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9. ABSTRACT

A study of the development of concepts and approaches to action programs aimed at expanded employment and income opportunities for the urban poor. Emphasized are an appraisal of the key problems and major difficulties encountered, and an identification of potentially useful activities that could be undertaken by international development agencies. A series of networks based on field experience is described and analyzed as guidelines for action programs. These networks focus on small, labor-intensive enterprises, marketing systems for small producers, and financial and other institutions. Research for this study included a field visit to Peru to survey urban-poor, small-scale enterprise development in the Lima area, for four network profiles, and a brief visit to Bogota and Medellin, Colombia, for one network profile.

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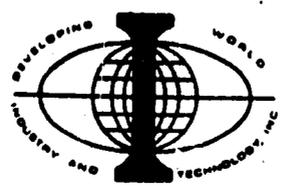
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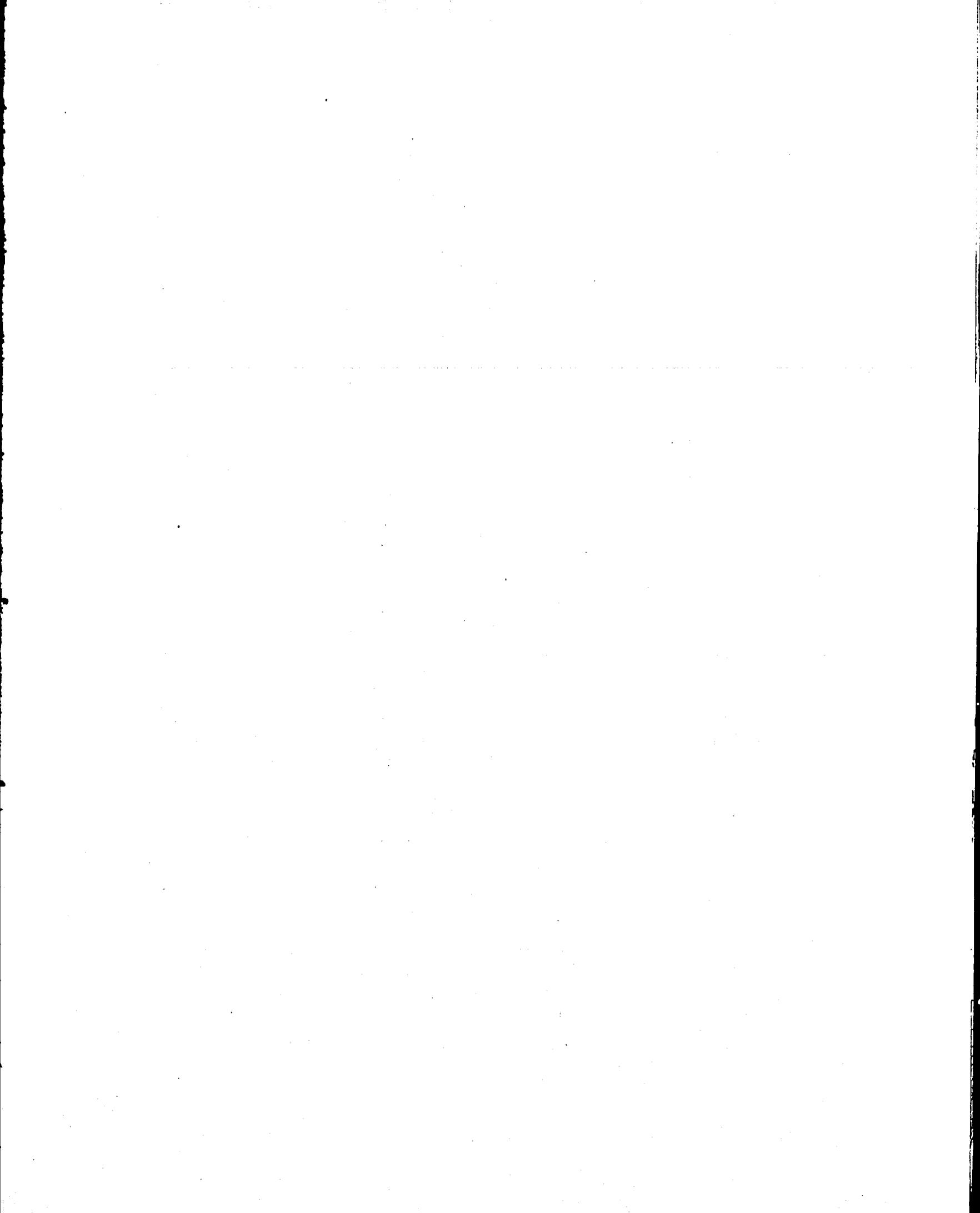
INFORMAL SMALL-SCALE ENTERPRISE SECTOR OF THE URBAN ECONOMY:  
PROBLEMS AND SUGGESTED APPROACHES

March 8, 1976

Prepared for the Agency for International Development,  
Office of Urban Development, Technical Assistance  
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SUITE 800 • 919 18TH STREET, N.W. • WASHINGTON, D.C. 20006



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## EXECUTIVE SUMMARY

The global problem of significant improvement in the condition of the poor is formidable in terms of

- the vast numbers of people that need help
- the geographic dispersal of these populations
- the cultural inaccessibility from the technical assistance viewpoint
- the general lack of political leverage on formalized institutions among the urban poor
- the lack of a favorable political climate conducive to beneficial change.

Some of the major difficulties and deficiencies in working in the informal sector are

- devising and implementing new training and technical assistance modes
- adapting or creating new financial and developmental institutions to initiate and carry out potentially useful programs
- inducing grass root initiatives and capabilities in the formulation and implementation of programs
- developing new enterprise forms and networks that can more effectively serve the needs and emerging capabilities of the urban poor
- adapting or creating technology appropriate to the needs and emerging capabilities of the urban poor
- devising new and more innovative credit systems to finance urban poor projects.

The fourteen network profiles provide operational guidelines to project planners on programs to expand income and employment for the

urban poor. Included are subcontracting systems and technical assistance networks to provide common facilities or integrated services. The network profiles represent an array of experience in both the developing world and the urban poor sectors of the United States.

Further research and experimentation are needed in key areas such as

- power relationships and conflict resolution among culturally different groups
- the extent to which participative and democratic industrial authority structures facilitate worker self-management
- the nature of clandestine enterprises and methods for bringing them into the formal sector
- the trade-offs between community-controlled versus private entrepreneurial small-scale enterprises
- the exploitive nature of SSEs in both economic and social/behavioral terms.

## INTRODUCTION

This study was commissioned by the Agency for International Development as part of the effort of the Office of Urban Development, Technical Assistance Bureau, to develop concepts and approaches to action programs aimed at expanded employment and income opportunities for the urban (town-centered) poor. The principal portions of the paper are devoted to a) an appraisal of the key problems and major difficulties encountered in this sector, and b) an identification of potentially useful activities that could be undertaken by international development agencies in this field. We have also indicated gray areas requiring additional research and experimentation. As guidelines to action programs, a series of networks based upon relevant field experiences, are described and analyzed with a view toward extension and proliferation to other parts of the world. The orientation in the analysis and proposals is toward "...small, labor-intensive enterprises, marketing systems for small producers, and financial and other institutions which enable the urban poor to participate in the economic and social development of their country..." - as characterized in recent legislation governing AID activities.<sup>1/</sup>

The research for this paper included a field visit to Peru to survey urban-poor small-scale enterprise development in the Lima area. Four of our network profiles are based on that experience, as is the situation-specific input into our definition of the informal sector. One of the network profiles on community-based enterprises is based in part upon a brief visit to Colombia (Bogota and Medellin.) The material presented reflects the collective experience

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<sup>1/</sup> Public Law 94-161, 94th Congress, H.R. 9005, December 20, 1975, Section 106(b).

of the work group that drafted the paper -- Jack Baranson, Neil Boyle, Anne Harrington, Doug Hellinger, and Steve Hellinger. We have attempted to combine an understanding of the culture of poverty with a practitioners' knowledge of industrial enterprise development and certain elements of organizational theory as applied to institutional networking.

## I. A CONCEPTUAL FRAMEWORK

### Overview

Two hundred million people live in cities under poverty conditions, however one defines it. Among them, one out of every four able and willing persons are unemployed. A combination of natural population growth and immigration from rural areas translates into a dire need for the creation of four million jobs per annum in urban areas in order to avoid an increase in the ranks of the unemployed. In order to maintain this status quo condition, US \$4 billion per year will be needed in investment at capital-labor costs of \$1,000 per job created.

The solution to the employment problem is made ever more staggering when one considers the changes that need to be made in the policy environments of LDCs. The main elements of such policies are well known: correction of capital market imperfections that limit the amount of available capital to small-scale and labor-intensive industries and that skew technological choices toward capital-intensity; modification of legislation that discourages labor use; the introduction of realistic prices for the major market variables in the economy -- from foreign exchange to farm products; and an increase in the range of choice of development strategies through research and experience. It is also clear that any efforts to increase the absorptive capacity of urban areas and the productivity and welfare of the urban poor will not be effective unless there are significant changes in the attitudes of governments toward self-help activities, the acceptability of low-standard, low-cost solutions to water supply, sanitation, shelter, transportation and health care, the management of urban land and the pricing of urban services in general.

*multiple  
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The purpose of this paper is to present a summary of development strategies (what we call networks), and a framework for analyzing them. These networks have been iterated at least once in the field and, if properly designed and implemented, can bring about increases in employment, productivity and self-help initiatives in the informal urban enterprise sector, as well as possible changes in the policy environment affecting the sector.

Several considerations have guided our thinking. First, we do not treat any of the broader macro-issues such as how an LDC can generate more wealth to distribute among its poor. This paper is intended to focus more on the project level of analysis. Second, our focus is holistic. We are equally concerned with the leverage and control of enterprise functions by the informal sector as we are with the organization development of the networks which function as delivery systems. As such, our interests also include the problems at the project level which inhibit policies from being chosen. Third, our objectives go beyond employment and incomes, and "state of the art" diagnosis. They include the following:

1. Influence policies by extending the range of choice of development strategies at the institutional level through shared research and experience.
2. Encourage horizontal linkages through industrial/commercial federations and associations and vertical linkages to other sectors, e.g., agriculture, housing, fishing, and timber to establish economic and political strength necessary to lobby for government services, policy changes, etc., and to restrict entry.
3. Create new social and economic relationships, e.g., income shares, through a change in enterprise ownership patterns that favor worker and/or community ownership and managerial control through a gradual and

evolutionary process that is brought about by relevant types of social process and technical education.

