

A.I.D. EVALUATION SUMMARY - PART I

@DIE

(BEFORE FILLING OUT THIS FORM, READ THE ATTACHED INSTRUCTIONS)

XD

A. REPORTING A.I.D. UNIT:

S&T/RD/EED
(Mission or AID/W Office)

(ESE)

B. WAS EVALUATION SCHEDULED IN CURRENT FY ANNUAL EVALUATION PLAN?

yes slipped ad hoc

Eval. Plan Submission Date: FY 88-04-

C. EVALUATION TIMING

Interim final ex post other

ISN 62942

D. ACTIVITY OR ACTIVITIES EVALUATED (Use the following information for project(s) or program(s) evaluated; if not applicable, list title and date of the evaluation report)

Project #	Project/Program Title (or title & date of evaluation report)	First PROAG or equivalent (FY)	Most recent PACD (mo/yr)	Planned LOP Cost (000)	Amount Obligated to Date (000)
931-1090	How AID Learned About Small-Scale Industry: An Evaluation of Michigan State University's Research Under the SEAE Project	1978	9/90	\$5,484	\$5,484

Doc # 0005

E. ACTION DECISIONS APPROVED BY MISSION OR AID/W OFFICE DIRECTOR

Action(s) Required

None for present project.

Name of officer responsible for Action

Date Action to be Completed

(Attach extra sheet if necessary)

F. DATE OF MISSION OR AID/W OFFICE REVIEW OF EVALUATION: mo 10 day ___ yr 88

G. APPROVALS OF EVALUATION SUMMARY AND ACTION DECISIONS:

<p>Project/Program Officer</p> <p>Signature: <i>Ross Bigelow</i></p> <p>Typed Name: Ross Bigelow</p> <p>Date: 3/10/89</p>	<p>Representative of Borrower/Grantee</p> <p>Signature: <i>[Signature]</i></p> <p>Date: _____</p>	<p>Evaluation Officer</p> <p>Signature: <i>John Giusti</i></p> <p>Date: 3/28/89</p>	<p>Mission or AID/W Office Director</p> <p>Signature: <i>Eric Chetwynd</i></p> <p>Date: _____</p>
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H. EVALUATION ABSTRACT (do not exceed the space provided)

An explicit objective of the Small Enterprise Approaches to Employment (SEAE) Project was to maintain the applied research capacity established at Michigan State University (MSU) under an earlier cooperative agreement. The SEAE cooperative agreement called for research and consultancies in designing, monitoring and evaluating projects aimed at the development of small enterprises, special studies, publication of a state-of-the-art paper and information dissemination. This final evaluation reviewed MSU studies and interviewed A.I.D. staff both in S&T/RD/EED and in the missions and the MSU participants. The major findings included:

- o MSU performed impressively under the cooperative agreement, producing a significant amount of high caliber and useful information. The project was well managed without any significant problems. As a result, the development community has more information on the role of small enterprises in developing countries and how to best assist them.
- o The papers that were produced made a very strong case for the importance of small industry in developing countries and the desirability of encouraging it. In addition, the development of subsector analysis as a very useful way of producing information for policymakers and program designers was an important and unexpected contribution.
- o MSU did not organize the dissemination workshops as planned, the consequence of which is that no critical forum has been devoted to any of the main streams of MSU research.

Several recommendations were made for specific research and action to follow on to the MSU effort. A key lesson learned is the difficulty for a university itself to put into practice the ideas that it developed in its research. This task perhaps remains better placed in A.I.D.

I. EVALUATION COSTS

1. Evaluation Team Name	Affiliation	Contract Number OR TDY Person Days	Contract Cost OR TDY Cost (US\$)	Source of Funds
Elizabeth Rhyne		26	\$4,250	SEAE Project (936-1090)

2. Mission/Office Professional
Staff Person-Days (estimate) _____

3. Borrower/Grantee Professional
Staff Person-Days (estimate) _____

b'

A.I.D. EVALUATION SUMMARY PART II

J. SUMMARY OF EVALUATION FINDINGS, CONCLUSIONS AND RECOMMENDATIONS (Try not to exceed the 3 pages provided)
Address the following items:

- Purpose of activity(ies) evaluated
- Purpose of evaluation and Methodology used
- Findings and conclusions (relate to questions)
- Principal recommendations
- Lessons learned

Mission or Office: S&T/RD/EED

Date this summary prepared: 7 March 1989

Title and Date of Full Evaluation Report: How AID Learned About Small-Scale Industry: An Evaluation of Michigan State University's Research Under the SEAE Project - September, 1988

Purpose of Activity

The Small Enterprise Approaches to Employment (SEAE) project was designed to improve A.I.D.'s ability to understand and assist the development of small enterprises. An explicit objective of the SEAE agreement was to maintain the applied research capacity established at Michigan State University (MSU) under the Off-Farm Employment Project.

The agreement with MSU called for four groups of activities:

- o Research and consultancy at the request of A.I.D. missions in designing, monitoring and evaluating projects aimed at the development of small enterprises.
- o Special studies on the development of low-cost screening criteria in loan programs, the working capital needs of small enterprises, subcontracting, home-based small enterprises and subsector analysis.
- o Overview of small enterprise research and the publication of a paper detailing state-of-the-art research findings.
- o Information dissemination through workshops and the publication of papers.

Purpose of Evaluation and Methodology Used

This final evaluation examined four questions related to the fulfillment of project goals:

- o How have the activities contributed to the knowledge, policies and projects of the countries in which MSU has worked?
- o How has the research contributed to the understanding of the role of small business in development?
- o How has the activity contributed to the ability to design policy and projects related to small enterprises?
- o How well has the project and project dissemination has been managed?

The findings of this evaluation are based on a literature review and a series of interviews. Eighteen papers were reviewed, including those financed by the SEAE agreement, some financed by the Off-Farm Employment Project, SEAE

project documents and other academic work. Interviews were conducted with staff members in S&T/RD/EED and in missions that provided add-ons, members of the MSU team, and other academics. No attempt was made in the evaluation to assess the technical quality of the research methodologies, which have been judged to be adequate to superior by academics in the field.

Findings and Conclusions

MSU performed impressively under the cooperative agreement. A significant amount of research was produced; it was of high caliber; it provided progress on important issues; and for the most part it was responsive to the needs of A.I.D. As a result of the project, A.I.D., the academic community, other donors and developing countries have more information on the role of small enterprises in developing countries and on how to best assist them. It is information that probably would not have been developed without A.I.D. financing for MSU's effort over a sustained period of time.

In-Country Applied Research and Consultancy. The work in this area helped to refine the thinking of the MSU team on the role of small business and policy/project design. It increased the knowledge base of the countries in which the work was done - Bangladesh, Indonesia, Peru, Zambia, and Egypt. The research was able to add on one more country to the effort than was originally planned for in the workplan.

State-of-the-Art-Paper. This paper was the most important output of the cooperative agreement. It makes a very strong case for the importance of small industry in development and the desirability of encouraging it. The paper was widely distributed and has made a major impact on the thinking about small enterprises within the development community.

Subsector Analysis. The subsector approach to analysis of small enterprises, one of the special studies, emerged as an important and unexpected contribution to the field. Subsector analysis focuses on the vertical production and marketing structures for a single product or group of closely related products. Due to the wide diversity among different types of small businesses, subsector analysis has proven to be an important method of gaining accurate information about certain types of firms and planning solutions to their problems that go beyond the now standard programs of credit and technical assistance. The assistance approach that can be developed from subsector analysis is aimed at providing the missing ingredient to input supply, production techniques and market access that more traditional broad-based programs cannot provide.

Special Studies. The special studies on credit program and subcontracting were important because they consolidated lessons from in-country research and made suggestions potentially relevant to A.I.D. The greatest shortcoming in this area has been the lack of follow-up by both MSU and A.I.D. on the ideas put forth in the special studies.

Dissemination and Program Management. MSU did not organize the dissemination workshops called for in the scope of work, the consequence of which was that no critical forum has explicitly been devoted to any of the main streams of MSU research. MSU has participated in other conferences and the results of the research have been disseminated widely in the form of working papers and articles in academic journals.

This project was well-managed. No significant management problems were reported. A substantial body of knowledge was produced within the original project budget of \$1.2 million.

Principal Recommendations

The following recommendations are for future research and action.

- o A.I.D. should encourage MSU and others to explore the question of the efficiency of small enterprises. This could be done through a paper of broad circulation and/or at a workshop at which those on opposing sides of the issue can exchange ideas.
- o A.I.D. should promote the application of subsector analysis to project and policy design.

Lessons Learned

A theme underlying this cooperative agreement was the ability of a university to produce research relevant to policies in developing countries and to produce possible A.I.D. project designs. MSU succeeded in producing relevant research but only in one case did a specific project result. This experience showed that universities can excel at informing project and policy design, and in articulating promising new approaches. However, A.I.D. must look elsewhere, including within itself, to put the ideas into practice.

K. ATTACHMENTS (List attachments submitted with this Evaluation Summary; always attach copy of full evaluation report, even if one was submitted earlier)

How AID Learned About Small-Scale Industry: An Evaluation of Michigan State University's Research Under the SEAE Project

L. COMMENTS BY MISSION, AID/W OFFICE AND BORROWER/GRANTEE

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XD-AAZ-904-A

ISA 62943

HOW A.I.D. LEARNED ABOUT SMALL-SCALE INDUSTRY:
AN EVALUATION OF MICHIGAN STATE UNIVERSITY'S RESEARCH
UNDER THE
SMALL ENTERPRISE APPROACHES TO EMPLOYMENT PROJECT
(931-1090)

Elisabeth Rhyne

September 1988

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SUMMARY OF FINDINGS AND RECOMMENDATIONS

Michigan State University (MSU) performed impressively under a cooperative agreement with A.I.D. from 1982 to 1987 as part of the Small Enterprise Approaches to Employment Project (SEAE, 931-1090). A significant amount of research was produced; it was of high calibre; it provided progress on important issues; and for the most part, it was responsive to the needs of A.I.D. As a result of this project, A.I.D., the academic community, other donors and developing countries have more information on the role of small enterprises in developing countries, and on how best to assist them. It is information that probably would not have been developed without A.I.D. financing for MSU's effort over a sustained period of time.

MSU's written products under this agreement consisted of papers on in-country research activities of varying size and scope, a major overview paper summarizing the current knowledge about small enterprise (the state-of-the-art paper), and a series of special studies on topics that cut across countries and are intended to be particularly relevant to activities in support of small enterprises. This evaluation addresses four needs that coincide roughly with the main components of MSU's work under SEAE. They are: 1) How have the activities contributed to the knowledge, policies and projects of the countries in which MSU worked? 2) How has the research contributed to the general understanding of the role of small business in development? 3) How has the activity contributed to the general ability to design policy and projects to assist small enterprises? and 4) How well was the project managed? The last section emphasizes dissemination and follow-up.

This first section outlines findings and recommendations which are described in greater detail in the main text of the report. For background on the project and a description of the evaluation plan, see Part I.

In-Country Applied Research and Consultancy

The in-country work varied in scope from one month consultancies for a single MSU staff member (Philippines, Bangladesh) to major studies involving several professionals and teams of interviewers (Egypt, Zambia). It was generally less extensive than MSU's in-country work had been under the predecessor activity, the 1977-1982 Off-Farm Employment Project (931-1191). Most of the field work was of relatively short duration and modest scale. Nevertheless, the work did generate important results. It refined the thinking of the MSU team on the role of small business and policy/project design, as was later reflected in the special studies and state-of-the-art paper. This was particularly true in the countries where research on subcontracting and subsectors was performed. It also increased knowledge within the countries themselves. Contributions ranged from basic information about the small enterprise sector (Zambia) to guidance on policies and projects (Bangladesh, Indonesia, Peru). The organizations that benefitted included local research organizations, government agencies and A.I.D. missions.

In several cases the research influenced policy debate, although the outcomes and influences are difficult to trace. However, only in one country, Indonesia, did the work lead directly into a project, the Central Java Enterprise Development Project. Lack of specific follow-up resulted not from any failing on the part of MSU but rather from political and economic events in the countries and from the particular context in which each A.I.D. mission commissioned the research. That said, it is also the case that MSU performed best when its task was research, including policy-relevant research, rather than advising on project design. The Indonesia work was the exception. In Central Java the project itself was MSU's contribution, and its design was integrally tied to subsector analysis, a primary area of MSU's research under the agreement. The in-country work is discussed, by country, in Part II.

