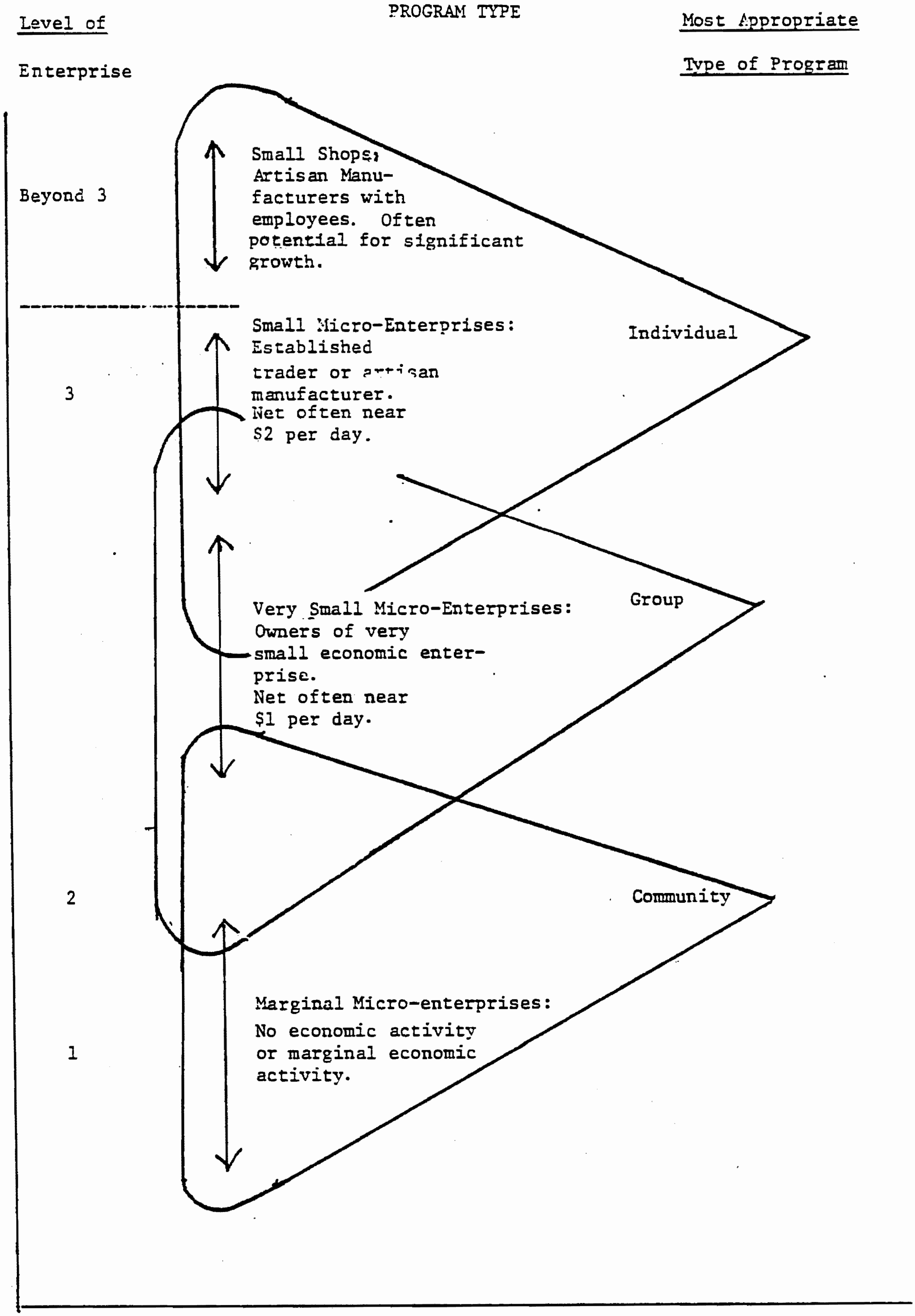
Level II (Very small). Would include people who have established a tiny business which provides sufficient income to meet the most basic survival needs of their families. They are usually not complete neophytes in the urban environment and because of their not negligible urban and business experience they would have developed at least a rudimentary business attitude, reinvesting whatever resources were available and possessing some experiential knowledge of sources of inputs and technical and marketing requirements of their enterprises.

Level III (Small). Would include people who had fairly well established businesses, such as a long term stallholder in a permanent urban market, or a skilled shoemaker or repairman. Profits from these enterprises could amount to \$1 - \$3 per day. Significantly, people at this level generally had ways to secure loans, for example with fixed capital, inventory, or other assets.