4. Development of long-term human and economic growth through: the upgrading of local skills; the mobilization of local leadership, savings, and initiative; the use of technology (hard and soft) that is appropriate for local absorption and control; a grass-roots learning and goal-setting process that is relevant to local conditions; and community initiative and self-confidence that comes about when local clients can negotiate their terms of reference and share the same development process with development authorities.

## The Informal Urban Enterprise Sector: A Working Definition

Friedmann and Sullivan's<sup>1</sup> heuristic model of the urban labor market in LDCs forms the background for a working definition of the informal urban enterprise sub-sector. The model is intended as a beginning for empirical analysis and is applicable to countries with urban growth rates approximately twice the rate of increase in national population, and a modern sector that accounts for at least 15 percent of the urban work force.

Friedmann and Sullivan divide the urban labor market into three major employment sectors. Figure 1 depicts these sectors in an ascending scale of labor productivity, economic power, and social status. On the bottom is the "street economy" or the individual-enterprise sector (I) made up of the unemployed and self-employed. Following the street economy is the family-enterprise sector (F) made up of workers in small trade and service establishments, domestic servants, and small industrial workshops that have fewer than 50 employees and a low capital/labor ratio. At the top is the corporate sector (C) including workers in corporate enterprises, government bureaucracy, universities, family-run businesses that are larger than those in the F-sector and the free professions. (See Appendix A for a detailed description of categories.)

### Peru's Urban Poor Informal Sector

The experience of the poor of Lima, Peru, over the past twenty years is illustrative of the social and economic progress that the urban poor can make on their own, as well as their potential for enterprise development if their

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<sup>1</sup>Friedmann, John and Flora Sullivan, "The Absorption of Labor in the Urban Economy: The Case of the Developing Countries," Economic Development and Cultural Change, 1975.

# THE STRUCTURE OF URBAN EMPLOYMENT

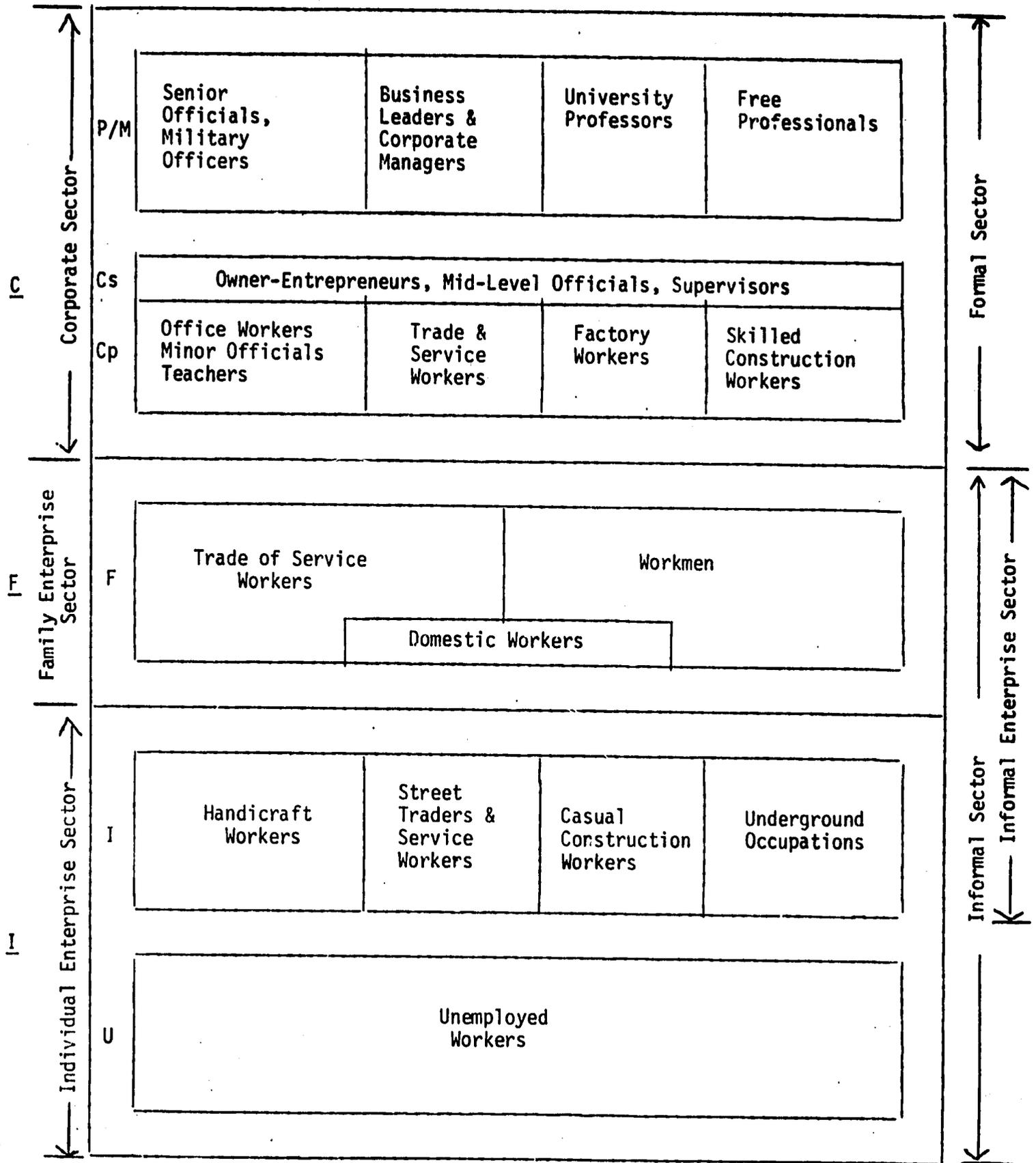


Figure 1

efforts receive both political and technical support. It represents a dynamic model of the urban informal sector upon which approaches for working with rather than for the poor can be founded, while affording an opportunity for maximum impact upon urban poverty.

While the Friedmann-Sullivan model accurately defines the informal urban enterprise sector as it exists today in the large urban centers of most of the developing world, it does so only in a static sense. What it fails to capture are the dynamics of the life situation of the urban poor who now compose or will eventually join the sector. It does not give an understanding of the development of the poor as their life circumstances change or of their potential -- as individuals or as a community -- to move into and then out of and beyond the informal enterprise sector and to do so essentially on their own initiative.

A city of some four million people, Lima is by far Peru's largest urban center and has continued to expand with the growth of rural migration. The most common pattern has been a movement from the rural areas -- particularly by the young looking for work -- to intermediate-sized towns and then eventually to the inner-city slums of the capital. In these turquorios, some one million live in rooms off alleyways, with totally unsanitary conditions, and on rooftops, paying high rents. While there are some advantages to this living situation -- one is close to work and to entertainment -- unemployment is high and the desire for better living conditions strong.

Many of these people have organized in relatively large groups to settle on publicly or Church owned vacant lands in the desert-like surroundings of Lima. The first land invasion took place on Christmas Eve 1954 by 3,000 people to the southeast of Lima. They called their new settlement Ciudad de Dios and encountered what was to become a typical confrontation with the police

before the government finally gave in and the people won title to the land. This soon became a common phenomenon, and new pueblos juvenes developed, usually formed by and attracting people from the same rural areas.

There are now some 1.5 million people living in all of Lima's pueblos juvenes, and more are being formed all the time. Some of the larger ones are Villa Salvador (four years old and with 150,000 inhabitants), Chorrillos, Comas, El Agustino, and Pamplona Baja and Alta which, along with Ciudad de Dios below them and Cinco de Mayo and others (the last one settled earlier this year) above them, have over 100,000 inhabitants.

This phenomenon of outer city slums is by no means unique, as they exist throughout South America under different names, such as ranchos in Caracas, favelas in Rio, and barrios marginales in Bogota. What makes the pueblos juvenes of Lima distinctive, however, is the extent of organized activity amongst its population. This process of community initiative, while having encountered early government opposition, has been benefiting from official government recognition and support.

The most immediate concern within all new pueblos juvenes has been housing. This problem has generally been tackled through a group effort, constructing a series of houses -- each at a cost of approximately \$1,000 to \$2,000 as compared to \$5,000 to \$6,000 for a comparable house in Lima proper -- and progressively making improvements on them over the years. In many cases, this organization has carried over into local programs of savings for the provision of services -- electricity, water, sewage, garbage collection, schools, recreation facilities, etc. -- and for the petitioning for government assistance.

Despite this activity, most of those with jobs work in the center of Lima. The work includes construction -- often one's first employment in Lima --

which is seasonal but pays relatively well (\$3-\$5/day), jobs in the large factories in the industrial zones (paying somewhere between the minimum wage of \$2.50 and \$5.00 for skilled workers), and less formal work in services and workshops (often paying less than \$2/day). To place these wages in perspective, the workers in Villa Salvador must pay \$.50/day in bus transportation to and from Lima's center -- where prices are high -- leaving before sunrise and returning after dark, and spend weekends working on their homes and on community projects. On the other hand, unemployment reaches over 50 percent of the adult male population, hitting particularly hard at those between fifteen and twenty. There does appear to be, however, considerable clandestine production (to avoid taxes and government regulation).

The amount of purchases made outside the community indicates that enough income is being generated, particularly through employment outside the pueblos jovenes, to create an effective demand for a range of products which could be produced within the communities themselves. Production by community enterprises could provide each pueblo joven with many of the goods it needs and at good prices, generate employment and greater income for its inhabitants, and -- if the enterprises are controlled by those communities -- assure that profits would be used to enhance the latter's welfare.

The most obvious need presently is for locally produced building materials for the great amount of home and other construction being undertaken daily in the pueblos jovenes. Rather than continue to purchase supplies on the outside, the resources and skills currently exist to make cement blocks; doors, frames, furniture and other wood items; simple works of iron; lamp posts, sewer tubes, etc. Such activity, in fact, has already begun in Villa Salvador and other pueblos jovenes. Similarly, the production of clothing, knitwear, and simple craft items has moved forward in several community

enterprises. For all forms of productive activity, varying degrees of financial, technical, managerial, educational, and marketing assistance are required.

