

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE

- A = Add
- C = Change
- D = Delete

Amendment Number: _____

DOCUMENT CODE

3

2. COUNTRY/ENTRY
ST/MD

3. PROJECT NUMBER

936-5314

4. BUREAU/OFFICE

Science and Technology
Multi-Sectoral Development

ST/MD

4. PROJECT TITLE (maximum 40 characters)

Research on entrepreneurship ID + development
Small Enterprise and Entrepreneur Dev.

5. PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM DD YY
09/30/85

7. ESTIMATED DATE OF OBLIGATION
(Under '8' below, enter 1, 2, 3, or 4)

A. Initial FY 83

B. Quarter

C. Final FY 85

8. COSTS (\$3000 OR EQUIVALENT \$1 = 1000)

A. FUNDING SOURCE	FIRST FY 83			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
Appropriated Total	650		650	950		950
(Grant)	()	()	()	()	()	()
(Loan)	()	()	()	()	()	()
1						
2						
Country						
Donor(s)						
TOTALS	650		650	950		950

9. SCHEDULE OF AID FUNDING (\$000)

B. PRIMARY PURPOSE CODE	C. PRIMARY TECH CODE	D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
279	290	0		950		950	
TOTALS		0		950		950	
10. PRIMARY TECHNICAL CODES (maximum 5 codes of 3 positions each)				11. SECONDARY PURPOSE CODE		260/710	
11. CONCERNS CODES (maximum 7 codes of 4 positions each)				12. SOURCE/ORIGIN OF GOODS AND SERVICES			
Code	BR	BU	EQTY	RGEN	TECH		
13. PROJECT PURPOSE (maximum 480 characters)							

The purpose of the project is to foster the development of small enterprises and entrepreneurs which will provide increased employment and income opportunities for the poor.

14. SCHEDULED EVALUATIONS

MM YY MM YY Final MM YY
10/83 10/84 09/85

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000 941 Local Other (Specify)

16. COMMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of 2 page PP Amendment)

Signature _____

June 3, 1982
6/3/82

142 DATE DOCUMENT RECEIVED

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT PAPER FACESHEET

1. TRANSACTION CODE

A ADD
 C CHANGE
 D DELETE

PP

2. DOCUMENT CODE
3

3. COUNTRY ENTITY

ST/MD

4. DOCUMENT REVISION NUMBER

Original

5. PROJECT NUMBER (7 digits)

936-5314

6. BUREAU/OFFICE

A. SYMBOL B. CODE
ST/MD

7. PROJECT TITLE (Maximum 40 characters)

Entrepreneurship and Small Enterprise Development

8. ESTIMATED FY OF PROJECT COMPLETION

FY 85

9. ESTIMATED DATE OF OBLIGATION

A. INITIAL FY 83 B. QUARTER 4
 C. FINAL FY 85 (Enter 1, 2, 3 or 4)

10. ESTIMATED COSTS (\$000 OR EQUIVALENT \$)

A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FX	C. C	D. TOTAL	E. FX	F. C	G. TOTAL
AID APPROPRIATED TOTAL	650		650	950		950
GRANT	650		650	950		950
LOAN						
OTHER						
U.S.						
OTHER COUNTRY						
OTHER DONOR(S)						
TOTALS	650		650	950		950

11. PROPOSED BUDGET APPROPRIATED FUNDS (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	PRIMARY TECH. CODE		E. 1ST FY <u>83</u>		M. 2ND FY <u>84</u>		K. 3RD FY <u>85</u>	
		C. GRANT	D. LOAN	F. GRANT	G. LOAN	H. GRANT	J. LOAN	L. GRANT	M. LOAN
EN/EH	730	110		650		300		0	
TOTALS				650		300		0	

A. APPROPRIATION	N. 4TH FY		O. 5TH FY		LIFE OF PROJECT		12. IN-DEPTH EVALUATION SCHEDULED <input type="checkbox"/> MM <input type="checkbox"/> YY
	D. GRANT	P. LOAN	R. GRANT	S. LOAN	T. GRANT	U. LOAN	
TOTALS					950		

13. DATA CHANGE INDICATOR. WERE CHANGES MADE IN THE PID FACESHEET DATA BLOCKS 12, 13, 14, OR 15 OR IN PRP FACESHEET DATA, BLOCK 12? IF YES, ATTACH CHANGED PID FACESHEET

1 = NO
 2 = YES

14. ORIGINATING OFFICE CLEARANCE

15. DATE DOCUMENT RECEIVED IN AID/W. OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

SIGNATURE _____
 TITLE _____
 DATE SIGNED _____

MM DD YY MM DD YY

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PART I Rationale for the Small Enterprise and Entrepreneur Development Project

A. Summary Statement

A basic premise of this project is that there is a missing link in the process of small enterprise development which must be present in order for development efforts to succeed. Donor agencies, while providing important components for stimulating small enterprise development, have not focused on the entrepreneur himself- the person we look to to obtain resources, risk them, and manage them in such a way that a viable, sustained, employment-generating entity is established. We have not yet found reliable ways to identify such persons and we do not yet know enough about how to support their efforts. This is a serious deficiency which often negates the effective implementation of existing resources for the development of small businesses in LDCs. Providing this missing element is the basic function of this project.

B. Discussion

Over the years AID and other donor agencies have made substantial efforts to stimulate small enterprise development in the LDCs. AID, for example, has extensive experience in establishing mechanisms for moving funds to institutions concerned with small enterprise development. The World Bank also does this on an even greater scale. The ILO has established Management Development Organizations in many LDCs. Despite significant financial investment in this area, developers must still proceed with great caution when approaching the task of generating new enterprises or expanding existing ones. Some of the approaches which seem to have become permanent components in

programs of small enterprise development include the following: a) financing made available, usually through a local development bank, for use by indigenous entrepreneurs, b) training, usually in business skills and usually through generic programs offered by local training organizations, c) feasibility studies to indicate enterprises needed locally, d) infrastructure development, e.g., a business advisory service or some other form of outreach usually attached to a ministry.

The missing element in these conventional approaches to small enterprise development is the central figure, the entrepreneur himself. These approaches are based upon two critical assumptions. First that the right people will be the ones who receive the inputs and second that the inputs are in fact appropriate for them. The "right" individuals in this process are those who have effective entrepreneurial skills, not simply those with formal "business" or management knowledge. We have not had mechanisms available in the small enterprise development process which could ensure that the people who receive funds, training, or services are those who will effectively utilize and apply them. We have not been able, for example, to determine whether funds we provided to an aspiring LDC businessman were going to someone whose potential for wisely and effectively using them was high. If, in the small enterprise development process, we could identify individuals and enterprises possessing a high degree of entrepreneurial skill (aside from other skills they may possess), then whatever resources were subsequently available to them would have maximum impact. In essence this project will provide mechanisms for doing this and will therefore provide an important link which has been missing in the past in the small enterprise development process.

Part II. Summary and Recommendations

A. Project Description

The goal of the Small Enterprise and Entrepreneur Development project is to stimulate the development of small enterprises to increase productivity, income and employment opportunities for LDC workers. The principal purpose is to provide USAID missions and LDC institutions with effective approaches to entrepreneur development and small enterprise management.

This project will develop or identify and field test new methodologies and approaches to improving individual entrepreneurial performance and to generate a favorable local climate for entrepreneurship. It will employ methodologies for identifying enterprises having the innovative, flexible and imaginative type of management needed for successful expansion and diversification. Enterprises so identified, and which also possess more traditional indicators of expansion potential, will be targeted for specific assistance (e.g., financing, training, technical assistance). Similar methodologies for the identification/selection process will be tested for individual entrepreneurs launching new enterprises. In the assessment of the environmental settings within which small enterprises must develop and prosper, a component of this project in its later stages will be to ensure adequate institutional infrastructure capable of providing substantive support and assistance to small enterprise and entrepreneur development so that small enterprise managers function effectively in their complex environment.