State of the Art Paper

The state-of-the-art paper was the most valuable aspect of the cooperative agreement (Liedholm and Mead, 1985. Complete references may be found in Appendix B, Bibliography). It summarized and drew lessons from MSU's research under both the Off-Farm Employment Project and SEAE. Without the paper, the extensive data collection, research methodology and findings that came from this research would have been in an important sense unfinished. The state-of-the-art paper makes a very strong case for the importance of small industry in development, and the desirability of encouraging it. It speaks authoritatively, backed by extensive and convincing data. It makes this case to a wide audience, both in the academic community and in A.I.D. The paper is a major contribution to its field, and for A.I.D., it represents a low marginal cost payoff from an earlier investment. Detailed discussion of the paper's contributions as well as several questions it leaves open are provided in Part III.

Special Studies

One of the most important, and also largely unanticipated contributions of this cooperative agreement was the development and articulation of the subsector approach to analysis of small enterprises, which was written up in one of the special studies. This approach was derived from the collective experience of in-country research under both the Off-Farm and SEAE projects. Subsector analysis can be an important research methodology and a method of identifying policy and project interventions. MSU applied the approach to small enterprise research in several countries, and in one case it was applied to a project, the Indonesian Central Java Enterprise Development Project. Much remains to be done to explore what potential subsector analysis holds for policy and project design.

Special studies on credit programs and on subcontracting were well done. They were important in that they consolidated lessons from in-country research, and because they made suggestions potentially relevant for A.I.D. In both cases, as in the subsector approach, MSU showed its strength in the development and articulation of ideas, but was not the appropriate organization to carry them into practice. Perhaps the greatest shortcoming of the work under this

cooperative agreement has been the lack of follow-up by both MSU and A.I.D. on the ideas put forth in the special studies.

Special Study on Home-Based Enterprises

MSU did a separate study of home-based enterprises under this agreement. It produced a large amount of data, interesting and useful findings, and several academic articles (see Appendix B). The studies appear to have increased knowledge about the interconnection between businesses and housing in A.I.D. among other donors, in academic circles, and in developing countries. However, specific follow-up has been disappointing. In the two countries where research was performed, Peru and Sri Lanka, major political and economic events altered plans. Within A.I.D. lack of follow-up resulted in part from the special study's lack of articulation of the implications of the results for policy and projects, and from the fact that most of the writings were directed towards scholarly journals rather than A.I.D. audiences.

Dissemination of Results and Project Management

This project was well-managed. No significant management problems were reported by MSU or A.I.D. staff members. It produced a substantial body of knowledge within its original budget, requiring a total of \$1.2 million (Appendix D). MSU and A.I.D. disseminated the research results widely, in the form of working papers appropriate for A.I.D. and other donors, and articles in academic journals. Members of the MSU team have actively presented their findings through conferences, workshops, and lectures, both inside A.I.D. and to other donors and academics.

However, MSU did not organize the dissemination workshops called for in the original scope of work. This was an important shortcoming. Its consequence is that no critical forum has been explicitly devoted to any of the three main streams of the MSU research: the sector-wide surveys and the efficiency question; the subsector methodology; or home-based enterprises. Lack of such a forum has probably impeded not only the spread of the ideas but also their further development. The main recommendations this evaluation makes relate to the need for A.I.D. to pursue more explicit means of following up MSU's findings.

This is not to say that the findings and lessons MSU produced have come to a stop. Rather, they continue to be applied through the work of the members of the MSU team. The project trained several highly competent and motivated professionals from MSU and developing countries, whose work in the field will continue to apply and further develop the methodologies and findings the agreement produced. The challenge is for A.I.D. to bring more of the follow-up into the agency and to other donors, as members of the MSU team are largely outside A.I.D. and widely disbursed.

MSU and Project-Relevant Research

A theme underlying this cooperative agreement was the ability of a university to produce research relevant to policies in developing countries and to possible A.I.D. project designs. MSU succeeded producing relevant research. Nevertheless, only in Central Java did a specific project result. Moreover, the suggestions presented in the special studies have not been tried to a great degree. This experience should provide an important lesson to A.I.D.: universities can excel at informing project and policy design, and in articulating promising new approaches; however, A.I.D. must look elsewhere, including within itself, to put the ideas into practice.

Recommendations for Further Research and Action

The following recommendations are those the evaluator believes A.I.D. should pursue. They, and several research suggestions made by project participants at MSU are described at greater length in Part V.

Because of the controversy that remains on the issue, A.I.D. should encourage MSU and others to explore the question of the efficiency of small enterprises further. At this point additional basic research is not called for. Rather, the differences and similarities between what has come to be seen as two opposing camps, the "pro" small enterprise group (MSU, led by Carl Liedholm) and the "anti" group (World Bank sponsored researchers, led by I. M. D. Little) should be examined. Questions that need resolution are: 1) What are the areas in which both sides agree? 2) What are the areas of difference? and 3) How do differences in methodology, and particularly in data collection lead to different findings? It is not primarily for academic audiences that these questions need further attention, but for the policy-making audiences in A.I.D., other donor institutions and in developing countries. Specific actions could include:

- o A paper for broad circulation that is devoted to these questions, by MSU or by a third party of high academic standing.
- o A workshop at which participants from both sides of the debate would exchange ideas, before a selected group of academics and development professionals.

The strongest recommendation this evaluation makes is that A.I.D. promote the application of subsector analysis to project and policy design. Subsector analysis represents a product that has gone through the R&D phase, and now needs commercialization and marketing. At this point, it is well developed as research methodology, fairly easy to describe and ready to be disseminated broadly. Its potential selling points are that it is a quick way to diagnose important constraints to small businesses, and can lead to immediate identification of policy changes needed in specific sectors. As the basis for project design, subsector analysis is very promising, but needs further development. Difficulties in designing subsector-based projects include equity concerns and concerns about finding appropriate implementation

mechanisms. A.I.D., led by S&T/RD/EED, should promote subsector analysis along two tracks. First, it should begin immediate dissemination of the method as a means of analysis in a broad range of its seminars, conferences and workshops. The approach should begin appearing regularly on agendas. Second, it should explore and test project designs, beginning by investigating the issues associated with the Central Java project and any other similar projects, and also by holding small group discussions between those in A.I.D. who are interested in the approach and those from MSU who developed it.

Further suggestions are given in Part V.

PART I. BACKGROUND ON THE AGREEMENT AND THE EVALUATION

Michigan State University has completed work under a cooperative agreement No. Dan-1090-A-00-2087-00) with A.I.D. as part of the Small Enterprise Approaches to Employment Project (931-1090). The agreement, whose final expenditures totaled \$1.2 million, funded research and related activities carried out by Michigan State University's (SU's) Department of Agricultural Economics between 1982 and 1987. It was managed for A.I.D. by the Employment and Enterprise Development Division, Office of Rural and Institutional Development, Bureau for Science and Technology (S&T/RD/EED).

The Off-Farm Employment Project

The 1982 cooperative agreement extended the work begun under a previous agreement which was part of the 1977 to 1982 Off-Farm Employment Project (931-1191). Under that project, MSU performed detailed studies of the role of small industry in several countries. It applied a basic research methodology, varying it to suit the needs of each country, the local A.I.D. mission, and budget and personnel resources. The methodology consisted first of a Phase I, in which teams of enumerators counted and classified all small industries in selected rural areas and small towns. The data were then extrapolated to produce estimates of the number and nature of small industries in the rural areas of the countries as a whole. Phase II, which was more time-consuming and costly, involved twice-weekly visits to a small sample of enterprises to collect data on their inputs and outputs for assessing the production and profitability of businesses. MSU produced Phase I and Phase II studies, or variations, in Sierra Leone (prior to the agreement), Thailand, Jamaica, Bangladesh, Honduras, Haiti (abbreviated) and Egypt (completed during second agreement).

Concurrently, in 1979 Drs. Enyinna Chuta and Carl Liedholm produced a paper entitled 'Rural Non-Farm Employment: A Review of the State of the Art.' The authors reviewed the literature and recounted results of the MSU research available at the time, less than halfway through the first agreement. The authors' major thesis was that the importance of small enterprise in the economies of developing countries had been underestimated, both in terms of size and of efficiency.

The Small Enterprise Approaches to Employment (SEAE) Project

The SEAE Project, begun in 1978, is a multi-faceted attempt to improve A.I.D.'s ability to understand and assist the development of small enterprises. ~~Project components prior to the MSU agreement included~~ evaluations of credit and technical assistance projects for small enterprise, research on employment in shelter-related enterprises, and design and field testing of new methods of assisting very small enterprises (PISCES). The objectives of the SEAE project, and its strong research and development focus, made it an appropriate umbrella under which to continue MSU's work.

An explicit objective of the new SEAE agreement was to maintain the applied

research capacity established at MSU under the first agreement. In some cases work begun under the first agreement was completed under the second. Almost all the senior and mid-level researchers were the same, including project co-director Liedholm. The basic topic of inquiry, the contribution of small enterprises to the economies of developing countries, remained unchanged. In the new agreement with MSU, the earlier SEAE-funded work on housing and employment was also carried forward under the direction of co-director, Dr. W. Paul Strassmann. The home-based enterprise portion of the second agreement is treated separately in this report, as one of the special studies.

While it is accurate to view the MSU efforts under the two separate projects as a continuous stream of research, there were important differences in objectives and tasks. The scope of work for the second agreement (the SEAE agreement, see Appendix A) reflected an assessment of both the accomplishments and the shortcomings of the first, and thus set the course of the research stream in a somewhat different direction. In brief, the second scope of work emphasized research methodologies that were less costly and time-consuming than the first, and attempted to make the research more directly useful in project and policy design. Equally important, the second agreement attempted to maximize the payoff from the investments made during the first. MSU was to summarize the lessons learned in the earlier work in a form that would be accessible to a broad range of practitioners.

Specifically, the agreement called for four groups of activities under the SEAE Project.

1. Research and consultancy at the request of particular A.I.D. missions. This was to continue the individual country studies MSU performed under the first agreement, with a greater focus on project-relevance. The scope of work stated the goal as "to assist Missions and LDC Governments in designing, monitoring and evaluating projects aimed at the development of small enterprises. Four studies were contemplated, each to be supported by mission add-ons (buy-ins). In fact, MSU worked in five countries: Egypt, Indonesia, the Philippines, Zambia and Bangladesh (under core SEAE funding).

2. Special studies. MSU agreed to prepare four papers on crosscutting issues. (See Appendix B for a full list of project-related documents.) These studies were to draw upon the field work MSU had already done, and from that experience to glean lessons for project design. The agreement specified the topics at the outset:

a. Development of low-cost screening criteria for use by financial institutions in loan programs for small enterprises.

b. Working capital needs of small enterprise. MSU merged the first two topics into one paper, "Small Scale Enterprise Credit Schemes: Administrative Costs and the Role of Inventory Norms," by Liedholm.

- c. Subcontracting. MSU produced the paper "Subcontracting Systems and Assistance Programs: Opportunities for Intervention," by Dr. Donald C. Mead, as well as papers on subcontracting in Indonesia and Bangladesh.
 - d. Small Scale Business Operated from the Home. This study differed from the others in that its forerunner was a separate contract with MSU, under SEAE, for Strassmann's work on interactions between housing and employment. Under the new agreement, home-based enterprises were singled out for additional research. Strassmann summarized his activities in, "Home-Based Small Enterprises. Final Report."
 - e. MSU prepared an additional special study, "Subsector Analysis: Its Nature, Conduct and Potential Contribution to Small Enterprise Development," by Dr. James J. Boomgard et. al., which was not envisioned in the original scope of work.
3. Overview of small enterprise research. The agreement's scope of work required a paper that would "distill the major findings and lessons learned" from MSU's research as well as the research of others. It would update the earlier state-of-the-art paper with the benefit of much additional research. This paper, "Small Scale Industries in Developing Countries: Empirical Evidence and Policy Implications", by Liedholm and Mead, was published in 1987, and has become the most widely distributed MSU product under SEAE.
4. Information dissemination. The agreement called upon MSU to organize four workshops on project findings, and bear responsibility for reproducing and distributing reports and papers. MSU carried out paper distribution as planned. Rather than organizing its own workshops, team members participated in workshops organized by others, including A.I.D.

Plan of Evaluation

MSU stayed remarkably close to the original scope of work. The products identified in the beginning were, in fact, produced. Accordingly, the evaluation will focus not on the quantity of output, but on the quality, use, and relevance of that output to overall project objectives. This paper examines four questions, all of which bear directly on how well project goals were fulfilled:

Question 1 (Part II). How have the activities contributed to the knowledge, policies and projects of countries in which MSU worked?

Question 2 (Part III). How has the research contributed to the understanding of the role of small business in development? This section is primarily concerned with the revised state-of-the-art paper.

