

PROGRAM FOR INVESTMENT IN THE
SMALL CAPITAL ENTERPRISE SECTOR
PISCES PHASE I

ASSISTING THE SMALLEST ECONOMIC
ACTIVITIES OF THE URBAN POOR

FINAL WORKSHOP REPORT



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by:
John R. Beardsley
Senior Associate
New TransCentury Foundation

ACCION International/AITEC
10-C Mt. Auburn St.
Cambridge, Mass. 02138



The PISCES Workshop

Introduction

This report summarizes the presentations and open discussions at the PISCES Workshop held at the Brookings Institute ~~on~~ April 29, 1980. The Workshop agenda is included in attachment A. This report is divided into the following sections:

	Page
1. Genesis and history of the PISCES project.	2
2. A conceptual framework for describing and discussing the results of PISCES Phase I.	3
3. Descriptions of programs reaching and assisting the PISCES populations.	5
° Level I - Community-based program	
° Level II - Group-based program	
° Level III - Individual-based program	
4. Lessons learned	16
5. Implications for donors	19
6. Questions and issues raised during open discussions.	20

1. Genesis and History of the PISCES Project - Michael Farbman

The Program for Investment in the Small Capital Enterprise Sector (PISCES) has its origins in the new directions mandate of the Agency for International Development, (AID). Sponsored by the Office of Urban Development, Development Support Bureau of AID,* the PISCES project constitutes an effort to organize what is known about how to assist the smallest economic activities of the urban poor in the Third World.

The PISCES Project was to be undertaken in two phases. PISCES Phase I addressed itself to the following questions:

- (a) Is it possible to reach very poor people and assist their income-generating and employment-generation activities?
- (b) What methodologies seem effective?
- (c) What are implications for donor agencies?

PISCES Phase I began in early 1979. It involved identifying and describing projects which are working effectively at the bottom of the economic scale. Projects in the following countries have been written up:

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

Latin America: El Salvador, Colombia, Ecuador, Honduras

Asia: India, Philippines

Case studies of projects and programs identified have been published by ACCION International. They are available upon request from ACCION International 10-C Mt. Auburn St., Cambridge, Mass. 02138.

The following organizations shared responsibility for Phase I of the project:

ACCION International: Latin America cases studies and overall direction of the project.

Partnership for Productivity: Asian case studies

The Development (GAP) Group for Alternative Policies: African case studies

*Contract Number Ds otr-C-0013, Small Enterprise Approaches to Employment, PISCES Phase I

The workshop described in this report constitutes the end of PISCES Phase I. The purpose of the workshop was to share the results and findings of the first phase, elicit critical reactions to them and open a dialogue on how best to move ahead during PISCES Phase II.

2. A Conceptual Framework for Describing and Discussing the Results of PISCES Phase I - Jeff Ashe

The importance of the informal economic sector can be measured in several ways. PISCES Phase I underscored the significance of the informal sector as a source of employment for the poor of the Third World - 20% to 50% of employment in the urban areas of the Third World is provided by the tiny businesses of the sector. Available evidence also suggests that over the next 20 years the informal economic sector will expand more rapidly than the formal sector. The importance of the sector is also reflected in its share of value added during manufacture, its contribution to the GNP and its role as a supplier of goods and services to urban economies.

The informal economic sector is not easily defined. One recent study listed 50 different definitions. The results of PISCES Phase I suggest that the following characteristics of businesses in the sector can help define its parameters: (a) Ubiquitous (i.e. street vendors, hawkers, cobblers, etc. are found in every city); (b) small-scale (e.g. the average number of persons engaged in industries in Sierra Leone is 1.8, the average value of the stock of traders in Haiti is \$17.00); (c) localized (i.e. businesses meet the needs of local low-income people); (d) labor-intensive; (e) low income (i.e. though higher than agriculture all workers the income of informal sector workers is generally lower than unskilled workers in the formal sector); (f) low profits and little capital for investment; (g) competitive markets.

PISCES Phase I underlined the familiar constraints faced by economic activities of the urban poor, namely government policy which favors large businesses and involved complex registration and licensing arrangements and is anti-hawking; capital; raw materials and equipment; marketing.

A major finding of PISCES Phase I is that the population of the informal economic sector is by no means homogenous. 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. Using these four characteristics beneficiaries of projects studied during PISCES Phase I can be grouped into three levels. Level I would include the poorest people doing what is necessary to subsist. They are often recent migrants with no previous business experience. Their very marginal and ephemeral economic activities are not adequate to purchase the basic necessities of life. They do not think of themselves as entrepreneurs and have no business knowledge of skills. Level II would include people who have established a tiny business which provides sufficient income to meet the most basic survival needs of their families. Because of their urban and business experience they would have developed a business attitude, reinvesting whatever resources were available, and have rudimentary business skills which are based and are acquired through their experience. Level III would include people who had fairly well established business, such as a long-term stall holder in an urban market and a skilled shoemaker. The profits from these businesses would range between \$1 and \$3 per day. Significantly, people at this level generally had ways to secure loans, for example with inventory or a lease.