In addition to the above there is another, equally practical, economic justification for this project. The types of skills developed and transferred to indigenous institutions under this project are quite sophisticated, involving behavioral-science based research, consulting and training techniques rarely found in LDCs. Indeed, these skills are relatively scarce even in the U.S. and Europe. Few organizations, for example, who have developed programs using these methodologies also have extensive international experience. That network of independent consultants which can claim significant cross-cultural experience is small and very expensive. Demand for these skills outstrips supply. Consequently, the cost of applying these skills in LDCs is often prohibitive. By developing indigenous cadres of professionals with these skills in the three target countries, (up to 50 in total) we will begin building a substantial international network of experts to which development organizations may go at much less cost than is presently possible, and we may break or at least soften the grip on the supply of these skills now held almost exclusively by developed countries. Such competition would not only be good for its own sake but would likely lower the cost of services in this area from U.S. and European sources. In addition, this would significantly bolster the confidence of LDCs that they can, in fact, provide fundamental inputs at any level of sophistication in response to their own development needs.

B. Recommendations

Approval is requested for a project in the amount of 2.475 million over a three year period (Phase I) this represents: a) initial authorization by

AA/S&T of a contract in the amount of .9 million for three years to be obligated in three tranches (\$300,000 each in FY 82 through FY 84, b) up to 1.575 million in incremental funding*.

Upon the successful evaluation of Phase I, approval will be requested for 1.600 million over an additional two years (Phase II). This amount represents a) core funding of \$600,000 for a two year period to be obligated in two tranches (300,000 each in FY 85 through FY 86, b) up to 1.050 million in incremental funding*.

	Phase I	Phase II,
S&T funds	900,000 +50	600,000
USAID field missions	1,500,000	1,000,000
AID regional bureaus		
Total Authorization	2,400,000	1,600,000
ATI Joint funds	75,000	50,000
(not included in project authorization)		
TOTAL Funding	2,475,000	1,650,000

*Incremental funding

1. USAID field missions
2. AID regional bureaus
3. Additional funding from ATI's budget for jointly implemented activities (see page 34 for description). These funds are not included in the total project authorization

PART III. Project Background and Detailed Description

A. Background and Justification

A basic premise of the Small Enterprise and Entrepreneur Development Project is that small scale industry development can play a much larger role in the development process than has been recognized in the past. The S&T Off-Farm Employment project has assisted in pointing out the significant potential of small enterprise to generate employment and income, to spur development in the agricultural sector, slow down the rate of rural urban migration, as well as accelerate the structural transformation from agriculture to industrialized societies.

Small enterprises can directly stimulate economic growth because: small-scale industries require lower investment costs per job, use labor more intensively, have lower capital requirements, and make use of more local resources and materials than do large scale industries. They are also more likely to draw inputs from local sources, resulting in a smaller foreign exchange component than larger firms. Small enterprises also have the potential to improve income distribution by increasing the number of skilled and unskilled workers participating in the labor force, and by providing landless families with opportunities to become entrepreneurs or employees rather than laborers. New opportunities for the landless are particularly

important in LDCs where expanding rural populations and sluggish economic growth have resulted in a large and increasing pool of unemployed workers. Finally, individual entrepreneurs have a political and social stabilizing effect. The small enterprises are generally less of a burden on, and less dependent upon the government. They therefore tend to be flexible when economic and political circumstances require it.

The growth of the small scale enterprise sector is recognized as an integral component of agricultural development. Therefore, a strong relationship must exist between agricultural development efforts and enterprise promotion in any comprehensive development strategy. This project seeks to strengthen this relationship. Where regions are developing in response to agricultural modernization, there is continual need for small enterprises to improve techniques, provide new or improved kinds of services or products, and to widen markets. Small-scale enterprises also provide employment leading to increased incomes and demand for food and other agricultural commodities, along with creating a potential investment output.

As noted above, small enterprises can play a vital role in a developing economy, although their ability to do so depends upon the existence of an adequate environment to support their growth. There exist specific problem areas which are common to industries in many developing countries. Some of these problems are shared by large-scale operations, although they are generally more pronounced within small enterprises. By virtue of their size,

small enterprises are sometimes unable to resolve many of these problems without external support. The Small Enterprise and Entrepreneur Development Project will focus on a problem area that is of particular importance to the growth and expansion of small-scale enterprises: management and entrepreneurship development.

The owner of a small enterprise will have a direct and critical effect upon its performance. A small enterprise typically functions without the refined advice and consent filter through which management operations typically pass in larger organizations. The effect of a manager's decision or plan in a small enterprise usually has an immediate impact, and due to the vulnerability of small enterprises they cannot long withstand managerial inefficiency. Therefore, a major concern of this project is to ensure that small enterprise managers, operating with thin margins of tolerable error, function effectively in their unique environment.

This project recognizes that small enterprises are the backbone of the more advanced economies. These enterprises are spawned ultimately by the actions of innovative and risk-taking individuals, that is, entrepreneurs. Not surprisingly, studies show that the element of entrepreneurship is a decisive factor in the rise and fall of economies. The absence of entrepreneurship has been an impediment to growth and development. Some observers, such as Kenneth Galbraith, hold that most of the poor have accommodated to poverty and that change can be brought about only through a

concentration of resources on the minority, however small, which has rejected accomodation. Economic development consists of enlarging the opportunity for those so motivated to escape the equilibrium and "culture of poverty." Over the generations, a high proportion of unemployed individuals who migrate, such as rural peoples to urban centers or out of the country, tend to be entrepreneurs. They are the individuals who are willing to assume the risk that their lives can be improved through migration. If this is so, and if entrepreneurship is needed to bring about development, then attention must be given to the identification of potential entrepreneurs and to creating the conditions for their retention before they are forced to migrate.

The apparent absence of entrepreneurship in developing country settings is not a result of the absence of individuals with the proper competencies. In these countries entrepreneurial talents where they exist have no natural flow, for example, to technical, commercial or other appropriate schools and institutions through which students would have access to entrepreneurial careers. Such talents remain undiscovered, unutilized and unchallenged. In the poor areas of any developing country, a number of individuals exist, who by personality, capacity and orientation could well be entrepreneurs. As such, they could be more active economically and at the same time create employment. Some of these individuals have such strong entrepreneurial drives that they naturally and often without assistance enter into enterprise of some type. Most of those having this potential however, without external stimulation and/or assistance do not gravitate to an

entrepreneurial role without external stimulation and/or assistance. Without an awareness and understanding of their potential, without appropriate training or preparation, and without at least a minimal support infrastructure, most such individuals will remain in static situations while unemployment continues rising about them.

Working directly with the principle person(s) in small enterprises, and working with individual enterprises need not always be approached on ad-hoc bases. This project will therefore seek to develop generic approaches to assistance in this sector. It is anticipated that each project intervention will in essence be an R and D exercise - basic, focused, short-term research will be a part of most operational activities. This research, cumulatively and with special, larger-scope research activities, will help form a body of knowledge regarding small enterprise development which will advance the state of the art.

B. Detailed Description

1. Project Goal

The goal of this project is to stimulate the development of small enterprises in the LDCs and thereby increase the employment and income opportunities available to workers. These employment opportunities are expected to be of particular benefit to landless workers and women.

Success in stimulating the growth of small enterprises will lead to an improvement in the supply of needed inputs and services to agriculture, an increase in supply of affordable goods and services to urban and rural consumers, and a growth in demand for agricultural output. The growth of small enterprises will also contribute to increased training opportunities for workers, create new incentives and channels for mobilizing capital, and reduce the levels of rural-urban migration.

The achievement of this goal will be verified in several ways. Baseline and post assistance longitudinal studies will be used to show income changes for beneficiary vs. non beneficiary small enterprises. Also, successful approaches for the identification of potentially successful entrepreneurs to increase small enterprise productivity will be specified. In addition, the performance of the entrepreneurs selected, or in other ways assisted will be measured against control groups so that empirical data can be employed to indicate impact. An Oversight Group will be formed to ensure quality control in the tests carried out, and in the data generated. This Group will also monitor the projects progress and independently evaluate its impact. This Group will be composed of interested, knowledgeable "agnostics" from outside the Agency.

Major conditions which would assist in the achievement of this goal are: first, the governmental policies and regulatory structure of the countries in which these activities are carried out either provide support, or at a minimum, do not prevent the emergence and growth of small enterprises.