Question 3 (Part IV). How has the activity contributed to the ability to design policy and projects related to small enterprises? This section focuses on the special studies, including the home-based enterprise study, and the project and policy sections in the state-of-the-art paper.

Question 4 (Part V). This section assesses project management by A.I.D. and MSU, covering dissemination, finance, and directions for future research and action.

The first three questions correspond roughly to the main substantive tasks set out in the original scope of work, while the last section (Part V) deals with project management.

The findings of this evaluation are based on a literature review and a series of interviews (Appendix C). Papers reviewed include those financed through the SEAE agreement, some financed by the Off-Farm Employment Project, SEAE project documents, and other academic work on similar subjects. Interviews were conducted with A.I.D. staff in S&T/RD/EED and missions that provided add-ons, members of the MSU team and other academics. No attempt is made in the evaluation to assess the specifically technical quality of the research (survey design, data analysis techniques). The evaluation assumes the technical quality to be adequate to superior as the general academic standing of the work would suggest. The research itself is evaluated primarily for its articulation of methods, findings and broader implications as expressed in written work. Thus, no question is raised as to the validity of the results, but rather whether they have been convincingly presented, and how they illuminate important questions.

PART II. HOW HAVE THE ACTIVITIES CONTRIBUTED TO THE KNOWLEDGE, POLICIES AND PROJECTS OF INDIVIDUAL COUNTRIES IN WHICH MSU WORKED?

This section describes the activities MSU carried out in five countries under the heading "in-depth research and consulting" with the support of mission buy-ins. Although this individual country work was a continuation of the research of the Off-Farm Employment Project, its nature and emphasis were quite different. First, A.I.D. and MSU staff, in accordance with the project evaluation, agreed that the importance and efficiency of small enterprises, which were the fundamental concerns of the Phase I and Phase II surveys, had been well documented. Given the expense and time involved, the parties agreed not to pursue new Phase II work. Second, the project evaluator and others had criticized the earlier research for its lack of relevance to project design. Accordingly, under SEAE, the in-country work focused on research more closely related to project design, such as subsector analysis, and involved direct project design consultancy. Four of the five activities included subsector or similar research (Egypt, Indonesia, Philippines, and Bangladesh), one involved project design and implementation (Indonesia), one was a Phase I survey (Zambia) and one included data analysis of the information collected in a Phase II survey under the previous project (Egypt).

The shift in content and emphasis was clearly justified both by the accomplishments of the previous project and by its shortcomings.

Egypt

Under the Off-Farm Employment Project MSU had carried out Phase I and Phase II research in Egypt. At the end of the project the Phase II surveys had been completed, but the data had not been processed and the final report had not been prepared. Under the SEAE Project, the A.I.D. mission in Egypt supplied \$120,000 for completion of Phase II data processing and for further studies to identify promising small scale enterprise subsectors for project interventions. Two U.S. graduate students and three Egyptian academics each performed several sector studies, including studies on garments, carpets, floor tiles, baskets, and dairy. These papers vary considerably in depth. In conjunction with the home-based enterprise strand of the MSU work, a paper was also produced on the tailoring and shoemaking industries, which contrasted home-based producers with other micro-enterprise producers. Project outputs thus consisted of a general paper on Phase II results, "Small Enterprises in Egypt: A Study of Two Governorates," by Steve Davies, et al., Davies' doctoral dissertation on garments, Seale's dissertation on tile-makers, and several unpublished subsector reports.

No A.I.D. project resulted directly from the work MSU did in Egypt, despite the project-related focus of much of the research. Catholic Relief Services, which had followed the research closely, began plans for a project which would have continued to use MSU personnel. These plans were not carried out, however, because of a lack of funding. A.I.D. had wanted to use local currency counterpart funds for the project, but such a use differed from

Government of Egypt conceptions of appropriate use of counterpart funds. Moreover, the A.I.D. mission's leadership gave higher priority to larger-scale projects and programs, which contributed to the lack of follow-on actions.

One benefit to come from the Egypt work was involvement by Egyptian professionals at two universities, Zagazig University in Moshtohor and the Fayoum branch of Cairo University. Faculty at these universities were very important in supervising the survey research, carrying out the subsector studies and writing the reports. Three faculty members and one dean participated, along with a number of students. They have subsequently continued to work in the small enterprise field to some extent, and have participated in international workshops on small enterprise. These people represent the institutional memory within Egypt of the MSU methodologies and findings.

Indonesia

The largest in-country activity supported by the SEAE project took place in Indonesia where the A.I.D. mission contributed \$217,000 for work on the Central Java Enterprise Development Project (CJEDP).

The buy-in funded 18 months of work in Indonesia by James Boomgard, as small enterprise advisor to USAID/Indonesia, and 3 months of additional MSU consultancies. As a graduate student at MSU, Boomgard had participated in MSU's Phase I and II research on small scale industry in Thailand.

Immediately prior to the Indonesia add-on, he had been the Department of Labor's representative on the design team for the Central Java Project. He later became the Chief of Party for the project under the prime contractor, Development Alternatives, Inc. Thus, the SEAE-funded activity represented a bridge between project design and full implementation that kept in action one of the project's key figures.

As distinct from the research focus of other activities funded under the SEAE cooperative agreement, the majority of the work financed in Indonesia add-on was project development and implementation. It covered three major types of activities: 1) negotiations between the Government of Indonesia, A.I.D. and the project team on the project's organizational structure, administrative procedures and budget; 2) start-up of technical activities in support of shrimp production (development of a model hatchery and pond water treatment technology, and a study on local raw materials for use in shrimp food); and 3) promotion of handicraft and related exports (major workshop on garment exports, technical assistance to garment production cooperatives, planning for export promotion of rattan furniture). The original scope of work stated that Boomgard would also advise USAID/Indonesia on small business development; he did little of this, however, due to the effort demanded by CJEDP.

An issue is raised by the SEAE buy-in for what were essentially project implementation activities. Technically, the activities were at the outer margin of the research envisioned in the cooperative agreement's original

scope of work. They cannot be classified as in-depth applied research. While some were consultancies on project design, the majority involved actual implementation. However, a more positive and equally valid way to view the activity is as an opportunity to apply the collected experience, findings and methodology of the MSU team to a project. In view of the past criticism of the MSU research for its lack of project relevance, the Indonesia work was a prime example of the willingness and ability the MSU team showed under SEAE to provide practical help to a mission. In particular, the project was a test of the usefulness of MSU's subsector analysis techniques in project design. During Boongard's time in Thailand, from which came his doctoral dissertation on the furniture industry, he and others developed a subsector-based approach to analysis of small-scale industry (see Part IV). The Indonesia buy-in provided a chance to see whether the types of interventions suggested by subsector analysis could be the basis for a successful project. It was also a chance to confront the organizational questions involved in implementing subsector-specific interventions.

The subsector approach at the heart of CJEDP led to a focus on intermediaries that could relieve constraints affecting small enterprises in the three industries the project targeted. In some cases, the intermediaries were conventional government organizations or FVOs. In others, they were large businesses, such as the distributors or exporters of goods produced by small businesses. The project itself consisted of a pool of technical assistance funds managed by a small, semi-autonomous staff. The staff located constraints and strategic intermediaries, and then assisted the intermediaries directly by hiring technical experts to consult with them. One set of consultancies, carried out through an Indonesian FVO, Dian Desa, dealt with improving shrimp production technologies. Another taught private distributors of handicrafts (often medium-sized and large businesses) about exporting to the United States, and helped find interested importing firms. Project activities evolved, rather than being fully planned in advance, as opportunities emerged and experience was gained.

The project is nearing completion, and results are beginning to be known. CJEDP activities have resulted in clearly identifiable improvements for the target businesses, and were provided at a very small cost (\$1.4 million). Despite this, USAID/Indonesia did not really embrace the subsector approach or the project design. While it allowed CJEDP to go forward, it greatly reduced its budget. During project implementation, mission involvement was confined to the project officers directly responsible, with mission leaders showing little interest. Thus, the amount of learning by USAID/Indonesia was disappointing. More important, the project is leaving behind no mechanism for the continued delivery of subsector-specific assistance. The project unit, which had functioned independently under a government entity, will be disbanded upon project completion. Institution-building did take place in the intermediaries that received assistance, but there was little institutionalization of capacity to continue to provide the kind of assistance the project had given. These comments on the project itself, while beyond the strict scope of this evaluation, are made because the MSU work was so closely intertwined with CJEDP itself, and because the project was so important as an application of MSU's subsector methodology.

To summarize, CJEDP appears to have demonstrated the effectiveness and the cost-effectiveness of subsector-based interventions, but has not resulted in a local institution capable of carrying on its work. Lessons for replicability of CJEDP in other countries are yet to be explored.

Zambia

USAID/Zambia contributed \$25,000 for a Phase I study of small enterprises in the rural areas of Zambia. The study was supervised by MSU's Dr. Yacob Fisseha, and carried out through the Rural Development Studies Bureau (RDSB) of the University of Zambia. Researchers enumerated a total of 17,000 businesses in selected regions, and then extrapolated the results to the whole country. A small sample of businesses were asked a series of follow-up questions. Fisseha and RDSB's director, Dr. John T. Milimo, prepared the final report, "Rural Small Scale Enterprises in Zambia: Results of a 1985 Country-Wide Survey," a thorough, carefully documented description of the types of small businesses in Zambia and the employment they generate. One unexpected finding was the overwhelmingly rural and farm-located character of Zambia's small enterprise sector. The paper sticks close to the data, drawing few policy conclusions and commenting only a little on the implications of its findings.

The research results were widely distributed in the Government of Zambia, particularly through a 2-to-3 day workshop on small enterprises and several follow-on workshops. They received a good deal of press attention. The A.I.D. mission used the survey results as input into the planning process for a small enterprise project, for which other consultancies were also being carried out. Unfortunately, the project has not gone forward, nor have the policy implications of the research been pursued. This is the result of Zambia's 1986 default on its agreements with the International Monetary Fund, which prompted A.I.D. to put on hold many of its project development activities in several sectors.

Two examples of concrete results are available, however. First, the survey provided information on the importance of street vending as a source of employment and income for women. Fisseha reports that Zambian women's groups used the data effectively to convince the government to stop harrassing the vendors. Second, FAO subsequently commissioned Fisseha to study the forest-based and wood products industries. The study relied primarily on a further analysis of the data already collected in the initial survey. FAO has used the paper in designing an assistance project for small enterprises in that industry.

The survey was not intended to be directly project-relevant. Its contributions were basic though important. First, virtually no reliable information had previously existed on small enterprises in Zambia, particularly on the very numerous smallest ones. The study filled an enormous gap, and will probably be the most important source of information on the sector, both for Zambians and donors, for a good number of years.

Second, the study contributed to the research capability of the University of Zambia, and leaves behind it several trained researchers, including Dr. Milimo, who acted as project co-director. Milimo worked as a co-author with Fisseha on the FAD forestry enterprises study.

Philippines

A.I.D.'s Philippine mission sponsored a short-term consultancy by Fisseha, under a \$10,000 buy-in. Earlier, Fisseha had worked with USAID/Philippines on design of a small enterprise project, under different funding. The SEAE consultancy resulted in a study entitled "Long-Term Strategies for Small and Medium Enterprise: Philippines - Field Trip Report" (1983). As the name suggests, this was a broad survey of issues affecting small business and a suggested list of actions for A.I.D. to undertake or policies to advocate. It was not a research activity, but a more standard project design consultancy. Fisseha interviewed about 50 people in businesses and business support institutions. The investigation included the institutional and policy framework for support of small business and three industry groups: furniture, garments and handicrafts. The broad concerns and the short term of the consultancy precluded detailed research.

Fisseha's report is a strategy document of the type that could provide input into a mission's CDSS. Its purpose was to identify problem areas for future A.I.D. and Government of the Philippines action. While useful on that score, it probably provided few new facts to mission personnel. Moreover many of the topics are far from the central concerns or small business development (e.g. telephone systems, deforestation). The most successful portions of the paper describe the input constraints affecting furniture, garment and handicraft production. These yield a list of sensible recommendations. Sections on policy and support institutions are weaker.

The paper was commissioned at an odd time in USAID/Philippines' project cycle. The mission had just begun to implement a major small enterprise project (Small and Medium Enterprise Development, SMED). It asked the consultant to identify prospects for project success and to begin outlining what should come next. In that context, no new project was expected, but rather help in focusing the existing project. As it turned out, the project has faced severe management problems and has produced little action. The poor performance of the project is attributable fully to the combination of problems within USAID/Philippines, and to the political turmoil that began to engulf the Philippines at that time.