Although by no means constituting a perfect fit, PISCES Phase I identified three distinct classes of program assistance approaches which mirrored roughly the three levels of beneficiaries. These programs are referred to as community-, group-, and individual-based, and they match up against Levels I, II and III above respectively. The program objectives for each level of beneficiary reflect both the degree of poverty and the degree of business experience of the targeted population. This correspondence is explained in summary form in the next section for each pair separately, and is illustrated in Figure I.

1. Community-based programs/marginal (Level I) enterprises. It was observed in many instances that programs which focused predominantly on marginal entrepreneurs and their enterprises were set in a comprehensive community development context, concerned primarily with access to such basic services as health, education, literacy, sanitation and adequate food. Enterprise development involved creating new individual and collective businesses to provide people with enough income to meet their basic needs while increasing their sense of self-esteem and self-worth. In turn, these developments led to improved personal relations and increased commitment to helping others in the community.

FIGURE I


PROGRAM TYPE
Level of Enterprise
Most Appropriate Type of Program
Beyond 3
Small Shops; Artisan Manufacturers with employees. Often potential for significant growth.
3
Small Micro-Enterprises: Established trader or artisan manufacturer. Net often near $2 per day.
Individual
Very Small Micro-Enterprises: Owners of very small economic enterprise. Net often near $1 per day.
Group
2
Community
Marginal Micro-enterprises: No economic activity or marginal economic activity.
1

Community-based programs providing job-skills training and marketing assistance also attempted to expand the range of economic opportunities available to community residents beyond marginal self-employment activities such as petty trading and unskilled labor. Promotion of such assistance among marginal micro-entrepreneurs, however, is always long-term and secondary (to them), and is indicative of the reasons for lack of optimism in respect of the ability of assistance organizations to substantially improve the welfare of the poorest of the poor through production-oriented assistance.

2. Group-based programs/very small (Level II) enterprises. Where the beneficiaries already own very small micro-enterprises, programs are often focused on creating and assisting small, informal solidarity groups rather than focusing on the entire community. For example where credit is concerned, in such instances groups themselves serve the function of a collective guarantee (in lieu of collateral), and group members in effect stand as co-guarantors for each other's loans. A default by one member normally requires repayment by the others. Additionally, groups may serve as a source of mutual assistance (e.g., in the diffusion of managerial or technical skills, joint marketing, etc.).

In some programs it was observed that solidarity groups develop a stronger community orientation. For example, in one program the group leader was able to assist in the start-up of businesses by some of the most impoverished community-members by administering a fund which made loans of under $15. In another instance the leaders of the solidarity groups, acting as a board of directors of the assistance organization, assumed an advocacy role and were able to pressure the local government into improving conditions in the markets and to end police harrassment.

3. Individual entrepreneur-based programs/small (Level III) enterprises. Working with the small micro-enterprises, innovative commercial bank programs reach businesses individually, servicing the credit needs of entrepreneurs who have sufficient inventory or net worth, a credit history, or someone willing to co-sign a loan for them. With better-developed business skills and long-established contacts in the local economy, the owners of these businesses do not need the intensive support of a solidarity group or broad-based community programs to support their activities.

Individual-based assistance programs were observed to generate the maximum direct benefits for their target group(s) at the same time as generating external benefits for others in the community who are linked to them. For example, banks involved in such programs usually at least break even on their loan portfolio, principally because of the basically commercial terms under which lending takes place. (*I.e.*, there is no need either to subsidize interest rates or to provide supporting training, supervision, or other business services, as may be required for Levels I and II.)