PISCES Phase I identified three types of programs reaching and assisting people at the three levels: (a) community based programs; (b) group-based programs; (c) individual-based programs. The objectives and functions of these different levels are summarized in Figure 1. Figure 1 also shows the overlap that exists between the programs, for example, group programs which reach people at Levels I and II. The typology illustrated in Figure 1 served as the basis for presenting the detailed findings of PISCES Phase I.

3. Program Reaching and Assisting The PISCES Populations

3.1 Community Programs - Fred O'Regan Development GAP

The following programs were mentioned in the presentation:

- (a) The Urban Community Programme of the National Christian Council of Kenya (NCCCK)
- (b) The Village Polytechnic Program (Kenya)
- (c) The Kawangware Community Upgrading Project (Kenya) - run by the Institute for Cultural Affairs, a US-based PVO;
- (d) The Small Business Industries Development Organization of Tanzania (SIDO)
- (e) Women in Development Program (WID) in Swaziland - a UN-initiated effort.
- (f) The Centre d'Education a la Promotion Collective (CEPEC) - Cameroon
- (g) The Institut Panafricain pour le Developpement (IPD) - Cameroon.
- (h) The Bangalur Layout - India.

Characteristics of beneficiaries and program goals

The beneficiaries reached by these programs are extremely poor. The vast majority are women. In the case of the NCCCK, for example, monthly incomes are on the order of \$15.00 per month; the average number of dependents

of these women is 6.5. The WID project reaches women whose annual gross family income is less than \$120. Most beneficiaries are involved in subsistence level activities which include petty retailing, banking, petty service provision, and, in many cases, subsistence agriculture and animal husbandry. They are essentially traditional people in a state of transition to more formal economic activities. They have very little "business" experience and very low skill levels.

The PISCES study underscored the immense difficulty of reaching and assisting this level. Thus, the objective of most of the programs studied is to deliver a first level of assistance, thereby assisting in the transition to more formal economic activity and facilitating the provision of basic services.

Salient features of programs

Characteristics of effective community based programs are briefly discussed below.

Direct promotion: Programs are promoted directly within communities usually by experienced social workers who are known to the people in the communities. This type of promotion is necessary to gain the trust of people who have a profound sense of isolation and have little or no experience with formal credit and technical assistance institutions.

Intense, locality-specific assistance: services are provided to specific groups and areas. Centrally-located services such as credit through banks and management assistance available on request have not proved effective.

Range of services: employment and income generation constitute a core element but not the only one, of the programs. Because of the great diversity of needs of the population reached these programs provide a range of services including

day care centers, literacy training, nutrition programs, community organizing and advocacy.

Client selection -- clients are selected into the program based on the personal knowledge of the promoters; there are few formal mechanisms involved.

Focus of services -- services are usually delivered to groups of clients organized into cooperative enterprises. Several reasons are given for grouping beneficiaries:

- (a) to reach more with less staff time because of the intensity of the needs of most of the beneficiaries
- (b) to provide a guarantee mechanism for the loan, since none have collateral
- (c) to lower fixed and variable costs involved in enterprise start-up
- (d) to increase the sharing of skills, experiences and aptitudes among the population reached
- (e) to provide mutual reinforcement during a very difficult transition process

Marketing -- Marketing has proven to be a most difficult, if not the most serious challenge faced by the programs studied. The businesses produce very low quality products and services, they work in very limited markets and lack access to the more profitable sectors and they face intense competition from both the informal and formal sector.

None of the programs have come up with real answers to the marketing dilemma. From the case of the Village Polytechnic program it is clear that an up-front need and demand analysis is necessary within the immediate locality. A second alternative involves a direct marketing intervention on the part of the agency itself. NCKK has done this for both domestic and international marketing of handicrafts.

Credit -- the provision of credit is an essential element of the programs studied. It is delivered as a part of a comprehensive assistance package. As most clients are first-time borrowers with little understanding of credit, the programs are very conservative and cautious, being very diligent to match carefully credit terms with the needs and abilities of the borrowers. An aspect of the conservative approach involves very close supervision and the granting of in-kind credits, except in the case of retail businesses. Interest rates charged are lower than commercial rates and collateral requirements are waived. More important, perhaps, is that the terms of the loans (the interest rate, the amortization period and the principal) are carefully adjusted for each individual case. The high degree of flexibility and close supervision together appear to account for the very low default rates experienced by the programs.

Training and technical assistance - Most programs dealing with adults do not engage heavily in skills training because of the high costs and inability of adult clients, especially women, to free up enough time. The focus of the training is on on-site managerial and technical assistance to complement and build on existing skills. This same focus is also found in youth programs, such as the Village Polytechnic. Again, there is a conscious effort to have the training complement whatever skills and talents exist and reflect the reality of local conditions.