Three observations come from a consideration of MSU's role in this consultancy. First, a broad-ranging strategy paper such as this would probably have been better prepared by someone resident in the country, preferably someone inside the mission who could reflect or develop a mission consensus. However, the decision to seek outside help rested with the mission, not MSU. Second, long term strategy development was not MSU's forte; sector work was. MSU has developed a body of skills and knowledge for examining industries themselves and their constraints, at a micro level. This experience shows through in the quality of the industry-

specific sections of Fisseha's report. Third, MSU cannot be faulted for any lack of project follow-on, which resulted instead from the A.I.D. mission's own internal problems and from subsequent political events.

Bangladesh

The A.I.D. mission to Bangladesh commissioned Mead for a two month consultancy on subcontracting, which was funded by the core MSU grant, rather than a mission buy-in. Mead interviewed about 25 entrepreneurs, concentrating on three industries in which subcontracting occurs often: metal products and engineering, garments, and leather shoes. He wrote three reports. The first described the extent and nature of subcontracting systems in Bangladesh, giving information on both the products subcontracted and on the terms of agreements between firms and their subcontractors. The second analyzed aspects of government policy that retard the use of subcontracting, and suggests improvements. The third made recommendations about projects that could support subcontracting or provide assistance to small enterprises through their subcontracting relationships. The three reports are all of high quality being at the same time lucid and full of useful detail. The descriptive information provides a convincing picture of the prevalence of subcontracting. Policy and project suggestions follow logically from that description and are specific enough that an A.I.D. mission or the government could build an action program from them.

According to Jan van der Veen, who as USAID/Bangladesh's program economist oversaw Mead's work, the consultancy succeeded in raising consciousness about subcontracting among key personnel in A.I.D. and the Government of Bangladesh; however, to date the specific policy and project recommendations have been taken up only to a limited extent. At the time of the consultancy, the Government of Bangladesh viewed subcontracting as an important facet of small enterprise development, but had not yet explored it. Mead's work became a focal point for the emerging debate. At this level, the report accomplished the following things, according to van der Veen:

- o Its detailed description convinced skeptics in the Government of Bangladesh that subcontracting was indeed very prevalent in the country;
- o It provided policy ideas that became part of A.I.D.'s policy dialogue with the Government of Bangladesh;
- o It convinced the A.I.D. mission that subcontracting was a viable channel for providing assistance to small enterprise; and
- o It provided support to those within A.I.D. and the Government who advocated a market-based approach to promoting subcontracting, rather than an approach based on rules mandating that certain products be subcontracted. The advocates of the market approach did not ultimately prevail, however.

The bulk of Mead's paper on project activities was a detailed plan for MIDAS, a local enterprise development PVO, receiving A.I.D. funding. Mead suggested that MIDAS create a unit within itself to promote subcontracting. He detailed the staffing and agenda for such a unit. At the time MIDAS leadership received the recommendations unenthusiastically, and did not adopt them in the next two years. A secondary set of Mead's recommendations concerned improvements to a financing scheme for subcontractors being designed by the Government's Small and Cottage Industry Corporation. This scheme was not implemented, due to lack of agreement by all parties on an appropriate interest rate policy.

In light of the relative impact on debate of the basic descriptive analysis, when compared to the lack of influence of the direct recommendations, it is again interesting to observe first that MSU's area of greatest strength lay in research rather than project recommendations and second that the consultancy's direct policy and project effect did not depend on the quality of the consultancy, but rather on its fitting into an ongoing, specific process of project development in the A.I.D. mission or host country. This assessment parallels the observations on the MSU consultancy to the Philippines under SEAE.

Summary and Conclusions

The in-country work performed under SEAE differed significantly from that of the previous cooperative agreement. It was less ambitious academically and more clearly oriented towards projects and policies. While the first agreement produced a core of information that could be combined to form a coherent picture of small enterprise sectors, the second agreement produced a series of discrete results, not closely linked. The Egypt and Zambia activities are essentially extensions of the earlier agreement's work. The Bangladesh and Philippines assignments were genuine consultancies, with a minimum of basic research, and the Indonesia case involved application of a research product. The in-country work, taken together, produced a less important academic or intellectual contribution than did the earlier work. This is not a criticism of MSU's performance, however, because: 1) the SEAE in-country activities were smaller, both in absolute terms, and in terms of relative importance in the project; 2) they followed and in a sense finished the earlier work, rather than constituting a major initiative of their own; and 3) they were more project-oriented.

Given this emphasis on practical applications, an important way to judge the overall contribution of the activities funded under SEAE is in terms of project and policy results. In Indonesia a project followed directly, and its importance is discussed further in later sections of this report. The lack of direct follow-on in the other countries is not, in this evaluator's opinion, a problem, for these reasons:

- o MSU performed well. Its work fit the requirements for practical applicability.

- o Lack of follow-on is primarily attributable to actions by the A.I.D. missions and circumstances within the host countries.
- o The effects of research that is not tied directly into a project design process are hard to trace, and may take a long time to appear. Some indirect results were pointed out in the cases of Bangladesh and Zambia. If the work is good, more results will follow.

An illustration of the last point occurred in Thailand, one of the countries MSU worked in under the first cooperative agreement. When it completed its research in Thailand, MSU left behind a core of academics who were committed to small enterprise development, as well as a body of writing and data. The Thai academics were influential in including a strong emphasis on small enterprise in the country's five year development plan, and generally in raising the standing of small enterprises on the country's development agenda. Within the past two years, USAID/Thailand has launched a major small rural enterprise project. The current project owes two things to MSU's work, both somewhat indirect: first, the local influence of the work on thinking about national priorities and second, the resources for project design MSU developed, in the form of knowledge of the small enterprise sector. This concrete project result occurred five years after MSU's researchers left. Analogous processes may be going on in the countries MSU worked in under SEAE. They are more likely to occur in countries where MSU's research was significant in scope and connected to local institutions, such as Zambia and Egypt.

PART III. HOW HAS THE RESEARCH CONTRIBUTED TO THE UNDERSTANDING OF THE ROLE OF SMALL BUSINESS IN DEVELOPMENT?

At the time MSU began work under the Off-Farm Employment Project, the leading academic view held that small businesses were relatively backward-looking, that they used inefficient technologies, and that demand for the presumably inferior goods they produced would fall as development proceeded. This conventional wisdom showed itself in a lack of small enterprise development projects supported by major donors, and a concentration by many developing country governments on promoting large industry.

The MSU team set out to examine these views as illuminated by detailed, comprehensive data on small enterprises. They developed a methodology for collecting such data, adapted from survey techniques of agricultural economies. The resulting data sets generated under the first cooperative agreement represent among the most comprehensive sources of information on small enterprises ever compiled. Previous and concurrent work by others tended to be performed on a one time only basis for specific countries. Questions asked and methodology differed from study to study, making international comparisons difficult. MSU's work corrected for these problems. MSU drew together data on industry type, employment, location, ownership, capital, inputs and sales to form detailed pictures of the small enterprise sectors in Sierra Leone, Thailand, Egypt, Jamaica, Haiti, and Honduras. The data allowed researchers to draw conclusions about the contributions of small enterprises to their economies. Stated simply, in each country MSU found that small enterprises made major contributions to output, employment and income, and that they used capital, labor and other inputs efficiently. At the end of the Off-Farm Employment Project, MSU had prepared reports on each of the countries studied (except Egypt), and was beginning to spread its findings through presentations and journal publications. At the same time, broad donor concern with the poor, and more recent A.I.D. concern with the private sector, were leading to greater assistance to small enterprises. End-of-project status for the Off-Farm Employment Project was: 1) a large body of country-specific data; 2) important conclusions on the role of small enterprise; 3) beginning penetration of MSU findings into the academic and donor communities; and 4) greater donor interest in small business, sparked by shifts in development philosophy.

It was clear, however, that there was a long way to go on this issue. The academic and donor battles were by no means decided. MSU had not yet fully exploited the potential of the data it had gathered.

During the second agreement, funded by the SEAE Project, the focus shifted from basic research to higher level analysis of the information already gathered, and further development and dissemination of findings. The only survey research funded was the Phase I survey in Zambia. The data already collected in the Phase II study of Egypt was analyzed under the second agreement. It might be noted that the MSU data sets remain valuable in

themselves. They can be analyzed in different ways by researchers interested in specific questions. For example, in 1985, Fisseha prepared a multi-country report on forest-based processing industries for FAO, using this data. Similar analyses of other industries might also be fruitful.

The most important activity under this agreement was the preparation of a paper to summarize all the research MSU had done, plus other available data, and to address the central questions in the debate over small enterprise. This paper, "Small Scale Industries in Developing Countries: Empirical Evidence and Policy Implications," by Liedholm and Mead, was published as an MSU International Development Paper in 1987. By any measure -- scope, length, use by A.I.D., etc. -- it is the key written product of the SEAE cooperative agreement. It is more widely distributed by MSU and by A.I.D. than any other document MSU has produced, and is frequently referred to as the most authoritative work on the subject. It therefore deserves careful consideration.

This paper is, in topic and organization, a revision of the paper Chuta and Liedholm produced under the first cooperative agreement, "Rural Non-Farm Employment: A Review of the State of the Art." Because the underlying questions these two papers confront are so similar, a comparison demonstrates how far the debate has come. The first paper is quite defensive in tone, being directed very much against the school that discounted small enterprise as unimportant in development. It argues against those views, but its ammunition is largely borrowed from other studies. The second paper has lost the defensive tone. It takes a much more authoritative stance, fortified by the large amounts of data from the Phase I and Phase II surveys, and probably by a reduction in opposition during the intervening period. It reveals a more coherent framework for examining small enterprise questions. The confident tone, improved conceptualization and most of all, empirical documentation, make the revised paper far more convincing and impressive than its predecessor.

The revised state-of-the-art paper makes a very strong case for the importance of small enterprises in development, and hence the desirability of encouraging them. The case is built on three sets of findings. The first of these is demonstration of the magnitude of small enterprise activity -- its contribution to employment, value added and income. Through the presentation of extensive data, the case is clearly made that in most countries small industry is, by many measures, at least as important as large industry. The second set of findings concerns the growth prospects of small industries and the income elasticity of demand for its products. Again, the authors cite adequate data to convince all but the most hard-boiled critics that growth in household income generally leads to growth in demand for small industry products, thus refuting one of the main assumptions (concerning inferior goods) used to discredit small enterprises.

The third set of findings concerns the economic efficiency of small industries. After a description of the appropriate methodologies for determining efficiency, the authors cite data on attempts to measure it.

Of eight comprehensive studies cited, four, largely funded by the World Bank, find large industries to be as efficient or more efficient than small ones. The other four, MSU's own studies using Phase II data collection techniques, conclude essentially the opposite. MSU data show that while not always more efficient than large enterprise, small enterprises consistently yield social benefit cost ratios above one.

The discussion of efficiency in this paper shows that the MSU results differ substantially from those of the other studies, but does not explain why MSU's results should be adopted in preference to the others. In interviews, Liedholm defends MSU's findings on empirical grounds. He believes that the different findings of the MSU research are the result of its extensive and unprecedented effort (in both method and scale) to collect data in the field. Many of these data collection issues are discussed in the individual country reports. The state-of-the-art paper would have been more convincing, however, if it had recounted this part of the reasoning. This is all the more important, as it is the main exposure many people will have to the debate.

The efficiency issue remains far from settled within the academic and donor communities. In 1987 I.M.D. Little, a leading development academic, and two other authors, published an article and book based on research that found large industries in India and several other countries to be more efficient users of labor and capital on the whole, than small ones (Little and Page, 1987). While there are significant areas of agreement between Little and Liedholm's views, the preponderance of Little's argument favors large industry while Liedholm's favors small. The two viewpoints are often characterized as more polarized than they are in fact. Both parties agree that there is widespread divergence in efficiency among similar sized firms in different countries and in different industrial sectors. Nevertheless, the relatively small number of studies, the divergence between those produced by different groups, and the severe data collection issues warrant further examination and clarification, especially for policy making audiences.

The contribution of the revised state-of-the-art paper to the question of whether small businesses are "good for" development, is but one of its functions. Another contribution, often overlooked, is the detailed description of small industry, which not only covers aggregates, but shows the internal structure of the sector by subsector, size and other variables. Implicit in the paper's descriptive sections are working hypotheses about, or models of, the sector. Any researcher would be well-served by taking these hypotheses as the starting place for research in a specific country. A researcher would first ask whether the country's structure conforms to the models Liedholm and Mead describe. Observed differences from the model would serve as points of departure for further hypothesis-building and investigation.

