

ARIES

Assistance to
Resource Institutions (SN) 748586
for Enterprise Support

ARIES Final Report

The Impacts of Assistance to Resource Institutions for Enterprise Support (ARIES)

A USAID Project

**Sponsored by
United States Agency for International Development**

December 1990

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A USAID Project

Prepared by
Thomas Timberg
Nathan Associates Inc.

Sponsored by
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GLOSSARY

ADEMI	Association for the Development of Microenterprises, Inc.
A.I.D.	Agency for International Development
ARIES	Assistance to Resource Institutions for Enterprise Support
BKK	Badan Kredit Kecamatan
BRAC	Bangladesh Rural Advancement Committee
CEDP	Community and Enterprise Development Project
FUNADEH	Fundación Nacional de Desarrollo Hondureño (National Foundation for Honduran Development)
ILO	International Labor Organization
MSE	micro- and small enterprise
NGO	nongovernmental organization
OEF	Overseas Education Fund International
PVO	private voluntary organization
SEEP	Small Enterprise Education and Promotion Network
TNA	training needs assessment
U.N.	United Nations
WID	Women in Development

SUMMARY

The Assistance to Resource Institutions for Enterprise Support (ARIES) project has helped small enterprises (10 to 50 employees), microenterprises (0 to 10 employees), and the institutions and donors who support them to improve their management of promotional programs. The project has provided training and technical assistance to advance the change in orientation from welfare to commercial, from voluntary to professional, and from charismatic to systematic.

The ARIES project began by addressing challenges to increase awareness of cost effectiveness, establish the quality of credit program management, survey training alternatives, and tailor training and technical assistance to specific goals. The project also dealt with the problems of including women in enterprise development, improving systems to manage human resources and communications, and developing a framework of discussion about microenterprise development.

ARIES dealt with weaknesses in strategic, technical, administrative, and communications management. Strategic management refers particularly to cost effectiveness; technical management to management of financial resources, entrepreneurial training, and technical assistance; administrative management to human resource management, and communications management encompasses both internal and external communication.

ARIES' effects are marked in the threefold reorientation of promotional institutions to commercialization, systematization, and professionalization, through "legacies" developed by ARIES. These legacies include training modules, working papers, and extensive documentation of field experience. The effects are noticeable both intellectually, among the practitioners in the enterprise promotion community, and practically, in the use of training and management systems by intermediary institutions.

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LESSONS LEARNED FROM THE ASSISTANCE TO RESOURCE INSTITUTIONS FOR ENTERPRISE SUPPORT (ARIES) PROJECT

Introduction

The ARIES project has worked to improve the management of promotional programs for small enterprises (roughly 10 to 50 employees), microenterprises (1 to 10 employees), and the institutions and donors who support them. Like other complex research endeavors, ARIES began with a planned response to certain known challenges. The agenda soon changed as managers of the project learned more about the problems they faced and the gaps in their knowledge.

The following account begins with the initial challenges and proceeds to additional challenges discovered as learning progressed. In each case, an effort is made to pinpoint the specific impacts to date of ARIES activity. However, ARIES recognizes that the real test of that activity will occur over the next few years as its "legacies"—the ideas and products it promoted—demonstrate their durability and influence. Finally, future tasks are defined in terms of the legacies, the gaps, and the new directions that lie beyond.

ARIES introduced modern management techniques for micro- and small enterprise (MSE) programs in developing countries and identified four management areas for MSE promotional institutions requiring attention: (1) strategic management; (2) technical management, including credit management and the management of entrepreneurial training, and technical assistance programs; (3) administrative management, including human resource management, and (4) communications management. The project staff then developed training modules and provided technical assistance to lead to improvement in those management areas.

The training and accompanying technical assistance have contributed to the threefold process of changing microenterprise programs from (1) welfare-driven to commercial orientation, (2) reliance on volunteers to use of professional staff, and (3) reliance on charismatic leaders to explicit

management systems. Such standards are the hallmarks of successful programs, regardless of their particular strategy and targets.

ARIES project activities constitute only one part of the threefold process described here, but ARIES has undoubtedly played an important part in creating the climate that has produced these changes over the last 5 years.

In 1985, the promising beginnings of microenterprise promotion had appeared all over the world; hundreds of private voluntary organizations (PVOs) had launched small or microenterprise loan funds, technical assistance services, and training programs. The organizations reported jobs created and income generated. Many models with different goals and target groups competed and those which were properly run achieved creditable records.¹

Four Management Challenges

The strategic, technical, administrative, and communications challenges initially posed to ARIES concerned programs already underway in developing countries. While there was no doubt as to the potential of these microenterprise programs, there was considerable doubt about their effects in each of the four areas of challenge:

1. In the strategic management area, criticisms were raised in Africa about programs whose expenditures for promotion exceeded the net worth of the enterprises they assisted by several times.
2. With respect to technical management, high arrearage in many small-loan programs caused concern, despite the relatively good credit management performance of flagship programs such as the Grameen Bank of Bangladesh, the Badan Kredit Kecamatan (BKK), and the Association for the Development of Microenterprises, Inc. (ADEMI).

¹The *A.I.D. Microenterprise Stocktaking: Synthesis Report* (Boomgard 1989) has indicated that the expansion models concerned to assist microentrepreneurs to increase their sales and income have been successful. But other types of projects report successes in their own terms as well. A recent report from Honduras tells us that FUNADEH, a project concerned with graduating microenterprises into more dynamic businesses, has reached self-sufficiency. Of those getting larger commercial bank loans under a guarantee scheme, 30 percent had formerly been in one of the development foundation or cooperative programs.

3. In the area of human resource management, the overall effectiveness of many small-business technical assistance and training programs was criticized.
4. In the communications management area, questions were raised about whether the promotion of microenterprise programs, advocated because they served the poor and women, were administered in such fashion that they really served these targeted groups.