Enterprise promotion -- reflecting the complementarity approach of the training components, efforts are made to tie spin-off enterprises to what is economically feasible and using existing economic skills and talents. Thus, most programs help promote such activities as handicraft production, urban agriculture, beekeeping, sewing, etc.

Management assistance -- The management assistance provided reflects major problems at this level: costing of labour, pricing, marketing and credit utilization.

Two important and very familiar organizational characteristics emerged from a study of programs reaching this level, namely, decentralization and indigenous staffing. Programs take great pains to recruit staff from within the communities in which they work. Most of the senior administrative staff in many of the programs began as field-level personnel. The programs also are highly decentralized, with relatively small and autonomous units free to make many of the important decisions affecting the beneficiaries.

Wider significance of programs -- the relationship of many programs to local and national governments was a critical aspect of their wider significance. Several had demonstrated an ability to pull public sector involvement and support to the level at which they operate. The Village Polytechnic program, for example, which was started by NCKK is now run by the Kenyan government.

Implications for donors -- In terms of implications for international donor agencies two conclusions emerged from the research. First, assistance should complement the work of organizations which have proven abilities to reach and assist very poor people. It should focus on expanding and upgrading existing efforts where possible and slowly build additional capacity. Second, international donors should avoid trying to implement large-scale programs that go beyond the capacities of existing organizations.

3.2 Group Based programs - Peter Fraser - AITEC

The following programs were mentioned in the presentation:

- a) FEDECCREDITO/PRIDECO - El Salvador.
- b) Manila Community Services, Inc. - the Philippines.
- c) The Working Women's Forum - Madras, India
- d) CIDES/FNCS - Bogota, Colombia

Characteristics of Beneficiaries and Program Goals

The vast majority of the beneficiaries of these programs are women (e.g. over 86% of the clients of FEDECCREDITO are women). They are urban slum dwellers engaged in economic activities from which they gain all or a good part of their income. Typically, they run small production shops, corner stores, fruit stands, etc. They earn on the average between \$1 and \$2 per day. This level is distinguished from beneficiaries at level I in several important respects; (a) they are less poor; (b) they have established income generating activities; and (c) they have often been engaged in some type of economic activity for between 5-20 years.

Despite the differences between levels I and II, however, they face a similar set of problems. The programs reaching and assisting level II clients reflect this fact by providing a range of services, including advocacy and community organizing. Many of the problems faced by these people in their businesses are linked to precarious cash flows:

(a) production discontinuities; (b) inability to extend credit; (c) inability to wait for better prices to be offered for their goods and services; (d) inability to buy in quantity and get discounts. Lack of access to credit, except through money lenders and, sometimes through the family, however, constitutes the primary constraint preventing many of these women from resolving the problems. Credit through commercial channels is not possible because they have no collateral; money lenders are charging 20% to 50% per month in places in El Salvador and 150% per year in India.

A primary objective of all programs studied at this level is to offer credit to large numbers of people, in amounts small enough for them to handle and with effective guarantee mechanisms. All this needs to be accomplished while holding costs within bounds, if the solution is to be

more than a stop-gap measure.

Salient Feature of Program

Salient elements and characteristics of program which appear to have accomplished these dual objectives are briefly described below.

Promotion and outreach -- To promote their services effectively programs have to have credibility within the communities in which they operate; they cannot be perceived as posing a threat or as working for someone else's interests. Thus, there is much similarity between the promotion and outreach elements of the programs reaching level I and II. FEDECCREDITO, for example, found it difficult to attract clients until it linked up with a community development program which had the staff, the experience and the credibility in the communities.

Client grouping and solidarity groups -- The group selection mechanisms in each of the programs appears to be the critical element in their success. Groups provide the essential loan guarantee and allow a large number of individuals to be reached with relatively small number of staff. Important characteristics of the solidarity groups include the following:

- (a) group members are self-selecting; program staff have very little say in the matter of who stands guarantor for whom. This is the key element in developing a sense of personal responsibility to the group and "ownership" in the program. Group members cannot blame staff for poor group selection since the members themselves determine who they feel are good credit risks.
- (b) group members select their own leadership
- (c) groups are not legally formed in the sense many cooperatives are but they are formally constituted within the framework of the agency concerned, normally through a contract signed by a group members.

- (d) groups work on the basis of community responsibility, mutual trust and peer assistance.
- (e) groups take the responsibility for most of the up-front analyses and feasibility studies
- (f) groups provide a basis and form for organizing non-economic activities such as advocacy programs and social services.

The effectiveness and efficiency of the group mechanism are reflected in the statistics on payback rates and administrative costs. FEDECCREDITO, for example, has made 6,000 loans to over 2,700 clients; the average first loan is between \$80 and \$120. The payback rate has been close to 99% and it expects to cover administrative costs in 1980. The Working Women's Forum has made 3,000 loans, at an average size of \$12 to \$36. The administrative cost per loan has averaged around \$2; the payback rate is over 90%.

