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**MID-TERM EVALUATION OF THE
EMPLOYMENT AND ENTERPRISE ANALYSIS PROJECT (EPA)**

EVALUATION TEAM:

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Dr. Peter Gregory, Department of Economics,
University of New Mexico

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Colette Claude Cowey, AFR/DP/PAR

CONTRACT NO. PDC-1096-I-00-7166-00

Submitted to : S&T/RD/EED

**By: Global Exchange, Inc.
1301 Pennsylvania Avenue, N.W., Suite 1032
Washington, D.C. 20004**

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EXECUTIVE SUMMARY

The EEPA Mid-term Evaluation, initiated by S&T/RD/EED, assesses the progress and accomplishments of the Employment and Enterprise Policy Analysis (EEPA) Project (936-5426). The Project, directed by Harvard Institute for International Development (HIID) with subcontracted services from Michigan State University (MSU) and Development Alternatives, Inc. (DAI), began September 20, 1984 and is scheduled to be completed September 1990.

The major finding of the Evaluation Team is that the EEPA Project has developed state-of-the-art research documents which question the initial Contract assumption that support of all small- and medium-sized enterprises (SMEs) will result in rapid employment growth in all countries. This Evaluation summarizes six of the EEPA findings (pages 6-8) as delineated by Dr. Peter Gregory.

The Evaluation Team compared Project performance against the Contract's three objectives: 1) to develop a research base to enable U.S.A.I.D. to deal effectively with employment generation as a policy issue; 2) to build a U.S. capacity to provide policy analysis assistance; and 3) to provide technical assistance to U.S.A.I.D. missions involved in policy dialogue. The following are the Evaluation Team's assessment of Project performance:

CONCLUSION: State-of-the-art research has been conducted and published by the EEPA Project. The research base and methodology developed by the Project could enable U.S.A.I.D. Missions to deal more effectively with employment generation as a policy issue. Dissemination of the findings needs to be improved (pages 6-8).

CONCLUSION: Satisfactory long- and short-term technical assistance activities have been conducted by the EEPA Project. The Project needs to consider coordination issues and procedures for developing a larger Project memory of the findings of technical assistance activities (Page 10).

CONCLUSION: Sustainable policy change has resulted in several EEPA technical assistance activities. Success appears to be tied to extensive involvement of Mission and host-country officials; successful processes for achieving this involvement should be recorded and institutionalized (page 13).

The evaluation Team made the following findings and recommendations:

The Project needs a stronger design for including input from A.I.D. staff working in policy analysis and reform.

RECOMMENDATION: S&T should formally review the research agenda; a vehicle--possibly a seminar for select A.I.D. staff--should be developed in order to include more Agency input (page 15).

The Project has not filed the required quarterly report for its long-term field projects.

RECOMMENDATION: S&T should insure that HIID meet reporting requirements (page 16).

The Project needs to review their contract objective of institution/network building and determine if it continues to be essential to the success of the Project.

RECOMMENDATION: S&T/RD/EED AND HIID should formally clarify performance requirements for developing and coordinating a network of EEPA consultants (page 17).

The required annual workplans do not provide adequate detail to enable S&T/RD/EED to make administrative and budgetary decisions.

RECOMMENDATION: A detailed workplan, including the workplans of the subcontractors, should be prepared to enable S&T to make funding and administrative decisions and to enable HIID to monitor its own and its subcontractor performance (pages 18).

The Project administrators must define what is being done by whom, for how much time at what rate.

RECOMMENDATION: S&T should require a detailed budget from HIID which corresponds to the proposed workplan (pages 19).

The Project contractors are geographically separated, a situation that requires a strong coordination plan. Quality control has not been consistent, nor has internal Project communications allowed for peer review of documents.

RECOMMENDATION: The HIID workplan should detail how coordination of the Project members will take place; a budget should be established for this coordination (page 19).

Familiarity with the EEPA Project among A.I.D. personnel is not optimal. Improvement in the presentation and dissemination of EEPA products is needed.

RECOMMENDATION: HIID should develop a marketing design; the implementation of the design should be included in current budget discussions (pages 20).

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I. PURPOSE OF THE EVALUATION

The EEPA Mid-term Evaluation was initiated by S&T/RD/EED of the Agency for International Development (A.I.D.) to assess the progress and accomplishments of the Employment and Enterprise Policy Analysis (EEPA) Project (936-5426). Harvard Institute for International Development (HIID) has directed the Project from September 20, 1984 and has been contracted to continue to do so until September 1990. Michigan State University (MSU) and Development Alternatives, Inc. (DAI) serve as sub-contractors to HIID.

Accomplishments of the EEPA Project were measured by 1) comparing the products and services of the project against the objectives of the contract and 2) comparing the directions taken by the Project against the needs of the Agency (see evaluation questions, Appendix A).

Background of the Project: The EEPA Project was conceived and designed with the implicit assumption that increases in viable small and medium enterprises would cause faster economic growth and benefit more people than increases in large enterprises. The EEPA Project Paper, prepared July 1983, cited the project objective as: "...to promote employment generation and small and medium enterprise (SME) development in LDCs and thereby produce more efficient and equitable patterns of capital and labor use, regionally as well as by enterprise scale." Small and medium enterprises "...offer more income opportunities for lower income groups, a more efficient use of capital, a more geographically-dispersed pattern of both economic growth and urbanization, and finally in most cases the likelihood of a more rapid rate of GNP growth due to a more efficient use of resources and an increased dynamism." (Project Paper [PP], page 6)

Large industries dominated the economies of most LDCs and many LDCs perpetuated official policies and practices that discriminated against SMEs. The Project Paper proposed that there was a necessity to support, initiate and foster productive policy dialogue to correct biases against labor use or SMEs and "...to help recipient countries avoid inadvertently creating new policy biases."

The Employment and Enterprise Analysis Project, thus, was designed to "...improve capital-labor and capital-output ratios and decrease the tendency of employment to be concentrated in large-scale enterprise and urban regions...through influencing host country policies in pro of small and medium enterprises."

Policy reform is the prerogative of host-country officials. To influence policy, the A.I.D. Missions had to enter into a policy dialogue about the impact of specific policies with the appropriate host-country officials. Mission staff needed detailed data on which to base policy reform recommendations. Further, Missions needed the synthesis of research and findings generated by technical assistance provided to other A.I.D. countries to better understand how policies impact SMEs and employment..

A.I.D./S&T/EED contracted HIID to supervise a "consortium" of two universities and a private-sector contractor to provide the technical assistance and research and synthesis of findings. Project design was developed to include the elements described in "A. Project Goal and Objectives" below.

II. OBJECTIVES AND ACHIEVEMENTS OF THE PROJECT

A. PROJECT GOAL AND OBJECTIVES

The contract between HIID and S&T/RD/EED of A.I.D. specifies the following project goals and objectives:

PROJECT GOAL OR PURPOSE: to increase both national production and the earnings of low-income groups in LDCs and to produce thereby more efficient and equitable patterns of resource use through small-scale enterprise development. Further, the project is designed to support two of the A.I.D. policy directives: 1) to engage in policy dialogues with developing countries in conjunction with our aid, so as to support rational economic policies by host governments and to promote reforms where country policies are deemed ineffective, and 2) to promote "risk-taking profit-making private business," much of which will be small, local business.

PROJECT OBJECTIVES:

1) to develop the research base and methodology to enable U.S.A.I.D. Missions to deal effectively with employment generation as a policy issue;

2) to build a U.S. capacity to provide policy analysis assistance in this area; and

3) to provide the technical assistance needed (a) to foster policy changes which reduce or remove host-government biases against employment and small/medium-scale enterprise development; (b) to help host governments avoid creating such biases in the future, and (c) to build or strengthen host-country institutions which can sustain the policy-improvement efforts.

PROJECT ACTIVITIES INTENDED TO ACHIEVE PROJECT OBJECTIVES:

TECHNICAL ASSISTANCE TO THE FIELD

1. Policy Assessments for U.S.A.I.D. Missions defining (a) overall policy environment, (b) policy constraints and (c) desirable policy changes. (3 PM per country)
2. Data Collection for selected U.S.A.I.D. Missions focusing on non-farm-employment/labor-force data from establishment surveys, household censuses and sample labor force surveys. Assess weakness of current data and propose supplements. (3 PM per country)
3. Assessment of employment potential with selected U.S.A.I.D. Missions of proposed projects. (3 PM per country)
4. Policy assistance provided to U.S.A.I.D. Missions on a long-term basis. This can consist of: (a) analysis of policy issues, (b) exploration of institutional and political realities to understand decision-making process in the host country, (c) recommendation of policy issues that the U.S.A.I.D. Mission should discuss with the host country, (d) leadership in such discussions (e) assistance in the establishment and operation of appropriate institutions, such as a policy analysis unit. (3 person years per country)

The Project Paper estimated that there would be demand for 21-32 short-term projects, 4 long-term projects and 4 resident policy analysis unit advisory teams.

RESEARCH AND METHODOLOGIES

Research is to be conducted to establish appropriate methodologies for obtaining data useful for cross-country comparisons and to test hypotheses on employment growth.

1. Prepare Review of policy experience. (2-4 PM of S&T funding)
2. Prepare a "state-of-the-art" review; keep the research questions current with Agency demand. (intermittent during the life of the project.)
3. Establish a research agenda through interaction with U.S.A.I.D. missions, conduct research in missions. (2 years per LDC)

PROJECT REPORTING

1. Annual Work Plan
2. Report for each short-term consultancy filed within 30 days of completion (to be used for field distribution).

3. Quarterly reports for every long-term project within 30 days of the close of each quarter.
4. A research agenda based on field applications developed in the first 12 months. Will specify a timetable for reports and schedule for workshops.
5. "Review of Policy Experience" report due no later than the end of the first year.
6. Final reports on all long-term projects. To be delivered in the final year of the contract.
7. May conduct U.S.-based and/or regional- or country-based workshops as a means of knowledge dissemination.

(Management and report writing was assigned the following PM per year: 16, 16, 18, 18, 18)

B. PROJECT ACHIEVEMENTS

HIID reports that "...through its third year (FY87), the EEPA project undertook seven research projects, began three long-term projects, and undertook 12 short-term activities through buy-ins from A.I.D. Missions and Bureaus." EEPA staff also produced "...a review of the effects of policies and policy reforms on non-agricultural enterprises and employment in LDCs and a set of papers on analytical methodologies and developed a research agenda consisting of seven studies." (quotes from "HIID Program Budget for FY88 for FY89 and FY90")

The Mid-term Evaluation Team was given a list of (as of 11/20/87) thirteen Discussion Papers and eleven short- and long-term technical assistance project papers and 3 EEPA-supported papers (see lists at Appendix B). These papers and the short- and long-term technical assistance projects were reviewed to sample achievements of the Project.

The Evaluation Team was to determine:

- 1) if the research base and methodology developed by the Project is enabling U.S.A.I.D. Missions to deal effectively with employment generation as a policy issue;
- 2) if the Project is building a U.S. capacity to provide policy analysis assistance in this area; and
- 3) if the technical assistance provided has fostered sustainable policy changes which reduce or remove host-government biases against employment and small/medium-scale enterprise development.

CONTRACT OBJECTIVE #1: State-of-the-Art Research and Findings; Meeting the Research Needs of A.I.D.

Dr. Peter Gregory, Professor of Economics of the University of New Mexico, evaluated thirteen EEPA Discussion Papers and two additional EEPA-supported papers (see Appendix C for a complete copy of Dr. Gregory's report). Dr. Gregory's conclusions are:

...this collection of papers provides plenty of grist for AID's mill. There are several useful conclusions that can be drawn from this distillation of the present state of the art reform analysis and advocacy that are relevant to the shaping of AID's assistance policies. Some of these are expressed in explicit form in the papers, others are only implicit.

On the whole, this is an impressive collection of papers. The range of issues treated is broad, and includes most of those relevant to A.I.D. policy-making. Most of the authors have had extensive experience in the field of economic development and are skilled practitioners of their trade. The research underlying the papers was carefully undertaken, applying contemporary techniques of investigation. Not only are the findings clearly identified but also their limitations for policy-making are explicitly set forth. While much of the conventional wisdom regarding the performance of SMEs receives at least some empirical support, the findings also sound some notes of caution in those areas in which the empirical evidence has yielded mixed results.

Increases in the number of SMEs does not Automatically Cause Most Rapid Growth Possible in Employment

The major contribution the EEPA research has made is to question the Project assumptions. At the point of the Project Paper, it had been taken for granted that a more efficient use of resources could be achieved in small enterprises. Scarce resources, especially capital, would be more intensively used there. Implied by this is a greater employment of labor per unit of output. While output per worker would be less than that achievable in the capital-intensive import substitution industrialization (ISI) sectors, there was an expectation that labor would be priced at a wage closer to its social opportunity cost than is likely in the large-enterprise sector. This alternative pattern of development was expected to lead to a more egalitarian distribution of income than has been evidenced by countries opting for ISI with a large-enterprise bias.