The ARIES project was asked, almost immediately after being founded, to face these four issues in the training and technical assistance activities it undertook.

Strategic Management

Costs and Benefits:

Commercial Orientation

The first major challenge, strategic management, dealt with the issue of cost effectiveness, particularly the high costs associated with running microenterprise programs. In Africa, especially, such costs were at the heart of the debate. The first ARIES seminar therefore focused on the extent to which circumstances peculiar to Africa necessitated promotional costs higher than those found elsewhere. The question arose whether the additional gains from enterprise creation—pulling marginal groups into the economic mainstream—were worth the excessive costs (Nathan Associates Inc. 1988).

One hundred participants learned to recognize the difficulty of justifying high-cost programs, and the difficulties faced by many programs in Africa. Several program prototypes were discussed, particularly "minimalist" credit programs that provide only one input (usually credit). Opposition to the minimalist approach centered on the concern that this approach neglected the poorer and more marginal sections of society, primarily women. Those opposing the minimalist approach were involved in "entrepreneurial formation" projects serving groups that are underrepresented, such as women, which provide developmental and social inputs in addition to credit, although generally at higher costs.

From that point, both in the training modules and in its technical assistance assignments, ARIES studied the question of cost effectiveness. Several of the last 10 assignments demonstrated the following:

- A cash flow projection in Liberia revealed a requirement for very high degrees of recovery and a considerably increased loan volume, with no corresponding increase in administrative costs if the program was to be sustained. Achieving such recovery and volume would be very difficult in any case; unfortunately, the civil war in Liberia intervened, ending all project activity and making project effects difficult to trace (Lassen 1990).
- There is greater potential resulting from policy and political organization in the Sahel than from scattered small enterprise programs (Bremer 1989).
- A government-supported training project in Ecuador was assessed in terms of its beneficial impacts (Gomez 1990).

Women: Targeting and Mainstreaming

The original ARIES design did not address women's issues, but as the project unfolded, an interest in women entrepreneurs developed. This interest was supported by Women in Development (WID) experts on the ARIES staff and the Agency for International Development. Several assignments dealing with women's entrepreneurial skills have been completed.

The findings drawn from ARIES' work on women entrepreneurs were examined in a seminar sponsored by ARIES in 1989, in which general conclusions were reached (Nathan Associates Inc. 1990d). Central among these was: "Microenterprise programs for women often work best if they are integrated with an overall enterprise development effort" (Nathan Associates Inc. 1987). The focus should be on bringing women entrepreneurs into the mainstream of larger projects rather than on creating separate projects for them.

The mainstreaming focus also manifested itself in ARIES' advice that women entrepreneurs be integrated into, rather than sheltered from, the mainstream economy.

Experience under the ARIES Project has shown that if small-scale enterprise projects are to successfully reach women, they must be implemented through organizations that have personnel with strong business, financial, and managerial backgrounds, [and] are able to cope with the mainstream economy. In Jordan, for example, it was clear that although women's organizations were interested in small business development, they did not have the capacity to implement such programs. As a result, the programs tended to have a "social welfare" perspective which stresses goals that are not necessarily

consistent with business development (Nathan Associates Inc. 1987).

Jordanian women's organizations ran what were essentially sheltered workshops and made almost no attempt to move beyond the distribution channels provided by social marketing organizations.² The Somalian women were repeatedly supported in manufacturing handicrafts, rather than in agriculture, where they had a comparative advantage.

Similarly, in Somalia, an organization whose original focus was social and political had moved into enterprise development. As the ARIES team reported,

If economic development in the form of commercial and income generating projects is the purpose, [this organization] needs to learn many of the same lessons that private Somali businessmen need to learn. Its weakest areas are personnel management, financial control and marketing. The basic concepts of management are lacking . . . if social agencies want to get into commercial projects, they need to learn or have access to these new skills to succeed in the commercial sector (Lindsay 1987).

However, mainstreaming requires targeting. In project after project where no provision was made for including women, women were unrepresented. For mainstreaming to work, it is necessary to plan and monitor programs to ensure women's participation: it may be necessary to target those sectors of the economy in which women are found. In Bangladesh, for example, it was recommended that sectors in which women play an important role be identified so they could be given special assistance to participate in enterprise-promotion activity. A recent evaluation of this Bangladesh project shows that despite some progress, the pace is still discouragingly slow. In Ecuador, the garment industry was selected as one having a large percentage of female participation. By contrast, few women were found in programs in Senegal and Malawi that concentrated on industries in which the rate of women's participation was low.

Requirements for gender analysis and gender monitoring should encourage organizations to make their programs available to women. Female outreach workers may be needed and schedules may have to be adjusted to suit women's availability. Child care may have to be added to a promotional organization's program incentives. In some cases, separate classes, separate offices, and separate procedures for women may be required.

²Such social marketing organizations undoubtedly do useful work, despite their often high overheads, but they constitute a minuscule part of the potential markets for microenterprise.

What should be emphasized is the potential productive contribution of women, rather than their marginal and distressed state. In general, small enterprises are suited to this target population because they offer the possibility of success, not because they are more suited to people who are poor and desperate. Gender analysis and monitoring are designed to increase the overall productive effect of resources used.

Training for Better Management

ARIES created training materials in modern management for intermediary organizations for micro- and small enterprise and trained a number of trainers to use them, with particular emphasis on use of the Harvard Business School case teaching methodology. The materials were extensively field-tested and adapted to a variety of audiences.

One of the key lessons of the ARIES project was the importance of adapting any training module to the environment in which it will be used. This applies as much to ARIES' own training modules as it does to the other entrepreneurial packages available. A careful assessment of training needs is required to modify materials, with consideration of the particular clientele (level, gender, interests), and adaptation to cultural and social peculiarities. The assessment of training needs enables training or technical assistance to be planned so that it is specifically adapted not only to the needs of trainees, but to building consensus regarding the training program among trainers, trainees, and their home institutions.