Personnel -- The efficiency of the group mechanism is also reflected in the type of staff needed in the programs. As solidarity groups do much of the analyses and client selection required for processing loans, there is little need for high-level technical staff. Staff's role is primarily to disseminate information about the project and facilitate the paperwork which is very straightforward.

Credit -- The experience of the organizations at this level is similar to that of agencies reaching even poorer people. Credit terms should be considered as a package and should complement and reflect the capacity of individual entrepreneurs. Most programs stressed the importance of the educational experience of managing credit -- of increasing slowly their clients awareness of credit as a business tool and their ability to handle progressively larger loans.

In addition to the financially related advantages of group based programs, the groups and coalition of various groups can become effective advocates for other community and business assistance. Group members provide each other with suggestions on how to improve their business utilizing existing knowledge and expertise in the communities, they have collaborated in getting government to install community water, laundry basins, and toilets (El Salvador) and they have become a visible political force as in the movement for improved social and economic conditions for women (India).

3.3 Individual Based Programs -- William Tucker - AITEC

Individual programs were described by William Tucker of AITEC. Two different types of programs were discussed: skills training and assistance to new businesses and special credit programs of private and public banks.

Characteristics of beneficiaries and program goals

The beneficiaries and clients of programs at this level are distinguished from the other two levels in one very important respect:

they can usually provide guarantees for loans, such as inventory, a lease on a market stall, or a co-signer.

Most clients of the bank programs are involved in some established manufacturing, service or retailing business activity. Their net earnings before assistance range between \$1-\$3 per day. The beneficiaries of the programs studied, however, vary considerably, from unemployed university graduates to uneducated but experienced micro-business people.

The needs of this population include skills development, management assistance and credit. Management assistance is seen to be the most important longer-term need to address in order to resolve the critical problems their businesses face, e.g. excess inventories, weak internal accounting and control systems including poor control over receivables, and lack of marketing expertise. This assistance can be provided through either one-on-one extension programs or group courses.

The Skills Training and Enterprise Promotion Program

The Calcutta "Y" Self-Employment Program for unemployed youth offers a twelve-month course in different technical areas, supplemented by courses in business management. Graduates are assisted in setting up their own

enterprises with credit from banks arranged by the Center. The results of the program are rather spotty, 25% of those who graduate do not start businesses and 25% of those who do fail. The Center has found it very difficult to train entrepreneurs. It is now trying to improve its selection process.

The National Association of Educated Self-Employed Youth (NAESEY) in Madras, India is a privately run program focusing on the creation of new enterprises. It has involved unemployed university graduates: at present it helps the illiterate poor establish businesses. The program is significant in one respect in that it does not include any vocational training. This is primarily due to the fact that the enterprises which it helps to set up are very simple and/or familiar to participants in the program.

NAESEY has enjoyed some fairly impressive results, at least for the people involved. The net income of one group of participants, for example, went from nothing to \$65-\$100 per month. The program expects to have 10,000 members over the next 2 to 3 years. In addition the entire effort is self-financing. Several factors appear to account for NAESEY's success: (a) the simplicity of the business set up; (b) the charismatic leadership of the founder; (c) ease of entry into the markets; (d) a feeling on the part of participants that they are an integral part of a growing movement.

The Bank Programs

The Bank of Baroda in India -- The Differential Interest Rate scheme of the Indian Government obliges banks to loan at least 1% of their loan portfolio to the "weaker sector" at 4%, as opposed to the 12% commercial rate. The program is large but has experienced many difficulties.

In some cases repayment rates have only been 10%. The Bank of Baroda is an example of the successful implementation of this program. It has set up separate, Multi-Service Centers with specially oriented staff. In Madras it has made over 4,000 loans and has a repayment rate of over 90%. Distinct and simple mechanisms for processing and administering loans have been set up. Significantly, local businessmen play an important role in identifying prospective clients in their neighborhoods.

Banco del Pacífico -- The Banco del Pacífico has set up a Department of Community Development to comply with the law in Ecuador that 20% of a bank's loan portfolio must go to small businesses. At present it has some 900 loans outstanding with a repayment rate of 99% despite the fact that it provides no technical or managerial assistance.

Philippine Commercial and Industrial Bank (PCIB) -- While there is no formal incentive in the Philippines for banks to move into the weaker sector, PCIB and other banks reflect a growing realization within the private sector in the Philippines that it is possible to make money there. PCIB's experimental program has \$3 million outstanding with loans varying between \$125 and \$1,250. The repayment rate has been 99%.

Salient Features of the Program

A number of salient program processes and factors emerged from the research. These include

- (a) a separate unit in the bank with specially oriented personnel for this type of lending activity
- (b) very simple methodologies for processing and administering loans
- (c) self-promoting programs
- (d) formal contractual relationships but with formalities held to a minimum

4. Lessons Learned Jeff Ashe - AITEC

Feasibility of reaching and assisting the urban poor

PISCES Phase I has demonstrated the feasibility of a number of objectives which were questioned by many participants at the beginning of the research:

- (a) that it is possible to assist the smallest economic activities with loans less than \$100 and to provide loans at very low administrative costs and to expect a very high payback rate;
- (b) that the poorest can enter new economic activities with an investment of as little as \$5 to \$20; (Manila Community Services)
- (c) that linkages between suppliers, producers and markets can be strengthened with increased profits at all levels (e.g., the NAESFY program);
- (d) that the poorest youth can be trained at an acceptable cost and provided with the necessary follow-up to start businesses (e.g., Village Polytechnic)
- (e) that programs can help set up collective businesses. That result in a significant increase in income for their members (e.g. NCKK).