Since the potential is so great in Lima for the establishment of new community enterprises for the production of local necessities, the absorption of the community's unemployed, the generation of greater income, and the retention of profits within the community, one should view the support of informal sector enterprises as pertaining both to the fostering of new enterprises as well as to the provision of assistance to already established small-scale enterprises (SSEs). Presently there are over 13,000 registered small-scale firms with nine workers or less, situated both in the pueblos jovenes and in Lima's industrial zones amongst larger factories where many hope to expand operations, and at least equal that number which operate clandestinely. It is estimated that up to 30 percent of the total Peruvian work force is engaged in production and distribution in this system of informal, but well-organized activity. The government would like to bring these firms into the formal sector, but the latter have little incentive to register so long as taxes remain high.

## Role of Informal Sector in Generating Employment and Income for Urban Poor

As indicated in the previous section, the very definition of what constitutes the informal sector remains elusive, so that we are somewhat in the dark as to the quantitative magnitude of the problem. Another dimension of the problem relates to national development policies and the displacement effect that urban poor sector employment may have on growth in national income. Experiences in developing economies over the past two decades indicate that employment generating programs may undermine economic efficiency, at least in the short run. This apparently has been the case in a vast array of developing economies following import substitution policies that have generated jobs in high-cost industries by international standards.

Economists view the problem of employment expansion in an aggregate sense as presenting three possibilities -- through a) market expansion, b) technical adjustments in production functions, and c) through changes in the national product mix. If we focus on the informal sector, opportunities to enhance the comparative advantage of this sector vis-a-vis other segments of the economy can be identified and pursued. From what we know, the "informal sector" a) accounts for 50 to 85 percent of the employable population, b) capital per worker averages \$50 or less, c) a large percent of the value added in goods and services consumed by the sector (are also produced within the sector, and d) a high percentage of enterprise activity is either unregistered or clandestine. Policies and programs can be formulated a) to increase the productive assets of the informal sector, b) raise the productivity of people in this sector, and c) open up or develop new market

opportunities or linkages for them. The networks described and analyzed in the paper have been chosen and are articulated in terms of their potential role in expanding employment and income opportunities for the urban poor within the framework outlined above.

The Peruvian situation was found to be particularly conducive to programs in this area because of the commitment of the government to the working class in general and the poor in particular, as reflected in its 1) policies of worker self-management, 2) recognition of squatters' rights in new outer city communities, and 3) the forthcoming new small industries law. New ownership patterns can help redress the disadvantaged segments of societies through the expansion of job opportunities, a more equitable share in the value added in production, and improved access to (and control over) the means of production. The situation in the past has been to exclude the poor from decisions regarding markets, product mix, and production function, which has often meant that overall industrial expansion does not benefit them through an increase in jobs, income, and needed goods. The establishment of urban poor, self-managed enterprises is one way to break into the production-marketing cycle and to give the poor a new access to decision-making and control of the means of production, and consequent income-earning opportunities. This approach also would provide additional opportunities to increase productivity among this group of income earners and to increase their share of income from value added in production units.

Member-controlled, poor-community enterprise groups are more likely to produce for their own needs (both in terms of output and production process) than are enterprises run by other individuals, rich or poor. The community enterprise can determine what are the group's material needs,

usually basic wage goods and building materials -- all produced labor-intensively and in such a way as to create and maintain maximum employment. Technical assistance is sorely needed in this area to optimize the trade-offs between employment and enterprise efficiency. Early results of experiments in worker self-management also reveal a tendency to pre-empt employment and income for an inner-circle of privileged workers.

An Appraisal of Some of the Key Problems  
Faced by this Sector

Legal and Administrative Constraints on Delivering Goods and Services.

Many informal enterprises are denied access to public services and benefits because they lack the financial and organizational resources to meet legal and administrative requirements. These enterprises are locked into illegal occupation of land, inability to register and qualify for operation permits, prohibitively high compulsory fees, and in some countries suffer harassment by the police.

Limited Access in Marketing, Production Organization Management, Financial Credit and Technical Adjustment.

Exploitive middle men often serve to market the goods and services of informal sector enterprises. Often these firms have no formal marketing channels and distributing networks. Credit is mostly obtained from family sources or from informal money lenders, sometimes at high costs. Technology is mostly indigenous; production organization is often inefficient.

Tax and Pricing Policies from Large Enterprises.

Many informal sector enterprises depend on larger firms to market their goods. Because of their small size and unorganized state, they lack the leverage to negotiate prices which favor their economic growth.

Past Approaches of Assistance Not Situation Specific, Are Under Funded, and Low Prestige.

It cannot be easily assumed that pilot or prototype projects are replicable in other locations or in other situations in the same location; people, institutions and regulations will differ from situation to situation as they did in the RITA Project/Northeast Brazil.

Development assistance projects in the informal sector are often little better off than the enterprises they are charged with helping. For impact

to be meaningful, development assistance to the informal sector will have to have a higher priority on the agendas of LDCs.

#### Lack Savings.

Fierce competition and income sharing and transfers are two forces which inhibit savings among the enterprises in the informal sector. Pricing is extremely competitive and often established in bargaining. In such cases, the lower price limit is the survival capacity of the family group engaged in production. When surpluses arise, the enterprise is often obliged to share the additional income with other members of the family.

#### Health/Education and Nutrition.

Poor states of health, and levels of education and nutrition are potential problems in this sector. High turnover rates and medical sick leaves were observed in town-centered rural industries in the northeast of Brazil. Education/health and nutrition interventions may be required as a parallel activity to small-scale industry development.

#### Production is Largely Biased Toward Low-Quality and Consumer Goods.

Informal sector enterprises largely produce goods which are not marketable via the formal manufacturing sector. This is due to their output being mostly consumer goods, e.g., food, tobacco, textiles, etc. and of inferior quality by formal sector standards.

#### Competition.

The informal sector is generally exposed to the existing or potential competition of formal sector goods and services. They generally cannot compete against goods and services that are standardized, quality-controlled, and produced in any appreciable volume. Two paths of employment generation may be feasible -- a) to enlarge access to formal sector employment, or b) to assist in selective product design and production methods that can compete

more effectively, at least marginally.

Implicit and explicit throughout the networks in section II can be found additional problems which are intrinsic to this sector. Some of these additional problems are as follows:

- The lack of political leverage and representation in the process of government. This is probably true in various degrees of expression for all of the networks mentioned including the social property network of Peru.
- The lack of an appropriate policy climate which is favorable to the growth and productivity of the informal sector.
- The lack of formalized organization by individuals and family enterprises and community members toward common objectives designed for their benefit.
- The problem of truly reaching the informal sector. The extent to which the poor are assisted seems to be primarily a function of the organization of the networks, the risk-return trade-off decisions made by local development assistants.
- Economic linkages, e.g. subcontracting between the urban poor and individuals and groups associated with enterprise and other support networks may be culturally worlds apart.
- The sheer magnitude of the numbers of people that need help makes it unclear whether the programs of donor agencies will indeed make any difference.
- The problem of determining when a particular country (or region of a country) is "ready" to honestly experiment with programs to reach the poor, and hence, to increase the probability of policy changes.

## An Indication of Some of the Major Difficulties in Working in this Field

Some of the major problems that arise when working in the informal enterprise sector are presented in this section.

### Developing networks may be a problem

1. LDC intermediary institutions may have to be organized and developed when non-existent.
2. LDC program agencies and intermediaries may not assign high priority to assistance to the informal enterprise sector.
3. Authority and responsibility boundaries among organizations in a proposed network may be politically difficult to clarify and adjust.
4. Project identification activities will entail more detailed knowledge by donors of LDC institutions' "readiness" to form effective networks. Readiness will need to be assessed at each level of network organization.
5. Network goals and the goals of individual network organizations, as perceived by those assigned to those networks, may conflict and, therefore, prevent effective program delivery.

### Maintaining these Networks May be a Problem

1. LDC government intermediary institutions -- like their developed country counterparts -- are bureaucratic and managed from the top down. Effective networks require that authority, responsibility and control be decentralized.

2. The typical LDC instrument for binding organizations together into a multi-agency effort is the project contract. These contracts are normally "static" instruments and generally not renegotiated as the project evolves.
3. Technical assistance institutions will generally differ in their internal management behaviors (styles, tools and skills) from behaviors required by the client system and the nature of the task.
4. Networks are interdependent systems. They can also operate under stress and a sense of urgency. The combination of interdependence and stress can create the conditions for internal conflict and crisis.
5. An outcome of action programs is an improved policy environment. To influence policies, these networks will require elements not easily attained in a developing country, such as a) decentralized coordination and goal orientation, b) evaluation-research consensus on methodology, c) early involvement of high level officials who can be persuaded to accept or are "ready" to make changes in policies, d) sufficient status among other projects as perceived by local policy makers, e) channels of communication and information flow which cut across traditional lines of authority, and f) successful attainment of project objectives.

#### New Training and Technical Assistance

New Training and Technical assistance may be required.

1. LDC intermediary technical assistance staffs are likely not to possess the type of social process skills that are required to

effectively transfer learning to their urban poor client populations. These newer skills may include process skills such as group dynamics, participative and experiential management and technical assistance techniques, communication and consultation skills, etc.

2. The Foreign Assistance Act calls for the participation of target populations in the process of development. More than token participation by these groups will require different commitments, policies and behavior of LDC government intermediary institutions and their project staffs. Organization development interventions into these institutions may be a necessary pre-condition to prepare them for playing a more effective role in a particular network.

#### New Financial Institutions

New financial institutions may need to be developed. Local banks may not be sufficiently accessible to the target group for economic and social reasons. They may be unwilling or unable to administer a large number of small loans to numerous small enterprises or to make appropriate risk-return tradeoffs. They may be unable to tailor their loans to the needs and absorptive capacities of the client group and may be unprepared to link their financing with technical assistance. Furthermore, these banks may be unable to set up special lines of credit and financial instruments (e.g., rediscounting facilities) which may be necessary for achieving the objectives of the program.