Dr. Gregory notes:

This scenario has been widely accepted as an article of faith. Until recently, a firm empirical basis for the presumed advantages of small enterprises has been lacking. EEPA discussion papers reviewed here have made the testing of these assumptions one of their central concerns. They have done so, not only by reviewing the existing literature on the performance of SMEs but also by reporting on original research by the authors that extends the frontiers of our knowledge.

...These are assumptions that have come to be part and parcel of the conventional wisdom of the economic development community...[which has emerged]...as a reaction to the demonstrated experience of countries pursuing a developmental strategy based on import substitution industrialization (ISI). In most countries, this strategy has resulted in a severe misallocation of resources. Scarce capital resources have been used wastefully in large enterprises while plentiful supplies of

labor have been less productively employed than might have been possible under alternative growth strategies. In extreme cases, the inefficiency of ISI-led growth can be seen in negative value added of some newly promoted industries when their output is valued at international prices and inputs are valued at their social opportunity cost.

Dr. Gregory cited the following findings of EEPA research that hold major implications for A.I.D. policy and programs:

1. The interest of the A.I.D. community lies in promoting the fastest and most efficient growth in output and employment that is possible in its client nations. While A.I.D. has been provided with a Congressional mandate to promote the small enterprise sectors of LDCs, the evidence suggests that the broader goals are not likely to be served by an indiscriminate support of programs to promote SMEs. Support for small-enterprise development should be extended only to those sectors in which they are likely to be viable in a policy-neutral environment. Identification of such enterprises can be made only on a product-by-product and country-by-country evaluation.
2. Small enterprises can be effectively assisted by improving their market position relative to large firms by reducing the subsidies and preferred access to inputs that the latter may enjoy. This involves a substantial reform in the nature of government intervention in the economy which is difficult to effect, but which AID may be able to encourage and facilitate.
3. Agricultural development programs that promise to increase the real incomes of the rural population provide another path that is likely to stimulate the emergence of viable small enterprises in rural areas. Particularly at early stages in development, the high-income elasticity of demand for simple, basic consumption goods will tend to favor this tendency. Relative isolation from large urban centers and high transport costs may serve to protect the competitive position of such enterprises. Thus, a continuation of AID's traditional support for agricultural development can be expected to further its objectives with respect to SME promotion.
4. An expansion of industrial employment and improvement in real wages is likely to be dependent on a much broader series of reforms than simply a promotion of small enterprises. Structural reforms that increase the international competitiveness of the economy, while more difficult to achieve, are considerably more powerful generators of employment. Export promotion, of course, opens up possibilities of increasing output and employment from enterprise of all sizes, including SMEs that might evolve into either direct exporters or suppliers to producers for export. Indeed, if the outward orientation proves successful, there is no reason why it should matter to AID whether the increases in employment occur in large or small firms. AID may be in a position to influence regimes to adopt significant reforms as well as to assist in their realization.
5. The reform proposed by Western economists is rarely enacted if local political leaders are not active advocates of the reform. While the role of foreign experts may be helpful in making the case for reform, brief visits and expositions by such experts rarely build solid domestic support for reform. Support is more likely to be forthcoming if a convincing case can be made by local figures. Therefore, it is important to build up an indigenous research and analysis capacity that can present a continuing case for reform. AID may contribute to the creation of such a professional capacity by underwriting the educational expense of training in

the U.S. Furthermore, AID might underwrite the cost of a resident expert who could work on a continuing basis in one of the important economic ministries or the central bank. A foreign expert is more likely to exert a positive influence if he enjoys a long-term relationship with host-country technicians and leaders and can gain their confidence.

6. Structural reform requires a long-term commitment to very substantial changes in the economy. Furthermore, these changes impose costs on those sectors of the economy that were the beneficiaries of policy-created distortions; such sectors may be expected to oppose reforms unless they receive some offset to their losses. If AID wishes to support the case for reform it may be in a position to make it more feasible politically by helping the host government to ease the short-term costs of adjustment. Assistance might take the form of balance of payments support as the economy is opened to trade, support for temporary subsidies to adversely affected firms, technical assistance to assist such firms to move into new areas of production in which they could be competitive, technical assistance in the establishment of export contacts and channels, etc. However, just as reform requires a long-term commitment from the host government, so must AID offer an implied commitment to see the process through until it becomes self-sustaining. Obviously, AID assistance might be more effective if it could be coordinated with that from multilateral development agencies like the World Bank.

Dr. Gregory concludes:

In short, a persuasive conclusion to be drawn from the assembled works is that AID should focus on its broad objectives and seek out the most effective ways of advancing them. While support for the growth of SMEs may have a place in a strategy for promoting a faster growth of employment, a convincing case cannot yet be made that it should occupy a central role. At best, initiatives for promoting small enterprises, and particularly very small enterprises, need to proceed cautiously on a product-by-product and country-by-country basis.

The EEPA Project suggests that the following statement is the more apt summary of the findings:

In short, a persuasive conclusion to be drawn from the assembled research is that A.I.D. should focus on the rapid growth of efficient non-agricultural enterprises. This will lead to the creation of productive employment, among many other benefits. To the extent that support for SMEs is motivated by growth concerns, policies and programs should focus on helping SMEs to participate in the process of structuring transformation. Policies and programs which are targeted on small enterprises as such may inhibit enterprise growth by rewarding smallness. The principal valid purpose of such policies and programs is to assist very small firms operated by the poor as a short-term welfare measure.

EEPA must play a greater role in synthesis and dissemination of Project findings.

It is clear that the efforts of the EEPA Project have resulted in state-of-the-art reports of considerable importance to A.I.D. The task now is to get these findings into a form that is accessible to the client-A.I.D. field staff who are or will be engaging in policy dialogue with host-country officials.

The Evaluation Team has been constantly aware that the Project documentation contains no concise statement of Project findings. Dr. Gregory's review became a summarizing/synthesis exercise because the EEPA conclusions are not summarized in a concise document and are not available outside of the Discussion Papers and Final Reports of the short- and long-term

projects. Hence, without Dr. Gregory's summary, it would not have been possible to answer the question of whether EEPA was addressing state-of-the-art concerns regarding small enterprise development.

Need for design for dissemination of EEPA findings.

The Discussion Papers and Project Reports are major products of the Project. The effective dissemination and resultant use of these documents are key to ensuring that the Project is useful for A.I.D. practitioners. Hence, the evaluation question asked was how are research documents being used by the practitioner.

The Evaluation Team found a need to increase familiarity with the EEPA project, the EEPA Discussion Papers or Project Reports and EEPA findings among A.I.D. staff currently working on employment and enterprise issues. One Mission Director, two Mission staff economists, nine EEPA project monitors, and five Central and Regional Bureau staff were interviewed regarding their experiences with the EEPA Project. 14 had heard of the Project, nine knew of the existence of the Discussion Paper series, four had read one or more of the series. The Director of the Development Studies Program had only heard of the EEPA Project in November 1987 and was not aware of the Discussion Paper series.

From a marketing point of view, this could be read that 82% of the focused interviews (with people who were/er had been clients or could be expected to be potential clients of EEPA services) were familiar with the EEPA Project. 52% were familiar with the Discussion Paper series -- the product under discussion here. 23% had actually consumed the product.

This finding is disturbing considering that S&T/RD/EED has spent considerable effort in making the Project and its work known to the Agency. For example, in June 1986, every Mission received a copy of the state-of-the-art review, "The Effect of Policy and Policy Reforms on Non-Agricultural Enterprises and Employment." S&T/RD/EED hosted a full-day, Mid-term Review in Washington, D.C. of Project results to date (October 1987). December 1987, S&T/RD/EED sent out a worldwide cable summarizing the results of the Mid-term Review and listing publications (see Memo, Appendix C). A feature-length article on the EEPA Project will be published in Front Lines in April, 1988. S&T/RD/EED reports that they have numerous inquiries and have spent much time responding and following-up on Mission requests.

Clearly, there is a discrepancy between the opportunity the Missions have been given to know about EEPA and the minimal familiarity expressed. It is true that A.I.D. has poor institutional memory, its staff moves often and priorities change often. A.I.D. should take responsibility for knowing about on-going projects. Clearly the job of communicating with A.I.D. staff is more difficult than anticipated. However, since the dissemination of the Project findings is so central to Project success, the Project staff needs to reassess how it is packaging and disseminating its products, taking into account the dynamics of the Agency.

CONCLUSION: STATE-OF-THE-ART RESEARCH HAS BEEN CONDUCTED AND PUBLISHED BY THE EEPA PROJECT. THE RESEARCH BASE AND METHODOLOGY DEVELOPED BY THE PROJECT COULD ENABLE U.S.A.I.D. MISSIONS TO DEAL MORE EFFECTIVELY WITH EMPLOYMENT GENERATION AS A POLICY ISSUE IF DISSEMINATION OF THE FINDINGS IS IMPROVED.

- o The Project has generated several findings developed through S&T funded research. These findings are not articulated in a concise summary, but can be uncovered through a close reading of the Discussion Papers and supporting documents.

- o These findings are significant to A.I.D. program developers and will contribute significantly to aiding Mission personnel to conduct useful policy dialogues.

These findings need to be captured, synthesized and gotten out to Agency people in a concise format, understandable by both economists and "lay" staff who are dealing with employment generation issues and the development and management of SME support projects.

CONTRACT OBJECTIVE #2: Building a U.S. capacity to provide policy analysis assistance.

The EEPA Team, S&T and members of this Evaluation Team feel that this objective is being achieved-- HIID, DAI and MSU represent considerable consulting capacities through a substantial network of talented individuals. A significant number of EEPA teams have worked effectively in the field and are evidence that the EEPA Project does command talented professionals. Further, Evaluation Team members question if the objective -- as envisioned in the Project Paper and Project Contract -- is realistic given the competing funding demands of the Project. The TA Policy Analysis Network as described initially would be financially and managerially demanding.

The Evaluation Team, however, recommends that the objective be kept in mind and that the EEPA Project staff monitor their continuing ability to field effective teams. HIID in its December 31, 1987 Budget/workplan stated, "EEPA has two major purposes: to conduct original research and assist AID Missions and Bureaus through contract buy-ins." Rather than, without preamble, declaring one of three objectives "done," the Evaluation Team suggests that the EEPA Project report on its success or failure in continuing to perform what was envisioned as a major project objective:

"...create a permanent U.S. capacity to provide policy analysis assistance...[through]...(i) developing a network of individuals and institutions with experience in working jointly with employment and enterprise policies and in using the project's innovative approach (ii) directing the provision of technical assistance to A.I.D. Missions, (iii) carrying out the program of supporting research activities, and (iv) to the extent necessary, developing a system of functionally or geographically specialized subcontractors (p. 35)."

The Evaluation Team notes that more was being considered than merely providing TA teams: rather, there was clearly a desire for coordinated teams that were well briefed on the Project's approach that was to be developed as the Project progressed.

From the Evaluation Team's interviews, it is clear that the Project is learning about the procedures and processes that work well when a U.S.A.I.D. technical assistance team goes in to begin policy dialogue with host country officials. Some analysis of the successful TA efforts could be useful.

One of the evaluation questions the Team has asked of Mission staff was designed to determine their level of satisfaction with the TA team and their level of preparativeness. Their responses illustrate problems of 1) A.I.D.'s institutional memory and 2) levels of expectations that possibly cannot be met under this contract.

The following examples are given as points of information to the EEPA Project.

The Bangladesh Mission reported that HIID was not able to locate a suitable candidate in a timely fashion and caused a serious delay in project start-up. The Mission Official (no longer in country at the time of the Evaluation) states that the primary delay was the fault of the BDG not HIID. The original consultant who could not financially afford the delay, took another assignment. Finding a replacement for this consultant took two to three months more.

The Philippines Mission requested a principle of DAI who was not available at the time. The Mission feels that the consultants provided instead did not have the required background, skills and experience. "According to the Mission, the key lesson of this effort is that, in a relatively sophisticated economy like the Philippines, technical assistance teams must have a thorough understanding of the host country situation and must be "high-powered" enough to initiate and sustain a dialogue with key government counterparts."

The Belize Mission, while extremely pleased with the technical assistance team, would have liked the team to be better briefed on the current policy interpretations in PPC.

These statements by U.S.A.I.D. Missions, clients of the Project, should be considered thoughtfully. Taken together with the many statements of satisfied recipients of EEPA technical assistance (see below for such), they could possibly provide clues on how the Project can respond even more effectively to Mission needs.