Materials that are not perceived as applicable—for example, those describing experience in other regions—are usually quickly rejected. However, materials (particularly case studies) are difficult to use if some people in the group were intensively involved in the project described. It is particularly important to consider gender in the planning stage.

Strategic Capacity, the Seeking Solutions Framework, and the AskARIES Knowledgebase

Seeking Solutions, a survey of the recurring problems of microenterprise promotion programs by Charles H. Mann et al.³, noted that promotional institutions encountered special problems with studying and assessing their environment, and with determining the need for and feasibility of the programs they undertake. Information about microenterprises is often

³*Seeking Solutions: Framework and Cases for Small Enterprise Development Programs*, by Charles H. Mann et al., may be purchased from Kumarian Publishers, 630 Oakwood Avenue, Suite 119, West Hartford, CT 06110 for \$29.95, plus \$2.75 for handling.

difficult to collect, and commonly accepted beliefs may easily be wrong. This point is illustrated in a case study on Malawi (Nathan Associates Inc. 1990e). Programs are frequently launched to promote enterprises that are not sustainable (where no markets exist or which yield low returns), as was noted in the discussion of women's enterprises in Somalia and Jordan.

By identifying recurring promotional institution problems and promoting use of the Harvard Business School case method approach, especially in the private voluntary organization community, ARIES provided both a framework and a method for institutional learning about enterprise promotion. As noted previously, a large number of organizations responded to the concept of this intellectual framework, and it is used in many parts of the world. The framework may well prove more popular than either the Harvard case method or the AskARIES Knowledgebase, both of which are connected with it.

As a by-product of producing the survey in *Seeking Solutions*, an integrated information system, the AskARIES Knowledgebase, was developed to permit easy analysis and use of the materials surveyed. In response to interest expressed, the AskARIES Knowledgebase⁴ was then published in a form suitable for use on microcomputers: it makes available the knowledge contained in the "core literature" on enterprise development to the widely dispersed community of practitioners.

The AskARIES Knowledgebase was designed for computers with an MS-DOS operating system, and comprises 10 floppy disks with an accompanying manual. Organized according to the recurring problems covered in *Seeking Solutions*, it covers 475 documents plus a bibliography of 1,700 items. It is intended to serve as a tool for analysis and collaboration, and is used in more than 80 locations. Some users employed the AskARIES system to organize their own learning process about small enterprise promotion—as did the Peace Corps office staff in Honduras.

Technical Management

Credit Management: Systematization

The second challenge, in technical management, particularly concerned credit program management. Of the 30 credit programs covered in the Agency for International Development Microenterprise Stocktaking Study, only 6 had less than 10 percent arrears, and 10 had more than 20 percent arrears: a level at which it is almost impossible to sustain a credit program. ARIES' first technical assistance assignment, 5 years ago, was to help a Salvadoran

⁴*AskARIES Knowledge* may be purchased from Kumarian Publishers, 630 Oakwood Avenue, Suite 119, West Hartford, CT 06110 for \$389 plus \$5.50 handling charges.

micro- and small enterprise (MSE) credit institution that was about to collapse because of excess arrearage. The ARIES team rapidly diagnosed the situation and began instituting a new management system, although in the end the effort was suspended because of political pressures.

In several other assignments, particularly in the Dominican Republic, as well as in disseminating ARIES training modules on credit management, human resource management, strategic management, and entrepreneurial training, ARIES has worked to institute the types of explicitly organized management systems essential to successful programs.⁵

The management of a small-scale credit program is no different in principle from that of a large one—but such factors as rationale, demands of the environment, and elaboration of procedures do in fact differ and carry implications for each step in credit management.

The rationale for small loan credit programs is highly developmental, although to be sustainable they have to be self-supporting and able to protect the value of their portfolio. Neither of these is an absolute—but the costs of sustainability have to be weighed against alternative uses of funds, such as support for education and health programs. Subsidy of capital loss on failed projects has to be compared to what is being subsidized, particularly for projects that fail.

Such developmental motivation must be present at two levels. First, the decision to start an enterprise loan program must identify credit as "a critical link" in local enterprise development and the presence of markets and skills should be verified. Second, management of the portfolio, especially the criteria for sanctioning credit and de facto returns from loans, must be based on weighing and monitoring these developmental goals (especially those of generating income and employment) as well as the need to make the loan fund sustainable. A careful classification of loans according to earning and cost characteristics should permit effective, sustainable programs (Nathan Associates Inc. 1990c).

The demands of the environment in which small credit programs operate also differ from those for large programs. The borrowers, and often the lending institution as well, may be less sophisticated than in larger scale credit programs. Borrowers may even be illiterate and innumerate. Simplified payment schemes (regular weekly payments) and procedures (payments at regular meetings) may be required. Various forms of group guarantees or responsibilities may be substituted for collateral and securities. The accounts and credit records upon which most bank lending depend may be lacking. Rough-and-ready equivalents may be developed, such as

⁵A detailed documentation of all these technical assistance assignments is contained in the *ARIES Bibliography* (Nathan Associates Inc., 1989a).

simplified calculation of break-even points, etc., or even, in some cases, dispensed with altogether. However, even in the simplest cases, inattention to notional accounts is dangerous: some activities are extremely unprofitable, although small entrepreneurs do not always realize this fact.

Finally, as the amounts under discussion are small, it is essential to simplify procedures to reduce transaction costs for borrowers and lenders. The information collected should be the minimum required for successful administration of the programs and monitoring of the agreed-upon social goals.

It is also desirable that procedures not be unduly time-consuming. This does not mean that borrowers cannot be asked to substitute their time for other kinds of costs: the poorest borrowers have more time than money. Accounts of the Grameen Bank argue that the process of group participation dissuades wealthier people, who often are busier, but who have easier access to other sources of funds, from participating.