The paper would also help a project designer begin to determine which portions of the small industry sector to assist, and to some extent, what the needs of those industries are. Throughout the paper, characteristics

of successful enterprises are pointed out, particularly characteristics relating to type of product, size, nature of employment and location. The picture that emerges is that there is a group of small businesses whose growth prospects are relatively good, characterized as follows: they are in the slightly more skill- and capital-intensive industries (metals, wood products, repair), they have hired employees and permanent premises, and they are located in towns. Businesses that perform worse on growth and efficiency indicators are characterized by being: concentrated in traditional industries (crafts, food, textiles), sole proprietorships, female-owned, and located in homes and on farms (though the Strassman work on home-based enterprises found that a significant proportion of businesses in the home were actually quite efficient). The former businesses are likely to grow and prosper, are can be assisted as enterprises, while the latter provide income for those who either have no other source or regard the business as a supplement. As growth prospects are low, assistance to this group is largely motivated by concern for alleviation of poverty. According to Liedholm, the MSU findings differed from earlier research in that they showed good rates of return to firms much smaller than had previously been thought: on average, all sizes above sole proprietorships. Whatever the specific implications may be, the paper explains the great diversity within the small enterprise sector, and so assists in efforts to target assistance.

PART IV. HOW HAS THE ACTIVITY CONTRIBUTED TO THE ABILITY TO DESIGN POLICY AND PROJECTS TO ASSIST SMALL ENTERPRISES?

This part of the evaluation examines the special studies MSU prepared as part of the SEAE cooperative agreement, and the policy and project sections of the revised state-of-the-art paper. The special studies were conceived as a way to maximize the benefit from MSU's in-country research, by discussing cross-cutting lessons relevant in many countries. This was both a response to an opportunity (lessons learned in individual countries) and to a critique (lack of policy and project relevance) of earlier research. Each special study was intended to be broadly applicable, and each is closely related to methods of intervention in the small enterprise sector. The policy and project sections of the state-of-the-art paper are discussed here because of their intent to give direct guidance to A.I.D., rather than to provide basic information on the small enterprise sector.

State-of-the-Art Paper: Policy and Project Sections

The Liedholm and Mead paper concludes with reviews of: 1) the common problems small businesses face due to unfavorable policies, and 2) the relative success of various forms of assistance projects.

The policy section is a good overview of material that is generally accepted among academics and donors (though not necessarily by developing country governments). It recounts many of the same findings discussed at greater length in a paper by Haggblade, Liedholm and Mead (1986) funded under a separate S&T/RD project, the Employment and Enterprise Policy Analysis Project (EEPA, No. 936-5426). The policy section in the SEAE state-of-the-art paper is not a new contribution to thought about policy questions. Rather, its importance lies in its inclusion in this major overview volume, which is receiving wide circulation. It presents the issues in a concise, well organized form, and should serve as a good introduction to the field. The only serious critique of this section is its lack of connection to the main portion of the paper that describes the small industry sector. No attempt is made to use the voluminous data on small enterprises to show the possible impact of policies on small industry, or to ask whether the observed characteristics of small industry reflect government policies to a significant degree.

The section on projects reviews past experience with small enterprise assistance projects offering credit and/or technical assistance, integrating the results of several studies already available, notably including the PISCES material funded under another component of the SEAE project. Its main contribution lies in its advocacy of two strong points of view. These are not unique to this paper, although the paper articulates them well. First, the authors argue convincingly that successful credit projects have shared several characteristics, including focus on short-term credit and character-based loan approval. Second, the paper argues for the "missing ingredient" approach to technical assistance, which states that technical assistance works best when a single missing ingredient can

be identified and supplied. Both of these are important hypotheses with major implications for project design. Yet neither are widely accepted by small enterprise project designers and implementors.

This state-of-the-art paper is therefore an important vehicle for their dissemination. Again, the project section would have benefitted from some application of the results of the data analysis from the earlier section. Perhaps that data could have been used to demonstrate the needs of small enterprises. For example, what do the very low start-up capital requirements shown in the data say about the need for credit assistance?

Special Study on Subsector Analysis

The special study on subsector analysis represents the articulation of a method MSU developed over several years. Briefly stated, subsector analysis focuses on the vertical production and marketing structures for a single product or group of closely related products, such as shrimp, metal or wood products. Through interviews with participants in the process, the researcher examines alternative channels that link various suppliers, producers and marketers, often contrasting large scale and vertically integrated producers with small enterprises. The relative efficiency, competitive status and growth potential of the various channels are compared, and bottlenecks or strategic nodes in the process are identified.

During the course of several years, MSU researchers performed subsector analyses in Thailand, Indonesia, Botswana (not project-funded) and Egypt. In each case, the analysis led to the identification of sector-specific policy and project interventions. In Indonesia, the CJEDP Project was entirely built around the subsector approach (see Part II).

The research methodology is an adaptation of methodologies in agricultural economics. Its use by MSU for small business research was motivated by two concerns: the first, an academic concern, was to be able to answer some of the questions about small enterprises that the Phase I and Phase II studies, with their horizontal orientation, could not address. In particular, these studies did not look at distribution and marketing functions nor did they adjust for varying degrees of vertical integration among producers. Perhaps most important, the original methodologies were primarily descriptive, while subsector analysis focused on problems and their solutions. The MSU team, including several MSU faculty members not otherwise involved in the cooperative agreement, developed subsector analysis as a way to get at the constraints and opportunities facing small business.

It is the problem identification aspect that appeals to the second motivating force for the methodology, namely to make the research more relevant for policy and project design. A basic problem in small enterprise research, as well as in small enterprise assistance design, is the very wide diversity among enterprises, which makes it difficult to draw conclusions about them and to identify and fill their needs. This has always been problematic in attempts to adapt techniques for research on small farms to small businesses, as farms are much more homogeneous. The subsector approach organizes examination of businesses into

coherent, structured groupings. Many of the businesses in a grouping will be similar, and will have common problems because they are part of the same system.

As its practitioners readily admit, subsector analysis is not particularly pathbreaking as an academic methodology. Similar approaches with other names are used by agricultural economists, especially those studying marketing and distribution of commodities, and by economists in industrial organization. The important aspects of MSU's brand of subsector analysis are: 1) its application to small business, and 2) its implications for project design. Both of these are substantially new. Not only is the approach fruitful in yielding concrete policy and project suggestions, it tends to point towards a type of intervention rather different from traditional credit and technical assistance projects.

Subsector analysis tends to identify problems that are much more specific to individual industries than the problems that a horizontal approach finds. The latter leads to "generic" problem identification, applicable to all types of small firms. Examples are shortages of working capital, managerial skills and government policy problems applicable to all small businesses. Interventions based on this type of problem identification, particularly technical assistance interventions, are often costly because they are offered across the board, but ineffective, because they do not provide what individual businesses need most.

By contrast, subsector analysis targets problems shared by a readily recognizable group, and it targets problems that are more likely to be immediate binding constraints. This is in keeping with the "missing ingredient" hypothesis defended in the state-of-the-art paper. Often, the problems relate to input supply, production techniques and market access, areas an across-the-board project cannot readily touch. For example, in his study of the Botswana sorghum beer industry, MSU's Dr. Steve Haggblade found that assistance was needed first, to induce home brewers to shift to a more efficient form of malt (which could be addressed through a project), and second, to allow home retailers greater access to factory-produced beer (a policy issue).

Most small enterprise assistance institutions are not equipped or oriented to provide sector-specific interventions, particularly the more technical interventions. This is as true for government agencies as it is for PVOs. Because of its focus on strategic nodes and intermediaries, subsector analysis often leads to plans to assist large businesses (for example, malt producers) that work with small ones (home brewers). Providing assistance to or through larger private enterprises is unconventional and frequently controversial. Not only are most of the current small enterprise assistance organizations unable to provide the kinds of services the subsector approach identifies, they do not think along subsectoral lines, and may never discover such problems. Many are wary of the targeting such an approach requires, which limits assistance to a subset of small enterprises.

The subsector approach to research on small enterprise has shown promise as a tool for identifying problems that external assistance could solve. Its development, though not planned, was a major achievement of MSU's work under the

cooperative agreement. However, the implications of the approach for project design, which could be many, have only begun to be explored. Much more work is needed to examine the potential and to spread the approach to practitioners.

The special study itself is a clear, easily understood explanation of the approach, given weight by illustrations from MSU's own work. It does not address the project design questions, however, and should be regarded as a first cut at spreading the approach.

Special Study on Working Capital and Inventory Norms

The special study entitled, "Small Scale Enterprise Credit Schemes: Administrative Costs and the Role of Inventory Norms," was written by Liedholm as an attempt to draw on existing MSU research for project-relevant lessons. Its thesis is that lenders could cut the cost of administration for loans to small enterprise if they applied a set of inventory norms when considering loan applications. Inventory norms are defined as standardized sales/inventory ratios for various industries, constructed from survey data such as that collected in the MSU Phase II studies.

The paper has two quite different parts. The first reviews the administrative costs of a number of small business credit projects. In this discussion, which appears in abbreviated form in the state-of-the-art paper, Liedholm contends that the most successful credit projects, both in terms of cost-effectiveness and repayment rates, are credit-only projects using proven shortcuts to loan approval and processing. This section and the project results presented in it could stand alone and be useful for many professionals in the small enterprise credit field.

The second section actually constructs some inventory norms, using MSU Phase II data from several countries. It discusses how these norms might be used to supplement character-based screening, particularly for the larger end of the small enterprise spectrum. The idea appears to be a good one, with some potential to reduce administrative costs. The paper tosses out the idea and briefly sketches its possible use. Substantial additional work would be needed to apply the suggestion, including the extensive data collection required to calculate the norms. Liedholm does not state how or by whom this should be done, nor does he specify how bankers could assess the actual inventory of its clients, or apply the norms in credit decisions. As with several of the special studies, MSU's contribution goes as far as idea development, leaving to others the task of translating the

ideas into practice. Leidholm reports that while he has talked with several banks on the subject, no bank or donor-assisted project has, as yet, adopted inventory norms.

Special Study on Subcontracting

Mead prepared a paper, "Subcontracting Systems and Assistance Programs: Opportunities for Intervention," after studying subcontracting relationships in Thailand, Indonesia and Egypt. The special study describes project and policy interventions that could (1) promote the use of subcontracting as a beneficial arrangement for small producers, and (2) use subcontracting relationships as vehicles for assisting small producers. Mead outlines types of assistance, including in the first category: subcontracting information exchanges, appropriate tax treatment, public education on subcontracting, and training of agents that intermediate between parent firms and subcontractors. In the second category he lists credit, input supply, quality control, product design, production techniques, business management and access to larger markets. He then discusses four possible institutional channels for providing assistance: parent firms, private intermediaries, FVOs and government agencies.

This paper is easy to understand, non-academic and full of practical suggestions. As such, it should be quite useful to its intended audience, project designers. Its only flaw is that it so distills experience that the flavor of real situations is lost. One does not realize the extent to which the ideas are based on extensive knowledge of actual subcontracting systems. As a result, the observations do not seem as strong as they may in fact be.

An interesting aspect of the paper, which deserves further exploration, concerns the mechanism for providing assistance. Mead points out that parent firms are in the best position to provide assistance, both because they have direct links to the suppliers and because they know production and market requirements. On the other hand, a project supplying assistance to parent firms in order to have them pass on benefits to suppliers could be highly problematic. Mead notes the equity issues surrounding use of parent firms. For instance, it is necessary to assure that benefits are actually passed on, which may be difficult, given the strength of market forces protecting the parent firms. In addition, such a project would still require an implementing body, whose organization remains unspecified.

The paper gives little evidence that subcontracting support projects have been attempted, with the exception of some elements of CJEDP, and several information exchanges sponsored by UNIDO. At this stage in the development of understanding of subcontracting the next steps should be to work on actual applications of the models that Mead suggests.

Subcontracting can be seen as one portion of the subsector approach: it is one of the several forms of vertical relationships that may exist in a subsector. Accordingly, many project design issues that arise when subsectors are considered are similar to those that Mead has pointed out.

In both cases, potential projects are very different from conventional credit and technical assistance projects, and are to a great extent untried in the field. The Mead paper goes further than the subsector paper in addressing these practical issues.

Special Study on Home-Based Enterprises

The antecedents, methods, areas of investigation and personnel of the special study on enterprises located in the home were quite distinct from those of the main body of the MSU work under this cooperative agreement. The home-based enterprises study followed from a previous contract between A.I.D. and MSU, also funded under the SEAE Project, on the interconnections between housing and employment. That study, directed by Paul Strassmann, concentrated on employment generated by the housing construction industry. During the course of that study, Strassmann became aware that enterprises operated in the home were frequently a means of financing home building and home improvement. As no known research had explicitly concentrated on home-based enterprises, Strassmann wished to look at them more carefully. Because the proposed work focused on small enterprises, A.I.D. decided to fund it jointly with the work headed by Liedholm. Strassmann was named co-director of the cooperative agreement, and pursued his inquiry more or less separately from the other studies.