CONCLUSION: SATISFACTORY LONG- AND SHORT-TERM TECHNICAL ASSISTANCE ACTIVITIES HAVE BEEN CONDUCTED BY THE EEPA PROJECT. THE PROJECT.

- o The Project staff should consider such questions as: How can lessons learned by EEPA staff completing a project become a part of the institutional memory of the Project? How can consultants not on permanent EEPA staff be briefed for improved performance?

CONTRACT OBJECTIVE #3: Fostering sustainable policy changes which reduce or remove host-government biases against employment and small/medium-scale enterprise development through provision of technical assistance.

The Mid-term Evaluation Team interviewed 16 A.I.D. staff who had been or are currently involved in 13 EEPA short- and long-term technical assistance activities. The projects range from one-day to a two-year residency to complete macroeconomic research, engage in policy dialogue and promote the designated reforms. The level of satisfaction of the participating Missions ranges from assessment of the technical assistance as useless because the TA team was not qualified, poorly briefed, not "high-powered" enough, to statements that the TA provided was the "best focused and useful work ever received from a contractor." Please note that only one interviewee found the TA useless, while nine found some or extensive value in the services provided.

The tasks of the short- and long-term activities are too dissimilar to permit meaningful comparison. However, several themes repeat themselves in the interviews:

- o Policy reform is a long-term proposition which must be designed with host-country officials; a host-country champion is needed to get the reform through political and legislative channels.

- o The EEPA consultant must be familiar with the country and the political environment to be effective; it increases the effectiveness of the consultant if they are briefed on the issues before arriving in country.
- o Both Mission staff and host-country officials are appreciative of seminars on policy issues; the Mission staff who were not economists were particularly satisfied with the seminar approach because "everyone starts at the same place."

The following is a summary of statements regarding effective involvement of host-country officials and sustainable reform:

Bangladesh--Long-term Technical Assistance to Policy Unit: The Project has just begun. The Mission feels that they have a well-prepared, prestigious professional who will be able to work in close collaboration with counterpart officials. The EEPA consultant will conduct seminars to highlight important policies and recommended reforms and contract important economists to conduct research and "jawbone" officials. A key indicator of success will be the degree to which the Planning Commission incorporates policy recommendations from the EEPA TA team into the Fourth Five Year Plan (1990-95).

Philippines--Analysis of the Constraints Affecting the Rural Non-Agricultural Sector in the Philippines: The Mission commented that the consultants were more competent technicians than they were compelling proponents of change, particularly in the Philippines context. The report was too broad and vague to mobilize sufficient interest or zeal for difficult reforms. The Mission states that there were no reforms begun as a result of the study.

Philippines--Small Business Policy Direction Study: (September 1986) The EEPA team presented a long (6 hours) briefing session for Ministry management to present the findings, conclusions and recommendations. The project lost its ministerial champion (he resigned for reasons independent to this contract) who had been willing to shepherd reforms through a resistant GOP bureaucracy. However, the Mission believes that the report is likely to remain relevant until more propitious conditions prevail.

Botswana--EEPA consultant on four member team for report focused on rural and urban employment: Host-country officials were involved from the beginning. The team held an initial briefing session for the steering committee to discuss the proposed study and its objectives, and received immediate feedback. The team shared their work on a day-to-day basis with the responsible officials as chapter development unfolded. The EEPA consultant also contributed substantively to overall discussions. Because of previous work in Botswana, he was familiar with country-specific issues. Having reviewed appropriate documentation in Washington, D.C., before arriving in country, he and the rest of the team were extremely well-prepared. The report is considered important by the GOB and the donor community and is pointing the way to needed reform.

Guinea--one day seminar: The seminar was held in Washington, D.C. with no host-country officials present, but was attended by the Ambassador designate. The seminar was useful in increasing A.I.D. staff awareness of some of the key development issues and constraints and as a briefing exercise for the new Representative. Policy directions were suggested.

Rwanda--Long-term Policy Reform Program in Manufacturing and Employment: the Mission believes that the GOR was involved in the activity "...every painful step of the way. It took two years, using every mechanism possible, to give the GOR ownership of the study agenda, to define the objective of the study program and for the new Minister of Finance to recently approve it" (text of cable received from the Mission). In regard to the policy reforms happening as a result of EEPA, the Mission responded, "So far, im-

acts have generally been piecemeal, often firm- or product-specific in areas such as tariffs and tax holidays. On more wide-ranging reforms, impacts to date have been limited to questions raised and being analyzed, new procedures under consideration, etc. Also we are pressing for institutional reforms, such as the establishment of the PRIME Technical Group which also provides a forum for GOR's review of all policy studies. The GOR is learning as well about its own policy process and ways of informing it. This is an important effect of EEPA." (cable) The Evaluation Team reads the Mission cable positively and as a reflection of 1) the difficulty of policy dialogue and 2) the EEPA staff professionalism in getting it done. The S&T bureau reports the Mission as adding that the EEPA staff's work has "very high probability of sustained impact...[EEPA] is the only donor teaching GOR how to fish."

Somalia--Study of the Output and Employment Effects of Incentives (and disincentives) to Industrial Production: A.I.D. has very little institutional memory of this study that was conducted in mid-1985. The Mission believes the study was not very useful because it contained no actionable recommendations (other than further study) in the context of Somalia's specific need for immediate identification of employment opportunities. It is not clear what impact the study had on subsequent programs which have dealt with reform. The Evaluation Team believes that it is especially unfortunate that the key results and methodology of the incentives study have not been broadly disseminated because the issues it addresses are relevant to many countries...yet there is no mechanism, either in the Bureau or in the Mission, to make this information readily available in a concise form. The EEPA Project reports that other donor institutions -- The World Bank and the IMF -- have made extensive use of the Study and have been able to take action on recommendations that the Mission have termed "not actionable."

PPC--Informal Sector, Policy Reform, and Structural Transformation: Paper was developed for PPC, without the actual involvement of the Bureau in the design of the study. The report was to be presented at the Informal Sector Meeting. The EEPA team did not stay on schedule. The report was not reviewed and formally accepted by PPC before it was printed by the Sequoia Institute and presented in the Meeting. The document did not accurately represent PPC policy. It is currently being revised by the authors for publication by the Sequoia Institute. In the final version, the paper will remain the opinion of the authors and not as a statement of PPC or A.I.D. policy..

Belize--Analysis for the Development of the PID for Export Investment Credit Project: The EEPA team spent a lot of time with the Central Bank (part of GOB), raised many issues with Bank personnel and then prepared a position paper on behalf of the Mission to present to the Ministry of Finance. The paper outlines the issues and findings of the EEPA team and was designed to constitute the starting point of an on-going dialogue between A.I.D. and the Ministry. The Mission was particularly satisfied with the "mini-seminars" the team gave on the nature of the policy being discussed. The effectiveness of this approach can not be measured because the Mission has had to put the project on hold for reasons of decreased funds and lack of A.I.D. managerial personnel.

Honduras--Report of the Effect of Policy upon Small Industry Development: The Mission felt that the EEPA team had done a brilliant job of analyzing the data and conducting "mini-seminars" with Mission and host-country personnel. The report contributed to a PID and will lead to a project.

Dominican Republic--Report on Economic Policy Analysis and Training Project (April/May 1985): There is no institutional memory on this report. The Mission economist had seen it in the files when he came to his post, but because the funds had been cut from the program for which this PID had been developed, he has not read the report. He had no information on whether host-country personnel were involved.

Tunisia--Evaluation and Strategy for "Private Sector Development: Policies, Past Activities and Future Strategy" (Oct-Dec/85): The Mission was pleased with the evaluation, but felt that it had over-shadowed the strategy development. The Mission coordinator stated that they did not have a strong enough strategy for developing the private sector over the next four years and will have to begin again.

CONCLUSION: SUSTAINABLE POLICY CHANGE HAS RESULTED FROM SEVERAL EEPA TECHNICAL ASSISTANCE ACTIVITIES. SUCCESS APPEARS TO BE TIED TO EXTENSIVE INVOLVEMENT OF MISSION AND HOST COUNTRY OFFICIALS; SUCCESSFUL PROCESSES FOR ACHIEVING THIS INVOLVEMENT SHOULD BE RECORDED AND INSTITUTIONALIZED.

- o Many of the short-term technical assistance projects have been highly praised by the participating Mission personnel as being 1) professional and adequately "high-powered," 2) instructional to Mission and Host country personnel, and 3) essential to structuring and conducting policy dialogue.
- o High levels of satisfaction have been reported by Missions who have received "seminars" during the process of the EEPA technical assistance.
- o Findings are scattered throughout the final project papers. Attention should be given to synthesizing these findings and sharing them with the Agency.

III. Recommended Changes

A. ANALYTICAL: THE FOCUS AND TECHNIQUE OF THE S&T PORTFOLIO AND THE U.S.A.I.D. BUY-INS

The EEPA Project has two sources of funding: Mission buy-ins and Central Bureau (S&T) funding. Each funding source is earmarked for specific activities. Mission buy-ins are to support Mission enterprise and employment projects that are on-going or in the development process.

S&T funds are to foster research which produces findings of general interest to numerous A.I.D. Central Bureaus and Missions. In the case of the EEPA Project, S&T funds are to support:

- o project management
- o supplemental monies for Mission-based policy assessments
- o collection and review of existing, non-farm-employment/labor-force data from establishment surveys, household censuses and sample labor-force surveys
- o exploration of employment potential of various industries
- o policy assistance on long-term projects
- o establishment of appropriate methodologies for obtaining data useful for cross-country comparisons and to test certain hypotheses on employment growth
- o review of prior policy experience

- o preparation of state-of-the-art review
- o original research in selected participating Missions

The EEPA Project budget includes \$2,148,964 of S&T funds and \$3,652,091 of Mission buy-ins for a total of \$5,652,091 over the life of the contract. As of December 31, 1987, \$1,260,527 of S&T money and \$887,466 of Mission Buy-ins had been spent.

1. S&T Portfolio: Research match to Agency needs. As of December 31, 1987, HIID had presented its workplan and a summary of its research agenda for the remainder of the project. Now is an ideal time to stop and consider the S&T portfolio and how well these research topics correspond to what A.I.D. staff need to know to be more effective.

Is this what the client needs to know?

At present, the Project has limited means of measuring whether research is appropriately focused to generate findings of the nature that could be useful to A.I.D. staff. HIID, DAI and MSU state that they have a mandate to do state-of-the-art research--a mandate that must coexist with the contractual obligation to generate findings which could guide A.I.D. practitioners in program design and implementation.

The first part of the mandate has been achieved. As stated by Dr. Gregory above, the Project has developed state-of-the-art research. From this research, he was able to summarize several significant findings that could be important to A.I.D. staff who design and implement projects and policy dialogues.

Whether the proposed research agenda addresses A.I.D. needs has yet to be tested. The initial research agenda was developed through discussions among the three institutions and the S&T office. The contract envisioned that the research agenda for the second half of the contract would be developed as the Project worked with the Missions:

...specifically on policy assessments and analyses, data collection including time series, and estimates of employment potential. Then, on the basis of that research, the early focus on technical assistance, and USAID consultations--all of which would clarify Mission needs and opportunities and provide both data and experience--elaborate a more precise research agenda to be carried out mainly during the latter half of the Project (HIID Contract, page 9).

The Project needs to design a means of synthesizing what has been learned in the Mission projects and consider the research questions remaining unresolved. There should be, as required by the Contract, a clear line between the Mission generated research questions and a portion of the research agenda.

The Project contract states: "The contractor may propose to implement U.S.-based and/or regional or country-based workshops as a means of knowledge dissemination additional to the writing of reports and research papers." This is one design for dissemination that could be used by HIID to present findings and get additional feedback on the proposed research agenda from A.I.D. staff.

Currently, the Project needs to examine research needs articulated by the Agency. For example, the Project has no vehicle to hear the following request for assistance heard by the EEPA Evaluation Team:

-The Project should develop, at least by the end of the Project, prescriptive models (non-econometric) on some rational, differentiated basis (regional, or size/complexity of economy, or inward/outward orientation of economy) to present broadly to the field.

-The Project should move quickly to inform the field of credit policy that creates the least disruptive use of local currency to provide credit to SME.