Simplifying the credit process allows less sophisticated clients to understand it more easily and helps to decentralize administration—a key feature of successful programs. Such simplification of programs is often critical if women entrepreneurs are to be recruited into promotional programs. Use of informal communication channels, simplified application forms, support groups, training in business procedures, and decentralized provision of services have all proved useful in increasing women's participation in programs (Nathan Associates Inc. 1990f).

The ARIES Credit Management training package contains a complete system of documentation for a small loan program—passbook, sheets for aging overdue loans, various ledgers, and so on (Nathan Associates Inc. 1990f). It emphasizes the application of simplified cost and risk analysis, and the issues that must be resolved for a successful credit system to be established.

Bridging the differences between small and large credit programs are the common needs for commercialization, professionalization, and systematization that ARIES noted as logically necessary to produce impacts, and which are now part of the agreed-upon state of the art.

Commercialization means that credit programs recognize that assisted enterprises must be profitable in actual market circumstances to generate income, repay loans, and sustain themselves. It also means that the loan portfolio must be managed in a sustainable, value-protecting way. Rates, earnings, losses and costs must be aligned. Reflecting that need for alignment, more and more program administrators now perform cash flow and capital stock projections as part of their planning process.

The successful programs in microenterprise credit—such as the Grameen Bank, ADEMI, and BKK—are characterized by tight but flexible,

well-documented, and regulated management systems, typically with intensive use of automated accounting and reporting systems. They are highly professional in their commercial orientation, even while focusing on social and community advancement. As a rule they have shifted from a voluntary to a professional orientation, from a welfare to a commercial orientation, and from reliance on charismatic enthusiasm to systematic management.

Creators of such successful programs have developed detailed accounting procedures, financial and management information services, and extensive documentation of the new systems. By contrast, most of the less successful, credit-focused programs produce no documentation of their activity and use comparatively poor systems for recording and managing their financial flows.

Under an ARIES field project in the Dominican Republic, accounting and financial management packages have been developed for the needs of credit-oriented programs. ARIES helped install these systems in four Dominican Republic organizations and can attest to the difficulties encountered in transition: a substantial investment is required in terms of transferring data to the new systems and training personnel to use them. Once the systems begin operating, they are generally appreciated for the speed with which they enable work to be processed.

The work of developing management systems was done in parallel with work on developing organizational strategy. In the Dominican Republic, a series of seminars had introduced the concepts underlying loan assessment techniques and even described varieties of interest calculations, which enabled programs to see the real impact of slight variances in payment schedules on borrower cost and lender portfolios. Concerns regarding high interest rates collapsed when it was shown that many groups were already charging such rates without knowing it. In the Philippines, private voluntary organizations attempted to achieve consensus on standards for loan programs (in a conference for which ARIES provided the *rappporteur*). In Malawi advice was given to the credit union federation, which experienced great difficulty assimilating project loans into its standard credit union deposit-based credit system.

However, the primary ARIES activity was credit management training rather than technical assistance: a credit management training module developed by ARIES has been taught in several languages, in different circumstances, to a variety of trainees. To our knowledge, this is the only training package on credit management directed to the problems of microenterprise programs. The strategic management training package, which describes the problems of cost-efficiency at length, has also been extensively distributed. Both programs contributed to the threefold reorientation referred to earlier, and their effect is discussed later in this paper.

Noncredit Program Management: Financial Resource Management

Although ARIES discovered and worked with financial information systems for credit-centered programs, it has not yet found a financial management system that is oriented to the needs of training or to programs that focus on technical assistance. This area deserves further attention; such a system is particularly important to those programs that wish to transform microentrepreneurs into small entrepreneurs. The model in question here is the kind of management information system used by professional services firms, one that allocates costs (essentially for professional labor) against returns. Most such firms look for net fees, but development organizations might look at the profit or production enhancement of clients. Many private voluntary organizations use systems designed to track various donors' funds and requirements separately; such factors must often be considered in designing systems for promotional organizations.

Entrepreneurial Training and Technical Assistance

A barrage of criticism has been directed at training and technical assistance for microentrepreneurs over the last 5 years. There is a consensus (including the major organizations funding such technical assistance) that most such training and technical assistance has done little good. The technical assistance and training provided to clients have often borne no relation to the "critical missing elements" for enterprise success.

However, the benefit to be derived from improving technology and management is indisputable (Nathan Associates Inc. 1990b). Two recent reviews of technical assistance by the World Bank and various agencies in the U.N. system described instances in which the targeting of technical assistance to specific enterprise needs was appropriate. The reviews also indicated that decentralized autonomous delivery mechanisms were crucial to the success of technical assistance (Nathan Associates Inc. 1990b).

Various approaches have been explored to target training and technical assistance. Some work by a group connected with Michigan State University, to be continued in the GEMINI project, identifies the subsectoral analysis approach as promising. A subsector analyst could find that for particular product groups there were stages in production or marketing in which interventions, such as technical assistance, might increase production.

ARIES project preparation cycle teams (especially in El Salvador, Honduras, and Costa Rica) were asked by field personnel to address the problem of targeting training and technical assistance programs proposed for Agency for International Development mission support (see Nathan Associates Inc. 1989 for documentation).

Later, in evaluating a forest products industry project in Ecuador, an ARIES team did a subsector analysis on how technical assistance should be concentrated on the most strategic part of the subsector. In this case, the loggers were estimated to be recovering only 15 percent of the usable lumber in the areas they worked. They should improve lumber recovery rather than concentrate on product development for the highly competitive American furniture market. However, the ARIES team for a project in the South Pacific investigated the merits of providing management skills to the agricultural sector through management training courses. The team concluded that the key impediment to growth in the agriculture and fisheries sectors was not lack of managerial skills, as originally thought, but such factors as the small size of markets, transportation problems, underdeveloped market channels, and lack of expertise in technical production. The point is that not every environment is suited to every project. Rather, it is necessary to provide the critical missing element, which may be, for example, in the area of policy.