The cooperative agreement funded surveys of home-based enterprises in two countries, Peru, directed by Strassmann, and Sri Lanka, directed by one of Strassmann's graduate students, Dr. Nimal Gunatilleke. In both cases, the main survey research, which involved lengthy questionnaires for several hundred to two thousand enterprises, was carried out by a local research organization. In Peru, this was a statistical body, the Directorate of Employment and Migration Studies, and in Sri Lanka, it was a public affairs think tank, the Marga Institute. The products of this research were a series of non-published reports on Lima (by Strassmann) and Kalutara (by Gunatilleke), three published journal articles, Gunatilleke's doctoral dissertation, and a final report to A.I.D.

In evaluating the SEAE contract on housing and employment, evaluators Simon Fass and Michael Patton characterized the study as very cost-effective in terms of research results and publications, but not good at leading directly to policies and projects by A.I.D. or developing country institutions. This characterization is valid for the home-based enterprise study as well.

If seen from the point of view of academic productivity, the home-based enterprise study scores high. All the reports and articles mentioned above, as well as the survey research itself, were completed for \$260,000. Strassmann has actively promoted the spread of his findings, not only in the United States, but in Europe and developing countries, through presentations and participation in conferences. Dissemination efforts in the countries studied were particularly good. The articles were published in local journals. The involvement of highly qualified local institutions put the data in the right hands, and, it is hoped, influenced thinking at those institutions about the issues in question. The data itself will

remain a useful source of information for some time. Gunatilleke is now working at the Marga Institute in Colombo, and continuing to do research in the housing sector. Strassmann has considered his audience to be the international academic and donor communities to a much greater degree than have the other MSU researchers, and this is one of the strong points of his work. For research such as Strassmann's, which has more policy than project implications, dissemination through academic channels may be the best way to influence thinking in the long run, particularly as most of the people making crucial decisions on housing policy are in developing country governments, not A.I.D. The main contribution of the home-based enterprise work is probably to alert those in the housing field to the importance of home-based enterprise as a preferred means of earning income, as a means of financing houses and as an integral part of urban structure. If this point of view gains acceptance, it may be reflected not so much in active promotion as in decisions by authorities and housing project planners not to prohibit such activities, in both new and existing housing. Strassman reports that such changes were recently adopted in Columbia.

Within A.I.D., Strassmann is often asked to speak on his research to the Office of Housing (PRE/H). Most recently he has been involved in PRE/H's efforts to develop a strategy for working with the urban informal sector, particularly in Latin America. PRE/H's aim is to make recommendations to urban officers, RHUDOs and A.I.D. missions. It is likely that these recommendations will reflect the information Strassmann generated under the SEAE contract and cooperative agreement.

Nevertheless, up to now, with respect to short run results, and particularly to specific actions by A.I.D., the home-based enterprise study has been somewhat disappointing. There has been little concrete follow-on by A.I.D. missions in either Peru or Sri Lanka, by PRE/H, or by S&T/RD/EED. According to Strassmann, that reflects choices by A.I.D., as well as major political and economic events in Peru and Sri Lanka. He explains that his final target is to publish the results in academic journals. Any decision to act, whether by A.I.D., a donor or a developing country government, is the entity's own responsibility. In many ways, this explanation is correct. As in the case of the add-ons discussed in Part III of this paper, in-country follow-on reflects who the local sponsors of the research are, and how they intend and are able to use the results, as much as the research itself. In Peru, specific projects were precluded by Peru's debt repayment crisis, and in Sri Lanka, by the Tamil-Sinhalese disturbances.

Nevertheless, Strassmann's work itself contributes to the lack of follow-on in two ways. First, the papers do not articulate clearly the policy and project implications of the research findings. The reports are focused on reporting the survey findings, and are so enmeshed in (very interesting) detail, that it is difficult to discern what the author intends to be the most important lessons learned, aside from the obvious one that home-based enterprises are important and should not be prohibited. This is exacerbated by Strassmann's tendency to write many short, specific

explorations of special topics, rather than to pull together fundamental propositions into a single article. The reader must bear the work of teasing out policy and project implications. Second, few of the papers were directed at a broad A.I.D. audience. The special study itself (that is, the unpublished paper, 'Home-Based Small Enterprises. Final Report') should have been an essay on the uses of Strassmann's findings; instead, it is to a large extent a description of the activities funded under the agreement. It cannot stand alone as a document for broad distribution. The writing on home-based enterprises has not generally been prepared for wide circulation within A.I.D., or written with the interests of the A.I.D. audience in mind.

One of the hopes for including the home-based enterprise study in the larger cooperative agreement was that some collaboration would occur. In fact, the actual research and writing of the two streams were almost completely separate, with the exception of one study on location of certain types of businesses in Egypt. However, the inclusion of the two research streams under one agreement does seem to have fostered some interaction among the researchers in the form of review and critique of each other's work. Cross-fertilization of ideas may have taken place in subtle, rather than obvious ways.

Policy and Project Relevance: Summary

The policy and project sections in the state-of-the-art paper, which present arguments from other sources, are valuable largely because of that paper's key role as a dissemination document. Each of the special studies, however, presents ideas that are substantially new, and therefore should be evaluated in light of the potential usefulness of the findings in projects and policies. The study on home-based enterprises contains a wealth of information, distributed across several documents. However, its policy and project-relevance ideas has not been articulated sufficiently. The other special studies do articulate policy- and project-relevant ideas. However, they are working papers, and remain suggestive, rather than definitive. The concepts they develop are more important than the papers themselves. In terms of the potential value of the concepts to projects and policies, the special study on subsector analysis is the most important. A dissemination strategy for this, and the other special studies, should focus on how to spread the approach, not merely the paper. This issue is discussed in Part V.

PART V. THE MSU RESEARCH AND A.I.D.

Dissemination

The products and experience of the MSU work have been disseminated through three channels: 1) papers and publications; 2) workshops and presentations 3) direct dissemination during in-country assignments; and 4) training of MSU team members, who apply the experience in their own work. Perhaps the most valuable of the channels, though the least recognized, is the last. In all but one of these areas, workshops, MSU and A.I.D.'s performance has met or surpassed expectations.

Papers and Publications. MSU published the major project-funded papers called for in the cooperative agreement as part of its International Development Papers and Working Papers Series (see listings in Appendix B). The cooperative agreement gave MSU responsibility for distributing these papers outside of A.I.D., and MSU has carried this out thoroughly. MSU distributed each paper to a list of about 150 institutions and individuals worldwide with a known interest in small enterprise development. Most of these were academics at U.S., Canadian, British and, to a lesser degree, developing country universities. A smaller proportion were sent to individuals in development organizations (World Bank, ILO, PVOs, consulting firms). This distribution list would have been improved by greater focus on institutions in developing countries. In addition, MSU announced each new paper to its entire mailing list of about 2,000, and then sent copies to those that requested them. It distributed papers to others on request as well. MSU has sent each special study and country study to between 200 and 300 individuals and organizations. The state-of-the-art paper has received wider circulation; over 1,000 copies have been distributed. A summary of this paper is being distributed to policy-makers and academics worldwide, through USIA's quarterly journal, Economic Impact, which claims a circulation of 70,000 in several languages.

S&T/RD/EED is responsible for distributing project-funded papers within the agency. With the exception of the revised state-of-the-art paper, this has largely been done on demand. The office displays copies of each paper, and staff members give or send copies to people whom they know to have an interest in the topic or who inquire about the topic. Demand-driven distribution is appropriate for country-specific papers such as those on Zambia and Egypt, where the relevant audience is rather simple to identify. However, the audience for the special studies on working capital, subsector analysis, subcontracting, and home-based enterprises cannot be easily identified, and those for whom the papers are intended, such as A.I.D. project designers may not be familiar enough with the subject areas to ask for the papers. Unlike country-specific papers, the special studies will not market themselves unless subjects are given higher visibility. S&T/RD/EED staff should, as stated earlier, evaluate the potential usefulness of the ideas presented in each of the special studies, and should regard the papers themselves as only one vehicle for their dissemination. Given the rather preliminary nature of the papers, it is

not necessarily the most important vehicle.

By contrast, S&T/RD/EED is continuing to make an extra effort to disseminate the revised state-of-the-art paper, regarding it, rightly, as the most important and broadly useful document to come from the MSU work. This paper was the keynote paper for S&T/RD/EED's "Future Directions" workshop in December 1986 (with over 100 participants from all over the agency). It has been distributed at other conferences as well, and each person in the division promotes it to his professional contacts. The office has sent the paper to each of the A.I.D. missions and representatives worldwide. The paper itself is written at a level appropriate to such a use. While it is technically demanding, it is not too much so for an audience of donors and practitioners.

In addition to the directly project-funded papers, MSU researchers have produced an impressive roster of publications that draw on the original research. These were not required by the cooperative agreement, but are certainly an important benefit of it. Such publications are crucial for dissemination of findings to academic audiences and to other development organizations, including some in developing countries. Publication venues include professional journals, books, papers solicited or published by other institutions, and doctoral dissertations. Strassmann's work has appeared in several journals, Liedholm's in both journals and, more frequently, books, and subsector work by MSU staff in two journals. The audience for published work is probably somewhat larger than, though not as targeted, as that for the working papers MSU distributes.

Workshops and Presentations. The original scope of work called for MSU to organize four workshops on project findings. This was not done. Instead, MSU researchers have given numerous presentations in workshops, courses and conferences organized by others, particularly by A.I.D. The presentation schedule is in itself quite impressive, and presentations were clearly an important dissemination channel. However, the presentations do not fully substitute for the workshops, and this lack is an important shortcoming in performance under that agreement.

The quarterly reports for the project record a total of eleven presentations to A.I.D., mainly by Liedholm, during the three year period between 1982 and 1985. Many of these presentations were made as part of Liedholm's regular participation in A.I.D.'s Development Studies Program and A.I.D.'s training for agriculture and rural development officers. More recently, Liedholm has testified before Congress and given presentations to small enterprise workshops sponsored by S&T/RD/EED. He was the keynote speaker at the "Future Directions" conference mentioned above. Strassmann has been similarly active, though his appearances are not as often before A.I.D. audiences.

It would have been desirable for some of the other members of the MSU team to have been more active in presenting the results of their work. Liedholm's presentations concentrate on his own research priorities: the role of small manufacturing industries, and to some extent, their credit

needs. Those involved in developing the subsector approach have made some presentations, but should have done more to promote their particular contributions. Their location outside the United States during much of the project period clearly made this more difficult, however.

The more important shortcoming is the lack of MSU-sponsored workshops. Workshops are important first as a means of obtaining critical scrutiny of research findings and second as a crucial vehicle for dissemination of research findings particularly when the research is intended to be project- and policy-relevant. An active, face-to-face exchange involving other academics can help sharpen ideas and identify areas for further development. Workshops involving practitioners serve as advertising for written products, 2) effective means of transferring ideas, and 3) opportunities to assess how research findings can be translated into applications. These purposes are not sufficiently served by presentations alone. When MSU researchers participated in forums planned by others, their talks were often one item on a crowded agenda. Many such presentations involved lecture formats with minimal interactions. Accordingly, the audience role tended to be passive. A passive audience listening to a one hour lecture takes away a familiarity with the presenter and his message, but is unlikely to adopt that message as part of its own thinking. Workshops sponsored by MSU and devoted to its research could have captured audiences more thoroughly. Nor do presentations afford the opportunity for interchange that is so important for pushing ideas forward, and moving them from the research realm into practice. The results of MSU's work under the two cooperative agreements was important enough to have received such sustained examination. Topics that deserved such focused treatment included the efficiency of small enterprises and the subsector approach to analysis of small enterprise. To a lesser degree, the other special studies, also deserved greater attention. By not holding at least one major workshop specifically devoted to its research, MSU and A.I.D. have shortchanged themselves.

MSU and A.I.D. agreed jointly not to hold the workshops for several reasons. Perhaps most important, the research team members were dispersed in various fields assignments during much of the period, and the project faced budgetary constraints.

Direct Dissemination through In-Country Work. The effects of MSU's work in specific countries were covered in Part II and, for home-based enterprises Part IV, of the paper. In each case where MSU interacted with developing country institutions, it left behind methodologies, research findings and recommendations, in varying degrees. While the use that will be made of these is difficult to trace, they are clearly important aspects of overall dissemination of project results.

Development of a Group of Trained Professionals. One of the most important contributions of the two cooperative agreements with MSU is the support they have provided to the professional development of a group of professors and (then) graduate students. Among the products of the agreement are

several doctoral dissertations (See Appendix B). These people are continuing to work in the small enterprise development field, and their work will continue to disseminate findings generated under the projects. This is certainly one of the most enduring means of dissemination, as the level of commitment to the MSU findings and methodologies by these individuals has been very great.