HIID's "Program Budget for FY88 and Perspective for FY89 and FY90" outlines the proposed research agenda to the end of the project (Note: This research agenda is currently under discussion). Some observations on the proposed content are:

- o The S&T portfolio needs to include materials that concisely present the findings to date.
- o A dissemination design needs to be developed that will insure that A.I.D. personnel receive the findings in an effective manner.
- o HIID needs to develop a vehicle for testing the utility to A.I.D. of its proposed research agenda.
- o These materials and this dissemination plan are not in the annual plan or budget. They must be planned and budgeted.
- o A project-wide final report was not required in the contract nor is one described in the research agenda. A final report normally summarizes findings, reports on how staff and funds were employed and displays accomplishments of the contract. This report is usually written by the Project Manager or project management time. Clearly, some other product is intended by the EEPA consortium which will cost \$269,640 over and above management time. Further, it is proposed to spend \$195,204 of the money for the final report in 1989, one year before the end of the contract. (Before S&T can approve this expenditure, it will need an outline of the final report, estimates of the time that will be required for development and production of the report and names and rates of the proposed authors.)
- o The research agenda was accepted 18 months into the contract. It would be appropriate for a review (30-35 months into the contract) of the agenda to take place where questions of relevance to A.I.D. needs could be considered. HIID should explain in more detail how the research agenda has been developed and how interaction with U.S.A.I.D. Missions has molded the agenda.

RECOMMENDATIONS: S&T SHOULD FORMALLY REVIEW THE RESEARCH AGENDA; A VEHICLE--POSSIBLY A SEMINAR FOR SELECT A.I.D. STAFF--SHOULD BE DEVELOPED IN ORDER TO INCLUDE MORE AGENCY INPUT.

2. U.S.A.I.D. Mission Buy-ins: Focus and Technique. As explained in the section discussing Contract Obligation #3 above, Mission buy-ins have covered numerous topics relating to employment and enterprise development policy. The EEPA project staff has screened buy-ins to insure that they fell under the EEPA mandate (policy development in areas influencing employment and enterprise). The Project reports that they have turned down several buy-in proposals, because they did not fit the criteria.

The Project reports three difficulties in contracting buy-ins: 1) a ceiling too low for funding long-term projects, 2) attracting effectively the appropriate Missions who are dealing with policy issues effecting employment and enterprise, and 3) competition from other more endowed A.I.D. policy projects which can afford to share the cost of the TA activity with the Missions.

Don Snodgrass reported that the EEPA Project possibly could have contracted for long-term projects in the Dominican Republic and in Indonesia except for the fact that the size of the activities would have exceeded the limits permitted by the Office of Contracts Management. (Also, there was a political-timing problem: the CDR may not have wanted more American advisors in-country during an election.) This is approximately \$1 million per long-term project. Dr. Snodgrass was under the impression that Projects in excess of \$1 million would require competitive bids.

At the approximate halfway point of the contract, the EEPA Project concedes a need to attract more Missions to its services. They have proposed to plan for how they will generate this interest.

RECOMMENDATION: S&T AND IID SHOULD DEVELOP A MORE AGGRESSIVE MARKETING DESIGN.

B. MANAGERIAL

The Evaluation Team feels that management practices need to be improved in the areas of 1) reporting and monitoring progress on performance of Project objectives 2) planning, budgeting and implementation of workplans and 3) coordination of the Project consortium and maintaining quality control on Project products.

Reporting: Required quarterly reports on Mission TA projects: There are no quarterly reports on file from Rwanda. This is a particular problem since there is a great deal of interest in the Rwanda activity and a desire to evaluate the activities of the "PRIME" program over and above the EEPA Project.

Required annual workplans: The required workplans do not have timetables or schedules for deliverables nor do they explain who will be doing what when. They fall short of the title "workplan."

RECOMMENDATION: S&T SHOULD EMPHASIZE THE NEED FOR IID TO MEET REPORTING REQUIREMENTS.

Clarifying scope of work or level of effort: The contract states that the Project has three purposes. The second, building a U.S. capacity to provide policy analysis assistance to U.S.A.I.D. Missions, was envisioned in the Project Paper as being a significant effort of considerable magnitude. The selected contractor was to:

coordinate a range of personnel from "senior economic advisors" to policy-analysis generalists...a cadre of specialists of various sorts...developed in parallel with the development of economic generalists, to perform the specialized research and analysis which generalists have identified as necessary in a given country situation....

As mentioned above, the Evaluation Team sees this as an objective that could command Project resources. Because A.I.D. is notoriously short of institutional memory, because (though there are no plans to do so) the S&T/RD/EED contract monitor could be changed, and because the Agency requires Project accounting, the Project staff and S&T/RD/EED should clarify the viability of this objective. Conceivably, the objective is no longer relevant to the Project, or the Project has just failed to report on the actions it is taking to achieve the objective, or the function is being performed by other contractors.

One of several steps would be managerially judicious: (1) the EEPA Consortium should review their contract goal of institution/network building and determine what, if any, additional actions need to be taken to achieve the objective, (2) a decision should be taken as to whether the purpose should be dropped (a change in the scope of work) and whether an adjustment is required in the level of effort or 3) S&T/RD/EED could provide clarification for the Project file as to the status of the objective.

RECOMMENDATION: S&T/RD/EED AND HHID SHOULD FORMALLY CLARIFY PERFORMANCE REQUIREMENTS FOR DEVELOPING AND COORDINATING A NETWORK OF EEPA CONSULTANTS

Planning, budgeting and implementing Project Activities: The Project workplans provide too little detail to enable S&T to monitor progress nor for HHID to guide subcontractor performance. They do not illustrate how the prime and sub-contractors will work together to achieve the objectives of the contract

HHID is contracted as prime and is paid to supervise its two subcontractors. When HHID submits a workplan it should include the workplans of its subcontractors. The workplan should include:

- o the objectives of the contract for the year
- o the activities to achieve these objectives
- o description of deliverables
- o who is going to implement these activities
- o measures for evaluating the activities and deliverables

It is critical that annual workplans be as specific as possible in planned tasks and targeted achievements.

RECOMMENDATION: A DETAILED WORKPLAN, INCLUDING THE WORKPLANS OF THE SUB-CONTRACTORS, SHOULD BE PREPARED TO ENABLE S&T TO MAKE FUNDING AND ADMINISTRATIVE DECISIONS AND TO ENABLE HIID TO MONITOR ITS OWN AND ITS SUBCONTRACTORS PERFORMANCE.

Budgeting: HIID is proposing to complete five additional research reports for \$267,260 and complete the final report for \$269,640. An additional \$306,960 will be used for management costs (distributed among the three organizations). HIID is also submitting a "preferred variant" budget in which they are requesting an additional \$56,540 to enable a researcher to participate in the final analysis of the Korea-Taiwan-Philippines-Thailand comparative report, \$30,000 to compensate for monies shifted from travel and other direct costs to increase MSU management, and \$59,397 to keep DAI's research monies intact.

The request for the "preferred variant"--an increased in S&T operating monies--is a reflection that "...S&T money is fairly heavily committed to the point of overcommitment and the Mission money still has a significant degree of undercommitment" (Don Snodgrass at October 15, 1987 review meeting). The EEPA Project should be retrieving management costs from buy-in budgets, but instead is looking to S&T to increase its support of the research agenda.

It is difficult for the Evaluation Team to determine if these requests are reasonable because too little detail is given in both the workplan and the budget. Lacking are the answers to the following questions:

- o Who is doing what for how much time at what rates? The answer must be given for HIID, MSU and DAI.
- o What tasks are completed on management monies?
- o What does the Project intend to spend on marketing?
- o What is involved in the costs for preparing the final report? Does this include meeting costs since the consortium must be planning increased interactions between the institution as the contract continues? How will this "cross-fertilization" take place?
- o Are Mission supported projects paying for themselves? Are management costs for the long and short term Mission projects being attributed to S&T funds? For instance, the contract requires that final reports for each long-term institution building initiative be delivered in the final year of the contract. The cost for writing the final reports should be incorporated into the budgets of the long-term projects since the long term project directors should be the ones to prepare the report. What Mission costs are S&T funds supporting?

- o HIID is reporting its budget requests as if the three institutions were in a joint contract. Since HIID is prime and the DAI and MSU are subcontractors, HIID may wish to reflect this reality in its budget proposal. To do so, would enable all parties to understate the demands of Project management and justify Project management expenditures.

RECOMMENDATION: S&T SHOULD REQUIRE A DETAILED BUDGET FROM HIID WHICH CORRESPONDS TO THE PROPOSED WORKPLAN.

Coordination of the Consortium and Maintenance of Quality Control: The recommendations made by the Evaluation Team require that HIID increase its supervision and coordination of its subcontractors. The geographic separation of the consortium members make an aggressive coordination plan essential if the Project is to produce a product that is more than another series of academic papers on employment and enterprise topics.

Reports should be forwarded to S&T/RD/EED after HIID has determined that the documents meet the quality standards of the EEPA Project. The Evaluation Team encountered situations where all the EEPA members had not received a document, while HIID has been asking several A.I.D. officials to review the same document for feedback. Consortium members have stated that S&T/RD/EED provided the first (and, in one case, the only) feedback they had received on their work. At the same time, the Project presented a document at an A.I.D.-sponsored seminar on the Informal Sector without any review on the part of the office contracting the report. A.I.D. is paying the EEPA contractors to coordinate its members, to produce reports its members consider to be of high quality and, where contracted to do so, to develop its reports through customary clearance procedures.

RECOMMENDATION: THE HIID WORKPLAN SHOULD DETAIL HOW COORDINATION OF THE PROJECT MEMBERS WILL TAKE PLACE; A BUDGET SHOULD BE EARMARKED FOR THIS COORDINATION.

C. MARKETING

One of the major concerns that EEPA staff and S&T personnel have expressed is that the Mission demand (buy-ins) has not been as great as predicted by the Project Paper. Approximately 55% of the projected buy-in monies have been obligated as of December 1987. Our evaluation task has not been to ask why the EEPA services have not been used, but rather how effectively they have been used. However, the team has received comments and made observations that may be useful to the EEPA staff in understanding this lag.

- o As reported above, the Team has found little familiarity with the Project outside of the direct users of EEPA services. (One mission economist remarked at the beginning of the interview that he wished he had access to prestigious economists to ensure that he had the "clout" he needed to convince the Ministry of needed reforms.)
- o Several A.I.D. personnel knew of the "Liedholm Paper" but did not know that it was part of the Project.

Possible explanations are:

- o The three institutions have not developed a collective style or identity under the EEPA banner. As a result, visibility of the EEPA Project is minimal. The Development Studies Program stated that they have only recently heard of the project and its Discussion Paper Series. EEPA staff are not making presentations beyond an established and somewhat limited AID/W group, saying, "These are the findings of three institutions pooling their considerable expertise to deal with employment generation and SME support issues."
- o No effort is made to write for the non-economist. The A.I.D. reality is that many non-economists are developing employment and small enterprise support projects. A.I.D. personnel have reported that they have read the titles of the reports and had no idea what type of information would be contained in the reports. While the Evaluation Team is aware that much the EEPA Project research is for economists working in very technical policy areas, a greater effort to reach a broader audience is necessary.
- o Many of the documents are bound in the logos of the producing institutions and only a close reading reveals that they are EEPA-generated materials. The EEPA logo needs to be on EEPA documents and all EEPA consultants should carry EEPA cards for distribution.

Quite possibly, the products of the project can best be presented in seminar sessions. Several Missions reported satisfaction with EEPA teams that did an entry seminar and a closing session. Several Mission personnel had little economic background and they stated that they needed the assistance of the seminar to establish an appropriate framework in which to conduct policy dialogue with host-country officials.

Dr. Gregory, contracted to review the Discussion Papers, will have taken 15 days of directed reading to have uncovered and absorbed the findings. The Evaluation Team does not believe that A.I.D. staff will have the motivation or "reading time" to get at the findings. The work of EEPA is not packaged to serve the A.I.D. client. Why should the client buy it?

**RECOMMENDATION: IHID SHOULD DEVELOP A
MARKETING DESIGN; THE IMPLEMENTATION
OF THE DESIGN SHOULD BE EARMARKED IN
THE BUDGET.**

APPENDIX A. EVALUATION FRAMEWORK

EVALUATION FRAMEWORK

The Discussion papers and reports will be reviewed through the following framework:

-How do the EEPA publications contribute to current development economics thinking?

-How have data and information been gathered? What methodologies for data collection, information retrieval and policy analysis have been utilized? Are these methods current with developments in economics? How could it have been done better?

-How have the findings reported in the EEPA publications contributed to thinking about policy reform in developing countries? What new data has been developed that directs A.I.D. personnel towards resolution of development questions and provides insight into the policy reform process?

-What actions have been taken by the EEPA Project to ensure that the findings are available and accessible to the Mission staff and host-country nationals? How well do the summaries summarize? Which (how many) of the recommendations lead to or imply action?

-What have been the Missions' reactions to the publications and their recommendations? How many Mission staff report having read them and applied the information?

The long- and short-term Technical Assistance projects will be evaluated through interviews with the designated staff at each Missions and Central Bureau that have received the assistance. Interviews will center around the following questions:

-Which of the EEPA documents have you read? How were they useful to you and your work? What applications have you been able to make of what you have read?