#### Grassroots Versus Top Down Problem Diagnosis and Action Planning

Most development assistance efforts to the informal sector call for trying to generate income and employment for the urban poor as part of a

top down approach. Efforts should be made to approach the problem from below through projects and institutions which incorporate the poor in decision-making and control at critical levels. Action-taking, self-initiative and a freedom to choose a way of life at the grassroots levels may be significantly increased if local initiatives, control, and decision-making come from the bottom. Much still needs to be learned, however, about how to promote the growth of the informal urban enterprise sector. A process of trial and error will be required for some time to come.

#### A Decentralized Understanding of the Process of Change for More Effective Intervention

The reputation that interdisciplinary teams enjoy as change and transfer agents in working in the informal sector is over inflated. The knowledge of the process of change and the social process skills of individual members are inadequate for the task. More important than the representation of social science disciplines on these teams, are individual team members who possess interdisciplinary skills.

#### Linking Client Enterprise Clusters

Difficulties may be encountered in linking client enterprises together. These enterprises may be linked together for scale economies in purchasing, marketing, distribution, and warehousing, auditing/legal services and technical/ management assistance. They may also link together to form industrial federations and associations as a base of strength from which to lobby for policy changes and to restrict entry, or with other sectors of the economy to gain access to raw materials (inputs) and markets (outputs). Linking these enterprises together will entail organizing a coordinating and administrative enterprise and providing it with technical assistance

until it is self-sustaining. The functions assumed by this enterprise will determine the difficulty involved. Horizontal linkages of economies of scale will require a highly efficient operation in managing numerous small accounts. Industrial federations and associations are political in nature. Vertical linkages with other sectors can provide a balance of power between formal and informal enterprises such as in subcontracting arrangements from which terms can be more equitably negotiated by informal enterprises.

#### Optimizing Allocation of Scarce Resources

International development agency contributions to increasing the productivity of the urban poor will be small in relation to the magnitude of the task. For example, the number of jobs both directly and indirectly associated with IBRD projects in industry would be no more than 500,000 per annum by 1980, compared to an annual increase in the urban labor force of over 8 million.

#### New Enterprise Forms

New enterprise forms such as cooperatives and worker self-managed corporations present certain dilemmas. On the one hand, for many LDCs, new enterprise forms are politically sensitive organizational tools. Specialized skills are also required in order to effectively start large numbers of them, especially if they are to be self-managed. These special skills are needed to deal with the group dynamic issues commonly found in one-man-one-vote organizations. These issues involve the form and way in which leaders are chosen, control is exercised, responsibility delegated, and members motivated. Despite these rather thorny issues and if they can

be resolved, new enterprise forms can serve as effective vehicles for reaching large numbers of people and for achieving the goals of local participation and shared decision-making in the development process.

#### Entrepreneurial and Managerial Talent

One can expect that with practice and longer experience the pool of entrepreneurial and managerial talent needed to organize the productive units in the informal urban enterprise sector will be increased. What is not sufficiently known, however, are the criteria one should apply in identifying a successful (but unproven) informal sector entrepreneur manager. Equally unknown are the risk preferences of entrepreneurs in this sector. Do risk preferences change as one moves down the urban labor market from the family enterprise units to the own-account "street" entrepreneurs? To what extent is motivation of the informal sector entrepreneur a function of the community in which he or she resides?

#### Availability of Appropriate Technology

This may be more of a problem in intermediate sized towns in rural areas where development strategies may be limited to spawning indigenous industries. The problem may also exist in large cities when the systems to deliver appropriate technology do not exist.

#### Gaps Between Donors and Recipients

There is probably no other set of constraints to successfully helping the urban poor as significant as the social, cultural, and technical barriers that exist between international donors, and LDC recipients. Social laws, institutions and structures of most LDCs, as well as their cultural styles,

values and attitudes, are different from those of donors. These barriers impede the transfer of resources from one to another.

#### Fragmented Universe of Small-Scale Enterprises

The problems here are logistical and administrative ones. Small-scale enterprises may be located in every "nook and cranny" of any city. Some of these enterprises may be "portable and clandestine," or even individual own-account enterprises. Administering resources and assistance to these firms will no doubt be costly until more creative means (e.g. community organization) are found to organize portions of the target group in a way which absorbs some of the costs.

#### Reorganizations of Existing Enterprises

Interventions into existing enterprises may be more difficult than expected. Many informal urban firms are family enterprises which, for political, cultural, legal, and economic reasons may be distrustful of outside influences and offers of assistance -- especially if the objectives of the assistance do not coincide with their own. Individual own-account enterprises pose a reorganization problem as well because of their large numbers, dispersed locations, illegal status, and, in cases such as street hawkers, limited potential for growth.

#### Informal Credit Systems

Informal credit systems in the informal sector are generally interwoven with the social fabric of the area. Often, money is lent on the basis of close social and family ties and referrals. Government systems which are designed to replace the informal system may find it difficult to do so, especially if the sub-culture is not fully understood and if it is not consulted on the new system.

### Who is the Client?

Foreign development assistants and consultants often find themselves asking the question: who is the client? It is not uncommon for consultants to be confronted with different sets of expectations and demands among program agencies, intermediaries and target groups. For the consultant, this question becomes one of satisfying contract agreements or satisfying target group needs and expectations. Conflicts such as the foregoing require that program agencies insist on expectations being congruent at an operational level among the parties involved.

Often, situations such as these will require the preliminary step of reaching a consensus among the institutions involved on the goals sought. This consensus is requisite before the assistance can be efficiently utilized and absorbed by a target group. Lack of attention to this preliminary step in the process of change can lead to a waste of resources.

### Conventional Wisdom of Development Authorities

Economists seem to have focused most of their attention on the design and analysis of policies intended to alleviate technical limitations to growth and, more recently, employment; the problems of selecting and implementing policies have been largely overlooked or ignored. Until the pathology of the latter case is given equal weight by international program agencies, difficulties will be encountered, if not made impossible in finding a sufficient number of jobs for the urban poor.

### Training in the Informal Sector

The abundant supply of labor in the informal sector consists of workers who ordinarily have not received vocational training in specialized institutions. Consequently, training, generally is given on the job. The apprenticeship system in the sector is outside legal provisions; seldom is there a contract or apprenticeship in the form prescribed by law. Craftsmen who are employers generally do not possess certificates attesting to sufficient competence to train apprentices; indeed, they often lack requisite qualifications. Also, they usually do not employ enough skilled workers to comply with the legal ratio of apprentices to the number of qualified workers (journeymen). Finally, the penalties involved in the conclusion of a contract of apprenticeship are certainly such as to discourage employers, who are often illiterate and in any case have no experience in dealing with authorities.

## II. NETWORKS

### Analytical Framework

The DEWIT analytical framework focuses on the concept of strategy networks, the constraints and gaps which inhibit total network functioning, network interventions that are appropriate for different types of constraints, and action-research project design.

NETWORKS - We define networks as several organizations including target group enterprises which must come together in a special way according to a particular development strategy, if the policies and programs to increase self-help opportunities, jobs, and incomes of the urban poor are going to be tested, reformulated and institutionalized effectively. Figure 2 is a schematic of a typical network. We divide networks into three components:

Program/Policy Agencies - such as LDC ministries, USAID, and IBRD.

Intermediaries or Transfer Agencies - such as local and regional banks, local and international technical assistance organizations, private sector executive boards, formal sector enterprises, government procurement agencies, private voluntary organizations, local community groups, technology institutes, universities, cooperative federations, social property commissions, etc.

Client Enterprises - such as existing or newly formed family-owned and individual enterprises, cooperatives, worker self-managed enterprises, community-based enterprises, etc. in the informal urban enterprise sector.

Several concepts of development and project design systems are applied to our notion of networks. These are described briefly:

A TYPICAL NETWORK

PROGRAM AGENCIES

INTERMEDIARIES

CLIENT ENTERPRISE UNITS

(Local and/or  
International)

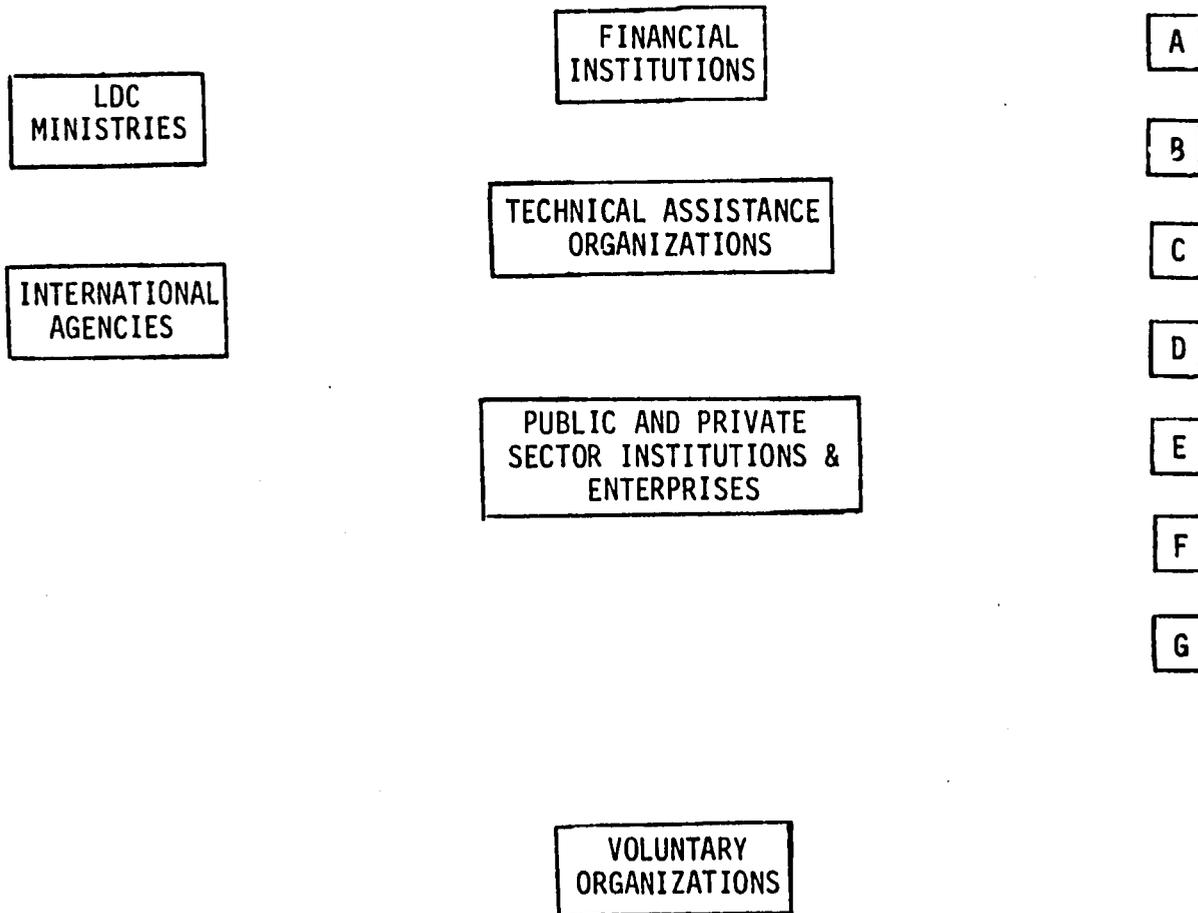


Figure 2

Concomitance - The network described above includes the target enterprises. The concept of concomitance refers to viewing networks as holistic systems. The implication of this concept is that adjustments in one organization or enterprise will require adjustments in another. Project identification then becomes a task of developing networks in a way which minimizes these adjustments and maximizes project impact. Much remains to be learned about the trade-offs between minimum adjustments and maximum impact.