While most academic research projects contribute to the professional development of their participants, and can claim this as a dissemination channel, it appears that the agreements with MSU were exceptionally strong in this regard. Their success can be attributed to several factors: the relative youth of most participants at the start of the first agreement; the originality of the findings and methodologies (they produced a body of learning to carry forward); the quality of the team members themselves; and finally, the continuity between the first and second cooperative agreements, which enabled several individuals to finish or refine their work. To illustrate:

- o Carl Liedholm. When Liedholm first received the grant from A.I.D. he had only begun his work on small enterprise, having just completed his study of Sierra Leone with Chuta. Most of his research over the next decade was funded through the two A.I.D. cooperative agreements. This research has taken him from the position, roughly, of a promising new entrant into the small enterprise field, to one of its handful of preeminent scholars. Continuity of research design and follow-through were of major import in that transformation, and it is unlikely that they could have been achieved without the support of the two agreements. A.I.D. can claim credit for supporting Liedholm's professional contributions.
- o Donald Mead and Paul Strassmann. While both men are important contributors in their fields, their professional development is not as readily attributable to A.I.D.'s support as is Liedholm's. The basic academic outlook and role of both was established before they began to participate in these agreements. Nevertheless, both continue to apply some of the specific results of the A.I.D.-funded research in their current work. Mead, as advisor to the Government of Rwanda, has overseen studies that use the subsector approach to analyze small enterprise, and advised others in southern Africa on research design, thus spreading this approach in the region. He will probably continue this sort of work throughout his professional career.
- o Jim Boomgard. As a graduate student with little prior experience, Boomgard's professional identity was importantly shaped by his participation in the cooperative agreements, first in Thailand and then in Indonesia. He has since spent several years applying the subsector approach to project implementation in Indonesia, as leader of CJEDP. He is very likely to continue

applying these ideas in future practical field work. He has already contributed to their spread within his present consulting firm, DAI, and among those he worked with in Indonesia.

- o Steve Haggblade, Yacob Fisseha and Steve Davies. Each of these men developed their professional identities in large measure during their participation in the cooperative agreements. Each maintains a commitment to the subject area and to the particular methodologies developed at MSU. They each remain in academic environments, where a significant portion of their time is spent on other issues. Nevertheless, they consult in small enterprise development whenever the opportunity arises, and much of their future academic research is likely to use the methodologies developed under the two agreements. For example, Haggblade recently performed subsector studies on traditional breweries and garments in Rwanda, and Fisseha worked for FAO in Zambia, expanding the Phase I studies and using the data to assist in project design.
- o Developing country personnel. In some cases, particularly Egypt and Zambia, local academics participated as team members, and absorbed the research perspectives. Their subsequent use of these methods is not assessed in this evaluation, but because of the less intensive and shorter duration of participation, the impact of the project on their subsequent professional contributions probably not as great as it is for members of the MSU team itself.

Although not directly verifiable, it appears to this evaluator that dissemination through professional development can be stronger when research is performed by universities, with their inherent commitment to continuity and education, rather than through consulting firms.

Project Management and Cost

This cooperative agreement was well managed, both by A.I.D. and by MSU. MSU fulfilled the scope of work to the letter, with the exception of the workshops, as discussed above. Virtually no conflicts between MSU and S&T/RD/EED or within MSU were mentioned during interviews with participants. Clear records were kept on project activities, and Liedholm submitted complete, regular and timely quarterly reports, describing both progress on activities and the resources MSU devoted to them. Annual planning reports were also thorough. MSU is to be praised for treating the A.I.D.-funded activities as distinct from ordinary university business. As a result, it is clear to both parties what was attributable to the agreement. Given the lack of managerial problems and the fact management issues are no longer of ongoing concern (as the project is complete), they are not discussed further.

The project also achieved its results within the allocated budget of \$1.2 million (Appendix D). Core activities, including project administration,

the state-of-the-art paper and the special studies (except for the home-based enterprise study) totaled \$643,211. The home-based enterprise study cost \$259,624. Buy-ins from missions represented \$296,117. The buy-in activities in individual countries actually cost more than the stated amounts because the supervision and analysis of results that took place in Michigan was not covered under the add-on agreements. For example, several months by Mead and Liedholm were spent supervising research in Egypt and Zambia, covered by core expenses. In contrast, the first agreement totalled \$1.9 million for core funding and the first contract (housing and employment) totalled \$293,850.

There were two reasons the large amount of work MSU performed could be done for a modest amount of funding. First, the extensive use of graduate students kept overall salary costs low. Because of the quality of the graduate students and the close senior faculty supervision they received, the use of junior personnel did not reduce project output. Second, the fringe and overhead rates MSU applied were quite reasonable in comparison to rates A.I.D. is charged by private firms. Fringe benefits were 16 percent of salaries and overhead was 30 percent of total direct costs.

A.I.D. as a Sponsor of Research

In this cooperative agreement, both A.I.D. and MSU attempted to maximize the impact of research activities on A.I.D. projects and programs, particularly in light of perceived shortcomings in the previous agreement. This is a rather frequent concern in contracts with universities. In this case, the university responded well to A.I.D.'s request: its research was quite project- and policy-relevant, either directly in-country, or as a source of general lessons. Because MSU cooperated with this objective, this agreement serves as a useful example of what A.I.D. can legitimately expect of a university in this regard. Several observations are:

- o Most importantly, the university did produce research results with clear policy, program and project implications. The originality and long run potential of the work was probably enhanced because it was done by a university with a mandate to advance learning, and because of the sustained effort A.I.D. enabled MSU to make (ten years, counting both agreements). The work was of highest quality when it stayed within the bounds of research. In most cases the MSU team was not as good when it crossed over into project and policy design.
- o It may not be reasonable to expect that specific project activities will follow from university research, even when it is policy-relevant. This is for three reasons: 1) when buy-ins are led by demand, the follow-on to them depends on A.I.D. mission and in-country contexts that are beyond the university's control; 2) the work remains research, not direct project design, as just noted; and 3) the university must maintain some substantive and methodological continuity, which means that its work cannot, or

should not, be as variable as that provided by a contract with a private firm. MSU's performance should not be judged on whether the buy-ins led to specific projects, but on the quality of its work.

- o The process of applying research results in practice is complex, and covers many years. The best way to ensure that it will occur is to demand high quality products and local involvement. If these are present, as they were in Thailand, influence will remain.
- o When research yields generally applicable prescriptions, as this did, the university can articulate the ideas, particularly to an academic audience or one that is comfortable with academic ways. However, MSU, and probably other universities as well, are not in the best position to bring the ideas into fruition. The tasks of: 1) testing the ideas; 2) working out their practical applications; and 3) spreading them into the practitioner's realm are best performed by others. This process must be driven by A.I.D. itself.
- o The Central Java Project was an exception to the above rules, showing that under the most propitious combination of circumstances and individuals a university can carry research into project implementation, though most of the implementation was actually carried out by DAI. That the project developed out of MSU's work should be considered a delightful dividend, rather than a routine expectation.

In short, A.I.D. should continue to press universities to make their research relate to projects and policies, but should be prepared to receive the research results in the form of concepts and to move forward with them through other means.

Recommendations for Future Research and Action

This section makes several recommendations to A.I.D. on the next steps to follow from the MSU research. They fall into two categories: first, recommendations to A.I.D. arising from the evaluation itself and its findings, and second, suggestions on research priorities in the area of small enterprises that were made by members of the MSU team and are passed along here without comment on who should carry out such research.

MSU's work stands as virtually the only counter example to the series of studies largely supported by the World Bank, which culminated in the Little, Mazumdar and Page volume. The debate is in "your word against mine" status. While many of the people associated with MSU's work believe that on the evidence the case is now closed, it nevertheless remains open in other circles, and MSU has not challenged those circles directly. Given the importance of the efficiency question for policies throughout the

developing world, and in particular the tenacity of the World Bank's support for the large-is-better school, more interaction is desirable. First, A.I.D. should encourage MSU or a third party of high academic standing to write a paper aimed at A.I.D., donor and academic audiences and devoted explicitly to efficiency. Such a paper, would address methodological issues surrounding data collection. It would describe the methods of the MSU studies in detail, so as to build credibility for the results; and it would compare the methods of the other studies. It would also compare the results of the two sets of studies to see just how divergent they are. Second, A.I.D., possibly in conjunction with the World Bank, should sponsor a workshop that brings together participants from both camps to explore their areas of agreement and disagreement.

The strongest recommendation this evaluation makes is for A.I.D. to promote the application of subsector analysis to project and policy design. MSU has shown subsector analysis to be a fruitful approach to understanding small enterprise, particularly if the research goal is problem identification as a precursor to policy or project development. However, with the exception of CJEDP, neither MSU nor A.I.D. has taken the next steps: to spread the methodology and to design subsector-based interventions. In an analogy to product development, the R&D phase has been completed, but commercialization and marketing have not seriously begun. The most important market for the subsector approach is not academic but consists of practitioners around the world, including A.I.D. missions, other donors, and developing country institutions (governmental and PVO).

The subsector approach holds promise for solving several classic project design problems in the small enterprise field: 1) its method of analysis can be a cost-effective, rapid appraisal methodology for identifying areas of need; 2) the specific, binding kinds of constraints it identifies can lead to design of technical assistance interventions that are needed more than traditional management and entrepreneurial development approaches to technical assistance, and are potentially more cost-effectively delivered; and 3) its focus on products and markets is a more growth-oriented strategy than that implied by programs that direct credit and technical assistance to businesses within a stagnant market.

Yet the difficulties in designing projects around subsector analysis must be sorted out before the approach is ready for mass distribution. One set of obstacles are equity questions both horizontal and vertical. Horizontal equity concerns arise because the approach requires a choice to help certain types of enterprises and not others whose income status may be very similar. ~~This is not a major issue, as the choice of several key~~ subsectors can include a high proportion of all small industries. The more important concern is the vertical equity issue of using large businesses, often large distributors, as means of assisting small ones. This is more than an ideological problem, because careful design and monitoring is required to insure that benefits are passed through to the intended target group. A second set of issues, more practical, concern institutional structures and expertise for implementing subsector projects. Most of the

current assistance providers are not now equipped to provide the kinds of support that follows most often from subsector work (input supply, production techniques, product design and market access). In fact, many suggested activities come very close to the entrepreneurial function itself.

A.I.D. should promote the subsector approach along two tracks. The objective of the first is for the approach to become a standard way of understanding and analyzing small enterprises, among A.I.D. missions, business assistance organizations and developing country governments. While it is difficult to promote a methodology in and of itself, use of the methodology in basic studies is probably the most important vehicle for identifying policy reforms needed. Subsector studies can generate a host of subsector-specific policy reform ideas.

The objective of the second is to design, test and disseminate models of subsector-based projects. Ultimately, the menu of small enterprise project models that are widely familiar to institutions serving small business should read: credit, technical assistance, and subsector-based assistance.

Some practical suggestions for pursuing these objectives are:

- o Highlight subsector analysis as a way of thinking (not as a project type) in future workshops involving A.I.D. missions and assistance organizations, such as the "Future Directions" conference.
- o Sponsor small working sessions among the members of the MSU team who developed the approach and a few key project design/implementation experts, to consider project implications.
- o Promote subsector work in ongoing S&T/RD/EED projects, including ARIES and EEPA.
- o Analyze CJEDP thoroughly for design lessons and replication potential, keeping in mind that it is only one possible subsector project type.

Most of the initiative must, at this point, be taken by S&T/RD/EED. It is not reasonable to assume that MSU can or will do it, as project design is not its line of work, and moreover, its original team has now disbursed.

It is important to note that the work MSU did on subcontracting can be seen almost entirely as a special case of subsector analysis, and therefore, all these comments on promoting the subsector approach are meant to encompass subcontracting as well.

The remaining paragraphs list the research priorities identified by members of the MSU team and others questioned during the evaluation. The list gives a wide range of possible next steps in learning more about small enterprises. This evaluator believes that continued A.I.D. sponsorship of research in this field is called for, because A.I.D. is one of the few

potential sources of support for such work, as well as one of the main beneficiaries. Yet the groundbreaking work on small enterprises has been done, thanks in large part to the two MSU cooperative agreements, and therefore, future support need not be at the same level of intensity.