-What was the objective of your technical assistance project? How were host-country officials involved in the project? What policy question(s) was being considered? What was the nature of the Mission project in which the policy questions were being considered?

-Describe effective methods the EEPA technical assistance team used to ensure that there was genuine understanding by participating host country officials of the concept, benefits and importance of employment generation. How could they have done better?

-What Mission needs did the EEPA technical assistance project meet? How satisfied were you with the level of preparedness and familiarity with the country-specific data

of the EEPA technical assistance team? What, if any, were the differences, if any, between the way the TA team interpreted their scope of work and your understanding of the work to be done? Have A.I.D. rules and regulations been observed?

-What questions are left unresolved by the EEPA technical assistance project? What questions would you like to have resolved to assist you in promoting policy change in your country?

-Who has benefited by the EEPA technical assistance project? How?

-What policy reform has been begun or adopted as a result of the EEPA technical assistance project? What is the probability of the impact of the technical assistance project being sustained in the host country?

The EEPA contractor, Harvard Institute of International Development (HIID) and its subcontractors, Michigan State University (MSU) and Development Alternatives Inc. (DAI) will be interviewed regarding their conduct of the contract. Interviews will center around the following questions:

-How have you reviewed and screened proposed buy-ins? How have the buy-ins contributed to the purpose of the EEPA project?

-What do you feel are your major accomplishments in terms of effectively working with participating A.I.D. Missions and Host Countries to engender genuine understanding by participating host countries of the concept, benefits and importance of employment generation?

-Describe the guidance you have received from A.I.D./W. What is working well? What should be improved?

-Describe the procedure you have used to determine which papers should be written, or technical assistance assignment to accept. What, if any, changes are you planning to make in this procedure?

-How has A.I.D./W managed channels of communications with Missions and Project staff? What is working well? What can be done better?

-What funds are required and time needed to complete Project activities? What is the financial status of the contract?

✓ -How have the data and information generated been disseminated?

-Has information on employment generation been shared (a) among different components of the project; (b) among countries; (c) within countries; and (d) beyond the project?

-What plans do you have to improve existing information dissemination mechanisms to ensure that employment generation and enterprise development policies are remembered?

-What questions should be resolved regarding employment generation in developing countries to enable A.I.D. to be more effective in fulfilling it's mandate?

In the countries where the EEPA project has had short- or long-term projects, what is the Project's response to the following questions:

What practices in developing countries have fostered or hampered formulation and adoption of employment generation policies?

What are the key institutional constraints to developing, introducing, and managing employment generation policies? What progress has been made towards meeting these institutional development needs? What institutional development activities is the Project planning to initiate in order to achieve project objectives?

Describe how you have built (selected or trained) your core consulting group. Describe how this core consulting group has worked with participant organizations to broaden the base of trained expertise.

Are host-country implementation structures functioning effectively? Have they provided sufficient organizational stability for the project? Should changes be made in these arrangements?

What is the probability of the impact of the project being sustained in the host countries?

The Evaluation Team has been asked to assess the contractor in terms of the following questions:

Are there sufficient funds and time remaining in the project and contracts to complete activities? What is the financial status of the contracts?

In order to determine the answers, the prime contractor (HIID) will be asked for:

- o a workplan detailing the activities, schedule and personnel use for the remaining contract period
- o a budget illustrating how these activities are costed
- o an accounting of actual funds available and description of the short-fall, if any.

In order to compare the directions taken by the Project against the needs of the Agency, the Evaluation Team will, in addition to interviewing A.I.D. personnel directly involved with with the EEPA consulting projects, interview Central Bureau personnel with responsibility for policy and project development involving employment generation. Interviews will center around the following questions:

-What questions most concern you about employment generation and A.I.D.'s directive to promote policy dialogue around disfunctional employment policies? Said another way, what do you need to know about employment policy in order to make you more effective in developing policy and programs?

-Which of the EEPA documents have you read? How were they useful to you and your work? What applications have you been able to make of what you have read?

APPENDIX B. EEPA BIBLIOGRAPHY

*Review
later
11/23*

EMPLOYMENT AND ENTERPRISE POLICY ANALYSIS (EEPA) PROJECT
(AID/S&T/RD/EED: 936-5426)

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(as of 11/18/87)

Note: The numbers in brackets below represent the document number for obtaining copies through through A.I.D.'s Document Information Handling Facility in Bethesda, MD (PFC/CDIE/DI: 301-951-7191). Copies are available at no cost to A.I.D. officials.

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APPENDIX C. REPORT BY DR. GREGORY

AN EVALUATION OF EEPA DISCUSSION PAPERS

Peter Gregory

January 15, 1988

This report was prepared for the U.S.A.I.D. Employment and Enterprise Policy Analysis (EEPA) Project Mid-Term Evaluation under terms of a contract with Global Exchange, Inc. dated November 23, 1987.

An Evaluation of EEAP Discussion Papers

Peter Gregory

This report includes a review and evaluation of thirteen EEAP discussion papers and two additional EEAP-supported papers as part of the Mid-term Evaluation of the Employment and Enterprise Policy Analysis Project (EEAP). (See Exhibit 1 for a listing of the papers reviewed.) The report is organized as follows. An introductory section establishes the terms of reference that guide the evaluation and comments in general terms on the nature and quality of the papers. The following five sections extract and comment on the major themes covered by the papers. I have limited the selection of themes to those that would appear to be most relevant to A.I.D. in planning and evaluating projects in support of employment growth and the role of small enterprise development as an instrument of such growth. In the final section I summarize some of the policy implications that can be drawn from the studies under review.

I. Introduction

An explicit objective of U.S.A.I.D. assistance to developing countries is the promotion of the small- and medium-size enterprise sector. This objective and its rationale are spelled out as follows in the project paper, "Employment and Enterprise Policy Analysis Report," dated July 1983:

"The objective of this project is to promote employment generation and small and medium enterprise (SME) development in LDCs and thereby produce more efficient and equitable patterns of capital and labor use, regionally as well as by enterprise scale. Assistance provided under the project should result in SMEs accounting for increased shares of (i) total non-agricultural employment and (ii) the total number of enterprises. At a more macroeconomic level, it should also result in improved capital-labor and capital-output ratios and a decrease in the tendency of employment to be concentrated in large-scale enterprises and urban regions."

As can be seen, the project departs from an explicit set of assumptions regarding the impact that the growth of small- and medium-sized enterprises would have on efficiency in the allocation of resources in LDCs. These are assumptions that have come to be part and parcel of the conventional wisdom of the economic development community. That this should be so is not surprising. The emergence of a broad consensus may be viewed as a reaction to the demonstrated experience of countries pursuing a developmental strategy based on import substitution industrialization (ISI). In most countries, this strategy has resulted in a severe misallocation of resources. Scarce capital resources have been used wastefully in large enterprises while plentiful supplies of labor have been less productively employed than might have been possible under alternative growth strategies. In extreme cases, the inefficiency of ISI-led growth can be seen in negative value added of some newly promoted industries when their output is valued at international prices and inputs are valued at their social opportunity cost.

Thus it has been taken for granted that, given the resource endowments of LDCs, a more efficient use of resources could be achieved in small enterprises. Scarce resources, especially capital, would be more intensively used

there. The technologies employed in small enterprises can be expected to be more "appropriate to the resource endowments of LDCs. Implied by this is a greater employment of labor per unit of output. While output per worker would be less than that achievable in the capital-intensive ISI sectors, an expectation that labor would be priced at a wage closer to its social opportunity cost than is likely in the large-enterprise sector further implies that industrial employment would be enhanced. Finally, this alternative pattern of development would be expected to lead to a more egalitarian distribution of income than has been evidenced by countries opting for ISI with a large-enterprise bias.

This scenario has been widely accepted as an article of faith. Until recently, a firm empirical basis for the presumed advantages of small enterprises has been lacking. The EEAP discussion papers reviewed here have made the testing of these assumptions one of their central concerns. They have done so, not only by reviewing the existing literature on the performance of SMEs but also by reporting on original research by the authors that extends the frontiers of our knowledge.

On the whole, this is an impressive collection of papers. The range of issues treated is broad and includes most of those relevant to A.I.D. policy-making. Most of the authors have had extensive experience in the field of economic development and are skilled practitioners of their trade. The research underlying the papers was carefully undertaken, applying contemporary techniques of investigation. Not only are the findings clearly identified but also their limitations for policy-making are explicitly set forth. While much of the conventional wisdom regarding the performance of SMEs receives at least some empirical support, the findings also sound some notes of caution in those areas in which the empirical evidence has yielded mixed results.

As noted above, each of the five sections that follow addresses one of the important themes treated in the papers. The numbers that appear in parentheses throughout these sections refer to the discussion papers that constitute the source of my discussion. The numbers refer to the listing of papers as it appears in Exhibit 1 at the end of this report.

II. Sources of Bias or Discrimination Against SMEs

Countries that have followed a strategy of ISI that is also inward-looking have generally adopted numerous measures that have served to favor the growth and survival of large enterprises while discriminating against SMEs. These measures have the effect of providing access by large enterprises to resources on preferential terms thus endowing them with a competitive advantage over SMEs. The reviewed papers have identified several of the most frequently encountered types of policies that serve to discriminate against SMEs. (1, 4, 5, 6, 7, 8, 13,14) These can be summarized briefly as follows:

a) ISI derives its impetus from a foreign trade regime that is heavily protectionist. High tariffs are levied on most commodities including industrial inputs. However, one of the incentives offered to prospective investors in industry is an exemption from payment of duties on imports of capital and intermediate goods. Large firms may also succeed in establishing direct access to external sources of supply thus obviating a recourse to intermediaries. In contrast, SMEs do not enjoy similar access to imported access to imported inputs. They ordinarily secure theirs through dealers or brokers whose prices reflect the full burden of the duty and the price of their services.

b) The maintenance of overvalued exchange rates by many LDCs provides an

additional source of bias against small firms. Because the price of foreign exchange is below the equilibrium price, this gives rise to excess demand, necessitating the adoption of administrative procedures for rationing the available supply. Large firms are more likely than small firms to receive preferential access to foreign exchange at the most favorable price. As a result, prices of imported capital and other inputs will be lower to such firms than to those without preferential access.

c) It is a common practice for LDCs to establish controls over the terms on which credit is extended by commercial banks. Interest rates below an level, and often at negative real levels, represent a subsidy to borrowers with access to formal lenders. Since credit is priced below its equilibrium level, excess demand will prevail. Under such conditions, banks are likely to favor large established firms which are perceived to be better credit risks. Most small firms do not enjoy access to formal sources of credit and must have recourse to informal lending sources at interest rates that more closely approximate the social opportunity cost of funds. Government development banks may offer terms even more favorable than those of the commercial banking system. Further, they are also more likely to stand ready to assist large rather than small enterprises.

d) The compliance of large firms with legal minimum wage regulations and payroll tax requirements might appear to redress some of their advantage over the smallest enterprises. The latter frequently escape the impact of the full legal requirements governing the terms of employment and pay lower wages that more nearly reflect the true opportunity cost of labor. While an enterprise may succeed in evading the legal requirements as long as it is very small, the existence of those requirements poses a formidable obstacle to its growth. Passage over the boundary between small and medium size imposes a very substantial "tax" in the form of a sharp increase in the wage bill as compliance becomes obligatory.

d) Even when the prevailing regimes of subsidies and distorted prices are not specifically earmarked for firms of some minimum size but are theoretically available to all, small firms may be discriminated against. Generally, the exploitation of such opportunities depend on the successful scaling of the bureaucratic walls. For small firms, the transaction costs associated with the qualifying process are likely to be very large relative to the size of the benefits, thus discouraging any attempt to obtain access. Furthermore, small enterprises may not be fully informed regarding the availability of concessions even when they might be able to qualify. Because the number and size of distortions is likely to be greater in countries pursuing ISI rather than an export orientation, the obstacles to the survival and growth of SMEs are likely to be more significant in the former. However, the latter are not free of similar biases, though some of these may be quite unintentional.

This list is far from an exhaustive compendium of sources of discrimination against small enterprises, though these are likely to represent the most significant ones. In addition, there may be licensing or zoning regulations which pose obstacles to growth. Some of these might be surmountable were it not for the fact that small enterprises suffer from a fundamental weakness -- their lack of economic or political clout. In any confrontation with the government bureaucracy, the SME cannot command the respect and consideration accorded to a large enterprise.