Situation Specificness - Because of the situational differences among LDCs, the difference in purpose of networks, and the concomitant nature of networks, networks have to be tailored to fit specific situations. People, institutions, and regulations will vary among LDCs as they will within LDCs.

Readiness - An important element in project identification is assessing the "readiness" of LDC institutions, client enterprises, and situations for participating in networks which can be self-sustaining and catalytic. The criteria for determining a state of readiness will vary among LDCs and among networks within an LDC, but in general they include an articulation of community needs, preparedness on the part of the government to experiment, and a reasonably operative delivery system.

Action-Research-Demonstration - Because policies are chosen by people, it likely that employment can be promoted and more equitably shared by 1) extending the range of choice of development strategies through research and experience, 2) easing political constraints on feasibility, and 3) improving economic conditions of choice in both public and private sectors. Carefully designed and implemented action-research projects is one way of achieving these objectives from the bottom-up. The components of action-research are:

- . Climate-setting at the policy level
- . Project Identification

- . Monitoring of field experiences
- . Performance Assessment
- . Post Project Evaluation
- . Program Reformulation
- . Policy Influencing

GAP Analysis - A focus on networks as systems helps to diagnose problems encountered in working in this sector. Figure 3 shows how the gaps are analyzed.

Figure 3

GAPS as a Function of Constraints

| TYPES OF CONSTRAINTS      | G A P S |              |             |
|---------------------------|---------|--------------|-------------|
|                           | PEOPLE  | INSTITUTIONS | REGULATIONS |
| Program/Policy Agencies   |         |              |             |
| Resources and Time        |         |              |             |
| Intermediaries            |         |              |             |
| Transfer and Support      |         |              |             |
| Client Enterprises        |         |              |             |
| Absorption and Initiation |         |              |             |

Constraints are categorized into types according to the three components of network organization mentioned above: Resource/Time constraints of program agencies, Transfer/Support constraints of intermediaries, and the Absorptive/Initiating constraints of client enterprises. Each of these types of constraints are further broken down into gaps according to people, institutions, and regulations. People gaps may be key individuals, sub-cultural, and

social norms, values, styles, attitudes and motivation, level of skills, knowledge and health. Institutional gaps may be differences in organizational policies, goals, and tools among the organization in a network, and differences in political and economic goals and power, and resources. Regulatory gaps have to do with regulations and legislation which impede or skew the use of resources and inhibit attainment of project goals.

Adjustment Interventions: Adjustments in networks will likely need to be made at several levels. Figure 4 describes the different levels of adjustment and the interventions for bringing them about.

Figure 4

Adjustment Interventions

| LEVEL OF ADJUSTMENTS                 | <u>Adjustment Interventions</u>   |  |                                    |
|--------------------------------------|---|--|------------------------------------|
|                                      | PEOPLE  | INSTITUTIONS   | REGULATIONS                        |
| Program/Policy Agencies              |   |  |                                    |
| Goal Setting/<br>Policy Adjustments  | -Consultation<br>-Action-Research-<br>Demonstration   | -Policy Level<br>Conferences<br>-Negotiations<br>-Consultation<br>-Technical<br>Assistance<br>-Action-Research-<br>Demonstration | -Action-Research-<br>Demonstration |
| <u>Intermediaries</u>                |   |  |                                    |
| Delivery Adjustments                 | -Consultation<br>-Training<br>-Action-Research-<br>Demonstration  | -Policy Level<br>Conference<br>-Organization<br>Development<br>-Technical<br>Assistance<br>-Action-Research-<br>Demonstration    | -Action-Research-<br>Demonstration |
| <u>Client Enterprises</u>            |   |  |                                    |
| Absorptive/Initiating<br>Adjustments | -Consultation<br>-Training<br>-Community organi-<br>zation/development<br>-Needs Assessment<br>-Action-Research-<br>Demonstration | -Organization<br>Development<br>-Technical<br>Assistance<br>-Action-Research-<br>Demonstration                                   | -Action-Research-<br>Demonstration |

## Network Profiles: Introduction

In order to increase employment opportunities, income, and economic choice and control among the urban poor, new mechanisms are required to reach into the informal sector and help form and support small-scale enterprises. Networks which effectively integrate the activities of international and national program/policy (donor) agencies, international and national intermediary transfer agencies, and client enterprises and participants are badly needed.

Fourteen network profiles -- some offering a description of an entire system, others focusing upon a particular network component -- are presented below. Some, like subcontracting and government procurement systems, assist existing enterprises by providing them with new markets and channels for the delivery of technical assistance. Other profiles describe the role of intermediaries in assisting such enterprises compete more effectively through the provision of common facilities, integrated services, and assistance in upgrading production technology and production organization and management. On the other hand, some networks operate to help identify and assist in the development of new enterprises. Approaches to support efforts initiated by poor communities based upon their self-defined needs are given particular attention.

Case material incorporated in the network descriptions was collected through the field experience of DEWIT staff members in several countries, including Brazil, Colombia, Peru, Honduras, Paraguay, Kenya, Pakistan, Japan, and the United States. The final four profiles are based upon our experiences and observations in Lima. The cases at one and the same time

reflect the country's pluralistic approach to enterprise development and support and its emphasis upon worker self-management and community control.

### Subcontracting

A subcontracting system that extends -- or can be persuaded to extend -- down to the informal sector is an extremely important mechanism for expanding small-scale enterprise operations. The subcontracting system can provide new market linkages -- both internal and external -- as well as serve as a principal mode of enterprise-to-enterprise technology transfer.

As part of industrial subcontracting arrangements, purchasers of materials and parts are often willing to provide a full range of technical support information and manufacturing know-how in order to ensure a quality controlled end product. In addition to supplying drawings and blueprints, the contractor may have to offer training in specialized techniques and quality control. The contractor may also have to lease special tooling facilities and other equipment to subcontractors.

There are several examples of successful local subcontracting arrangements in which technical and managerial difficulties have been overcome with the assistance of the contracting firm. While the most common type of technical aid to subcontractors takes the form of advice or appropriate machinery and raw materials, the application of new processes, and the reading of blueprints, many contractors in India supply models or samples of the components they require, since subcontractors are not always literate. (There is a disadvantage to this practice, however, in that high-precision items usually cannot be manufactured from models.) Today, in the People's Republic of China, workers in the large factories at the province level provide assistance and advice to the smaller job shops at the lower levels during site visits. Another interesting experience with subcontracting has been that of Sears Roebuck -- although a retailer and not a manufacturer. In the mid-1950's,

Sears Roebuck began to work with local artisans and other small-scale plants in several Latin American countries to develop an exclusive product, extending technical assistance, materials, equipment, and often pre-production financing. Within six years after commencing such operations in Mexico, Sears was purchasing from about 1,300 local sources 80 percent of their total sales in that market. Ten years later in Peru, 375 firms, employing 20,000 factory workers were selling to Sears.

Throughout most of its modern history, a major element of the Japanese economy has been the subcontracting system. In its automotive industry, local vehicle manufacturers have developed very effective and extensive networks of parts suppliers to whom they provide full technical support ranging from technical drawings to the design and fabrication of machine fixtures suitable to small-scale production. For example, as part of an international subcontracting arrangement, Komatsu, as the prime contractor for the Cummins Engine Company of the U.S., had to design scaled-down production techniques and carefully spell out detailed instructions for Tsuzuki and other small firms contracted for parts manufacture. Materials specifications and quality control procedures were two critical elements of the technology transfer and conversion from Cummins through Komatsu to Tsuzuki.

Small-scale enterprises interested in tapping the vast potential offered by a subcontracting system for expanding their markets, however, cannot rely on assistance from the main contractor to upgrade their product or service so as to make them eligible to participate in the system. In fact, it is far more often the case that the firms whose bids are selected by the prime contractor already meet the requisite production and quality standard. The small-scale enterprise must therefore be made aware of and encouraged to exploit the services of technical assistance centers or demonstration centers

(discussed below) or any other such organization. One of the important functions these organizations can perform is to lobby and negotiate with formal sector enterprises in the interest of SSEs. Also, a technology loan fund could serve as a valuable source of funding for the small enterprise seeking to upgrade its product.

## Government Procurement Network

The public sector in developing countries often represents a major market for goods and services. Government procurement systems, therefore, can offer small enterprises the opportunity to expand and, if feasible, the means and the incentive to upgrade their operation. Procurement, on the other hand, affords the government the opportunity to increase employment and conserve scarce capital and foreign exchange resources.

A unique attraction of government procurement networks as a means of expanding employment is that they provide built-in demands for goods and services. Likewise, there is a built-in opportunity for the enterprise to respond to government tender notices.