According to Liedholm, the most important unexplored questions concerning the role of small business are dynamic ones. Both the horizontal (Phase I and Phase II) and to a lesser degree the vertical (subsector) methodologies give essentially static, snapshot pictures. Very little is known about growth among small businesses, both at aggregate and individual levels. Structural changes in small enterprise sectors have not been charted. Further knowledge in this area would help build hypotheses about the role of small business in the broad process of economic transformation. Methodologies for studying dynamic issues, such as longitudinal studies, can be costly, and have therefore not been applied. An important task is to design informative but less expensive methods.

Most of the survey work MSU and others have done has focused on manufacturing enterprises. This choice has been based on the assumption that manufacturing is the most productive type of enterprise, and that it is proactive, pulling other sectors along behind it. While this may be true to some degree, it is certainly not absolutely so, and at any rate, according to Liedholm, enough is now known about manufacturing to turn greater attention to other sectors: services, retail, wholesale, transportation, construction and the like. Subsector analysis does this already within specific vertical groupings. However, these sectors have been little explored in their own rights. The same suggestion emerged from S&T's 1986 "Future Directions" conference.

There is need for greater attention to structural and cultural differences between countries or regional groupings of countries. Most work to date has attempted to show worldwide similarities in the small enterprise sector. However, conclusions based largely on studies in south Asia may not apply to east Africa, and vice versa. By looking at regional groupings additional lessons may emerge that are lost in either global or national studies. (Source: Rhyne)

The MSU research has produced a general understanding about the nature and importance of small industries, and thus satisfies a fundamental need. However in many countries, the state of reliable information about small enterprise may be so poor that Phase I surveys are needed, as well as other types of examination of the role of small enterprises. Such studies can be crucial as starting places within the countries surveyed. This was the case in Zambia when MSU performed its Phase I research. A.I.D. should be aware of the need for such work in individual countries. (Source: Fisseha)

According to Mead, further research and development is required in micro level product and market development. This must occur in the field, among very specific sets of producers. One aspect of the work would involve research to learn in much more detail about the consumption patterns of domestic consumers, perhaps at the product level. The other aspect would

involve design of products for those consumers, including improvements on existing products. This is similar to what many appropriate technology and technical training institutes have done, though they have 1) tended to focus on producer rather than consumer goods, and 2) largely lacked a good methodology for insuring that their designs could be commercialized, perhaps because they have tended to work from products toward manufacturers rather than vice versa.

Small enterprises have not yet been widely studied in the contexts of the households that they are part of. Farming systems analysis does this for agriculture, treating the farm as a unit that produces a variety of products, and that has various consumption and investment decisions besides those of the farm itself. This perspective, if applied to small enterprises, would help explain behavior, and the likely response of businesses to various changes in environment or to direct assistance. (Source: Fass)

Much of the data collected by MSU remains a valuable resource for further analysis. This is particularly true for the Phase II-type data, according to Fisseha. The most fruitful areas for further analysis are detailed sectoral or industrial analyses in areas such as garments, metals or food; similar to analysis Fisseha did on forest and wood products.

Appendix A. Scope of Work for Cooperative Agreement

Program Description

A. Objective: To maintain an important applied research capacity through Michigan State University to assist developing countries in the small enterprise development area.

B. Scope of Work: Four major groups of activities are planned under this project: (1) in-depth applied research and consulting on small enterprise development; (2) special studies of particular topics related to small enterprises; and (3) an overview of research on small enterprises, and prospects for their development, and (4) information dissemination through workshops and publications. These are discussed in turn below.

1. In-depth applied research and consultancy on small enterprise development. The goal of this set of activities will be to assist Missions and LDC Governments in designing, monitoring and evaluating projects aimed at the development of small enterprises. Design questions will concern issues relating to types of assistance needed; selection of industries, firm types and locations targeted for assistance; and appropriate institutional channels for the provision of assistance.

Work of this type will be initiated at the request of particular AID missions. It is anticipated that activities will be undertaken in approximately four countries, including two where MSU has undertaken longer-term studies of rural small industries (e.g., Egypt, Jamaica, Honduras, or Thailand); the other two countries will be ones where no such longer-term studies have been done, but where interest has been expressed by AID Missions in the development of new projects relating to small enterprises and where MSU experience appears to be appropriate (e.g., Botswana, Indonesia, Senegal). No new longer-term data collection exercises are anticipated, although the on-going survey activities in Egypt (with field work through December 1982) will require continuing backstopping and supervision.

This project will provide funding to maintain a core staff of at least 3 senior small industry specialists at MSU who will be available to work with selected AID missions to help identify applied research requirements for

designing, implementing or evaluating small enterprise projects. The work to be funded under this project to support these in-depth activities will be mainly the up front efforts needed to initiate applied research programs or activities (identification of data requirements, design of studies, recommendations on level of effort, funding requirements, and identification of consultant resources.) The cooperator will allocate a minimum of 16 person months of consulting time to these activities. Specific outputs that will be produced will include reports (research plans) for each country selected for in-depth work providing details of the applied research strategy that is worked out with the mission, and detailed descriptions and work plans for individual studies that will be undertaken. X

Mission add-on funding will be required for the actual implementation of any subsequent applied research or consulting activities that are carried out as part of these in-depth activities. Separate scopes of work and budgets will be prepared for the mission funded activities. These mission funded activities will be incorporated into this project as amendments. The details of the in-depth activities undertaken jointly with mission support will be incorporated in the annual work plans. Field activities described in the annual work plans will be jointly approved by the AID/W and mission project officers responsible for this project.

2. Special studies. During the three years of the project it is anticipated that special studies will be done of particular issues relating to the development of small enterprises. These studies will be functionally oriented, cutting across several countries; they will draw on the accumulated field experience of MSU researchers, undertaking limited additional field work primarily concentrated in the countries selected for study under (1) above. Four such studies are planned. Three of these studies (a-c below) will be shorter term studies requiring approximately one year each to complete. A fourth study of small-scale businesses operated from the home (subheading u) will require approximately three years for completion.

a. Development of improved, lower-cost screening criteria for use by financial institutions in loan programs for small enterprises. High processing costs relative to the value of loans issued constitute a significant disincentive for commercial financial institutions considering an expansion of lending to small producers. By suggesting ways to pre-screen loan applicants, drawing on information concerning past success rates and future prospects for different groups of borrowers, it should be possible to facilitate an expansion of lending in this area.

b. Working capital needs of small enterprises. Studies in a number of countries suggest that a shortage of working capital -- often on a seasonal basis -- may constrain the growth of small enterprises. Additional supplies of working capital may make it possible for small producers to buy inputs which are seasonally available, spreading their production over successive months; or to produce in anticipation of seasonal peaks in demand, using short term loans to accumulate inventories of finished products in anticipation of such demand peaks. In other cases, working capital needs may be associated with the need to offer trade credits to product buyers, or to finance long supply lines in the marketing channels (particularly for producers outside the capital city). More information to be gathered on these issues will suggest ways in which increasing flows of credit might facilitate a growth in employment and output among small producers.

c. Subcontracting. In the countries studied to date through the MSU off-Farm Employment Project, a number of cases have been found of subcontracting arrangements: between village and town producers; between smaller enterprises in provincial capitals and larger firms--either with manufacturing or commerce orientation--in the capital cities, and between local manufacturers and either producers or merchants overseas. Such relationships have many potential advantages, in terms of the provision of marketing facilities, opportunities for product modification, provision of finance or improved production technology to small producers. Such subcontracting arrangements also involve risks of exploitation, in view of the uneven bargaining strength of the participants. In this study it is proposed

to examine opportunities to facilitate the growth of such subcontracting arrangements while seeking to ensure an equitable distribution of the resulting benefits.

d. Small Scale Businesses Operated from the Home. This study will continue the work of Paul Strassmann of MSU that was initiated under the Housing Component of the Small Enterprises Approaches to Employment Project (Phase I). The objectives of this three year study of Home Enterprises are:

(1) To estimate the income and employment generation capabilities of small scale businesses operated in and from dwellings. The data sets from Lima, Peru, and Colombo, Sri Lanka, can be used for the estimates, as described below. Some data from the former MSU Off-Farm Employment project will also be useful and additional data may be collected from one or two new sites, or in expanded form former Phase I sites like Nairobi or Lusaka.

(2) To provide guidelines for identifying and executing interventions for stimulating employment and productivity in dwelling-enterprises. Which type of business in what type of neighborhood can be supported in what manner? Project-specific strategies can be explored with AID missions, especially in countries where surveys have been made.

(3) To disseminate through conferences, workshops and publication, for the benefit of other development practitioners-- particularly in and related to AID-- the guidelines and other research findings related to home-based small businesses.

Improving the state of this art in general, and MSU's ability to apply it on behalf of host country and AID project development needs in particular, will increase the potential employment generation impacts of a wide variety of AID-supported projects (training, credit, shelter, inter. al.), and MSU's response capability through its staff and graduate students.

3. Overview of small enterprise research. This activity would distill the major findings and lessons learned from MSU's small enterprise research activities in Sierra Leone, Bangladesh, Jamaica, Honduras, Thailand and Egypt; other countries examined under heading (1) above; and studies undertaken by others, both in the USA and abroad. It would also explore questions of similarities, dissimilarities, and linkages between small rural enterprises and those in urban areas, also being studied under this Cooperative Agreement. This would result in a State-of-the-Art paper summarizing these findings.

4. Information dissemination. The cooperator will organize four workshops to disseminate information and findings from this project to AID project officers and other practitioners interested in Small Enterprise Development. Two of these will be regional workshops designed to address small enterprise problems of several countries in a particular geographical region (Africa, Asia, Latin America and the Caribbean, and the Near East). The other two workshops will be designed to disseminate the findings of the special studies and the final state of the art paper (SOAP). Decisions regarding the content and timing of workshops will be made jointly by the cooperator and the AID/W project officer, in consultation with members of the project committee.

In addition to the workshops, the cooperator will be responsible for reproducing and distributing copies of the special studies reports and the final state of the art paper. Final copies of each special study and the final SOAP will be submitted in 10 copies to the AID/W project officer. With his concurrence, the cooperator will be responsible for reproducing up to 200 additional copies of each report for distribution within AID.

Appendix B. Bibliography: Project Documents, Other Documents
Reviewed and Interviews

Items reviewed during this evaluation are marked with a *. All items in categories A, B and C can be considered project outputs.

A. Major Project-Funded Papers

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* James Boomgard, "Final Report - Small Enterprises Approaches to Employment - Indonesia Add-on," Mimeo, September, 1985.

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* Donald C. Mead, "Subcontracting in Central Java," memo, May, 1983.

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W. Paul Strassmann, "Employment and Housing in Lima, Peru," MSU International Development Working Paper No. 7, May, 1983.

Appendix C. Persons Interviewed

AID/S&T/RD/EED

Michael Farman, Chief
Ross Bigelow
Cliff Barton
Robert Young

MSU

Carl Liedholm, Project Co-Director
W. Paul Strassmann, Project Co-Director
Donald C. Mead
James Boongard
Steve Haggblade
Yacob Fisseha
Steve Davies

Other A.I.D. Personnel

Jan Van der Veen (Re: Bangladesh)
Mark Johnson (Re: Philippines)
John Patterson (Re: Zambia)
Harold Lubel (Re: Egypt)
Lesley Dean (Re: Zambia)
Paul Vitali (Re: Special Study on Home-Based Enterprise)

Others

Simon Fass (Re: His earlier evaluation of MSU work)

Appendix D

TOTAL EXPENDITURES: YEARS 1-5
09/01/82-09/30/87
(61 Months)

SMALL ENTERPRISE APPROACHES TO EMPLOYMENT COOPERATIVE AGREEMENT DAN-1090-A-00-4092-00

Department of Agricultural Economics
MICHIGAN STATE UNIVERSITY
East Lansing, Michigan 48824-1039

<u>Line Item</u>	<u>Core</u>	<u>Rural Business Study</u>	<u>Egypt</u>	<u>Philippines</u>	<u>Indonesia</u>	<u>Zambia</u>	<u>Total</u>
SALARIES	\$347,917	\$121,833	\$18,171	\$0	\$62,773	\$12,500	\$563,194
FRINGE BENEFITS	56,773	15,833	1,996	0	14,892	2,545	92,039
CONSULTANTS	303	150	0	4,200	7,800	0	12,453
TRAVEL/TRANSPORTATION/ALLOWANCES	18,859	9,279	7,878	3,427	64,861	9,877	114,181
EQUIPMENT	4,000	0	0	0	2,600	0	6,600
OTHER DIRECT COSTS	31,317	38,620	1,690	128	21,958	510	94,223
INDIRECT COSTS (OVERHEAD)	184,042	73,909	11,515	1,986	40,962	5,848	318,262
TOTAL	\$643,211	\$259,624	\$41,250	\$9,741	\$215,846	\$31,280	\$1,200,952

(B-08)

Source: MSU