III. Determinants of the Size Distribution of Firms

Virtually all the papers reviewed include discussions of factors that are

relevant for the survival and growth of SMEs and thus have implications for the size distribution of firms. However, the determinants of that distribution were an explicit concern of a smaller number. (1, 2, 5, 6, 7, 8, and 14) Available empirical information indicates that there are substantial differences among countries in the size distribution of firms and of employment. Some of these differences are associated with differences in the stage of economic development. As development proceeds and the income levels of the population increase, there is a tendency for increasing consumption of goods that, for technological reasons such as economies of scale, are produced in large enterprises. Thus, in highly developed countries, the proportion of employment found in the SME industrial sector is smaller than it is in countries at an early stage of industrialization. To be sure, there are also intra-industry differences in the distribution of employment over various sized establishments. But for the economy as a whole, the composition of demand for goods is a more important determinant of the size distribution of firms. Obviously, the composition of demand for domestic goods will also be a function of the trade regime in place.

There are also differences in the size distribution of firms among countries at similar stages of development. If SMEs are underrepresented in a particular country as compared to others with a similar per capita income, one should look for an explanation to the impact of policy-induced distortions that bias output toward those industries in which large firms tend to dominate.

The birth and survival of small enterprises appears to be closely associated with the performance of the agricultural sector in poor countries. Increases in farm income are an important source of stimulus to the creation of small enterprises located in rural areas. Increasing incomes become reflected in an increased demand for simple consumption goods as well as for simple farm implements. Both categories of goods can be produced at competitive prices in small enterprises, particularly if the rural zone is relatively isolated from sizable urban centers by reason either of physical distance or high transport costs. However, over time, a continued increase in rural incomes will be accompanied by a shift in consumer tastes in favor of goods of higher quality and sophistication that are normally produced in large establishments.

An interesting finding reported by Biggs and Openheim (6) is that across countries, the share of manufacturing output produced by large firms in many industries varies little. This in turn means that the share of small and medium firms together is also likely to be stable for these same industries. This implies that competition for market share between the large and other firms does not affect the share of the large firms but merely results in a redistribution of output as between the small and medium firms. Thus, measures that seek to promote small enterprises are likely to come at the expense, not of large firms, but of medium. Empirical support for this conclusion can be found in the experience of India, the country that perhaps has taken the most aggressive steps to promote and preserve artisan enterprises at the same time that it has adopted policies that have biased industrialization toward the large-enterprise sector. The employment distribution by size of enterprise proves to be bimodal at the two extremes of enterprise size with a dearth of employment in medium-size factories. Since medium-size enterprises in some countries have been found to be among the most efficient users of resources in many product categories, the emphasis on the promotion of artisan-scale activity may have a cost associated with it. However, a fuller discussion of the efficiency issue is deferred to the following section.

IV. Economic Efficiency of Establishments of Different Sizes

It will be recalled that, in the Introduction, one of the premises underlying the desirability of promoting the growth of the SME sector was that it made more efficient use of scarce resources and provided more employment than did the large. This premise has been subject to only a limited amount of rigorous empirical testing to date. The results of the available studies do not permit of easy generalizations that provide a guide to policy in all settings. (2,14) The empirical evidence drawn from LDCs reveals substantial differences in production techniques and efficiency even within narrowly defined industries. A large number of reasons for these differences can be offered including differences in the ages of firms and in the vintages of their capital equipment, different expectations concerning future factor price ratios, differing degrees of distortions in factor prices facing firms of different sizes, differing entrepreneurial abilities, differing degrees of market imperfection, etc. (2, pp. 6-7).

Economists distinguish between two broad sources of inefficiency. Technical inefficiency results from the failure of an enterprise to maximize output from any given set of inputs. Allocative inefficiency reflects the inability to select an optimal level or mix of inputs, given prevailing factor prices. Where market imperfections exist and prices diverge from the social opportunity cost of factors of production, one must further differentiate between private and social allocative inefficiency. An enterprise may successfully minimize its costs of production while failing to minimize social opportunity costs of production. Responding to actual factor prices, a firm may choose an operating scale or factor proportions that are privately profitable but that are inappropriate from a social point of view.

There exists a wide range of methods for measuring relative economic efficiency in LDCs. The most commonly employed measures have been partial productivity indexes, usually output-capital or capital-labor ratios. Such empirically derived measures suggest that, in the aggregate for the industrial sector, the fixed capital-labor ratio is lower in small than in large enterprises, that is, the former are more labor intensive. However, this observed relationship does not necessarily hold when data are disaggregated on a narrower industry or product basis.

The evidence with respect to capital productivity is mixed. A summary of findings drawn from 12 countries suggests that it is highest in small and medium-sized firms (up to 50 workers) in 9; the smallest sized enterprises (1-10 workers) appeared to make the most efficient use of capital in 7 of the 12. (14, pp. 67-69) On the other hand, some researchers report that, within the SME sector, the capital productivity of smallest enterprises (1-10 workers) is less than that of other size groups. (Ohkawa and Tajima, 14, p. 68) This conclusion is supported by Little who reviews several small industry studies and concludes that capital productivity peaks in the medium-size enterprise of 20-200 workers. (14, p. 68) Disaggregating to an industry-specific level for Korea, Ho reported the peaking of productivity in firms with 50-500 workers in two-thirds of the cases. (14, p. 68)

Measures of partial productivity such as these are not fully satisfactory. Their greatest virtue is ease of computation. However, they overlook the existence of resources other than capital that may be scarce and may not take into account differences between the market and social prices of inputs. Therefore, greater reliance is being placed on broader measures of efficiency such as: benefit-cost ratios of value added to total costs of inputs valued at

market and social prices for measuring relative economic efficiency; total factor productivity measures assess differences in the ability of enterprises to maximize output from a given set of factor services, that is, technical efficiency; the production frontier approach to total factor productivity relates the enterprise's value added to its use of scarce resources by reference to a production frontier function that permits the decomposition of economic efficiency into its two components, technical and allocative; and profit functions that measure differences among enterprises in both technical and allocative efficiency. Of these various measures, total factor productivity is generally considered the best single measure of efficiency. It should be noted, however, that all these approaches pose large demands for reliable data that can rarely be fully satisfied in LDCs. Therefore, one is advised to treat all such measures with care, recognizing that the reliability of the measure is only as good as that of the data employed.

Having entered that caveat, we can now turn to the small number of empirical studies at hand drawn from a variety of different settings that employ these broader measures of factor productivity. These do not easily lead to a single set of generalizations regarding the relative efficiency of different sized production units. For example, contrary to the commonly held view that small enterprises are the most efficient employers of resources, Ho's study employing total factor productivity ratios and based on data drawn from Korea and Taiwan reports that enterprises with fewer than 100 workers were relatively most efficient in only a limited number of industries and in half of these, the most efficient size was the medium category with 50-99 workers. (2, p. 35) Another study by Ho based on Korean data drawn from a large number of narrowly defined industries concluded that, in many industries, not only are large enterprises more productive than small but they are also more labor intensive. Furthermore, he concludes that small enterprises cannot be counted on to create large amounts of employment because they are efficient in too small a number of industries. (2, p.36; 14, p. 70)

Social benefit-cost ratios have been computed on the basis of domestic prices for a small number of non-durable goods and metal products industries in three countries, Sierra Leone, Honduras, and Jamaica. This study found that small firms with fewer than 50 employees made more efficient use of resources in 10 of the 12 cases examined. (7, pp. 15-17; 14, p. 73) For Sierra Leone it was also possible to evaluate the social benefit-cost ratio when output was valued at world rather than domestic prices. While the benefit-cost ratios declined for both the large and small firms, they declined much more for the large and were equal to less than one in all but one of seven product groups among the large-firm group whereas they exceeded one in all but one (furniture) within the set of small firms. (14, p. 75)

Another benefit-cost analysis attributed to Cortes, Berry, and Ishaq has been applied to metal-working and food processing firms ranging in size from 3 to 100 workers in Colombia. This study found that the social benefit-cost ratios for both industries increased with firm size though they were greater than one for all size groups. (14, p. 70) A forthcoming work by Little, Mazumdar and Page is cited as concluding that the evidence drawn from surveys of narrowly defined industries in India, Colombia, the Philippines, and elsewhere assigns no general validity to the proposition that small, and especially very small, manufacturing enterprises are relatively more efficient users of resources than are large firms. (15, p. 54)

Finally, the findings of Lindholm and Mead provide further insights into the efficiency differences among very small enterprises ranging from a one-person enterprise to one employing up to fifty workers. The data are drawn

principally from Egypt, Jamaica, Honduras, and Sierra Leone. (14, pp. 74-89) The findings focus on the returns to labor and profitability of small enterprises in the aggregate as well as disaggregated by product group and size of enterprise. In general, the findings indicate that these small enterprises appear to be economically efficient. The returns to labor are comfortably in excess of the shadow price of labor and they generate positive profits.

The findings also emphasize the importance of disaggregation to narrowly defined activities since the aggregate data conceal a wide range of variation in returns to labor and profitability. In general, it would appear that there is a positive relationship between the returns to labor and size even if one restrict the investigation to enterprises with fewer than 10 workers. Even within narrowly defined product groups, differences in returns are noted as between products of high quality and those that are low cost. Particularly notable is the finding for one-person enterprises; these appear to yield profits that are either very close to zero or actually negative in most cases. Other distinctions that seemed to be associated with differences in efficiency included the presence of hired labor (positive), the size of the community (positive), whether the enterprise was home-based or operating outside the home (the latter being more efficient).

The findings that very small enterprises are efficient must be treated with care. It is to be noted that some of these conclusions are based on a very small number of product groups that have traditionally been classified as labor intensive in production: dressmaking, tailoring, shoes, tiles, furniture, crafts, baked goods, and repair services. The survival of small enterprises in these areas in itself should be suggestive that they are economically viable, reflecting, among other factors, a relative unimportance of economies of scale. However, the efficiency of small enterprises in these particular areas cannot be interpreted as holding for similar enterprises in other product lines.

It should also be pointed out that the findings reported here are derived from a consideration of enterprises in existence at a moment of time. As such, the returns to investment in small enterprises are limited to those that have survived to the time of the survey. If returns to a universe of small firms over time were to be considered, these might prove to be less encouraging. While entry of small enterprises into the surveyed fields is easy, the failure rate is also much higher than it is among larger enterprises. Thus, if the observed rates of return to investment in a small enterprise are weighted by the probability of failure, the expected rates of returns may prove to be substantially less favorable.

In short, we are far from finding ourselves in a position in which we can make many generalizations about the economic efficiency of small enterprises. However, the diversity of the reported findings does suggest that any policy initiatives intended to promote a faster rate of growth of employment by encouraging the growth of a small enterprise sector need to proceed with caution and with considerable prior research into the probable viability of different forms of productive activity. I will return to a consideration of the relevance of the findings of the literature for USAID assistance programs at a later point in this report.

V. The Specific Cases of Taiwan and Korea

Four of the papers dealt specifically with Korea and Taiwan, countries that have frequently been held up as models to be emulated by other LDCs. (8,11,12,and 13) Both have experienced rapid and sustained growth in GNP and

per capita incomes fueled by the promotion of exports. Both have witnessed a rapid expansion of employment in manufacturing activities and at rapidly rising real wages. While the countries share these outcomes, it can hardly be said that they have traveled similar paths in arriving there. This is reflected in a sharp contrast between the structures of their manufacturing sectors. On the one hand, Taiwan evinces a large concentration of employment in enterprises of medium size, an observation that would seem to support the desirability of supporting SMEs as an efficient response to the employment problem. On the other hand, Korea displays a radically different structure, with employment concentrated in large enterprises, an observation that might appear to be at variance with one's expectations. What these two case studies suggest is that, if the goal is to promote the growth of industrial employment, there is more than one approach that may be feasible.

The difference in the industrial structures of these countries is traced to institutional factors and to significant differences in the level of development at the initiation of rapid industrialization. In Korea, the concentration of employment in very large firms is attributed to a high degree of government intervention in shaping the industrialization process, motivated, in part, by significant instances of market failure. The relationship between government and the large private sector can best be described as "collaborative" and favoring it by facilitating its access to incentives and subsidies. In an environment of limited skills, the Korean government's strategy might be viewed as one that minimized the transaction costs of dealing with the industrialized sector.

The industrialization of Taiwan took place within a very different economic and political environment. The division of functions along ethnic lines Chinese holding political power and Taiwanese dominating economic activity, discouraged direct intervention in fostering industrialization. Government intervention has taken the form of controls that have been characterized as more punitive than promotional, that is, posing implicit threats to firms to adapt to government objectives or risk incurring the latter's wrath. (8, p.22) A significant difference was its larger endowment of skilled human resources, a product of the migration to Taiwan from the mainland after the fall of Chiang government. An endogenous capacity for innovation and product development and improvement has played an important role in motivating the appearance of new enterprises. Subcontracting arrangements have proliferated.