Secondly, the economic environment in these countries offer adequate opportunities for motivated individuals to establish or develop small enterprises. Thirdly, adequate support facilities (financial services, infrastructure, markets, transport) either are available or within reach of entrepreneurs with the proper types of training and motivation.

2. Project Purpose

The purpose of this is to develop or identify and field test new methodologies and approaches to increasing individual entrepreneurial performance and to generate a favorable local climate for entrepreneurship. Activities contributing to these purposes will have the following characteristics:

(a) The methodologies tested will have their impacts directly on the entrepreneur(s) himself. The impact will be increased entrepreneurial effectiveness.

(b) The methodologies will be tested through indigenous institutional settings so that they can be readily integrated by the participating institutions upon validation.

(c) The methodologies will be tested so that empirical data can be gathered for assessing their utility and impact.

(d) The methodologies will be employed as one of a number of components needed to stimulate small enterprise development. Support in other technical areas (applied research; marketing, finance, etc.) will be available as needed from other projects in the Small Enterprise and Employment Division's (SEED) portfolio. These projects include; the Off-Farm Employment Project with a focus on generating new knowledge relating to off-farm activities in the context of program-relevant applied research, The Center for Intermediary Services Project with a focus on facilitating the transfer of technology and managerial expertise from the U.S. private sector to LDC small and medium sized agroindustries, and the Small Enterprise Approaches to Employment Project with a focus on the analysis of support services to non-formal sector enterprises.²⁵

3. Project Description

This project will develop and test methodologies for identifying high-potential entrepreneurs, for increasing entrepreneurial effectiveness and helping to stimulate more favorable environments for the growth of small enterprises. Field tests will be carried out in 3 countries. These experimental efforts will involve the following:

(a) Entrepreneurship training which provides behavioral and skills development for enterprise managers.

Often it is assumed that if entrepreneurs possess certain basic knowledge and skills, they will be effective in operating small enterprises. However, small enterprises operate in environments which are ever-changing and

usually require innovative managerial actions which may have little relevance to a traditional knowledge base and formal skills. The performance of the small enterprise manager in ambiguous and fluid situations is often more critical than when he is functioning in a "normal" management context, e.g. keeping books, filing loan applications, disbursing funds, etc. Reactive behavior and the knowledge or skills base of the manager are both important and require attention. This project element will ensure this is accomplished.

While entrepreneurial skill is essential in establishing successful new small enterprises, we must be quick to note that skill(s) alone are seldom able to overcome current obstacles to growth. In fact the level and amount of formal skills and knowledge do not differentiate between good and marginal entrepreneurs. To give attention only to skills without attending to behavioral requirements in small enterprise generation would be to provide only partial training needs of entrepreneurs. Behavioral skills development must not replace other training measures needed to stimulate small enterprise growth but must accompany them.

(b) Development of selection criteria for high-potential entrepreneurs and for small enterprises which have expansion potential based on management as well as marketing and production criteria.

This project will employ methodologies for identifying individual entrepreneurs and for enterprises having the innovative, flexible and imaginative type of management behavior needed for successful expansion or diversification. Enterprises so identified, and which also possess more traditional indicators of expansion potential, will be targeted for specific assistance through the project or through available local resources. This same approach will be used in the identification of new enterprises or enterprises wishing to expand which have high success potential and should be targeted for assistance. In addition this approach will be used in situations where enterprises require assistance in identifying and selecting high-success potential managers for recruitment. It should be of interest here to note that ST/RAD through a recent expert workshop has already identified and modified one such methodology (for selecting high success-potential entrepreneurs). Though many missions are unaware of this development, USAIDS/Zimbabwe and Ecuador have requested application of this methodology. USAID/Panama has also expressed interest.

Part of the rationale for this project is that regardless of the mechanism used or the assistance provided to stimulate small enterprise development, someone, some local person, must ultimately manage those resources in such a way as to produce a viable enterprise. Even if unlimited resources are supplied, they will remain insufficient to overcome poor management of those resources. We should therefore focus as much on the individual who will receive the resources as on the resources themselves. We

must be able to identify and select those individuals who have high-success potential to start or expand a small enterprise thereby greatly increasing our chances of success.

In typical small enterprise development efforts, the entrepreneur himself receives little attention. The assumption is that if we provide resources, he will come forward and utilize the resources as intended. This is a faulty assumption, it is true that we have little difficulty in moving credit in most small enterprise development efforts. However, we typically know very little about who receives the credit and whether it is likely to be effectively applied. It would be more productive if, for example, rather than attempting to assist all artisans to grow, resources would be better concentrated on a small number with a high potential for growth.

(c) Identification of appropriate validation environments.

The project will assess the environmental setting within which the methodologies developed can be best tested and validated. In particular, target institutions will be studied to determine what role they play in support of small enterprise growth and how test methodologies may be folded into their normal activities to clearly demonstrate causality. It is anticipated that institutions identified for this purpose will be management development, research or training-oriented organizations.

(d) Institutionalization of new methodologies. The thrust of this element is to ensure an adequate institutional integration of the methodologies validated. However this will not take place until year 3 of the project at which time judgements may be made about the validity of the methodologies developed and therefore the utility of establishing cadres of indigenous professionals in this area. For example, should the methodologies be proven valid in year three, the process of identifying and selecting indigenous rural entrepreneurs in a target country would include the training and development of local consultants to extend that process to other parts of the country. The same approach would apply for activities dealing with behavioral or other types of needed training of entrepreneurs and enterprise managers. In every case interventions would have both immediate and long-term institutionalization objectives. The total impact of the interventions in this project would include leaving behind a cadre of indigenous operatives who can effectively provide consultancy to and undertake research in the general small enterprise sector as well as provide specialized training to enterprise managers and entrepreneurs. Insofar as possible these skills would be integrated with the activities of local institutions so they would become normal functions of those institutions.

4. Typical Mission Programs Appropriate for Project Focus

During the PID review it was suggested that detailed descriptions be given of the work to be done in specific missions who have requested assistance under this project. It is difficult to establish complete

country-specific scopes of work, as it would be in any project development process, several months prior to the expectation of project funding and without travel funds to permit specific negotiation with target USAIDs. Nevertheless three mission requests for services from this project are described in Annex B as illustrations of the kinds of entrepreneur and small enterprise development assistance in which missions have current need. The four types of interventions described in the preceding section would fit well into the broader needs of such programs. To date Panama, Ecuador, Zimbabwe and Bangladesh have requested to be target missions.

5. Outputs

Over the three-year LOP the following outputs will be produced in each of the target countries.

a. Developing and testing a generic methodology for identifying persons who have high-success potential as entrepreneurs.

b. Developing and testing a generic methodology for identifying existing small enterprises which have significant expansion potential.

c. Testing approaches which specifically and directly improve entrepreneurial skills.

d. Developing and testing approaches which generate greater and more appropriate responsiveness of support institutions to small enterprise activities.

e. Validating these approaches and methodologies through collection of empirical impact data.

f. Producing a cadre of 12-20 indigenous professionals with superior skills in selection methodologies and entrepreneur training and competence in small enterprise research and consulting.

g. An international Review and Dissemination Workshop for 15 participants.

h. Developing a roster of experts available for cross-cultural work in entrepreneur development.

Outputs details follow.

(1) In conjunction with ongoing small enterprise programs and/or in response to governments or mission need to establish such programs, entrepreneur selection methodologies which have been used in various indigenous settings will be examined. Several of these about which relatively little is known have been tried in countries like Lesotho, Malaysia, Mexico,

India, Curacao and the U.S. These attempts have been promising but require further refinement in order for them to be suitable for generic application in LDC settings. The project will glean experience and insights from these efforts and on that basis develop and test approaches for the target countries which have the indigenous entrepreneur as their only focus. With cross-fertilization from efforts in three participating countries, a generic approach will be developed by the third project year. This means an entrepreneur selection methodology will have been developed, tested and validated which will have cross-cultural validity and can be readily applied in other LDCs.

(2) The methodology developed as described above will proceed in two tracks. One will focus specifically on the new or aspiring entrepreneur; the second will focus on existing small enterprises. Research on the latter component will include developing methods of analysis of enterprise performance which can be used in conjunction with more conventional financial data but which elicits valid data on the entrepreneurial skills of the manager(s) of the enterprise. There is no base of experience from which this research may proceed. Therefore considerable state of the art, up-front research will be a prerequisites. Data developed from output (a) above, however, will have direct relevance to this activity and will be folded into the selection methodology which is ultimately developed. Development and validation of this selection methodology will be completed by the end of the third project year.