The Economic and Social Impact

The studies have shown that the programs have had significant economic and social impact on the participants. Income increases from \$1 to \$2 per day and \$2 to \$4 per day in the case of level II and level III activities respectively were not uncommon. At the poorest level people have gone from \$.10 to \$.20 per day up to \$1 and \$1.50 per day in both individual and collective businesses.

Interviews showed that program participants were like to share experiences and knowledge and help in community projects. (The social impact of many programs was also revealed by the studies.) Many community programs resulted in better infrastructure,

more social services and increased community solidarity. Though very difficult to measure it was apparent to observers that in many instances program participants had changed their perspectives about the possibility of changing their lives and had become noticeably more self-confident.

Need for Income generation and employment generation

Many of the programs had evolved from, or as part of, basically social service agencies. The rapid development of several of these programs is a good reflection of the intensity of the need that exists.

Sources of success and difficulty

In terms of implementing an enterprise development or income-generating program, the studies highlighted the following familiar factors as important to consider when assessing its degree of difficulty:

- (a) government policy toward providing credit to the weaker sectors
- (b) degree to which both the overall economy and population are growing
- (c) state of available infrastructure such as roads, electricity, water, etc.
- (d) proximity to urban centers and markets
- (e) length of time participants have lived in urban areas.

Programs which do not enjoy favorable conditions such as those listed above need to be comprehensive. They are clearly more complex and expensive because (a) credit must be managed within the program; (b) skills must be taught; (c) entrepreneurial attitudes must be developed; (d) many of the basic infrastructure needs must be dealt with. Programs which do enjoy

favorable conditions can make extensive use of the existing skills of the participants and rely on para-technical staff, thus lowering program costs.

Salient features of programs

Salient features and processes of effective programs include the following:

- (a) programs build upon the needs and the skills within communities:
credit, for example, does not go beyond the ability of clients to absorb and payback the loans and is used to address immediate concerns (e.g., to pay off moneylenders, cut time-consuming trips, reduce the cost of raw materials, reach new markets, etc.)
- (b) programs use volunteer staff who are frequently intimately familiar with the community and have intensive contact with community members
- (c) programs stress "learning-by-doing" for both staff and participants
- (d) programs facilitate grouping together people who are socially cohesive and trust each other
- (e) programs actively involve community leadership in program planning and implementation
- (f) programs are highly decentralized and maintain an evolutionary flexible posture
- (g) programs use generalists on staff who do not and often cannot engage
in highly technical activities. But this is normally perfectly adequate given the level of task to be done by staff.
- (h) program staffs are small allowing a good deal of intensive interaction between staff
- (i) programs rely heavily upon strong charismatic leadership

5. Implications for Donors and Practitioners- Jeffrey Ashe - AITEC

International donor involvement with organizations and programs which reach and assist the smallest economic activities of the urban poor must take into account the reasons why they are effective. To reiterate several of the points made previously, effectiveness appears to be a function of:

- (a) strong, charismatic leadership
- (b) highly dedicated and hard-working staff
- (c) the small-scale, localized nature of their operations with a good deal of informal and intensive contact among program staff and beneficiaries
- (d) decentralized decision-making and administration
- (e) community participation

If donors are to reach the informal sector, they in all probability must work with and through organizations which have their roots in poor communities, a significant track record and the trust of local people. There are very few successful government sponsored and government run programs which reach this level. More importantly, the terms of the relationship are set by the implementing organization or agency -- a difficult condition for many donors to accept. Furthermore, effective organizations vary considerably in absorptive capacity, administration, size and relationship with government bodies. Consequently, international donors must be prepared to treat each organization individually, adapting their procedures to fit the particular context.

Many of the smaller organizations usually need help in designing projects, testing out delivery mechanisms and developing links with banks and other financial institutions. Larger, more established organizations, such as a co-op bank, often need assistance setting up

special units, orienting personnel and developing simple administrative systems. They might also need organizational development assistance and financing for program expansion. Where no local capabilities exist it might prove feasible to facilitate the work of the foreign PVOs in this area. AITEC's work in Brazil and PFP's programs in Upper Volta are examples of this.

In all cases there is an urgent need for sharing ideas and experiences. Facilitating visits between projects and programs and the development of courses based on the experiences of particularly innovative and successful programs (e.g., Bank of Baroda) are two concrete steps which would address that need.