Both forms of organization, however, have proved to be economically efficient. In Korea, vertically integrated large firms have proved to be efficient users of resources and are no less labor intensive than small firms. The production function in many industries appears to be characterized by constant proportions of labor to capital. The greater concentration and limited competitiveness of markets was not inhibited the achievement of efficiency, thanks to the effective use of incentives and pressures from government.

The transformation of the two economies into dynamic exporters did not occur as a simple response to market forces. Rather it was a response to opportunities created by Japanese firms that sought low-cost sources of goods for use in Japan. Along with access to a ready-made market came access to technology. The evolution to a diversified export structure and international market followed the acquisition of that initial experience.

The difference in the size structure of industry in the two countries is also reflected in the source of exports. In Korea, the bulk of exports is produced in large firms while medium-sized firms predominate in Taiwan. Korean exports tend to be the product of direct contracts between large producers and

large buyers. In contrast, in Taiwan, large numbers of traders have emerged as intermediaries between producers and overseas buyers. The migration to Taiwan of an experienced merchant and trading class from Shanghai and other mainland commercial centers provided that country with a skilled cadre of traders. A synergistic relationship emerged in which a growing number of traders interacted with a growing number of producers for export in an environment of declining transaction costs.

Both governments provide incentives to export. However, the methods used to implement outward-oriented strategies may discriminate against the flourishing of small enterprises even though the methods themselves are not intended to be biased against the latter. To the extent that potential exporters face significant transaction costs in order to avail themselves of subsidies or drawbacks, small enterprises are likely to find export opportunities limited by their inability to sustain those costs. However, while the role of small enterprises as direct exporters might be so limited, the possibilities for serving as suppliers to exporters are not.

In short, the comparison of the experiences of these two countries serves to emphasize that no single paradigm exists that is necessarily appropriate for all developing countries. Given the appropriate institutional environment, the disadvantages for employment often associated with large enterprises need not be present. On the other hand, an environment conducive to the appearance and growth of small enterprises need not necessarily inhibit the emergence of a dynamic export sector. The policies that may facilitate the emergence of a strong viable SME sector are the subject of the section that follows.

VI. Substantive Aspects of Policy Reform

Virtually all of the papers evince a concern with policy reform either explicitly or implicitly. There is a recognition that policy reform involves both a question of substance, the form reforms should take, and a question of procedure, how those reforms are to be adopted and implemented. This section considers the first of these aspects, leaving the second to the section that follows.

In an earlier section I outlined the sources of bias against SMEs. Since most of the obstacles to the development and growth of a SME sector were identified as originating in government policies and actions, the initiative for reform must rest with government itself. The simplest way to remove obstacles to SME growth would be to repeal those measures that have been identified as creating an anti-SME bias. Alternatively, a government might be moved to offset the biases in favor of large firms by the adoption of new interventions that rebound to the benefit of small enterprises. Essentially, this would amount to the creation of new distortions extended to another sector of the economy and could introduce new forms of protection for inefficiency. Clearly, a first-best approach would be to revert to a set of policies that are neutral in their impact on firms of all sizes.

"Levelling of the playing field," as a policy-neutral stance is often referred to, would imply the provision of equal access to factor inputs and to markets. This would require the elimination of many of the distortions that are particularly identified with import substitution regimes. Preferential access to credit at below-market rates of interest, preferences in the granting of import licenses, exemption from payment of duties on imported inputs, and access to foreign exchange at prices that do not reflect its scarcity value are the kind of measures that would have to be eliminated. Protectionist

measures that favor the creation of large-scale domestic enterprises or that distort the terms of trade between the "formal" and "informal" sectors would have to be avoided.

High legal minimum wages may pose another obstacle to growth of small enterprises and their integration into the formal economy; therefore, legal minimum wages, to the extent that they are adopted, should be scaled back to a closer approximation of the market price of labor. The reduction of the number of bureaucratic interventions required for engaging in productive activity could reduce transaction costs that can pose obstacles to the entry and survival of small enterprises in the above-ground economy. An additional virtue of most of these measures is that they are likely to improve the international competitiveness of the industrial sector and facilitate an increasing volume of exports.

Measures that increase the real income of the agricultural sector are also likely to favor the emergence and growth of small enterprises located in rural areas. The removal of price controls, export taxes, or other interventions that artificially depress agricultural prices would have a once-and-for-all effect of raising rural disposable incomes. If supply elasticities are positive, higher prices will also induce increased output and raise incomes further. These measures, combined with others that increase the productivity of peasant agriculture can be expected to lead to increases in the demand for goods that can be produced in small enterprises. Numerous studies have shown the income elasticities of demand for services and consumption goods to be impressively high among the rural population. (14, pp. 49-52).

To the extent that transportation and distribution networks are underdeveloped, rural enterprises are likely to enjoy a degree of protection from competition of larger enterprises located in urban areas. Over time, however, if rural incomes continue to rise, it is reasonable to expect that changing tastes will lead to a shifting preference for goods of higher quality or style produced in more "modern" plants. However, at early stages of development, the possibilities for significant creation of employment opportunities in small rural enterprises do exist.

The interest in the SME sector has been motivated by the desire to spur the creation of employment opportunities at a faster rate than might otherwise occur. If the ultimate objective is to maximize employment, then it might be advisable to consider the role of SMEs as only one of a number of measures that might favor its achievement. As the discussion of the preceding section has indicated, there are likely to be some industries in which SMEs are economically efficient. These can be most readily identified by simply observing the sectors in which SMEs are already producing. To the extent that existing policies offer preferential treatment to larger enterprises in these same industries, its elimination should lead to an increase in the number of and employment in SMEs.

If efficient growth is an objective of LDC governments, what is not called for are interventions designed to favor or protect SMEs from competition. Such interventions, as illustrated by the experience of India, have served to raise the prices of goods commonly consumed by lower-income classes, thus reducing their real incomes, while creating little in the way of expanded employment. Similarly, the creation of new agencies to promote the establishment of small enterprises is likely to result in a minimal impact on employment and a high cost for each such employment created. Because the risk of failure is so high among very small enterprises, the rates of return to public funds directed towards the financing of their start-up costs is likely to be

very low or even negative. Furthermore, it has been demonstrated that potential entrepreneurs have generally been able to mobilize the resources required to establish very small enterprises from family members and friends. Because the transaction costs of serving very small enterprises are high, assistance to these is more appropriately left to private voluntary organizations.

Earlier in this section, I outlined the measures that governments could take to eliminate biases that discriminate against SMEs. I have also indicated what should not be the province of government action. What then can government do to assist SMEs in a positive fashion? In place of an indiscriminate promotion of SMEs generally, the objective of public policy should be to identify those progressive small and medium enterprises that have already demonstrated a competitive capability to grow. The policy reforms advocated above will create many new opportunities for the growth of SMEs to serve both domestic and foreign markets. Changes in relative prices will provide incentives for enterprises to alter their product mix, to upgrade their production processes, explore new markets, and invest in new capital equipment. Government can play a useful role in facilitating adjustments by SMEs by providing services and assistance that are not effectively provided by existing institutions. Examples of these include assistance in export marketing, finance for modernization or working capital, and access to specialized production services. (15, pp. 51-63)

Governments may intervene constructively in those areas in which markets fail to provide services in optimal amounts. When the social returns to specific economic activities cannot be captured by the firms that give rise to them, suboptimal quantities of these will be produced. In such cases, governments can either subsidize firms to provide the needed services or provide them directly through government programs. Worker training programs to upgrade skills employed in a number of firms is an example of such services. Another would be research and development activities that could result in the rapid diffusion of their benefits to a large number of firms. The provision of assistance in marketing abroad is another. The initial information and other costs of developing foreign markets is likely to be too large for any single SME to bear. Once developed, however, the marginal costs of extending access to additional firms is likely to be small.

At this point some cautionary observations are in order. While economists are able to offer policy suggestions that can be expected to improve economic efficiency and employment, they are less able to predict the precise size of the impact these are likely to have. More important is that the lag behind the implementation of a new policy and the realization of its positive effects is not readily predictable and may, in fact, be considerable. Indeed, in the short run, the implementation of the structural reforms advocated by economists from developed countries are likely to have painful consequences for some sectors and may even result in negative net employment changes. For example, the immediate impact of trade liberalization is likely to be reflected in a reduced competitive position of domestic producers with a consequent reduction in output and employment. Or, to the extent that the elimination of preferences in the access to inputs favors the growth of small enterprises, an increase in employment in these may be at the expense of the large with an indeterminate net change in employment.

Changes in relative factor prices may be expected to encourage changed factor proportions. How large an employment effect may follow will depend on the elasticity of substitution between capital and labor. While studies have indicated that it is substantial in some industries, the process of substitution is likely to be spread over time. Indeed, the removal of factor price

distortions may work in opposite directions in large and small firms. To the extent that subsidies to capital and minimum wages limit employment in large firms, the removal of these distortions will encourage an expansion of employment. However, to the extent that artificially high capital costs faced by small firms cause them to employ more labor than they would in an undistorted environment, removal of the distortions may result in a decline in employment there. (1, pp. 50-51) The net change in employment is again indeterminate, at least in the short run. However, to the extent that the reforms lead to increased economic efficiency and lower prices for goods, real incomes will rise and the aggregate real demand for goods can be expected to increase with favorable consequences for employment.

Thus, structural reforms have the potential for increasing economic efficiency and employment in the domestic economy. However, the greatest promise of such reforms is likely to be felt through the growth of opportunities for export. Access to world markets allows a country to escape the limitations on output and employment posed by the size of the domestic market for industrial goods. It is here that government can play a useful role in facilitating access to those expanded markets.

VI. Procedural Aspects of Policy Reform

It is far easier to prescribe the substance of reform than to effect it. While several of the papers reviewed touch on procedural questions, these are the primary focus of the paper by Grindle which explores the assessment of the feasibility of policy reform. (3) As can be observed in any country substantial reforms are difficult to effect. Changing the rules of the game are likely to imply gains for some groups but losses for the beneficiaries of the existing set of policies. The latter can be expected to resist change. Since their losses are more clearly measurable than the potential gains to others, the resistance of the former is likely to be more clearly focused than the advocacy of the latter.

Perhaps more important than this general observation for policy reform in LDCs is the need for a positive commitment of the leadership to the structural reforms that are considered by Western economists to be necessary for more efficient growth of output and employment. Many, if not most, leaders of LDCs do not share the faith of economists in the efficiency of markets and in the limitation of government intervention in the economic sphere to a non-distortive role. Thus, they are likely to resist advice that advocates radical reforms such as those envisaged in restructuring proposals. Furthermore, not only is it necessary to convince the leadership of the desirability of reform, but the government bureaucracy that must be depended upon to execute it must be similarly convinced if the initiatives of the leadership are not to be frustrated. Finally, even if everyone is convinced, the important question of the administrative competence for carrying out the reform remains.

The problem of gaining leadership support for economic reforms is likely to be complicated in those countries in which regimes are weak politically and have maintained power through processes that are rent-creating. Since rents are created largely as products of distortions, the elimination of those distortions in the interest of reform is likely to be viewed as threatening the very basis of the regime's political support. To the extent that rent creation is the product of direct expenditures of the government, as for example, for the employment of redundant public servants, the resources available to the state for "lubricating" the process of reform and easing its painful consequences may be severely limited. (9)

Since little is served by advocating policy changes that have no chance of adoption, procedures are suggested for evaluating the feasibility of success. According to the Grindle paper, this involves an assessment of the "policy space" within which a regime enjoys a degree of freedom of action. This, in turn, is defined by the size, identity, and political power of the groups that are likely to be affected by the reforms and an assessment of the effectiveness of their clout for blocking or forwarding them.

How might the prospects for reform be advanced? As a point of departure, thorough and competent analysis must be undertaken to identify and measure the expected benefits of reform. The political leadership has to be convinced that the benefits of the reform are sufficiently substantial to justify the adjustments that are likely to be called for. Equally important is to identify the economic groups that are likely to be adversely affected by the reforms and to assess the power that those groups can exercise to frustrate the reform. If they do possess such power, then adoption and implementation of reform depends on finding ways to ease the burden of reform or on ways to shift the affected firms into productive activities that may prove viable. In either case, there will be resource costs involved that will have to be shouldered, in part, by the regime if it is to neutralize the effective opposition.

While a discussion of political feasibility may be couched in terms of policy space, I view this as an abstract concept that is also ephemeral. That is, the size and nature of that space is not constant but is ever changing. As a process of reform proceeds the latitude of decision makers may appear to increase or decrease depending on the observable results as the reform process unfolds. Furthermore, the nature of the space may be greatly affected by the way in which the reforms are implemented. For example, if a prearranged schedule of reform steps is announced that allows for the possibility of adjustments to the future rules of the game, the position of affected parties may be quite different than they would be if the reforms were to be introduced in one fell swoop.