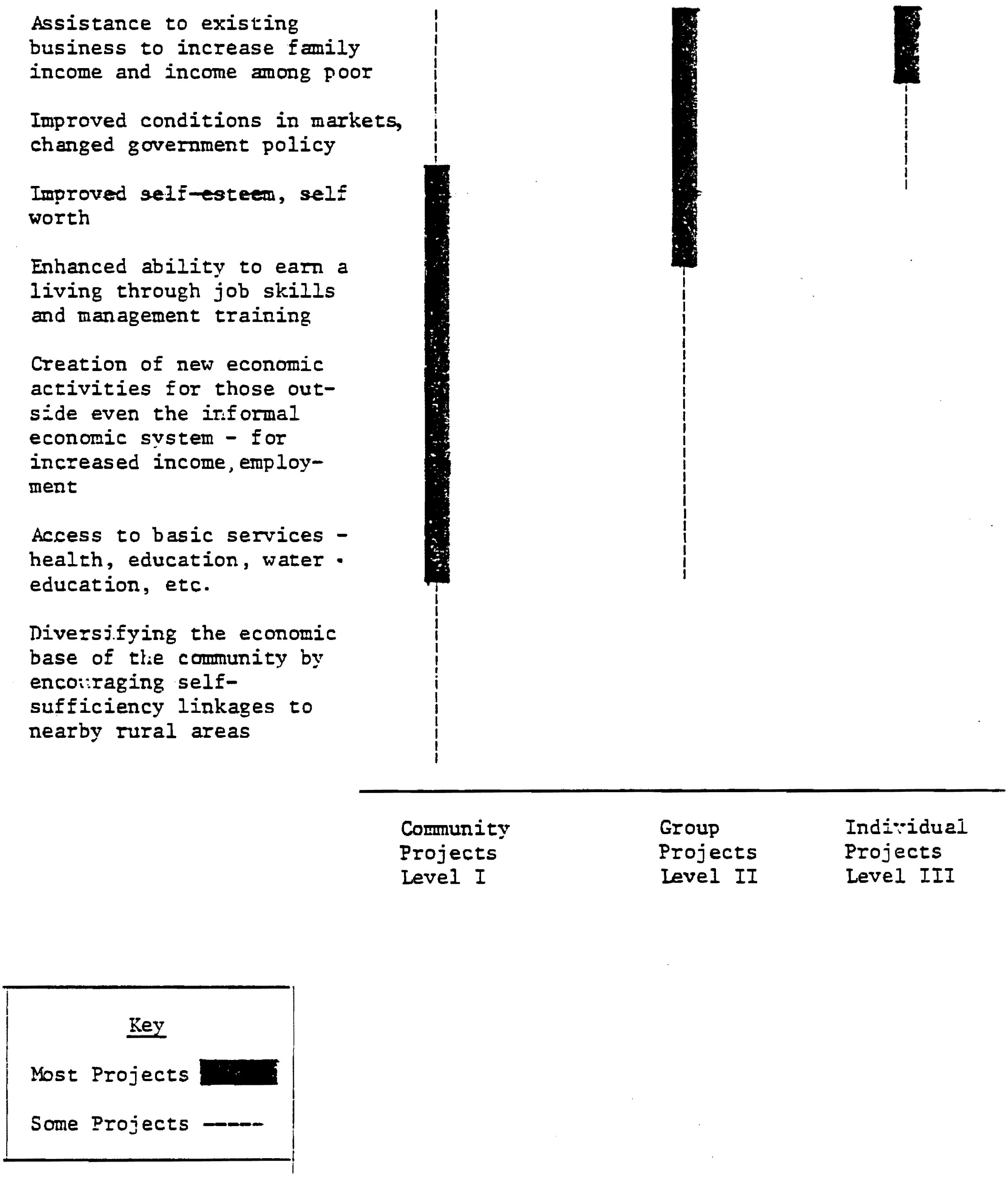
Of course not all projects documented demonstrated precisely the above correspondence between level of beneficiary and assistance approach, but in general terms the relationship exists. Similarly, the project objectives of the different assistance approaches - i.e., in terms of focus on individual basic needs, enhancing human capital, focus on enterprise needs, etc. - tended to differentiate according to the level of beneficiary and the approach. This relationship too was not perfect, but that it exists in general may be defended. Figure II summarizes these findings.

C. Types of Enterprise Development Projects

In addition to the conceptualization outlined in section B. above, assistance projects and approaches were further categorized into two types: those which assist existing business enterprises and those which create new ones. Those in the former category normally provide credit and in some cases basic bookkeeping and management training to very small micro-enterprises through solidarity group mechanisms, and to small micro-businesses directly through individual business owners. Projects which assist in the creation of new individual or collective enterprises normally have an intervention point within the context of comprehensive community improvement efforts, or within the context of production groups (below the community level). Many of the projects which have created new businesses, particularly amongst the neediest, most unskilled and least business-oriented individuals,

FIGURE II

PROJECT OBJECTIVES



were observed to have done so only by virtue of the projects' inventiveness and ingenuity in analyzing and responding to their enterprise needs. The presence of this inventiveness/ingenuity phenomenon may usually be proxied by the level of staff intervention present in the project. Projects which assist existing businesses tend to be "low intervention", while projects which start new businesses tend to range between "moderate" and "high intervention." This is illustrated in Table II.