In a more systematic way, ARIES surveyed alternative means for training microentrepreneurs. ARIES has used two approaches to this task. The first was information gathering: hundreds of courses are already in place around the world, and some of these are taught extensively. The International Labor Organization (ILO) program, for example, offers *Managing Your Own Business* in 78 languages. There is information about the instructor training packages, lists of secondary resource material, and the impact of these widely taught programs. It would have been a waste of time for ARIES to design another course.

ARIES evaluated five training packages (or methodologies) that it considered representative: (1) the methodology of Overseas Education Fund International (OEF) for training women entrepreneurs, (2) the programs of the Carvajal Foundation of Cali in Colombia, (3) entrepreneurship development programs of the variety used in India, (4) some of the courses developed by the ILO, and (5) the nontechnical assistance approach of ACCION-AITEC. They are designed for different levels of entrepreneurs. All are widely used and report positive effects. However, "the lack of financial transparency and cost-accounting systems . . . means a true reflection of the costs" and benefits of these programs is not available. Table 1 summarizes the characteristics of these programs, including the systematic evaluation performed by ARIES of the different program materials (Nathan Associates Inc. 1990c).

The second approach involved training assessment. ARIES teams adapted materials to the needs of a given clientele. One team reviewed the entrepreneurial training program supported by the Peace Corps in Malawi, and suggested ways to adjust the materials to the varying needs of each training center. Another team worked with the Peace Corps in Honduras to design training programs and obtain feedback on the use of ARIES materials in Peace Corps training.

Table 1. Comparative Analysis of Training Models

	OEI	CARVAJAL	EDP	ILO	ACCION
Target Groups	Illiterate or barely literate women with low skill levels and an average of 2 years experience with enterprise activities in Central America, no experience in Africa	Entrepreneurs with average monthly sales of less than \$5,500, an average of 5 employees, and numerous years of involvement with their enterprises. Medium to high level skills	Individuals who test positively for entrepreneurial traits	Wide spectrum, including rural illiterate women, handicapped refugees, unemployed graduates, and small and medium enterprise owners and operators	Existing enterprises with 5 or fewer employees. A high number of women
Stocktaking Context	Enterprise <u>Formation</u>	Enterprise <u>Transformation</u>	Enterprise <u>Transformation</u>	Enterprise <u>Formation, Expansion, Transformation</u>	Enterprise <u>Expansion</u>
Program Focus	Social and community development and business skills training for <u>existing</u> and start-up enterprises.	Business skills training for <u>existing</u> enterprises	Achievement and behavioral and skills training for <u>pre-</u> entrepreneurs	Business skills for <u>existing</u> , and start-up enterprises, and entrepreneurship development training	Business skills primarily for <u>existing</u> enterprises
Training Techniques	Group dynamics, practical role-playing	Classroom based, audio-visual, practical, hands-on	Classroom-based, group dynamics, practical hands-on application	Varies with program. Combination of on-site and classroom-based training, practical applications stressed	On-site, demand-driven technical assistance; highly interactive informal training
User Fee	Yes (partial cost recovery)	Yes (partial cost recovery)	No, but recently implemented in the State of Bihar	Varies with the adaptation	Yes, full cost recovery in some instances
CDC Evaluation of Training Materials	Very high, 95-100	Very high, 95-100	Exists for one program: high, 90	Exists for few materials Medium to high, 50-100	Does not exist
Regional Focus	Worldwide	Latin America	Asia, Africa	Worldwide	Latin America

Administrative Management

Human Resource Management

On the basis of research, including that presented in *Seeking Solutions*, ARIES identified two important subject areas for which it received relatively few requests: personnel management and communications management. The project developed training materials in the first area but did relatively little work in the second (Nathan Associates Inc. 1990g).

Personnel management was identified as the key problem in administrative management capacity in *Seeking Solutions*. Several false starts were made in developing a training module, including a well-received training session in the Dominican Republic. However, ARIES felt confident of its position only after Dr. John Ickes, a leading writer, delivered a lecture that synthesized his work on personnel management. The lessons to be derived from Ickes' work to some extent constituted an agenda for addressing the problem (Ickes 1990).

The ARIES human resource module is a training course centered on teaching cases. Discussion focuses on the strategic decisions involved in approaching human resource management mechanisms. No single result is emphasized—not even those in accord with the trends reviewed above. Rather, the course recognizes that the correct solutions vary from country to country and from organization to organization.

The approach used by ARIES, described below, seems to encapsulate the best practice in the area. ARIES recognizes that the primary problems of promotional organizations arising in the personnel area are unlikely to be those of the personnel system itself. Rather, they are related to organizational structure, span of control, leadership, and so forth. ARIES concedes the importance of such problems as well as the significance of those connected with centralized management systems and shortage of resources. However, the package ARIES has produced focuses on the more easily controllable parts of the human resource area—the human resource management mechanisms.

The approach proposed is to create a system that incorporates personnel, the organization and its purposes, and the human resource management mechanisms available, such as recruitment, selection, training, evaluation, and rewards and punishment.

As in other management fields, both professionalism and systematization have increased as promotional organizations for micro- and small enterprise have grown, broadened their scope, and gained experience. Professionalization appears by no means inevitable. Many of the organizations were voluntary organizations, dependent on volunteers, and staffed by

generalist community organizers. There is real tension, both in skills and in attitudes, between those people with the requisite commercial and technical skills and those oriented toward social organizing. Such tension is exacerbated because frequently, as in the CARE case cited in *Seeking Solutions*, the organization itself has changed from a welfare, social-organizing orientation to one of promoting commercial activities, and many personnel have trouble with that transition (Mann, Grindle, and Shipton 1989, pp. 157-68). Experience suggests that it is possible to recruit personnel with a proper attitude and a willingness to learn whatever skills they lack.