(3) Aside from traditional business skills and formal knowledge dissemination little training is generally available which is specifically designed to improve entrepreneurial skills, that is, to improve that set of practical behaviors - without reference to formal or business knowledge - which are critical to successful day-to-day entrepreneurial success. One training methodology has been tried primarily in the U.S. but also in a number of LDCs. The impact and validity of this methodology has not been satisfactorily validated and is not available for immediate application in LDC settings. This project component will begin with that methodology as a research base. That methodology will be examined in terms of what factors have contributed to successful application in LDC settings, and two other methodologies will similarly be examined which have had less LDC application but claim some entrepreneur training success. This review of the art will elicit a revised methodology which will be tested in the target countries. It is anticipated that a methodology will be refined and prepared for testing by the sixth month of project life.

The training methodology developed will also follow two tracks, one for the individual beginning entrepreneur, the other for the entrepreneur/manager. Both approaches will have similar core inputs. The approach for managers, however, will contain components oriented to their specific enterprise.

When testing of a training model(s) begins short term impact evaluation will be done on change in such entrepreneur-related abilities as long-term goal setting, risk-assessment, procuring feedback, accepting responsibility, and identifying support sources. Longer-term impact evaluation data will be gathered on numbers of enterprises begun/expanded, employment opportunities generated, profit, personal income, sales, tax revenues and capital investment. This data will provide impact information based on contribution to societal growth (e.g., tax revenues) and personal progress (e.g., profit, income changes).

(4) In each target country an analysis will be made of the institutional infrastructure which does or could support small enterprise and entrepreneur development. This will be done in order to identify the most appropriate points for testing. It is not intended for this output to consume significant project time. However in cases where deficiencies can be rectified through other project activities, with no loss to methodology development, this may be folded into the implementation. For example, one specific institutional area which certainly will be studied will be financial lending institutions, which often adopt an extremely low or no risk orientation in dealing with small firms. This makes it difficult for small enterprises to find a consistent and reliable funding source since they view risk and investment from a different perspective than do the funding institutions. Providing specially designed training or seminar programs for

loan officers (for example) in the dynamics of entrepreneurship would create greater understanding within financial organizations of entrepreneurial behavior and practices. This would assist loan organizations to assess better and more confidently the risk element in dealing with small enterprise requests. This in turn would likely generate more resources and support for these enterprises. In addition, lessons learned and approaches developed for effective entrepreneur/enterprise selection will be integrated into the loan process of such funding organizations.

(5) .The project will ensure that every intervention includes a component which provides an empirical assessment of that intervention. Validation of selection and training methodologies tested will be based on this data. Entrepreneurs and enterprises selected for support using the experimental methodologies will be tracked and compared to control groups using criteria such as those described in (c) above. The performance of entrepreneurs and enterprise managers trained using the experimental methodologies will be tracked and compared to control groups using the same criteria. In addition, an element in the validation of the selection methodology will be an analysis of a matched number of successful and failed enterprises and entrepreneurs based on post-hoc application of the methodology. The objective in this output is to develop hard data which assesses the impact of the tested methodologies in terms of preestablished

concrete goals or in terms of control group performance and empirically validates them. These outputs collectively will provide the Agency with defensible data about new methodology effectiveness and with relevant impact data such as jobs created or income generated. This type of data will be generated over the LOP beginning at about month six. By project termination the depth of accumulated hard data will be significant.

It is clear from Project Committee meetings and from two seminars and one workshop used to develop this Project Paper that any activity aiming at entrepreneur development, regardless of the soundness of design or internal support of that activity, will remain controversial. In order to ensure that the results of this project three years hence will be given proper credibility within the development community the project will have an oversight component which will include "skeptics" or "agnostics." This Oversight Group will participate in all phases of project implementation including a) reviewing the methodology proposed by contract bidders, b) monitoring contractor performance, c) evaluating empirical data generated, and d) assessing reliability of conclusions. This oversight component added to the requirement for the contractor to produce empirical impact data will make this project one of the most rigorously documented and evaluated activities within AID.

(6) Project personnel in carrying out the activities described in (a) through (c) above will establish an institutional base beginning in project year three. By this time sufficient data will have been generated and evaluated to permit initial judgements to be made on project impact.

Recommendations will also then be forthcoming from the Oversight Group on the advisability of institutionalization. In each target country studies will be made to identify relevant and appropriate indigenous organizations will be identified to continue project implementation and to become the institutional home of the indigenous experts. Working in close cooperation with host authorities, the project team will identify and recruit suitable counterparts early in the project. While these indigenous counterparts will be absorbing relatively sophisticated methodologies, it is anticipated that full time participation may not be required. Full blocks of their time would be required on a selected basis. These counterparts will work directly with project staff in carrying out all the activities described above. By year three the professional skills required will integrate into the institutions identified through 12 - 20 counterpart experts for each target country. Each of these counterparts will have developed all of the professional skills necessary to carry out the programs described. Left behind at project termination in each target country will be a cadre of professionals having a recognized institutional base for their significant new skills in consulting, training and research in small enterprise/entrepreneur development.

(7) Two and one half years into the life of the project a substantial base of empirical data will have been established. At this point a Review and Dissemination Workshop will be designed which will assess the state of the art of small enterprise and entrepreneur development and recommend a plan of action for technical assistance agencies and LDCs. This Workshop should be a major event in this development area and will be managed in a manner which gives maximum exposure to knowledge generated during the

project period and permits this knowledge to have maximum distribution and impact in LDCs. It should be emphasized that the Workshop is intended to be a milestone in this area and at minimum will significantly shape the final half year of the project and lead to substantive decisions about whether a second project phase should be established. A second project phase would focus more on technical assistance delivery and mission support in this area. The Oversight Group will actively participate in this workshop.

Formally, the Workshop will have three specific purposes:

(a) To assess what the project has accomplished (impact) in empirical terms. In addition, a non-empirical prognosis of impact for the remainder of the project will be put forward. This prognosis in large part will effect long-term project goals.

(b) To describe the state of the entrepreneur/small enterprise development art as it has been affected by the project. This will constitute an attempt to assess the significance of project impact in terms of its relevance to the broader question of economic development. It will be a statement of what can be done.

(c) To disseminate the Workshop findings and conclusions. This will include to the extent possible generic recommendations on how to effectively stimulate entrepreneur and small enterprise development. Modes of dissemination remain to be determined. Included however will be AID's internal communication system, the information network of selected U.N. organizations wishing to participate such as AT International. Not only is

the Workshop expected to significantly contribute to the state of this development art, but also will play a major role in guiding the remaining and post-project activity. It is further hoped that technical fundings around the question of what can effectively be done to generate successful entrepreneurship may lead the Agency to some new policy as well as operational conclusions regarding the role of the private sector in the development process.

(3) The contractor in the course of its work will develop a roster of LDC experts in research, consulting and training entrepreneurs/managers. This roster will contain LDC experts developed through in-depth contractor services to target countries and will also contain LDC experts who have come to the contractor's attention through other channels including short-term services performed in non-target countries. The experts on this roster will be able to perform these functions cross-culturally and will form the basis of a new expertise, the resources of which can be available to other LDCs. It is not anticipated that this component will not require significant resource allocation. It will be a natural spin-off from project implementation. The compilation of this data into a formal roster in a form usable by other LDCs and donor organizations will be the only specific activity required in this output. The roster will be developed after two years of project life and will be amended as appropriate a project termination.

6. Inputs

a) A contract will be established with a U.S. institution which has proven research and development competence in the areas of entrepreneur

and small enterprise development. Details on the characteristics required by potential contractors and on selection criteria can be found in Part V of this paper.

b) An outside Oversight Group will be established to monitor all aspects of the project and to provide objective, critical assessments on project impact.