IV. Elements of Effective Assistance Mechanisms

Even though the projects studied spanned three continents and served a range of beneficiaries with a variety of programmatic approaches, specific components of project implementation surfaced which appear to have general validity. Each of these major project components - project/program design, staffing, outreach, client selection, credit, bookkeeping and managerial assistance, job skills training, and marketing - will be discussed briefly in its turn in this section.

A. Project/Program Design

Every project documented by the PISCES team is the product of an intensive and often extended process of project design as well as of a continuous process of change following inception. Most began with an intensive problem identification exercise and analysis of the "target group." The major source of subsequent program modification seems to have arisen out of day-to-day interaction between project staff and beneficiaries. The

TABLE II

DEGREE OF STAFF INTERVENTION IN ENTERPRISE DEVELOPMENT ASPECTS OF PROJECTS

	Type of Enterprise	Management	Skills Training	Credit	Marketing
High Intervention	Most feasible activities selected by staff after needs assessment	All important aspects of economic enterprises managed by project staff--skills taught to participants and assumed they will take over eventually	Training often protracted and intensive	Credit given strictly in kind to pay for inputs--such as raw materials needed for the collective economic enterprise	Program Staff finds markets, handles all sales, returns profit to producer groups
Moderate Intervention	Community/Group select enterprise in consultation with staff - enterprise based on existing activities or skills	Skills for management taught, staff intervenes when necessary	Training brief, supplements already existing skills	Credit based on careful assessment of business and limited to specific predetermined uses	Staff assists in finding markets, group or owner of individual business responsible for sales
Low Intervention	Enterprise already exists	Management training unnecessary, business very small	No skills training owners of tiny businesses already have necessary skills	Credit provided to put owner's plans into effect, little staff guidance	Market (usually very local) found and developed by business owners.

better the project appeared, generally the more site-specific and less amenable to wholesale replication it was thought to be. The team concluded that one of the most important project design elements was a flexible idea of what the project would look like after the design is completed - a non-dogmatic quality whose counterpart was often visible in a similar accommodation pattern on the part of the informal sector entrepreneurs themselves.

B. Staffing

One consistent finding was that the field staff of these projects are usually not trained in business as such. (Highly trained business people were at risk of losing interest in these relatively marginal micro-enterprises and would be likely to offer advice that was poorly adapted to the small businessmen's needs. This is not to say that backstopping by people possessing business skills is not important; rather this input must be intermediated by generalists whose orientation toward the beneficiaries is more understanding of, and sympathetic to, their special needs.) The most important skills appeared to be the ability to relate to people in the poor community and a feel for grassroots organizing. These qualities were possessed by people of wide-ranging backgrounds, from part-time bank employees and university students in Ecuador to community volunteers in Manila to experienced social workers in Kenya. Youth was often seen as a most important attribute of staff, as commitment and stamina were often necessary in order to rise to the challenges inherent in these programs.

C. Outreach

No program studied simply opened up an enterprise-assistance office in a central location and started immediately to provide services. A build up of support for the initiative within the target community was normally undertaken as a precondition to promotion of the program. This was most often seen as necessary owing to the profound sense (and reality) of isolation of the target population from formal credit and technical assistance institutions. Outreach was normally facilitated through the implementation of some or all of the following mechanisms:

1. A thorough enumeration of business activities was undertaken and combined with explanations to the proprietors of the proposed program.

2. Business assistance components were added to on-going community development efforts where project staff already knew, and were known in, their community.

3. "Piggybacking" business programs on groups developed by other organizations and for other purposes.

4. Setting up offices in the midst of markets and hiring representatives of the local market leadership to formally affiliate with the program.

Interestingly, once it was perceived by small business people that the projects are genuinely beneficial for them, they tended to be self-promoting. In several programs, staff that previously worked in outreach eventually found themselves drawn into the implementation of assistance components. It was also clear that outreach was eventually vastly aided by word-of-mouth support from within the community.

D. Selection

This component is of obvious importance insofar as project performance may be totally subject to the vagueries of client selection. The PISCES studies found that at all levels of assistance the most important selection criterion is the individual's personal reputation. In the case of group programs, group members make implicit determinations of credit-worthiness. This is often effective because (depending on the project) the group leader or other members are normally responsible to pay in case of a default by a group member. This criterion remains important even where collateral or co-signors are available - banks in particular look for recommendations from community leaders above and beyond their own project appraisals and credit checks (when possible).