Recruitment—Broadening of Sources. In response to the new viewpoint, enterprise promotion programs now often recruit both business school graduates and those with hands-on business experience. Sometimes they look for former entrepreneurs but, more often, they seek former salaried managers.

Recruitment is still typically done by word of mouth and by using referrals from board members and current employees. Although this may be adequate for the smallest organizations, it limits the skill pool. More and more, business schools are canvassed, and generalist recruits are given a sound in-house business education. Newspaper advertising is customarily used to recruit for the kinds of positions available in promotional institutions, and in some countries is used to recruit even for positions at higher levels. John Ickes suggests a litmus test for recruiting new staff:

The test for the MBA type [applicant] is the following statement . . . 'Managing a rural health program is the same as managing a tire factory.' Those who insist that the statement is true are unable to grasp the distinction between managing resources and managing a process of people empowerment, and they should probably stick to managing tires.

The litmus test for the social organizer type [applicant] . . . "Businesses seek profits whereas PVOs seek development." The test is the vehemence with which it is affirmed to be true. Those who see no side to entrepreneurial activity other than profit-seeking may be harboring a deeply seated belief that anything to do with business or management is evil [It may be] difficult for them to acquire and utilize the administrative skills necessary to be of much use to entrepreneurs in the SME sector (Ickes, et al. 1990).

Once there is a recognition of the importance of both social organizational and commercial skills, everything else follows.

Such recognition is an explicit advance over the PISCES project, which noted the critical importance of social skills. At meeting after meeting over the last few years, those who run enterprise-promotion programs have

recognized the importance of commercial skills, until, as Maria Otero, of ACCION, said at one meeting of private voluntary organizations, all concerned have perhaps gone too far in the other direction.

A related decision concerns professional cadres. Although many groups still have a "voluntary ethic," more programs have professionalized their cadres. Mohammed Yunus, founder of the Grameen Bank, broke from his predecessors precisely because he felt that where large sums of money were to be handled, they should be managed by professionally qualified, responsible cadres.

One result of such increased professionalization has been far less use of those recruited among clients as professionals. Numerous groups, however, still use such cadres—or at least give preference to professionally qualified candidates from rural areas.

Another source of tension that has emerged is that promotional programs want professionally qualified as well as experienced personnel. This is particularly the case with transformation-type programs, which often deal with more sophisticated enterprises and entrepreneurs. Such transformation programs take micro- or small entrepreneurs and transform them into small or medium-scale ones, but experienced businessmen infrequently volunteer to undertake grassroots organizing work.

The combination of social consciousness and commercial skill differs with the client group and orientation of the program. The technical expert might serve in a staff position: for example, as a credit adviser, or as an adviser on productive skills such as agriculture, animal husbandry, or woodworking, as well as working with generalist line cadres, rather than as an organizer.

Systematization has occurred as well, often as the result of a crisis caused when the volume of business overwhelmed older, less formal structures. A common result of such a crisis is destruction of the organization. It is only in cases of organizations having flexible, dynamic leadership like ADEMI, of the Dominican Republic, that there is sufficient flexibility to survive. In that case, outsiders were called in to develop a systematic personnel manual and system.

It is probably inevitable that these two processes, professionalization and systematization, will occur as organizations grow.

The processes have necessarily led to transformations in the various human resource management mechanisms used by promotional programs.

Selection: From Formal to Informal Qualifications. Selection still tends to depend on formal qualifications, although some groups use participant training techniques as selection devices.⁶ A typical device is to invite applicants to a rural site work camp and let them work for a limited period on implementing development projects in a village, or to alternate periods of residence in a village, understudying experienced workers, with periods of classroom instruction. Usually a large number of candidates disqualify themselves in these circumstances when they see that they do not have the right orientation.

A set career path that includes promotions and training rotations has been created in some of the larger organizations. Such a proceeding does not meet with universal approval: one school of thought argues for careers in enterprise promotion as a hiatus in a general business management career, rather than as a lifelong calling.

Training. Promotional organizations for micro- and small enterprise have always been part of the training culture. They often developed sophisticated training techniques and materials long before entering enterprise promotion, and many had used pioneer experiential, participative learning techniques. (One organization, for example, takes trainees to a village connected with their movement. The trainees prepare a village survey and plan which they have to sell to the village leadership.) Training has been altered to include more commercial content. Community organizing and cultural sensitivity training are still present—as well as endless discussion of philosophy and approach—but the balance has shifted.

Evaluation: Performance Appraisal. In response to the systematization of personnel systems, regular systems of evaluation against different sorts of goals are commonly used. The goals are set either individually or on a standardized basis by the organization.

Although international promoters such as ACCION International and Technoserve have adopted such evaluation techniques, almost no third-world private voluntary organization has done so. More hierarchical, less confrontational social norms are commonly cited as reasons for this fact. BRAC reports that it uses informal group reviews; Technoserve reports that it remains dissatisfied with the way such reviews work in Africa.

There is particular reluctance to use these performance reviews as the basis for merit salary increases, notwithstanding vehement advocates of such merit pay plans. ACCION, for example, uses quantitative indicators in its employee evaluations and awards merit incentives on that basis. Opponents

⁶BRAC in Bangladesh directs its applicants through a week-long set of participant exercises before selection. It is not unusual in this respect.

argue that because of the team nature of many programs, individual incentives are inappropriate. Rather, it is argued, evaluations should serve as an occasion for dialogue on individual objectives and achievements.