These programs should be designed with a view toward overcoming certain deficiencies, primarily in the areas of technical upgrading, marketing, and production organization and management. Program development in this area should be based in part upon a survey of local support establishments such as: 1) productivity centers offering production organization and management courses; 2) engineering and consulting firms or industrial technical support institutes which could assist job shops to upgrade production techniques in order to meet demands of tender notices; and 3) public and private organizations capable of transferring to small industries special marketing techniques involved in responding to government tenders. Where such technical and managerial assistance establishments are non-existent or ineffective, the government should undertake to initiate them. An ancillary support system, including a liaison at the ministry level to coordinate such efforts, may be another requirement to ensure program success.

Current government procurement programs generally take the following

procedure. The ministry or department in need of goods or services issues a Tender Notice (TN) which provides detailed specifications on equipment or goods requirements including performance standards and specifications. The TN also itemizes auxiliary requirements, such as the furnishing of technical drawings, an operator's handbook, spare parts and servicing manuals, and warranty requirements.

In order to be considered for a contract award, the enterprise must complete a "Form of Tender" containing: (a) conditions of tender; (b) general condition of contract; (c) schedule of rate and prices; and (d) filled in questionnaire on firm's financial position, ownership, and technical competence. In the case of orders for fabrication, the tenderer must indicate whether equipment is locally manufactured and where spare parts and workshop facilities are available to service the equipment.

In carrying out government procurement systems, it may be necessary to consider trade-offs between procurement efficiency (in terms of performance characteristics of supplied products and services, competitive costs, and delivery schedules) and programs to assist in the growth and development of small enterprises. This trade-off, however, can be significantly lessened through the establishment of national, regional, or local technical and managerial assistance programs aimed at upgrading the competency of potential participating firms in the procurement system. In addition to technical assistance programs for aspiring participants in the procurement system, there is also needed special financing or credit programs to fund design and engineering activities associated with the new product line. As an adjunct to expanding conventional lines of industrial credit, the establishment of a special technology loan fund (discussed later) should also be explored.

A recent case of government procurement from small and medium firms was

a system designed by the World Bank in Kenya for the local manufacture and supply of road-building equipment for a rural access roads program. It was necessary for the Ministry of Works to determine which local firms had the capability -- or the technological capacity to upgrade its facilities -- to supply it with standardized, quality products manufactured to specifications and delivered on schedule. A Bank survey of existing small-scale industrial establishments eliminated certain categories of enterprises from consideration. It was found unrealistic, for example, to attempt to upgrade the facilities of small grass-roots job-shops, which used rudimentary tools and techniques and turned out small-batch production of a generally poor quality and non-standardized nature, to a point where they could participate effectively in the government program. On the other hand, other segments of local industry were found capable of responding to tender notices given some financial credits for additional tooling. These included some well-equipped modern factories with good quality control and standardization for volume production. Also, some small and medium engineering firms were found capable -- given some upgrading -- of designing and engineering required prototypes and then producing them in volume. One company was identified as owning the required combination of marketing, production management, and engineering capabilities (including a technical unit that could respond to tender issues by government agencies and private organizations), and it was suggested that this firm act as a prime contractor in a system which would include other less qualified enterprises.

It was recommended that conventional lines of credit from local development banks be made available for financing capital equipment expansion and that special credit lines be established for the funding of design and engineering activities associated with new product lines. The Bank also

recommended that a liaison group be established between the Ministry of Works Supply Division and Kenyan industry. The functions of this group would be a) to survey potential procurement sources, b) to help prepare special Tender Notices for the design and engineering of new prototypes, c) to assist in the preparation of Tender Notices for volume procurement, d) to work out warranty and maintenance-service aspects of Tender Notices; and e) to identify needs and help develop required technical and/or financial support programs.

The Bank also advised that a small-scale industry specialist be utilized for at least one year to help plan and organize the proposed liaison office and to train personnel in the identified support activities. The qualifications of this person would include a background in industrial management, experience in surveying local procurement sources components and parts in mechanical equipment industry, including evaluation of level of enterprise capability to fabricate particular components and parts.

### Demonstration Center

Small-scale producers located in remote town-centered or urban slums, operating under relatively primitive conditions with little sophistication in production management, quality control or marketing techniques could benefit well from so-called demonstration centers. Demonstration centers, in general, could provide basic assistance in rationalizing small-scale, inefficient operations and could introduce quality control methods and more efficient equipment design and utilization to the small enterprise. Technical assistance programs should be conceived and executed in response to the relative impact of such programs on reduced costs or increased revenues. For reasons of cost and efficiency, a demonstration center should limit its assistance to and specialize in the technology involved for small enterprises within the same or related industry.

Such assistance would be based on a technology component analysis conducted by the center in order to identify certain "gaps" or deficiencies within a particular industry. This may cover a very wide spectrum of strategies for mobilizing factors, factor quality shortcomings, design factors, or structural inadequacies. To cite a few examples, this may include shortages in certain technical or managerial skills; the lack of quality equipment or materials; the dearth of reasonably efficient low-volume processing techniques; or the inadequacies of certain critical supplier industries in terms of the quality and range of required components or materials. Once the nature and breadth of the technological "gap" is roughly ascertained, programs designed to bridge the gap can be implemented by the demonstration center.

Centrally located for the firms serviced, the center would be staffed with individuals experienced in modifying technology so as to reduce unit capital outlay, conserve scarce raw materials, and employ the lower quality

materials abundantly available. The staff would initiate their own experiments in equipment design and production techniques or would respond to requests by the small firms for specific new equipment and procedures or new products. And, of course, the facilities and materials of the demonstration center would be made available to the workers for their own experimentation, with staff supervision.

Intensive training courses can be offered by the staff for a period of, say, two weeks. The training sessions would be largely oral, visual, or experiential in format. The staff should be well-qualified and experienced in instruction using these media. If feasible and where needed, the demonstration center could provide extension services whereby a few members of the staff could spend some time on the production site of the enterprise. Here the facilities would be inspected and appraised in terms of the individual enterprise's quality control, efficiency in equipment design and production techniques.

During its early stages of operation, the demonstration center will be largely concerned with the individual problems of the small enterprises. Later, once it has the confidence and participation from a large number of producers in a particular industry, it can expand its program so as to contribute to over-all sector growth and increased productivity. Such a contribution to the industry can take the form of efforts to sell the services of its participants to industrial clients, link its technical services to market development activities and take an active role in rationalization of the industry.

## Technical Support Centers

Technical support centers can serve in a variety of ways to assist small-scale enterprises in the areas of technical upgrading, marketing, and production organization and management. Their activities may, in part, overlap with those conducted by other networks and intermediary institutions, such as the demonstration center; the major distinction though is that they generally provide a wider range of services. Their primary services could include: (a) technical advice on adapting and upgrading technology; (b) instruction on production organization and management of the small enterprise; (c) the provision of common facilities, such as tool and die-making, heat treatment, electric plating, and small tool accessories; (d) training of technical personnel; (e) design and development of equipment production techniques, packaging, etc.; and (f) formulation of technical standards.

A secondary service that could be provided by the technical support center is to act as an institutional link, or intermediary, between the small enterprise and government procurement or subcontracting systems and between the enterprise and sources of financing. The technical support center, or like organization, is the natural agency for promoting subcontracting or government procurement between large and small industries. Its daily contact with small enterprises would place it in a unique position to gather information not only on the machinery and equipment available in small units, but also on their skills, specializations, and quality of production. The center should be able to establish registers containing this type of information and function to some extent as subcontracting or government procurement exchanges. It should be able to systematically collect and keep up-to-date information and serve as a clearing-house to bring together supply and demand for such

operations. The center could establish contact with large enterprises to find out which parts and components are required, circulate lists of needed parts to small firms and submit to large industries or the government lists of small firms capable of filling the order. Functioning thus as a clearing-house would be an almost necessary complement to its advisory services and assistance in techniques, management, and quality control.

Industry specialized centers can be efficient in providing the detailed technical assistance required to improve quality control and cost functions in order to compete in export and other highly competitive markets. The industrial estates in Gunjarawala and Sialkot, Pakistan each have one or more government-run technical support facilities that provide specialized services to estate enterprises in tool and die-making, production engineering, product design, and materials processing. Significantly, two of the most successful government-run centers support industries that produce largely for export markets (sports goods and medical instruments).

In the case of medical instruments, the specialized institute helped develop materials processing and manufacturing techniques for a firm called G.T. Surgical, such as steel alloys, hardening, polishing, and machine design. These support activities were aimed at raising quality and reducing costs to internationally competitive levels. G.T. Surgical now produces 29 items for export, selected from 1,500 items that had been previously produced. They undersell equivalent British products by two-thirds and German by three-fourths. They employed 600 people in 1974 (as compared with 150 in 1967), and their exports are valued at U.S. \$1 million. The mirror polishing of chrome steel instruments is a combination of hand-work plus electric polishing. A substantial part of the filing and shaping of blanks is subcontracted to piece workers who earn up to Rs 1,000 per month (two to three times the normal

factory rate for equivalent skills). The combined linkage, provided by the technical support center -- forward to external markets and backward to technical assistance -- is an essential ingredient of the success of G.T. Surgical.

The other export firm on the Pakistani industrial estate that receives assistance from the technical support center is Loyal Sports, a manufacturer of soccer balls and hockey sticks since World War I. They now employ a total of 150 people (plus 250 prison laborers). Virtually 100 percent of their output is for export -- about 2,500 soccer balls and 500 hockey sticks a day. Low-priced labor and materials result in one-third production costs compared with the U.K. Hockey sticks are made from local woods (bamboo cane and mulberry, a by-product of the silkworm industry). In order to meet stringent export market requirements on the roundness of soccer balls' outer surface -- which is stitched together from octagonal leather patches -- the center designed a low-cost "asphering" machine. The center has manufactured and sold several of these machines to firms in and out of the estate.

Another way in which the technical support center can serve as a valuable intermediary between large and small firms is as a distributor and supervisor of licensing or franchise systems. Licensing and franchise arrangements vary from a complete package of instructions, technical assistance and training to mere permission for the manufacture and sale of a product. Bata Limited is a centrally managed and controlled shoe manufacturer, with headquarters in Canada and a worldwide network of plants throughout fifty countries, whose technology transfer packages could be adapted for franchise and distributed to small enterprises via technical assistance centers.

Bata already has designed a meticulously detailed transfer system which includes management tools and guidelines that take an enterprise through the complete gamut of activities ranging from market survey, product mix, and

shoe design, production plan, plant layout, machine and equipment selection, materials testing and quality control procedures, manufacturing processes and procedures, operational procedures and norms, material, purchasing and inventory controls, and a complete range of production and financial controls.