The challenge to practitioners is how to seize local opportunities, reach large numbers of clients at reasonable cost and institutionalize small pilot efforts. The challenge for donors is how to assist flexibly and responsively a large number of locally initiated and controlled efforts. There are no easy answers. But, the challenge must be met.

During the second phase of the PISCES projects many of these issues will be addressed. Demonstration projects will be set up with AID missions and local agencies, impact will be closely monitored and assessed, project design assistance will be made available, and the dissemination and exchange of information and ideas will be facilitated.

6. Questions and Issues Raised During Discussion Periods

The questions and issues raised and discussed during the questions period fall into eight categories.

(1)

Macro-economic impact of programs which assist comparatively better established businesses and not the more marginal economic activities

The issues of the net economic impact of the program studied was raised

by several participants in the workshop. Of primary concern were displacement and negative distributional effects. While there was no evidence to suggest that the programs described were having a negative net economic impact there was, however, no hard evidence to the contrary. It was clear that until good data exist the debate will remain unresolvable. One side will continue to argue that because of static demand and the low quality of products produced, efforts to increase the incomes of a small number of entrepreneurs will result in worsened conditions for those at lower levels. Others suggest that where populations and economies are growing, economic opportunities continue to open up at all levels. Thus, assistance to levels II and III need not necessarily displace those at level I and may even open up new opportunities.

It was pointed out that outsiders have a profound responsibility to understand and come to grips with indirect effects of programs. Given the great difficulty outsiders have in tracing indirect effects, it was suggested that: (1) programs aim to work with the poorest groups in a community and (2) programs use a community-based approach so that feedback on program effects can come from as many segments of the community possible.

Another major concern of the workshop participants was the magnitude of the demand for credit at different interest rates. It was pointed out that given the small number of clients involved in the programs described, and the fact that in many cases their businesses were being reached for the first time, it should not be surprising that demand for money exceeds supply. The point was stressed, however, that access to credit, and not the interest rate, was the crucial issue. Most of the programs studied had little difficulty moving the money they had and all felt that much more could

loaned. It was also mentioned that several programs were beginning to experiment with higher interest rates and different lending terms. Their efforts are to be monitored during PISCES II.

(2)

Significance of programs and organizations studied

The wider significance of the programs and the organizations described was questioned on several grounds. First, there are very few programs which reach and assist the tiniest of informal sector businesses, especially at level I; second, many of the programs are new and have at best reached only two or three thousand people. Third, many of the organizations studied appeared highly dependent upon charismatic leadership, highly committed staff, small size and structural independence and autonomy --all characteristics which are very difficult to replicate on a large scale and in government agencies. Fourth, it was suggested that many governments are simply not interested in assisting informal sector enterprises and even see these efforts as steering people away from growth-oriented thinking.

The fact that organizations which assist PISCES level populations can exist within hostile environments and are continually experimenting and expanding with very limited resources is testimony to their vitality and to the important problems they are addressing. Furthermore, it was pointed out that many organizations have developed strong linkages to the public sector and are increasing their abilities to leverage additional support and resources from that sector. Finally, it was pointed out that all development assistance efforts work at the margin. What was really at issue was the willingness to fulfill commitments, made publicly by officials at the World Bank and other donor agencies, to assist marginal populations directly. The organizations and programs described by the PISCES research team are trying to reach these groups. To dismiss their efforts, however small,

tentative and "unproven " as insignificant was to ignore the fact that they are often the only programs reaching the bottom of the economic scale.

(3)

Implications for donors and practitioners

Since the PISCES team argued that the organizations described constitute effective ways to reach and assist economic activities of the poor, the implications and challenges for donors were clear: they would have to find ways to work with these organizations and support their programs. Given the important characteristics of these organizations donors will need to (1) spend a good deal more time and effort just to locate appropriate intermediaries, (2) develop much simpler mechanisms for arranging loans and grants and for evaluating projects; (3) develop a much more flexible and responsive posture to reflect and be congruent with the evolutionary and experimental nature of the effective organizations; (4) relinquish much of the control they presently try to exercise over projects so that organizations with roots in local communities can maintain the very essence of what makes them work; (5) restrict the amount of money they try to move, as many excellent programs were facilitated with small amounts of money.

(4)

Cost/effectiveness of programs studied

Since the term "successful" was used in many of the presentations, participants at the conference requested a clear definition of the measures used to determine program success and a better description of the costs involved in achieving program goals.

As is the case with most discussions of efforts to evaluate development projects, several familiar themes emerged:

- (a) hard data on costs and economic indicators such as enterprise viability, changes in employment, status changes and income, etc. need to be collected;
- (b) the lack of agreement on indicators for less easily measured goals along social, social psychological and cultural dimensions
- (c) the need to have all involved parties (including program clients and beneficiaries) reach a consensus on important indicators before launching a program;
- (d) the need to involve actively program beneficiaries in the design and implementation of evaluation systems and in the analysis of evaluation results;
- (e) the need to put a program in its larger socio-political context, when assessing its cost effectiveness.