Rewards: Professional Salaries To Meet the Market. Connected to the decision to professionalize is the decision to pay competitive salaries. Recruiting experienced business people often requires paying higher salaries. Promotional groups find themselves compromising with an ideal of economic sacrifice for their workers to achieve the mixture of expertise and commitment they seek. Everyone must recognize that salary is only one of the incentives being offered and that other aspects of the personnel system, such as chances for advancement or for intellectual or moral fulfillment, are equally critical.

Communications Management

Communications management has both internal and external aspects. Internally, promotional organizations need to learn from feedback and evaluations. As indicated by the foregoing discussion on personnel systems, this may not be easy. Many organizational cultures are too hierarchical, or sensitive to direct criticism, to permit this sort of learning. Externally, promotional organizations need to network with other institutions and link themselves with governments and donors.

The question of communications and external relations has been dealt with less extensively under ARIES than have the other three management areas. The communications issue—especially in relation to governments—is the focus of the Judith Tandler report to the Ford Foundation on the small enterprise programs that it assisted (Tandler 1988). Tandler believes that because the value of these relatively small enterprise promotion programs lay in their systemic influence, their ability to communicate with the system, other groups, and government was critical.

In the end, ARIES paid less attention to external communications capacity because the need for such communications was felt less strongly by most of the groups with which it worked. An important exception is a great deal of concern with respect to fundraising. ARIES has been involved in several workshops, informing organizations about both domestic and international sources of funding and methods of securing it. Several other organizations, especially the Pan American Development Foundation, maintain an active program in this area. It would be logical for such a program to discuss some of the problems of relations with governments: such relations exert an important influence on sources of potential funding, as well as playing an important part in the regulatory environment governing the work of promotional organizations.

Effects

Like most other project development work, the effect of ARIES inputs must be judged in terms of the projects they assisted. The effects have been both intellectual (especially through training and the dissemination of findings) and practical (through technical assistance assignments).

The research component provided a framework for discourse and identified certain recurring problems, as well as some promising approaches to solving them. The framework has been widely accepted—in the area of Women in Development work; by the various users of the *Seeking Solutions* cases and the *AskARIES Knowledgebase*, including the Small Enterprise Education and Promotion Network (SEEP) members, and more generally the international development community.

The training component, through the materials developed, embodied the research framework and used some of the proposed approaches (that is, case teaching) identified in *Seeking Solutions*.

Many groups, such as private voluntary organizations in Senegal, the Dominican Republic, and Thailand, have participated in training sponsored by ARIES alone; others have attended sessions co-sponsored by ARIES and the Small Enterprise Education and Promotion Network group in the United States or banks in Niger and East Africa. In addition, ARIES training modules have been widely used by others around the world: there are reports of recent training in the Eastern Caribbean and of Peace Corps training groups in Honduras and Africa. Elaine Edgcomb of the Small Enterprise Education and Promotion Network has used some of the materials with Adventist groups in the Philippines.

For the two modules used most frequently over several years—the credit management and the strategic management modules—effects on trainees can be traced. Effects were pronounced in the case of the Small Enterprise Education and Promotion Network members, and in the acceptance by the Dominican Republic groups of higher interest rates as necessary for sustainability. The other large groups of trainees, private voluntary organization personnel in Senegal and Thailand, and bankers in Niger and East Africa have not been followed since their training, although it is likely that they have experienced similar effects.

Greater cost consciousness and a more serious commercial orientation have spread among promotional institutions as a result of ARIES seminars and training activities. The book *Seeking Solutions* represents the core of the strategic management package. Several of the cases discussed in the work emphasize cost-consciousness, including that of the Community and Enterprise Development Project (CEDP) in Senegal and that of the Bangladesh Rural Advancement Committee (BRAC) in Bangladesh. The cases have been widely

studied by private voluntary organizations and have helped groups become more commercially oriented.

It may be too early to judge the usefulness of *Entrepreneur Training: User's Guide*. However, there is a great deal of interest in it, and there is no question that the comparative perspective it contains was welcomed in the training designs which included it. The effects of use of the Human Resource Management Package are also too early to predict.

The third component, the technical assistance assignments, covered four disparate activities: those connected with the Agency for International Development project cycle, such as evaluations and project design work (22 assignments); training (10 assignments); research (2 assignments) and hands-on technical assistance (7 assignments). The three largest hands-on assignments were the El Salvador assistance, referred to previously; the Dominican Republic involvement, which included extensive seminars using the training materials and installation of the financial information system, and a collaborative relationship with the Peace Corps. In each of these cases training was combined with follow-up consulting; the results were aborted in the first case, owing to political complications, but were widely visible in the two latter cases. The precise nature of increases in efficiency and output will be visible only over the next several years.

The project cycle work has two aspects: its lessons fed into ARIES learning and have been recorded as such, and it produced projects that can be judged as they unfold. A review has been conducted in the case of Women in Development. Some of the projects developed were never implemented, because of conflicts with the Government of Jordan, political disorder in Liberia, and other projects, such as those implemented in Malawi and Guatemala, are too recent to assess. A project in Honduras, for which an ARIES sectoral survey was a key design input, records considerable success in institutional strengthening of private voluntary organizations (increased volume of lending and percentage of recovery), and in achieving some graduation of clients into a commercial bank guarantee scheme.

ARIES' focus on Women in Development issues has resulted in inputs and outputs more sensitive to women's concerns than otherwise, but the ultimate fruits are hard to assess. The project ARIES evaluated in Thailand to train private voluntary organization staff who assist women entrepreneurs has continued. The Bangladesh project continues to experience problems in achieving its goal to serve women, and the Jordan project, which included ways to "mainstream" women in the proposed project design, was canceled because of a political confrontation with the government. It was impossible to trace any special effect in terms of increased female entrepreneurship.

The major positive effect in this respect was the sharing of knowledge about women and entrepreneurship. Unfortunately, activity occurred too late in the project to provide major inputs into ARIES' earlier activities.