In my view, a key to understanding the difficulties faced by advocates of broad policy reforms is the sharp difference in the time horizons of political leaders as compared to those of the reformers. The horizon of the politician is short-run, bounded by the next election in democratic regimes. In contrast, extensive economic reform involves a long-term process and requires an equivalent political commitment that frequently is not forthcoming, it should be understood that the positive returns from a properly conceived program will not be immediate but will unfold only with a lag, which in some areas of the economy may be substantial. In contrast, the changes that are required to provide the incentives to reform the productive structure will have an immediate and visible negative impact on those who have led a sheltered life. That impact may take the form of declining output and employment in sectors that have popularly been considered the clearest expression of the nation's modernity. No president is likely to relish leaving office under the cloud of having dismembered part of the nation's industrial sector. Thus, in my view, what is of paramount importance is to find ways of easing the short-run costs of transition from one economic regime to another. It is here that USAID may have one of several constructive roles that it can play.

VI. Implications for USAID Policies and Assistance

In my opinion, this collection of papers provides plenty of grist for AID's mill. There are several useful conclusions that can be drawn from this distillation of the present state of the art of reform analysis and advocacy that are relevant to the shaping of AID's assistance policies. Some of these

are expressed in explicit form in the papers, others are only implicit. I have already called attention to some of these conclusions so that this section serves more as a summary than as a new set of propositions.

1. The interest of the AID community lies in promoting the fastest and most efficient growth in output and employment that is possible in its client nations. While AID has been provided with a Congressional mandate to promote the small enterprise sectors of LDCs, the evidence suggests that the broader goals are not likely to be served by an indiscriminate support of programs to promote SMEs. Support for small-enterprise development should be extended only to those sectors in which they are likely to be viable in a policy-neutral environment. Identification of such enterprises can be made only on a product-by-product and country-by-country evaluation.

2. Small enterprises can be effectively assisted by improving their market position relative to large firms by reducing the subsidies and preferred access to inputs that the latter may enjoy. This involves a substantial reform in the nature of government intervention in the economy which is difficult to effect but which AID may be able to encourage and facilitate.

3. Agricultural development programs that promise to increase the real incomes of the rural population provide another path that is likely to stimulate the emergence of viable small enterprises in rural areas. Particularly at early stages in development, the high income elasticity of demand for simple, basic consumption goods will tend to favor this tendency. Relative isolation from large urban centers and high transport costs may serve to protect the competitive position of such enterprises. Thus, a continuation of AID's traditional support for agricultural development can be expected to further its objectives with respect to SME promotion.

4. The achievement of a truly significant expansion of industrial employment and improvement in real wages is likely to be dependent on a much broader series of reforms than simply a promotion of small enterprises. Structural reforms that increase the international competitiveness of the economy, while more difficult to achieve, are considerably more powerful generators of employment. Export promotion, of course, opens up possibilities of increasing output and employment from enterprises of all sizes, including SMEs that might evolve into either direct exporters or suppliers to producers for export. Indeed, if the outward orientation proves successful, there is no reason why it should matter to AID whether the increases in employment occur in large or small firms. AID may be in a position to influence regimes to adopt significant reforms as well as to assist in their realization.

5. One of the important obstacles to the reform process is the absence of a conviction on the part of political leaders that the type of reform advocated by Western economists is desirable. While the role of foreign experts may be helpful in making the case for reform, brief visits and expositions by such experts are not likely to suffice to build up a solid foundation of domestic support for reform. Support is more likely to be forthcoming if a convincing case can be made by local figures. Therefore, it is important to build up an indigenous research and analysis capacity that can present a continuing case for reform. AID may contribute to the creation of such a professional capacity by underwriting the educational expense of training in the U.S. Furthermore, AID might underwrite the cost of a resident expert who could work on a continuing basis in one of the important economic ministries or the central bank. A foreign expert is more likely to exert a positive influence if he enjoys a long-term relationship with host country technicians and leaders and can gain their confidence.

6. As indicated earlier, structural reform requires a long-term commitment to very substantial changes in the economy. Furthermore, these changes impose costs on those sectors of the economy that were the beneficiaries of policy-created distortions; such sectors may be expected to oppose reforms unless they receive some offset to their losses. If AID wishes to support the case for reform it may be in a position to make it more feasible politically by helping the host government to ease the short-term costs of adjustment. Assistance might take the form of balance of payments support as the economy is opened to trade, support for temporary subsidies to adversely affected firms, technical assistance to assist such firms to move into new areas of production in which they could be competitive, technical assistance in the establishment of export contacts and channels, etc. However, just as reform requires a long-term commitment from the host government, so must AID offer an implied commitment to see the process through until it becomes self-sustaining. Obviously, AID assistance might be more effective if it could be coordinated with that from multilateral development agencies like the World Bank.

In short, a persuasive conclusion to be drawn from the assembled works is that AID should focus on its broad objectives and seek out the most effective ways of advancing them. While support for the growth of SMEs may have a place in a strategy for promoting a faster growth of employment, a convincing case cannot yet be made that it should occupy a central role. At best, initiatives for promoting small enterprises, and particularly very small enterprises, need to proceed cautiously on a product-by-product and country-by-country basis.

Appendix

Listing of Papers Reviewed

EEAP DISCUSSION PAPERS;

1. The Effect of Policy and Policy Reform on Non-Agricultural Enterprises and Employment in Developing Countries: A Review of Past Experiences
2. On Measuring Relative Efficiency in a Size Distribution of Firms
3. The Question of Political Feasibility: Approaches to the Study of Policy Space
4. Location Theory and the Size Distribution of Firms
5. Economy-Wide Models for Analyzing Policy Reforms
6. What Drives the Size Distribution of Firms
7. The Role of Non-Farm Activities in the Rural Economy
8. Prospects and Perils for Small and Medium Enterprises in Outward-Oriented Industrial Expansion: Lessons from Korea and Taiwan
9. Lewis Through the Looking Glass: Public Sector Employment, Rent-Seeking and Economic Growth
10. The Political Economy of Policy Change (This paper had not yet been

received at the time of the conclusion of this report.)

11. Investment Requirements and the Participation of Korean and Taiwanese Firms in Technology-Intensive Industries

12. The Strategic Orientations of Firms and the Performance of Korea and Taiwan in Frontier Industries: Lessons from Comparative Case Studies of Keyboard and Personal Computer Assembly

13. Export Intermediation and the Structure of Industry in Korea and Taiwan

OTHER EIPA-SUPPORTED PAPERS;

14. Small Scale Industries in Developing Countries: Empirical Evidence and Policy Implications

15. PPC - The Informal Sector, Policy Reform, and Structural Transformation

APPENDIX D. WORLDWIDE CABLE

drafter: S&T/RD/EED, Robert C. Young
approval: S&T/RD, Eric Chetwynd
date: 12/18/87

clearances:

AID/ES:GJOE
AID/LAC/PSA:SRYNER [DRAFT]
AID/ANE/PD/PE:DHAGEN [DRAFT]
AID/PRE/I:SWALSH [DRAFT]
AID/LEG/CLS:CCOUGHILIN [PHONE]

AID/ST/RD/EED:MFAREMAN [DRAFT]
AID/AFR/PRE:CBUCHANAN [DRAFT]
AID/PFC/PDPR:TDAILY [DRAFT]
AID/PRE/PD:RANDERSON [DRAFT]

PRIORITY AID WORLDWIDE

AIDAC

N/A

Subject: Enterprise policy: employment, small enterprises, and the missing middle

1. Policy Project Experience

S&T/RD/EED's Employment and Enterprise Policy Analysis project (EEPA) recently held a mid-project review in AID/W. The discussion was particularly timely, in view of the current Congressional initiative to earmark USD 50 million equivalent [appropriated dollars or local currency generations, including those from PL480] for micro-enterprise assistance in A.I.D.-assisted countries. [The legislation is in flux.]

2. Overview of Findings

Based on data from 85 countries, and in-depth comparative analysis of recent industrial performance in South Korea, Taiwan, and the Philippines, findings of note presented and discussed at the meeting included the following:

- A "missing middle" range of medium scale enterprises [in the distribution of manufacturers classified by number of employees] may be a serious obstacle to efficient broad-based economic growth, particularly in view of the efficient use of resources and contributions to productivity increases by medium sized firms.
- Developing country policy is typically hostile to the development, growth, and expansion of firms in the small and medium scale sector.

Note: There are no standard definitions of micro, small, medium and large scale enterprises. For the purposes of this cable and related discussions, let their scales be as follow: micro, 1-10 employees; small, 11-25; medium, 26-200; and large, more than 200.

- Reform of policies impeding the expansion of dynamic small and medium scale growth-oriented enterprises is vital to filling in the mid-scale range.
- Trade, fiscal, agricultural, and capital market policies, in particular, constrain the small and medium-scale sectors:

- excessive trade protection restricts competition and efficiency;
- distorting agricultural price policies and related agricultural sector policies, in particular, undercut agricultural innovation and synergistic linkages between farms and small- and medium-scale enterprises;
- high marginal tax rates discourage dynamic entrepreneurs from taking advantage of economies of scale and growing into medium and large scale firms;
- capital market policies (e.g., administered interest rates) often constrain access to and the supply of capital.

- While the development of the medium scale sector is particularly important for increases in productivity and economic growth, micro and small enterprises, nevertheless, are critical to the employment and survival of many persons in developing countries.
- For some products, peak economic efficiency appears to be found among the small scale enterprises. These enterprises may play an important role not merely in the generation of employment, but also in productivity increases and economic growth.
- Contrary to the impressions of many, small rural enterprises often demonstrate a capacity for technological adaptation, so that they are able to meet demands for increasingly productive technologies.

3. Taiwan, South Korea and the Philippines Compared

The in-depth analysis of Taiwan and Korea -- with respect to which country might be a better model for development elsewhere in Asia (and beyond) -- suggested that Taiwan may be the most appropriate model for slowly industrializing economies such as the Philippines. The primary lessons from Taiwan are:

- The importance of competition in a relatively open economy to stimulate innovation and efficiency. The profusion of sub-contracting relationships among small firms fosters this sort of healthy competitive atmosphere.
- The importance of small-scale traders as intermediaries between producers and export market demand. In Taiwan, these traders excel at identifying market opportunities and providing marketing skills lacking within the manufacturing sector.

The Philippines' contrast with the South Korean and Taiwanese success stories was striking. Korea represented a model which depended on enterprises larger in average scale and more capital-intensive, and with more government intervention (e.g., in capital markets) than was true for Taiwan.

4. ST/RD's EEPA Project

EEPA is a six year effort to provide research, short- and long-term technical assistance and support to the policy dialogue in the areas of employment and

enterprise development. The project began in September 1984 and has now completed three years of field work in over a dozen countries, assisted AID/W bureaus in carrying out policy-related research, and issued a number of monographs in describing the policy reform implications of the team's analyses. The Harvard Institute for International Development (HIID) is the prime contractor, with subcontracts to Michigan State University and Development Alternatives, Inc. (DAI). Don Snodgrass (HIID), Carl Liedholm (MSU), and Jean-Jacques Deschamps (DAI) are respective institutional principals.

A bibliography is available from ST/RD/EED listing the project's reports, including more than 30 discussion papers, reports to USAIDs and AID/W bureaus, etc. A sample:

- Haggblade, Liedholm and Mead, "The Effect of Policy and Policy Reforms on Non-Agricultural Enterprises and Employment -- Review of Past Experience";
- Kilby and Liedholm, "Role of Non-Farm Activities in the Rural Economy";
- Grindle and Thomas, "The Political Economy of Policy Change";
- Goldmark, Deschamps and others, "The Effect of Policy on Small Industry in Honduras";
- Biggs, Levy and others, "The Small Business Policy Direction Study [Philippines]";
- Levy, "Export Intermediation and the structure of industry in Korea and Taiwan"; and
- Levy and Kub, "Strategic orientations of firms and the performance of Korea and Taiwan in frontier industries: lessons from corporate case studies of keyboard and personal computer assembly".

5. Collaboration and Further Information

With three years left to run and adequate buy-in ceiling remaining, EEPA continues to have substantial potential to assist missions with:

- (a) project design;
- (b) high level expertise for public-private policy dialogue workshops;
- (c) training of host country policy analysts (for the public or private sectors);
- (d) long-term advisers to support institutional development and host country policy review; or
- (e) inputs for the development of mission strategies.

For further information on EEPA, reports generated to date, or the buy-in process for additional support to missions, contact: Robert C. Young, AID/ST/RD/EED; Telephone: 703-235-8964.

[eeepa\awide117]