The enterprise management kit consists of some 45 technical guides, manuals, and standard procedures. The manuals are a designer's kit for devising a production program. Among the items provided are standard machinery catalogs for purchasing and production engineering, machinery operations and maintenance manuals, and materials testing methods. About a dozen training aids known as "Technical Vistas" have also been developed. These consist of film slides, tape recordings and accompanying written materials. These visual aids are highly effective in the technology transplant process.

Bata Limited, in effect, has designed a program for shoe-making the various steps of which could be parcelled out to small firms and the responsibility for overall coordination and quality be assigned to the technical assistance center. The center would also be responsible for the administration of the shoe-making franchise network, such as renting out and maintaining small machines and tools.

A final way in which such centers can assist small firms is by acting as an intermediary between them and lending institutions. Without an affiliation with an established organization, such as a technical assistance center, the small enterprise stands virtually no chance of obtaining financial assistance or credit from a conventional lending institution. In fact, receiving a loan from the Technology Loan Fund in Colombia requires the presence of a technical assistance agency in liaison with the small enterprise.

### Common Facility Cooperative

An effective mechanism for the support of small-scale enterprises is the common facility cooperative. Common facility cooperatives, widespread in developing countries, differ from joint enterprise cooperatives in that they are federations of individually-owned firms which retain ownership of their materials-in-process. Additionally, all transactions other than those involving a particular common facility or service of the cooperative are carried out at the expense and risk of the individual enterprises. The common facility cooperative provides a series of commonly used services to all co-op member/enterprises, for a fee or through the payment of co-op dues. They may include credit; materials procurement, marketing, R,D,&E, technical and administrative assistance, training, joint machinery use, transportation, storage, finishing, packaging, repair and maintenance, and specialized production operations, among other things. Although cooperatives are often capable of providing these services themselves, in many cases outside assistance is necessary.

A case in point can be found in Honduras, where a common facility wood-working cooperative, CAIHL, operates among a dozen industrial cooperatives. Organized in 1972 after years of organizational efforts and with the technical assistance of an American technical assistance PVO, Technoserve, CAIHL now provides services to about 120 members with a total of 1200 workers. Most of the growth in membership has been the result of entry by already existing small enterprises, although about twenty have been newly formed, primarily by workers or apprentices formerly in other co-op enterprises. Therefore, CAIHL has not added to total national employment (although some enterprise expansion has taken place) as much as it has increased the incomes of what are basically poor wood-workers and their employees.

The cooperative increases enterprise income by lowering its operating costs through bulk purchase of wood and other inputs and obtaining credit on reasonable terms. It also has been largely responsible for the establishment of a government agency which has rerouted the country's best lumber -- mainly hard woods -- away from the monopoly of exporters and to local enterprises like CAIHL and its member shops. Major investments include a horizontal kiln for wood drying, a store for storage and transactions with member enterprises, and a yard for the storing of dried wood. Capital for these investments has come from the National Development Bank with guarantees from Technoserve; some of this money came from AID loans to the Development Bank through the Honduran government. Although the cooperative can now do without the technical assistance of Technoserve, help is still required in the areas of marketing and technical assistance. Technoserve is presently helping the co-op reach export markets and adapt product design. Its staff engineers help maintain product quality in the individual shops and through the drying operation. The co-op manager was also recommended by Technoserve and elected by the cooperative members. Their seven-member board of directors oversees the manager's work.

The normal production and distribution process is as follows. CAIHL purchases good hard wood in bulk and has it delivered to its kiln on the outskirts of Tegucigalpa. There it is dried for about ten days (simple technology, but little full-time employment generated) and taken on CAIHL trucks to its yard in town. From there it is delivered and sold to member shops according to their orders. Nails, sandpaper, materials, and other inputs are purchased at the co-op store. Technical advice is also available there. The shops individually shape the wood into finished products of their own choice, but with the advice of CAIHL and Technoserve. Sale of all products

through CAIHL is not assured, but so far the co-op has been able to sell close to one hundred percent of the merchandise, which includes furniture, caskets, and almost all other items in the line of wood products. The shops receive a fixed price for their goods (payment follows rapidly after sale) with the co-op putting a substantial amount of the profit toward the repayment of the previous major loans. The principal problem for the co-op is not technical, but financial. With an expanding membership, more working capital is necessary for larger bulk purchases and additional investment capital is desired for the establishment of a packaging operation in the co-op yard.

The CAIHL project represents a perfect example of a common facility cooperative which has increased the political and economic leverage of its membership, while lowering their business costs, upgrading their product quality and production technology, opening new markets, and earning them greater incomes. In the process, it has slowly moved -- as do many other cooperatives of its type -- in the direction of a joint enterprise cooperative, as additional functions are taken over by the central co-op.

## Community-Based, Member-Controlled Enterprises

The community-based, member-controlled enterprise is perhaps the most direct mechanism by which the urban poor can involve themselves beneficially in productive activity. Not only do these enterprises generate jobs and income, but they may produce to satisfy community needs and remain in the control of their workers (or perhaps wider membership). Worker self-management enterprise would be a misnomer, or at least an ideal, in most of these cases as management skills are usually scarce among uneducated workers and professional managers can be hired to do the job with worker oversight while such skills are being developed.

A principal need for the development of such enterprises is the development of a special type of intermediary which is sensitive to the transfer process and the timing of turning management over to the workers and/or community, and which is able to assist in the following problem areas:

1. The securing of credit, particularly for immediate working capital
2. Administration, accounting, and other such functions;
3. Marketing;
4. Training or re-education in the values of worker self-management;
5. Vocational training;
6. Technical information and assistance, although this area may not be so crucial when the technology is simple and some workers have basic mechanical skills; and
7. Simple forward planning and problem solving.

CODESARROLLO, in Medellin, Colombia, is an example of such an intermediary, a social development corporation working with a waste-paper processing enterprise, COPAC, composed of the formerly unemployed and marginal, urban poor. A community enterprise was founded thirteen years ago when a group of people living off of garbage had the idea of processing trash for recycling. They contacted a local businessman who helped organize them into a firm. For years, these people worked in a hand-pressing and baling operation in an open, old factory, prone to theft. After the company obtained the help of CODESARROLLO four years ago and financial assistance principally from the Inter-American Foundation and local businesses, it was able to purchase two electric pressing machines and construct a new factory.

It is anticipated that by the time COPAC pays back CODESARROLLO's loan in 1979, it will be able to choose a manager on its own, and be on the road to self-management. The national training association, SENA, is initiating the very beginning of management training through literacy, arithmetic and other education in the factory. In the meantime, CODESARROLLO has supplied the manager, who is on COPAC's payroll, as are about thirty workers. Although the factory operation is very labor-intensive -- paper is picked up and delivered by truck, hand-sorted by older women, pressed in a simple machine by some young men, and then baled -- there is a limitation on how much employment it can provide. In fact, many workers recently had to be laid off because COPAC had overestimated the number of workers they would need.

With markets fixed (COPAC already supplies large paper recycling companies in other Columbian cities with 150 tons of paper each month) and production technology already labor-intensive, CODESARROLLO has decided

that the only way to increase employment is to move into a new product line. The national training institute will also begin giving carpentry classes to twelve unemployed young men from the community who will form an enterprise and produce boxes for packing ceramic bathroom articles from discarded crate wood. Work benches are already installed in the COPAC factory and a contract has been signed with a purchasing firm. CODESARROLLO is considering other enterprises as well. It conducts market studies, while the Medellin business community supplies the technical assistance necessary. In the case of COPAC, workers with mechanical know-how have been able to repair the machines when they malfunction.

The CODESARROLLO/COPAC project is by no means unique, even within Colombia. In Bogota alone, there are over twenty self-managed, small-scale, community enterprises in operation. Until recently, Accion Comunal, a local government agency, was helping establish small-scale community enterprises in the barrios marginales (outer city slums). Due to a desire on the part of the neighborhood associations to form productive enterprises and due to the presence of skills and purchasing power in the city center, Accion Comunal conducted a survey of the social and economic needs required by the barrios to support light industry. On the basis of these identified needs, it and the neighborhood associations together chose the enterprises that would be initiated.

The first project started as a small sewing operation for the women of one of the barrios and subsequently machines for garment-making were purchased with an Accion Comunal loan. The enterprise has employed as many as sixty people, and its value has increased ten-fold. As with the other enterprises it supported, Accion Comunal made no-interest loans, offered technical

assistance and managerial and technical training, did market studies, and worked with the enterprise until it got on its feet. It is now selling sheets and bedclothes to Bogota's hospital association and artesan ware directly to a large mixed company for export. The same company also contracted to purchase burlap items manufactured by a small enterprise in another barrio, and has been providing it with technical assistance.

Two years ago, the Centro de Investigacion by Accion Social (CIAS) also began assisting in the establishment of small-scale community enterprises in the barrios marginales. There are now about a half dozen such enterprises -- including wood-working, textiles, shoe-making, and iron-works -- each located in a different barrio. There is another barrio which concentrates on the making of building materials. CIAS supplies loans from a revolving fund, ascertains technical assistance needs, gives training in administration and in self-management, and helps locate markets inside and outside the communities. All the enterprises began with a handful of members and have been encouraged to subdivide -- for the purpose of effective self-management -- should their membership expand beyond twenty.

Both Accion Comunal and CIAS have used SENA, for back-up technical support. SENA's vocational training, however, has been largely unsuccessful in that it has found jobs for few of its graduates. A private organization, FUNDECLAM, however, has sought to link skills-training, jobs, and enterprise development, by helping to form new self-managed enterprises. Over the next five years, twenty community workshops -- ranging from garment makers to shoe-makers -- in Bogota and two other cities are expected to evolve toward autonomous management and confederation. Six of these have already begun operation having received technical and cultural training by FUNDECLAM.

The first year of operations is to be devoted to consolidating work skills and establishing a sense of identity between the worker and his enterprise. When the enterprise reaches the break-even point and its members have mastered the technical skills, worker participation in management is to be effected. This will include a rotation of workers in the various managerial functions so as to maximize their experience. Percentages of profits, or surplus revenues, will go to the members, to a common fund for education and other services, and to a fund for the creation of new enterprises -- much like the mechanism used in Peru's social property sector (see Social Property Network). After a partial repayment of the original investment, the enterprises have the option to join in a federation, which would give them greater economic and political leverage.