The second part of the selection process normally involves an appraisal of the "project." This may vary from a cursory review by a responsible group member or external official to a more rigorous analysis of the investment plan, enterprise viability, marketing projections, etc.

There seemed to be little relation between the amount of information collected and success as measured, for instance, by payback in credit programs. This lack of correspondence underscores the importance of good reputation as the best indicator of success.

E. Credit

Credit is easily the most important resource made available by small informal enterprise assistance programs. Owners of businesses desire credit more than any other services. Therefore, most programs at these levels are credit programs, although some offer basic managerial assistance too. Some have been successful in developing mechanisms to grant very small loans at low administrative costs while ensuring loan repayment. Credit was nearly always identified as a necessary ingredient in the creation of new individual or collective enterprises.

Assuming that the program has selected a good client, several generalizations about credit provision can be made:

1. Loan amounts. To reach the smallest businesses a program should deliver first loans averaging $25 - $100. Loans for the slightly larger micro-businesses served by bank projects tend to be higher: $200 in India and $1,100 in Ecuador; minimum loans were $125 in the Philippines. The first loan should be very small to test the individual's ability to repay and avoid over-burdening the business with more money than can be invested wisely.

2. Staging. To avoid risk both to the program and the client, loans to very poor people should be staged whenever possible. For example, when a woman in one program in India was granted a loan to start a kerosene distribution business, she started by renting all the necessary equipment. Then she was granted a loan of $50 to purchase kerosene and paid that back. Next she received a loan of $125 for a cart, $125 for barrels, and $125 for a bullock. Each subsequent loan was paid back before the next was granted.

3. Terms. It is hard to justify a first loan to existing businesses for more than three to six months. A series of small loans with increased amounts repaid quickly presents a manageable risk to both the businesses and the program. After business owners establish a proven record of payback and business expansion, they then can be considered for a larger longer term loan for equipment or installations. Programs starting cooperative businesses often grant loans for longer periods, arguing that businesses need more time to begin to accumulate savings. This is especially true if there is a considerable investment in fixed plant and equipment.

4. Interest Rates. It is generally thought that interest rates for micro-businesses should be low. Yet if interest rates do not cover costs of risk or administration, financial institutions have little incentive to lend more than that decreed by government regulations or by their sense of corporate/social responsibility. Thus, while loan recipients can expand their businesses, many others may not receive loans at all because of a

shortage of loan funds. The rate of interest in any case may be for many only a subsidiary issue -- it was observed that for the target group PISCES was interested in, the issue has more to do with access to any credit at all (except for that available at usurious rates), rather than the rate at which it is available.

5. Frequency of loan payback. Loan payback periods should be in accord with the cash flow cycle of the economic activity in question, and the time frame the client is used to thinking in. In loans to retailers repayment is generally daily to solidarity group leaders since they purchase their stock and sell it daily. Loans for clothing or shoe manufacturing might be paid weekly or monthly.

6. Loan collection. Almost all the programs studied take a very businesslike attitude about loan payback to maintain good relations with financial institutions, encourage good habits among beneficiaries and to avoid the depletion of the loan fund. This is accomplished through several mechanisms:

- group members pay group leaders;
- loan holders pay the "money stores" daily;
- banks hire local people as loan collectors and pay them a commission;
- programs pay local people a commission;
- loans are collected by project staff.

Yet all programs maintain some flexibility in loan rescheduling because of sensitivity to the financial impact of sickness in the family or some other emergency. Loan rescheduling tended to be quite frequent in programs at the lowest levels of beneficiaries.

If these loan collection mechanisms fail, program staff follow up vigorously; they or the banks can employ a number of sanctions including:

- halting further loans until outstanding loans are repaid;
- legal action;
- repossessing equipment.

Generally the incentive of future loans and the peer pressure from other group and community members are sufficient to keep the rate of payback very high.

F. Bookkeeping and Management Training

The few dollars of daily transactions of small traders, service people and manufacturers are rarely recorded. People sell, perhaps set money aside to purchase stock or raw materials, and use the rest for family necessities. It is also often observed that production is organized inefficiently, there are too many stoppages in production, items produced are not well displayed and marketed, etc.

While there is apparently no lack of entrepreneurial talent for starting and maintaining small trading and manufacturing activities, the types of entrepreneurial skills that are required for larger, better-organized business is greatly lacking. Some programs have attempted to train business owners in simple bookkeeping and management to overcome these limitations. This has brought mixed results because it is difficult to convince business owners of the necessity of business training. They seldom see bookkeeping or business management as a problem. At the same time, it is difficult to translate seemingly simple business concepts into terms understandable to largely illiterate or functionally illiterate slum dwellers who keep no records of any kind. The concepts of bookkeeing and business management require a more formal conception of what a business is.