Part IV Project Analysis

A. Economic Feasibility

The most important economic justification for this project is summarized as follows:

The development of effective tools for selecting entrepreneurs and enterprises with high-success (or expansion) potential and providing direct support to them will obviously maximize the impact of that support. If, at the same time, the supporting resources are improved, e.g., more effective entrepreneur skills training, more responsive banking services, the support inputs will have even greater impact. The result will be more enterprises begun and/or expanded and fewer failing enterprises. This in turn means more tax revenue gained for the host country through increased business activity and less revenue lost through loan defaults. Further, since the methodologies being developed will be done so with and through indigenous professionals, the methodologies will be institutionalized. The methodologies will possibly therefore ultimately be provided at government expense. The cost of providing

these methodologies will be more than returned to government in the form of greater tax revenues and a significant net gain should be expected by government for continuing to provide such services.

Since we assume the project will succeed, we look upon the 3 year LOP as a first of two phases. By project termination we expect to have developed, tried and validated the high-impact methodologies described in this Project Paper. Therefore, shortly before the project terminates we expect to propose a second project phase which will essentially be oriented toward providing technical assistance to missions who wish to incorporate enterprise and entrepreneur development components into their programs. Phase II would be a logical extension of a successful Phase I. The thrust of Phase II would be to transfer to host institutions in other countries the approaches proven in the original target countries. We would expect in this process to rely mainly on indigenous expertise developed in the target countries for Phase II activities. This would not only reduce the TA costs involved (as compared to using the U.S. contractor from Phase I) but would also demonstrate the ability of LDC individuals and institutions to absorb and refine sophisticated approaches in a relatively short time.

That the private sector has a significant role to play in the development process of the lesser developed countries is being recognized once again. However, unlike previous approaches which have focused for the most part on the promotion of large scale industries and the building up of major infrastructure facilities, it is evident that the promotion of enterprises lower down on the scale must now be included as an essential element in the development strategy of LDCs. These small and medium size businesses form the

backbone of the private sector, participating significantly in the employment generation of the country and utilizing local inputs and technology. The potential however for this sector to contribute to the LDCs national output is much greater than formerly realized. Strengthening and optimizing the supporting inputs can greatly accelerate the transformation of these enterprises into far more productive units, thus contributing to higher GNP growth and in many cases generating foreign exchange earnings.

While there have been many initiatives taken by local governments to help in the development of small and medium sized enterprises, traditional approaches have focused on the provision of capital and credit. While these are critical inputs, greater emphasis must be given to the improvement of entrepreneurial and management skills which are important aspects of small and medium sized industry development.

The entrepreneur is the critical keystone in the enterprise. His motivation and range of skills in interacting with the business environment directly determines the success or failure of his enterprise. The businessman to be successful or even to survive, must meet the challenges of the marketplace. The firms longevity depends on its producing items for which there is a demand, while at the same time covering the costs of doing business. Moreover, there is a substantial correlation between the improvement of management skills and the enterprises greater efficiency in utilizing and perhaps improving on the existing marketing system. The benefits to the consumer and the national economy will also become evident as lower marketing costs effectively lower unit costs and stimulate consumer

demand. Depending on the industry stimulated, import substitution can also be induced.

The development of small enterprises also plays an important role in the attack on poverty. The small entrepreneurs provide a livelihood for many others in need. In the process, they establish sorely-needed role models for other aspiring poor, models which indicate there are alternatives to the continuous search for non-existent agricultural employment. Also, the transfer of labor from agriculture to more productive non-farm activities, together with opportunities for increased participation of the population in the labor force, will result in increases in average income for the population. Small enterprises also serve as sources of stability and coherence in communities, reducing inequalities of income distribution between regions and economic groups. They also stimulate agriculture/industrial linkages, and provide the poor with employment, ownership, and decision-making opportunities through community based projects.

Given these realities, it may be argued that this project promotes a particularly efficient mechanism for meeting the AID concern with providing basic human needs to the poor. By creating opportunities for employment and therefore income, the poor are able to directly and effectively demand and procure basic human needs. By having a dependable income they can choose for themselves what they need and when, and have the means to pay for it. In turn, this creates a demand center in the target area to which basic human needs services are more likely to flow since capital is circulating.

It is anticipated that programs which promote entrepreneurial and management skills for small and medium sized enterprises will have a significant impact on the LDC private sector in the short and medium run. It is recognized however, that no single system worked out in one country can be recommended in its entirety for another. Each country will require a set of measures tailor made in general approach and in detail to its own situation.

B. Social Soundness Analysis

It is generally recognized that past industrialization policies emphasizing large and medium scale, capital intensive operations have failed to produce anticipated rates of employment and growth. LDC officials and development planners have increasingly recognized the need to develop strategies and policies for generating or expanding productive employment and earning opportunities in various small non-farm enterprises. In response to these attitudes, this project will concern itself with the development of small-scale enterprise within rural areas and market centers in addition to those which are urban-based by assisting AID missions and regional bureaus in the design and implementation of more effective operational programs. The key question involved in the utilization of small enterprise activities lies in their ability to contribute to income, output, and employment. Given these factors, this project will have an important impact on the quality of life of the poor.

Quantitatively, in terms of primary and secondary employment, small rural enterprises are an important component of the LDC economy. As noted above, a recent survey conducted by Michigan State University suggests that small rural

enterprises provide such employment for 30-50% of the rural labor force in developing nations and 20-70% of total rural household income. For example, the percentage of the rural labor force primarily employed in the non-farm sector in Sierra Leone, Columbia, Indonesia, Kenya, and Taiwan ranged from 20-49% (Chuta and Ledholm 1979:4), while available data from Taiwan and Sierra Leone demonstrate that the share of non-farm income in the total rural household income was 39% and 43% respectively (Chuta and Liedholm 1979:7). Limited opportunities for employment within agriculture, when combined with increased pressure on the land in many areas have forced many individuals to seek alternative employment strategies. Earnings from non-farm activities become particularly important for individuals with uneconomically small land-holdings, the landless, and women. This evidence would indicate that activities for these target groups are an appropriate focus for USAID intervention via small enterprise development.

By promoting the growth of small industry and improving the economic position of low income groups, small enterprises play a critical role not only in providing income and employment opportunities for rural and urban workers, but also in the development of agriculture. These would include forward linkages where small enterprises play a vital role in providing agricultural tools, implements and other production inputs to agriculture and backward linkages from non-farm activities to agriculture, including the processing of agricultural products, transport and marketing services. Of the input-output studies that specifically include non-farm activities, there is an indication that these forward and backward production linkages from this sector are very important.

Available empirical evidence has also been consistent in indicating that small enterprises are more labor intensive and thus generate more employment per unit of capital than their larger scale counterparts. Linked with this is increasing evidence that these same labor-intensive small enterprises also tend to be more productive per unit of scarce capital than larger scale firms.

C. Target Groups and Beneficiaries

The most direct beneficiaries of this project will be entrepreneurs located within project areas. As a result of training strategies, entrepreneurs will gain a better understanding of their enterprises as a series of interrelated factors: planning, production, quality control, marketing, administration, ect. As enterprises experience increased profits, this will translate into higher incomes for entrepreneurs.

The prediction of indirect "spread" effects for a project of this nature is difficult. However, this project will have a direct effect on employment levels as successful application of such strategies should benefit not only entrepreneurs but also increase employment and lead to higher real wages. Numerous "spin-off" businesses are also likely to be developed as a result of the expected increase in output generated by the project. Therefore, in expanding the number of small enterprises and improving the economic position of low income groups, it is expected that those affected by the project can be classified into the following groups:

- direct primary target population, composed of entrepreneurs and workers in small industries and artesanal shops

- direct secondary target population, composed of the families of entrepreneurs and workers

- the general population of the project areas, which will be effected primarily through the income multiplier effect and access to the output of affected industries

In a project of this nature, it becomes increasingly important to identify and target the more vulnerable groups within a project area. This is particularly important when it is realized that these groups traditionally play an important role within their communities. Therefore, this project will pay particular attention to ways for increasing employment opportunities for women, landless and near-landness. Targeting these groups is necessary to ensure that the innovations to be introduced are spread equitably. Questions of equity in the distribution of project benefits center on access to the services and information provided through the project and on the degree to which such groups will be able to benefit directly from project inputs given social and cultural constraints. This project, through its focus on effective implementation and planning of small enterprise development activities, will seek to address these factors in an effort to increase the overall quality of life on the part of these groups.