The ARIES materials have been widely distributed and have exerted much intellectual influence. Some indication of the impact of these materials is shown in the review of *Seeking Solutions* in the *Economic and Political Weekly*, one of India's most influential journals. Professor Sandesara, one of India's leading experts on micro- and small business, begins by judging *Seeking Solutions* "as an immensely useful and valuable book for all of those who are concerned with the small business question." He concludes that it is a model for urgently needed Indian studies in the field: "For such Indian studies with the focus on efficiency and sustainability of the small industry programmes . . . this book will stand in good stead" (Sandesara 1990).

One expects similar reviews elsewhere over the next several years as the slow process of book reviewing occurs, but the broad dissemination of the ideas in *Seeking Solutions* and in the AskARIES Knowledgebase is already apparent. More broadly, ARIES has served as a communications vehicle for outlining some of the current thinking in the training and technical assistance field, for intermediary organizations as well as for entrepreneurs.

Conclusions and Recommendations

Three steps must be taken: (1) the legacies of ARIES should be continued, (2) the gaps or deficiencies discovered by ARIES should be filled, and (3) new directions should be established.

Legacies

The various ARIES legacies should be disseminated and supported, especially ARIES products—the eight training manuals, the working papers, and other documentation of the technical assistance assignments listed in the *ARIES Bibliography*. Fortunately, commercial channels are handling a large part of this, but many potential clients depend on donors for the bulk of their budgets. Thus donor support should continue at some level—at the very least in encouraging grantees to use their funds to buy the materials as needed.

More particular follow-up is required for specific ARIES projects. The case writing and teaching activity which has been conducted in collaboration with private voluntary organizations, especially in the Small Enterprise Education and Promotion Network groups, should be continued. Plans for holding a third case writing and teaching workshop in Cambridge, Massachusetts, and a regional workshop in South Asia are under discussion.

The work on surveying alternative training models needs to be developed, ideally in collaboration with the Peace Corps, for which it was designed, and extended to deal with small business consultancy. The Human

Resources module should be field-tested, perhaps *inter alia* with the Small Enterprise Education and Promotion Network.

The Credit Management module needs to be more widely distributed. Several people have suggested it be packaged in a more commercial, less looseleaf form. A central place needs to be created for recording client organizations' experience using the ARIES products and feeding back into their revision.

In a broader sense, the framework, the universe of discourse, should continue—and research that will remedy the deficiencies discussed below should be supported.

Gaps

Some of the gaps identified by ARIES are being addressed, such as the need to include women in enterprise programs and the search for sustainable models of training and technical assistance. The area of communications management needs to be addressed. Specific financial information systems are required, as was noted earlier, for noncredit-centered programs. Besides extending attention to personnel systems and alternative training models (particularly the type of collection of empirical data that underlay *Seeking Solutions*), a similar perspective for comparison is required for small business consultancy. Several manuals on the subject have been prepared, but none compares to the kind of material that exists for developed countries.

New Directions

New directions in micro- and small enterprise promotion will require attention to new institutions and noninstitutional possibilities for micro- and small enterprise promotion: policy interventions, new financial instruments, use of traditional structures, use of public communications systems, and so forth. Small beginnings were made on several of these themes under ARIES.

Reflecting the previous experience of some core personnel, ARIES was associated with a fair amount of empirical work, focusing on the use of knowledge of informal markets in designing financial market interventions by donors and governments. ARIES did a fair amount of work in particular countries on specific innovative financial arrangements, including a scheme developed with Jordanian banks for using credit card principles in a suppliers' credit scheme for small furniture manufacturers. In general, with the collapse of many financial institutions around the world, the role of suppliers' and marketers' credit is getting a new emphasis. This informal market work was reported in two seminars: one on alternatives in financial intermediation, and one on informal markets, where additional research conducted by Nathan Associates on the financial arrangements for cross-border trade between Afghanistan and Pakistan was presented.

On the policy intervention front, ARIES conducted work on possibilities for the informal sector in the Sahel region of Africa. It was concluded that despite recognition of the importance of the sector, efforts connected with it have been limited either to research or to supporting projects that serve a few scattered microunits.

These two activities do not constitute an adequate approach to meeting the needs of the informal sector in the Sahel. Programs under way in other regions, notably Latin America, point the way to a more comprehensive and effective attack on the barriers to growth facing the informal sector. Such a strategy would be based on the following principles:

- The strategy would recognize that the informal sector in the Sahel is not limited to microenterprises in the urban areas . . . but includes *traditional and ethnic informals* in both urban and rural areas . . . that . . . are reasserting their place in the economy and society.
- The strategy would be based on incorporating informals of all types fully into the national economy, not by forcing them to adapt to the current legal environment, an environment in which even modern firms cannot survive without recourse to mercantilist behavior but by reforming *the legal and administrative systems governing relations among firms and between firms and the State* to make these systems consistent with the realities of the Sahel and its business community.
- The strategy would be based on working through and strengthening *organizational structures within the informal sector* in contrast to the current approach that deals with informals as atomistic actors in isolation from their social and economic context. [This echoes the findings in *Seeking Solutions* that SME promotional efforts can build on pre-existing social structures and institutions, and that where possible this is usually cost-effective].
- The strategy would recognize that *informality is a response to a failure of the system* and that small and medium-scale formal firms as well as many larger firms in the Sahel suffer from the same problems as the smaller informals. (Bremer et al., 1989). [emphasis in original]

It is now generally realized that if micro- and small enterprise development is pursued for social systemic goals—poverty alleviation,

income generation, and so forth, such development must be assessed in its systemic context. We must look not only at microeffects of micro-projects but at (1) the effects of SME programs on systems--the financial market system, the labor skills training system, and so forth, (2) the effects on communities and families who use these systems--small business-people and so forth, and (3) the effects on system outputs--the role of women and children and their welfare, as well as the overall health of the economy.

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