In the cases where data exists on costs and objectives such as jobs created it was stressed that such data were indicative, not conclusive. There was a good deal of concern (as well as agreement) expressed over the need to include more than economic dimensions in assessing program success. There was little agreement and discussion about the indicators one would use.

The importance of looking at individual programs from as broad a perspective as possible was underscored by two observations. First, it was argued that the social and economic costs of not acting and addressing the problems of marginal populations need to be factored into any cost/effectiveness analysis. It was pointed out that programs in the Philippines and Bangladesh were started in response to periods of profound social unrest in both countries.

(5)
Methodologies and organizational structures for assisting marginal populations

The successes of the organizations described during the conference in terms of (1) payback rates and (2) low administrative costs in handling loan applications were considered striking by many participants.

The relatively low administrative costs were due, it was felt, to several factors:

(a) first, and foremost, the analyses of who was a good risk and whose business was viable was usually done by the people who had the most intimate knowledge of the communities and individuals involved and who had the most to lose from a poor payback record, namely the loan grantees or potential grantees themselves.

These individuals, it was pointed out on several occasions, were members of solidarity groups, which would suffer from poor up-front analyses. This approach was one of the reasons why in many cases high-level project staff were not needed.

(b) second, many of the loan schemes studied were for working capital for businesses (or economic activities) with an already known market and supplier.

(c) third, the businesses involved in most programs were very simple and at least well within the capabilities of most clients to manage and most project staff to understand;

(d) fourth, many of the organizations studied were rooted in communities where they worked; thus prior knowledge of many of the clients limited the amount of up-front analyses necessary.

The reasons for very high payback rates (often between 90%-99%) reflects, it was suggested, the very essence of the program studied--the fact that they belong, or at least are perceived to belong, to the clients themselves. They are not looked upon as something "out there" to be "ripped-off." In addition, the following factors were considered important:

- (a) intense follow-up and supervision by people who know the community and grantees;
- (b) congruence of the size and complexity of the enterprises funded with the need and capabilities of grantees;
- (c) proximity to and familiarity with the market;
- (d) flexibility of credit terms, including interest rate, amortization period and principal, to fit individual cases;
- (e) face-to-face relationships between staff and clients;
- (f) feeling of trust and mutual respect which exists between program staff and clients.

(6)

Terms of Credit

The terms of credit, especially the determinants of an appropriate interest rate, was a much discussed topic. Several points emerged from the discussion:

- (a) there is an apparent trade-off between reaching large numbers of people with a higher interest rate (since more banks will be willing to loan money) and reaching a small number with lower rates (because of the costs involved). The decision, it was pointed out, is often made on political and philosophical grounds.
- (b) the real issue is one of access to credit, and at any reasonable cost.
- (c) the interest rate is just one element of a package that includes the amortization period, the repayment schedule and the principal; all these elements need to be flexibly determined to reflect individual need and ability to pay.
- (d) higher interest rates could probably be charged by many of the organizations studied.

In the opinion of several conference participants the difference between the cost of money and the interest rate charged in most cases suggest the importance of an income-generating component. Only one of the programs studied (CIDES/FNCS Bogotá, Colombia) had an income-generating component to subsidize the difference, but it was noted that several others were contemplating starting one.

One area which was not fully explored was what accounts for the flexibility and responsiveness of many of the organizations. It was clear that the effective organizations had undergone dramatic changes over time in terms of program objectives, clients and structures. What was not made very clear was what might account for these changes and what lessons there were for donors and practitioners. The importance of the direct and indirect roles played by beneficiaries and clients in program planning and decision-making could not be discounted.

Another issue not dealt with during discussions but raised by a conference participant had to do with in-kind credits. It was suggested that in cases where in-kind credits were provided, especially at Level I, it might be an indication that beneficiaries could not be trusted and that costs might be lowered, if purchases were made directly by beneficiaries.

Throughout the presentations and discussions it was stressed that programs described should not be taken as "models" - or prescriptions for action. The research endeavoured to describe methodologies and structures which may relate to reaching effectively marginal populations. Some of them might be more or less appropriate in any given context: it was emphasized, that this can only be determined by analyses of the specific context.

(7)

Impact of the PISCES research on implementing PVO's

As both AITEC and PFP have been involved in income and employment generation.

One participant inquired as to the impact the research had had on the two organizations. Both organizations agreed that the process of conducting the PISCES research would have profound effects on their operations. Both have come to realize that they can reach much poorer populations at much less cost, and with much more of direct participation of the beneficiaries than they ever thought possible before.