Some programs were seen to have been more effective for having management assistance components, while in others it was less evident. It was also clear that provision of this assistance is not cost-free, although in several cases management assistance was seen to be delivered quite effectively informally through occasional conversations between staff members and program participants, and between program participants and others in the community.

G. Job Skills Training

On account of their absence of marketable skills (or absence of demand in the urban environment for what skills they do possess) many poor urban residents are destined to employment in marginal underemployed occupations. Some few persons will find employment where they can obtain on-the-job training. For the rest, investment in skill training does not always guarantee that mere supply will create its own demand for labor.

The study of training components of programs revealed the following:

1. In areas where substantial opportunities for skilled employment exist (e.g., Nairobi), most training program graduates will be hired as wage-workers in larger firms, where their earnings will be higher than unskilled earnings.

2. In areas where demand for skilled labor is limited (e.g., Manila), graduates will not find jobs in the formal sector; a large proportion of them may even remain unemployed because they do not possess entrepreneurial skills or capital to become self-employed.

3. If trainees are expecting to start their own businesses following skills acquisition, then complementary training in basic business skills can be beneficial toward that end. Chances of success are even greater where the same program integrates training (technical and business) with provision of supervised credit. Combination of these inter-related

components under a single umbrella may be expected to yield a whole greater than the sum of its parts.

H. Marketing Assistance

It is impossible to overstate the importance of the final link in the business chain, marketing. It is for many in this sector - particularly the worst-off who are producing for highly competitive markets - the ultimate constraint on their business success.

Some few programs address themselves to their clients' needs for marketing assistance. The most promising approach seen involved an assistance program which worked backward from the identification of marketing opportunities to the provision of appropriate technical training and credit to enable production for this market.

In all probability, marketing problems (*i.e.*, lack of demand for goods and services typically produced by informal sector enterprises) will continue to be the greatest constraint on the economic growth of very small enterprises. The combination of limited spending power in local and domestic markets in developing countries, coupled with fierce competition, market complexity, dependency risk, and quality control requirements in international markets, sit as a sort of lid on the sector's prospects. The best that can be done by assistance projects to countervail this force - and which is done in some programs - is (1) emphasize the identification of local needs and consumer demand and match this with skills and enterprise development; and (2) intervene directly as a marketing agent for client enterprises, exploiting greater command and knowledge of such channels on the part of the presumably better-informed resources available to the assistance organization.

V. Implications for Donors

Without going into a detailed discussion of how's, why's and implementation plans, it has been broadly accepted within USAID as a result of this research that many opportunities exist for donor involvement in assistance to this sector. The various intervention points are indicated in the preceding section. Virtually all of these are traditional areas of donor assistance, although assistance in these areas has not heretofore been made available to very small enterprises because of the absence of a clearer understanding of the working of this sector and misconceptions about its "developmental potential." Now we not only know better how the sector functions and what constrains its economic advancement, but we also know what sorts of assistance make sense in varying contexts and how this assistance may be delivered on a relatively cost-effective basis.

Related to these findings is an understanding that the special nature of the sector, and the pressures that will continue to operate upon it due to heavy rural-to-urban migration, require that more permissive project appraisal criteria be used by donors in evaluating the rate-of-return on development project assistance to it. It is a high-risk sector; assistance to it will nearly always involve some element of subsidization or cross-subsidization; its beneficiaries will frequently include some of the poorest persons considered to fall in the "target group;" and absorptive capacities of either the enterprises themselves or of the assistance organizations may be severely limited. It is not an area in which donors can move large quantities of money, and the smaller project sizes which are indicated suggest higher unit costs of development and implementation, and a more labor-intensive approach to project management.

The mix between loan and grant assistance must necessarily favor the latter, which makes assistance to the informal sector a more uncertain enterprise for the multilateral development banks. It is easier for bilaterals like USAID to take the lead in this respect. PISCES Phase II, referred to above, is the embodiment of USAID's first tentative steps to grasp this nettle, and will be closely watched both inside and outside USAID during the coming years. The purpose of the project is to design and implement a series of pilot informal sector assistance projects, using different intervention points, varying mixes of grant and loan resources to assistance organizations, and encouraging different modes and mixes of assistance to enterprises. Its outcome at the present time remains to be seen, which is slightly less important than that USAID is at least open to asking the question and seeking an answer.