D. Technical Analysis

This project is designed to develop, field test, and disseminate (through a workshop and other suitable mechanisms) new more effective approaches to the development of entrepreneurs and small enterprises. Dealing with this area

requires integration with other key enterprise development elements such as financing and public and private infrastructure. Similarly, our understanding of current problems of entrepreneur development suggest the need to attack the problem of local action not only from the perspectives of public finance, but also of institution building, community development, and development administration in an integrated fashion. Finally, we are eager to stimulate regional and cross-regional transfer of experience so that experiments which have been successful in one locale can be assessed and adapted to another. We require a contractor, therefore, capable of dealing with issues ranging from policy and theory to those involved in everyday small enterprise administration. The most appropriate contractor for this purpose would be an inter-disciplinary organization in or having direct links to the private sector.

Although it is anticipated that the contractor will be working directly with LDC institutions, it is our intention to link these field efforts directly with USAID projects. ST/MSD feels that this will provide a direct and quick impact on AID development efforts, integrate our applied research activities directly into ongoing programs, provide us with more effective opportunities to field test approaches by involvement in actual project implementation, and assure the relevancy of our project to mission and host government strategy and programs.

We have outlined a variety of possible interventions--from analysis to implementation. We have also indicated that there are a variety of points in any system where the local entrepreneur/small enterprise development process

could be improved with direct benefits to the community. In consequence, the technical nature of responses will vary according to specific country circumstances. It will be the job of the contractor to take the lead in working with the AID mission and host country in defining the problem, designing appropriate responses; and then supplying the necessary technical assistance to assist host country initiatives. In the field, therefore, the project will operate in a collaborative style.

E. Environmental Impact

No measurable environmental impacts are anticipated. Through the introduction of environmental perspectives into training materials and programs, it is expected that concern for environmental issues on the part of LDC entrepreneurs will be taken into account.

Part IV. Implementation Plan

A. Administrative Arrangements

The funding for this project will be provided through three sources. The major source will be central OYB funds used to establish a contract with an appropriate research and development organization with specialized competence in entrepreneur and small enterprise areas. (The section on Administrative Arrangements provides a description of the required qualifications for potential contractors.) The second source will be from program funds of AT

International. The third source will be add-ons from AID missions and/or regional bureaus.

ATI has agreed to provide \$25,000 annually for joint project activities in view of its interest in this development area and its desire to support knowledge-generating activities within it. ATI under this arrangement will make these funds available to match funds from the core project budget itself or from mission or host country add-ons to the project. It is expected however, that these funds will come from mission add-ons. The mechanism for leveraging these ATI funds would be for AID to amend the current AID/ATI grant to provide additional funds from missions up to \$25,000 per year which ATI would match from its own program funds and earmark for joint AID/ATI activities under this project.

ATI is a private non-profit institution organized in 1976 at the invitation of AID under a mandate from congress. It is largely funded by AID, although it has received some Grant Funding from Control Data Corporation and is currently exploring additional sources of aid and outside funding. Its portfolio over the past several years includes a large number of small industry assistance projects.

Under this grant add-on, the combined AID/ATI resources would be used to carry out at least one and up to two demonstration projects in new countries each year. These efforts would take place in any or all the component areas

described in the Project Description Section. For the most part, ATI matching funds would be used for local costs associated with establishing institutional contacts, engaging indigenous consultants or counterparts and provision of administrative/logistic infrastructure in implementing these activities. In addition, ATI would provide as a function of these joint efforts, staff or consultants with appropriate backgrounds to work on project design and implementation. ATI would also play a major role in analysis and dissemination activities related to these projects. Finally in addition to providing technical assistance to implementation of these demonstration projects, ATI funds would support start-up and initial operating expenses of the projects.

It is fully expected that the contacts and coordination already existing between ATI and appropriate LDC institutions will be fully utilized in arranging and implementing these efforts. This arrangement will likely result in significant savings in project development, implementation costs, and management costs.

The selection of countries for in-depth demonstration projects under this arrangement will be made jointly by the AID project manager and ATI. These decisions will involve, of course, consultations with AID regional bureaus and missions.

1. Contractor A private sector consultant will be sought for this project. Requirements and selection criteria applying to potential contractors follow.

(a) Demonstrated competence in research and development in entrepreneur and small enterprise areas.

(b) Demonstrated success in integrating empirical assessment in technical assistance projects.

(c) Demonstrated competence in training and consulting in entrepreneur and small enterprise development areas.

(d) Competencies described above are in LDC as well as U.S. settings.

(e) Can draw from a variety of disciplines including economics, business- and financial management, psychology, development economics, statistical analysis, international development, and training and development administration.

(f) Proven contributor to entrepreneur small enterprise development body of knowledge.

(g) Demonstrated ability to develop and apply new and effective approaches to entrepreneur/small enterprise development.

(h) Demonstrated ability and disposition to assess its project impacts on the basis of empirical analysis.

(i) Proven capacity to transform its operational activities into long-term institution-development impacts.

(j) The RFP will request indications of language competence available for this activity. French and Spanish skills will be particularly sought.

(k) Heavy weight will be placed upon evidence that the contractor has managed itself as an organization in an innovative and entrepreneurial manner. In this connection, the organization has staff members directly associated with the project, who are or have personally been entrepreneurs or have engaged in entrepreneurial activities.

(l) Weight will be given in the selection process to evidence of a management capacity which can combine flexible institutional resources with respect to timing of field assignments, which understands interdisciplinary work and research, which has considerable consulting and administrative experience in this area, has appropriate links to the private sector, and has broad LDC experience.

(m) The total centrally funded inputs for the project will be \$1.5 million over five years in the form of a contract. Provision will be made for the incremental funding of additional services to missions out of mission program funds of and up to \$2.5 million.

(n) S&T/RAD management time will be about 2.5 pms per year.

2. A.I.D.

The project will require about 4 p/m of the time of the ST/RAD project manager in the first year and 2.5 p/m subsequently. About 1 p/m of the time of the ST/RAD backstop officer will be required annually. It is anticipated that the contribution of the project manager will be in three areas.

(a) Normal project management and monitoring activities.

(b) Extensive liaison with regional bureaus and field missions to help set priorities for the contractor's resources and to help set priorities for the contractor's research work.

(c) Professional input into the substantive activity of the contractor and professional review of output. We would place particular importance on this aspect of the project management function because it is essential that all aspects of the work be integrated as fully as possible with A.I.D.'s program needs, and that the focus of the project activities remain on the most salient problems of small enterprise activities.

The successful implementation and completion of the project will also require periodic inputs from the regional bureaus to assist in identifying countries and projects suitable for the contractor's involvement, to set priorities for research and consulting, and to assist in evaluating the outputs. This input will be provided by a specific interbureau Project Committee which will be established for the project.

We hope this mechanism will assure the relevance and quick applicability of the contractor's work. This will be encouraged through continual relating of the contractor's work to ongoing projects on the one hand and to the regional bureaus setting field priorities on the other.

B. Implementation

1. Implementation Schedule

YEAR 1

- April
- a) Project approved
 - b) Consultations with missions and regional bureaus on target countries
 - c) Meeting of Project Committee to select Oversight Group and to finalize evaluation criteria
- May
- a) RFP sent out
 - b) Tentative initial target countries and activities selected by missions and regional bureaus with ST/MSD
- July
- a) First meeting of Oversight Group to consider contractor proposal methodologies
 - b) Contractor selected
 - c) Correspondence with proposed target missions
 - d) Three target missions selected
- Aug.
- Contract signed
- Sept.
- a) Interim work plan discussed with contractor and approved
 - b) Work begins in country #1

- Oct.
- a) Work begins in country #2
 - b) Completion of selection of in-depth and short-term work for remainder of FY 82 and 1st Quarter FY 83
 - c) Detailed work plan through September '83 approved

Nov. Work begins in country #3

- Sept.-Jan. '83:
- a) Field work continues
 - b) Ad-hoc activities begin

- Feb.-March
- a) Project Review by MSD and Oversight Group
 - b) Discussion of Year Two workplans with Oversight Group

Year 2

March Workplan for Year Two developed by contractor and ST/MSD

- Aug.
- a) Mid-term evaluation
 - b) Evaluation discussion between ST/MSD and project committee

Sept. Review of Year Two workplan with contractor

- Feb.-March
- a) Project Review by MSD and Oversight Group
 - b) Discussion of Year Three workplan with Oversight Group

Decision made by ST/MSD and Oversight Group concerning extension of project into Phase II. If extension is warranted, appropriate paperwork will be set forth.