(8)

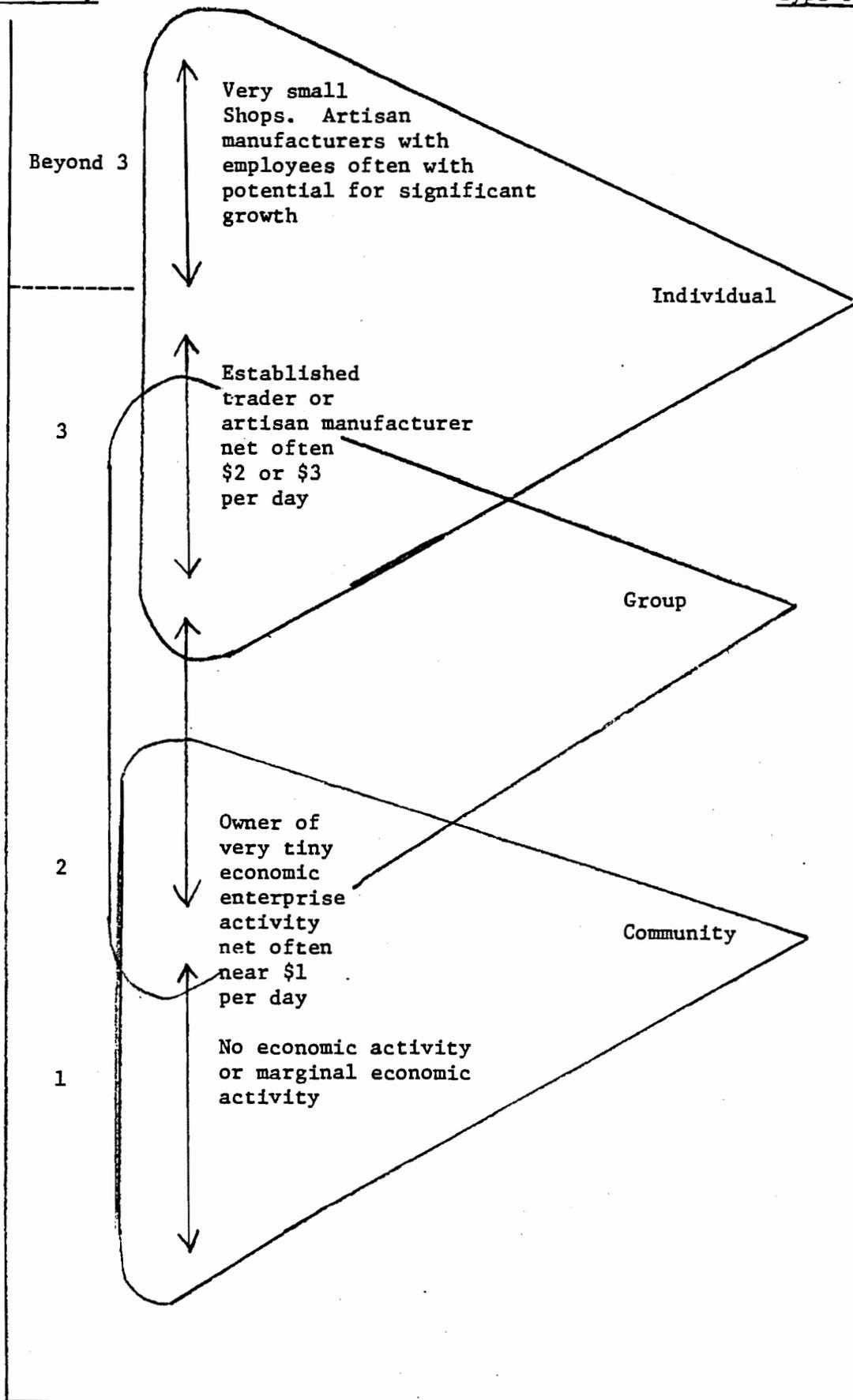
Heterogeneity of the Population studied

The population studied was extremely diverse. It included unemployed university graduates in India and recent migrants to the urban slums of Mombassa. It also included people who were in the informal sector by choice (people who liked the freedom and flexibility it afforded) as well as people who had no choice other than almost total destitution. The meaningfulness of generalizations and abstractions across such a heterogeneous population (to say nothing of geographic regions covered) was challenged. But then again the objective of PISCES Phase I was not to give a single best methodology for working with the whole spectrum of beneficiaries, rather to more fully understand the elements of successful programs precisely taking into account why they are successful and how they deal with the specific characteristics of the beneficiaries of their services.

FIGURE I

Level of
Beneficiary

Most Appropriate
Type of Program



ATTACHMENT A

Agenda for the - PISCES Workshop

9:00-9:30	Registration	
9:30-10:00 am	Overview of PISCES project <ul style="list-style-type: none">° What is PISCES?° Why is AID sponsoring it?	Michael Farbman Project Manager
10:00-10:15am	Introductions <ul style="list-style-type: none">° AITEC, PFP, GAP (staff)° Participants	Jeff Ashe
10:15-10:45am	Purpose of workshop Methodology of study Context for Presentation	Jeff Ashe
10:45-11:15am	Community-based programs	Fred O'Regan
11:30-12 noon	Group-based programs	Peter Fraser
12:15-12:45	Individual-based program	Bill Tucker
2:00-2:45	Lessons Learned Implications for donors	Jeff Ashe
2:45-4:30	Open Discussion	
4:30-6:00	Reception	