- Dec. Small Enterprise/Entrepreneur Development network guide prepared and approved.
- Feb. Final project evaluation. Project terminates (or is extended based on ST/MSD and Oversight Group management decision).
- March Year Four project workplan completed if project has been extended.

This project will be submitted for competitive bidding.

Additional funds up to \$1.575 million may be added by USAID missions, regional bureaus, or ATI matching funds incrementally by amendment to the contract for specific scopes of work in addition to those funded by central resources. These will be to support the cost of additional field activities carried out by the contractor and will permit the contractor to become directly involved in implementation of appropriate portions of mission programs which relate to field tests.

2. Management Devices

The three management devices of the project will be the annual workplan, the Oversight Group, and the Review and Dissemination Workshop.

(a) Annual workplan: The project specifies the level of effort required of the contractor in various activities and the mix of disciplines which are required to accomplish that task. The specific scope of work for in-country activities has been left undefined, however, because it is necessary to relate those to local conditions and because we desire to employ the contractor to help define the problem and appropriate responses.

Specific scopes of work will be negotiated between the contractor, the USAID mission, and if appropriate the host government and formalized in a scope of work for long-term or short-term assignments. Insofar as possible these will be aggregated into an annual work plan worked out jointly between ST/MSD's project manager and the contractor. The annual workplan will specify outputs, timing, resource allocation, and staff assignments. Once approved by the ST/MSD project manager the plan should be considered binding unless specifically amended.

It should be recognized that in the A.I.D. environment it is sometimes difficult to keep to precise time schedules or defined scopes of work as contexts change. The annual plan is not intended to be a rigid document, therefore, but to encourage:

(i) a clear understanding of the overall allocation patterns against project outputs;

(ii) a clear statement at a point in time of staff obligations for specified outputs at specified times;

(iii) separation of clearly defined scopes of work from more emergent and loosely defined activities;

(iv) notification of missions and regional bureaus of the scope and timing of activities planned in their regions;

(v) programming of ST/MSD support activities over the year.

The provision for annual plan amendment is not intended to be overly constraining on the contractor; in fact to the extent possible we intend that within shorter time frames project staff and funds should be transferable from one activity to another so that we do not have unutilized resources if certain activities lag. We merely wish to assure that any such alterations be fully documented and be made with formal approval of the ST/MSD project manager and with full information to the regional bureaus.

(b) Oversight Group: The Oversight Group will be made up mainly of persons outside the Agency. However it is anticipated some of the current members of the AID Project Committee will elect to become members of this

group. This group will monitor all aspects of project progress and will serve as a knowledgeable, objective sounding board on quality of project implementation and validity of test results. A primary purpose of this Group will be to establish outside credibility for project results. The Group will play a major role in the decision about whether a project second phase should be established.

(c) R&D Workshop: The Review and Dissemination Workshop is expected to be a significant benchmark in the life of this project . It will take place two and one half full years after implementation has begun. At that point the project will have been active for a significant period, new methodological applications will have been made and significant impact data will be available for analysis. This workshop will consider the impact of project implementation to date, will draw conclusions and make statements about tested approaches and techniques for entrepreneur and small enterprise development. It will be the basis upon which this project is extended to include a second phase which would include a greater emphasis on technical assistance and services to missions.

Part VI Evaluation Plan

The ST/MSD project manager is responsible for continuous coordination and monitoring of project activities with the contractor and regional bureaus. The project manager will keep the ST/MSD Office Director apprised of progress in each area of activities, problems which develop and corrective action being

taken to resolve them. Reports approximately on an annual basis on the status of the project will be submitted to the Oversight Group for their review. Emphasis in this report will be given to review of contractor inputs and early indications of progress/difficulties in achievement. This will include:

1. review of scopes of work progress to date on LDC adaptive research/consulting/information services sub-projects;
2. analysis of short term consultancy services requested by USAID missions indicating type and scope of consultancies and missions assessments/recommendations as to usefulness;
3. review of arrangements for and status of development of the new knowledge dissemination, networking and information system including LDC participation; and
4. effectiveness of interaction among contractor, regions/bureaus, USAID missions, ST/MSD and other ST offices.

These reports should summarize findings and make recommendations and necessary revisions of project design and implementation arrangements. The first in-depth interim evaluation of the project will be conducted about 24 months after initiation. This evaluation will be conducted, where possible,

by a team composed of the ST/MSD project manager, at least one representative from a participating regional bureau and a participating USAID mission, at least one independent specialist with demonstrated experience in an appropriate discipline, and a representative of the contractor.

The purposes of the in-depth team evaluation are to assess experience in the implementation to date, focussing on the achievement of outputs as planned and to recommend any revision needed in the project design, implementation arrangements, and resource allocations. The results of this evaluation will be reflected in the scope of work statements for future FY workplans. In addition, the team would make recommendations for the Review and Dissemination Workshop including key elements to be considered, data requirements, and methodology to be used.

A final evaluation will be a review of the project for quality of output, appropriateness of contractor teams mobilized for work, and timeliness and organization of work. This will take place at the end of year three.

Part VII Budget

The input and output budgets include both the S&T funded inputs for a three year period and the estimated mission and/or regional bureau add-ons to the project. In addition, ATI funding of up to \$25,000/per FY is expected as described in the Implementation Plan. We ask that this project be approved for funding at the combined level (i.e. both S&T and mission funding for three

years) of \$2,475,000 with the understanding that only \$900,000 of S&T funds is currently being authorized. Funds for the project will be obligated in FY 82 for 3 years (\$300,000/FY) for the amount of \$900,000. Further additions, not to exceed \$1,576,000 may be added by amendment to the contract out of mission funds, regional bureau program funds, or ATI matching funds (to procure additional inputs, within the scope of work of the project, required by specific local conditions and the characteristics of mission programs). Therefore, in several cases we will be combining S&T funds, regional bureau funds, mission funds, or host government funds in experimental projects to field test new approaches and methodologies.

Upon the successful evaluation of Phase I, approval will be requested for \$1,600 million over an additional two years (Phase II). This amount represents a) core funding of \$600,000 for a two year period to be obligated in two tranches (300,000 each in FY 85 through FY 86; b) up to \$1.050 million in incremental funding.*

Incremental funding

1. USAID field missions
2. AID regional bureaus
3. Additional funding from ATI's budget for jointly implemented activities (see page for description). These funds are not included in the total project authorization.

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Summary Budget: Outputs.

	<u>Year 1</u>		<u>Year 2</u>		<u>Year 3</u>	
	<u>PII</u>	<u>\$000</u>	<u>PM</u>	<u>\$000</u>	<u>PM</u>	<u>\$000</u>
<u>Methodology Development</u>						
Selection	14	140	11	127	9	86
Training	11	100	9	100	8	81
<u>Institution Development</u>	-	--	-	--	2	20
<u>Validation of Instruments</u>	5	34	5	40	7	60
<u>Indigenous Professionals Development</u>	-	--	1	10	2	10
<u>Oversight Group</u>		10	-	12	-	15
<u>Workshops</u>	3	15	2	10	3	<u>25</u> ^{1/}
<u>Rostering</u>	-	1	-	1	1	3
	<u>34</u>	<u>300</u> ^{2/}	<u>34</u>	<u>300</u> ^{2/}	<u>31</u>	<u>300</u> ^{2/}

^{1/} Assuming the Workshop to be in Washington, D.C. Should Workshop be held in one of the project's target countries, cost will be \$5,500 less.

^{2/} \$325,000 If AT International matching funds are included.

Summary Budget: Inputs

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
	\$000	\$000	\$000
Contractor			
<u>Personnel</u>	277	277	233
<u>Travel</u>			
Domestic	3	2	3
International Contractor	19	20	17
Workshop Participants	-	-	12
Per diem	-	-	11
Oversight Group	1	1	2
<u>Publications</u>	-	-	10
Workshops Costs	-	-	7
	<u>300^{1/}</u>	<u>300^{1/}</u>	<u>300^{1/}</u>

^{1/} \$325,000 if AT International matching funds are included.

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OUTPUT BUDGET
(Entrepreneur Development & Management Component)

<u>Output</u>	<u>Year</u>	<u>I</u>	<u>II</u>	<u>III</u>
<u>A. Long-term Consulting (150 pm)</u>				
1. Senior Staff		(4 pm) 40,000	(5 pm)	(5 pm)
2. Research/Training Consultants		(21 pm) 200,000	(24 pm)	(24 pm)
2. Research Associates		(2 pm)	(5 pm)	(5 pm)
<u>B. Short-TERM Consulting (138 pm)</u>				
1. Senior Staff		(4 pm) 40,000	(6 pm)	(6 pm)
2. Consultants		(20 pm) 200,000	(22 pm)	(22 pm)
<u>C. Networking (5 pm)</u>				
1. Senior Staff		(.05 pm) 1,000	(.1 pm)	(.1 pm)
2. Consultants		(.1 pm)	(.4 pm)	(.4 pm)
<u>D. Workshops/Seminars/Oversight</u>				
1. Senior Staff		-	(1 pm) 10,000	(1 pm) 10,000
2. Consultants		-	(3 pm) 30,000	(3 pm) 30,000
3. Research Associates		-	(5 pm) 10,000	(5 pm) 10,000
		<u>500,000</u>	<u>500,000</u>	<u>500,000</u>
CENTRAL FUNDS		*(300,000)	*(300,000)	*(300,000)
		*(325,000 if ATI matching funds are included)		

The provision for the mission add-ons is included:

1. because of the difficulty of anticipating the technical requirements of specific field tests until we are actually in negotiation with the mission and host government in an actual context;
2. in order to avoid the complications of having two or more contractors involved in field implementation of experimental activities permitting the contractor to implement a mission project in this area;
3. in order to encourage more direct cooperation between S&T applied research and mission programs.
4. to allow new or extended experimentation for which funds are not available centrally, in cases where missions perceive useful and relevant project impacts. Mission add-ons will, of course, be authorized by their own Bureau. Once the amendment to our contract is complete, technical management will be primarily a responsibility of S&T/RAD, with in-country implementation activities under the supervision of specific USAID missions.

ANNEX

A. Ecuador

USAID Ecuador anticipates utilizing the project to provide several types of services. These are described below with indications of which project component would be the sources of the assistance.

1. To assist USAID in developing a private sector strategy three person months of assistance from private sector specialists will be requested. These services will be to identify priority needs in private sector development which can be addressed by future USAID projects. In addition, assistance will be needed for organizing appropriate training and development seminars for up to three key Ecuadoreans who would guide a long term private sector-employment generation program.

As a result the strategy emerging from this activity, USAID will require assistance in the design of a specific project proposal. Initially, three or four potential project ideas are expected to be pursued, each of these requiring four to six months of expertise. One likely such area is assessing the potential of establishing a graduate management school in the private sector.

Approximately ten person months of input would be required from the institution development and training elements of the project to meet these requests.

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2. USAID will request assistance in the design and implementation of their Off-farm Employment project to be developed through their Integrated Rural Development (IRD) Program. Primary emphasis here would be on assistance in organization and management of communal enterprises. In addition, training of up to four GOE officials would be required. Finally, two local workshops would be organized through the project, specifically on management of communal enterprises. USAID estimates their need in this area to be two to three person years over FY 82/83.

3. USAID will request six person months of intermittent assistance in advising the government in establishing a technical assistance outreach services to local private banks and other financial institutions.

4. USAID anticipates substantial assistance from the project in the areas of entrepreneur selection, establishing new community-owned businesses, and employment generation through new individually-owned businesses. In addition, other short-term specialists will be requested in areas such as small enterprise management, operations and training. USAID estimates six to seven person months each of services in FY 82/84 would be needed to meet these needs.

B. Zimbabwe

Early this year USAID/Zimbabwe, with the assistance of S&T/RAD, developed an employment strategy. The strategy focuses on developing private enterprises in the rural areas which would be initiated and managed by black entrepreneurs. The strategy calls for a program of institution development, training and advisory services, much of which would be provided from the project. The strategy and program implementation can begin only when the organization of the Ministry of Industry and Energy has been completed and a final input by the GOZ is made into their overall rural development strategy. It is likely that the way will be clear for implementing a rural enterprise development strategy where resources from the project early in 1982, at about the time the project becomes operational. Specific elements of assistance from the projects may be categorized as advisory and research, and training services, both types of assistance leading to institution-building goals.

1. Advisory and research activities would include the design of a program assessment methodology which would objectively measure the impact in cost-benefit terms of existing small enterprise financing schemes and the scheme proposed in the employment strategy approach. This methodology would be institutionalized for future application. In addition an identification and selection methodology would be developed for target to black entrepreneurs. This methodology would also be institutionalized and would be available for selection purposes in future recruitment or skills development programs.

Another area in which institutional advisory competence would be established would be in continuing project identification. One element of this process would be to examine possibilities of industrial ancillarization, that is, to identify products and process currently produced or carried out within large industries which could be sub-contracted to smaller enterprises. This process can often be done at savings to the larger industry and with obvious benefits including employment generation to the smaller enterprises.

Another activity in this area would be the development of a core of professionals able to train entrepreneurs, carry out research in small enterprise development and serve as organization consultants to small enterprises. This core of professionals would be drawn from relevant existing local institutions.

2. Training activities would include the selection as well as training of key individuals in the financial institution through which the GOZ small enterprise financing program would be funded. At a minimum loan officers would be involved in this program element. Also targeted however would surely be policy level officials. The training would establish a core group of financial managers who are able to determine entrepreneur potential and have insights into the entrepreneurial process.

A second training activity would aim at developing a core of key policy-level operatives within the GOZ who would be familiar with various systems of small enterprise development and would gain an understanding of what institutional components must be present in Zimbabwe to ensure appropriate stimulation and support of our indigenous small enterprise development effort.

A minimum of 16 person months would be required to accomplish these tasks. It is expected that these activities would be done over a two-year period.

C. Panama

USAID/Panama has requested that it be considered as one of the countries designated to receive assistance from the project. USAID also feels that this assistance can be related to small enterprise development programs in other geographical regions. Assistance required by USAID would take place within the context of ongoing and planned project mission projects.

Specific areas in which USAID would like assistance include among others loan administration, small business development strategies, methodologies to better determine entrepreneurial potential of loan applicants, methodologies to assess economic impact of loans, methodologies to determine those behavioral traits of the small entrepreneur which affect success of enterprise

development programs, and information systems to provide data for purposes of ongoing project management.

These are the areas of USAID's current need which correspond and conform to the project's objective of building local institutional competence for developing and implementing continuing small enterprise programs.

Although discussions on this matter are expected to continue with the visits of USAID/Panama staff, until then it will not be possible to establish a more detailed scope of work. In the interim it may be stated that inputs from the project to USAID are likely to be substantial:

The information given above is in response to the PID Review Committee's suggestion that we specify insofar as possible the extent to which missions wish to utilize resources from the project. In providing this response we felt we should not solicit detailed expressions of interest or commitment from USAIDs. Without a funded project from which to seriously offer resources to USAIDs and without PD&S funds to visit USAIDs to develop detailed scopes of work, it would be difficult at best to have useful dialogues about specific project application. The examples given above emerged naturally from normal channels of contact with the missions concerned. We feel however, the depth of interest expressed in these cases plus the current interest of potential interest of several other missions (e.g., Senegal, Bolivia, and Egypt) at this stage of project development fully justifies this project. Obviously we do

not wish to allocate all the project resources to three missions. These examples serve only to demonstrate that a depth of interest in this project already exists and there is ample reason to believe the level and breadth of interest in this area will expand. While it is expected that services will be rendered to a number of missions under this project and that some cost sharing mode will be sought in each case, it should be expected that core funds will be liberally allocated for start-ups in recipient countries since this is a new and experimental development approach.