## Technology Fund

Perhaps one of the strongest factors inhibiting the adaptation and upgrading of technology by small-scale enterprises is their virtual exclusion from access to conventional sources of credit -- particularly credit precisely for high risk and uncertain technology innovation. However, if development institutions are truly earnest in their efforts to assist the small-scale enterprise of the informal sector, it is incumbent upon them that they support the development of a mechanism like a technology fund, adapted to the needs of and made available to the smallest and poorest.

A technology fund can take several forms. It can be included in a larger loan by an international financial institution to an LDC government, as was the case with the recent \$5 million component of the World Bank's sixth loan to the Colombian private investment banks (Financieras). The technology loan incorporates features which makes it more attractive for the financieras to assist enterprises through equity investment. The funding for development corporations -- such as A.I.D. Capital Development Division's Latin American Agribusiness Development Corporation (LAAD) -- could also be increased or reallocated so as to provide credit for technical innovation to enterprises. National governments can choose to set up their own technology funds using public funds, as have France, Canada, Australia, and Japan at various stages in their development. In these cases, public funds, in the form of matched grants or preferred interest rates, were offered to encourage research and development expenditures by private firms -- particularly small and medium enterprises. Along the same line, the public authority in Brazil subsidizes two-thirds of the interest costs on technology loans to industrial enterprises (BADESP/CET Fund).

Linking technical assistance to credit, and engineering and consulting firms to a financial intermediary, a technology fund provides a special kind of mechanism for the identification of projects, assistance in the formulation of proposals, and support for their implementation. The system requires the presence of a technical assistance agency in liaison with the small enterprise. If this is not already in place, a precondition to the success of such a technology component mechanism is the development of an effective support system. The key remains, however, the delivery of technological advice and equipment as part of a packaged loan.

There should be a heavy emphasis on the market linkage with accompanying adjustments and upgrading in the functional areas of product design (R,D,&E), production organization and management, finance, and marketing. Such a mechanism, for example, could provide the means for a small neighborhood bakery to obtain the financing and technical advice for technological improvements required to expand into factory production and a more demanding market. More sophisticated equipment and production, management, marketing, and financial systems are necessary in order for it to switch from daily batch processing, for a small, local market to a continuous processing operation, supplying a larger, more demanding market.

## Industry Spawning In Rural Intermediate Towns (Brazil)

The Rural Industrial Technical Assistance Projects (RITA, Northeast Brazil, 1962 to 1968) involved an experiment which combined a new approach to rural-urban investment promotion with interesting institutional development features.

The premises of the program were: (a) that viable combinations of the factors of production, including untapped resources of local capital, exist in under-industrialized rural communities of the Northeast of Brazil and that they could be organized into sustained and profitable local industrial firms; (b) that universities can play a catalytic role in motivating the human and material resources of rural communities for the purpose of industrial development; and, (c) that local community citizens can be motivated by outside intervention and with experiences in capital formation, entrepreneurship, resource institutions and technology into owning and managing these industrial firms.

The general pattern of RITA operations brought a U.S. university team of professors and graduate students in business administration, engineering and economics together with a counterpart team from a local Brazilian university to devote necessary periods of time to a designated rural area to: (a) identify small and medium industrial possibilities; (b) organize local companies to exploit these possibilities; (c) assist across-the-board in getting the new companies into sustained operation (these tasks included basic research, product design, industrial design, technology adaptation, local construction, loan application preparation, equipment installation and testing). Follow-up technical assistance was not provided. The program ended at about the time the firms entered production; (d) provide technical assistance to counterpart

university faculty and students in development entrepreneurship, promotion, and technical assistance; and (e) involve local citizens in the process of industry formation, ownership, and management. When needed, outside consultants augmented the skills of the team.

Local capital and widely held stock participation were encouraged through the democratization of capital. No single person or member of the same family up to the fourth cousin was allowed to own more than five percent of the equity of any single firm. This five percent rule was later softened and then dropped when it became apparent that it was a major deterrant to organizing companies.

Several other programmatic ground rules guided the RITA teams in their designs of industrial opportunities. These included minimizing displacement; maximizing labor intensity; promoting industrial firms based on local markets; and, minimizing adverse environmental impacts.

The first RITA experiment was conducted in the Cariri region, an area 300 miles inland from the capital city of Fortaleza in the State of Ceara. The region is best characterized as pre-industrial at the time; basic infrastructure and telecommunications were non-existent. The Ford Foundation and the Organization of American States (OAS) provided the funds for the first effort. In 1964, USAID and the Northeast Planning agency SUDENE, extended the Ceara prototype to five additional American and Brazilian Universities in five other Northeast states and extended the Ceara experiment for three more years. None of the six projects were linked into a special line of credit or into any special development resource subsidy available in the Northeast at the time. All of the projects were terminated in 1968 by USAID because of their failure to develop industries at the five

per-year-per-project rate stipulated in contract agreements. Had this rate of development been possible, one hundred firms would have been placed into production within a four year period. As it turned out, fifteen firms entered production by the end of 1968. About twenty others were left in various stages of study and development. A look at the RITA project in 1975 suggests the following conclusions. The industrial firms developed by the RITA Program have made a net financial contribution to the development of the region. Present value estimates for 1975 for the nine sample RITA firms exceed their initial outlays, i.e., initial investment plus promotion and technical assistance development costs. The program is potentially regenerative in that present value estimates of tax revenues for 1975 have offset the cost incurred by the RITA program in promoting the sample firms. Value added has increased to US\$7.7 million since 1965 for the nine firms in the sample; thirty-four percent of this is estimated to go to labor; sixty-four percent to capital. The number employed by the sample firms has more than doubled in the ten years since 1965, the base year of the study, from 459 to 1,115, one thousand of whom are rural/urban poor. Displacement is estimated to have been insignificant. There has been a net increase in the number of RITA firms from the original fifteen to nineteen known and a reported twenty-five. The final number is not known since two project states (Pernambuco and Bahia) and three field sites from within the states surveyed were not visited by the mission.

Limited amounts of investment capital for local industry development exist in rural towns in the Northeast that are already commercial centers of a region. In the Cariri, over one million dollars US is reported to have been subscribed for a number of industrial opportunities between 1962 and 1965.

Some of these firms never entered production. For the five plants which were constructed, an estimated US\$550,000 was collected over a ten-year period. Approximately 800 investors were involved.

Viable combinations of local factors were found to exist and were mobilized by universities, local communities and consultants working together. All of the firms surveyed are based on local resources such as leather, recycled tires, clay, corn, cassava, poultry/swine, silica sand and limestone. Plant size averages US\$0.3 million after excluding the two larger firms in the sample. With one exception, all original plant equipment was manufactured in Brazil. Owners and managers are local and from the middle-class socio-economic group. Most of the production workers are rural/urban poor.

Most of the RITA projects took between two and three years to bring their first industrial firm into production. Subsequent sub-projects took increasingly shorter periods as the teams developed skills and were able to demonstrate successes. In one instance, six months was taken.

Most of the universities dropped out of the business when it became apparent that the Nucleo Assistencia Industrial technical assistance program for the Northeast was going to be operational. Local community citizens, officials and stockholders are found to be receptive and appreciative of the RITA program. There is no evidence of hostility toward government (American or Brazilian) because of unrealized expectations or of unrealized private returns; poor enterprise management and unstable business cycles are cited instead. Most small stockholders have not received dividends or any capital gain from their investment. It is not known whether these stockholders participated in corporate decisions regarding disbursement of earnings. There is no government regulated trading mechanism for stock sold in the Northeast.

Key Brazilian officials in the Northeast attribute the conceptualization, original staffing and orientation of the Nucleo Assistencia Industrial (NAI) program to RITA. NAI is the technical assistance arm of the small industry development program for the Bank of the Northeast and the regional planning agency, SUDENE. According to the same Brazilian officials, the national SSI technical assistance organization, CEBRAE (Centro Brasileiro Assistencia Empresarial) got its beginning from the success of the NAI program in the Northeast. At the present time the NAI's are regional and autonomous organizations. Efforts have begun to integrate the NAI's into the national CEBRAE program. Full integration is expected in 1976.

The democratized enterprise form was not effectively implemented. Project teams were unskilled in handling the group dynamic and organizational issues which prevented implementation. These issues include motivation, control, leadership and delegation. Because of these problems, the five percent rule was softened to allow private entrepreneurs to resolve these issues through ownership control.

The expenditure of approximately 16% over capital costs for technical assistance and promotion is an indispensable ingredient to successful grassroots rural-urban industry development given the low risk and innovation profiles entrepreneurs are likely to have in the rural commercial centers of the Northeast. Promotion costs for direct intervention as in RITA are not excessively high when related to the labor-income stream measured over a ten-year period. Capital costs for the smaller RITA firms have not significantly increased over the ten year period since production began. Rural-urban industry in the Northeast can be labor-intensive and be competitive.

Industrial plant size for rural-urban areas in the Northeast probably should not exceed U.S. \$425,000 in total investment (U.S. \$200,000 in fixed investment) if these plants are to be based entirely on local factors of production; that rural industries based on local factors have an upper overall size limit beyond which the firms become less profitable and more difficult to manage. The most profitable RITA type firms are those which are small; produce for local markets; produce high-quality, basic necessity products; depend on local inputs and which use a team approach to management. Firms capitalized beyond U.S. \$425,000 will likely need an outside and proven entrepreneur to manage the firm.

Limited amounts of equity capital for new rural industry development exists in towns which are already commercial centers in the Northeast. These equity investments are probably a pre-condition for business success.

Community development strategies and applied behavioral science skills are indispensable ingredients for promoting successful grassroots rural-urban industry. These strategies and skills were largely found to be lacking in the RITA experience which inhibited sustained action at the community level.

## Private Sector Support For Enterprise Expansion (Brazil)

In 1973, a group of concerned business and government leaders formed an organization called UNO (Uniao Nordestina de Assistencia a Pequenas Organizacoes). UNO is a private, nonprofit corporation with a board of directors representing the local banking, industrial and public administration sectors in the city of Recife. Recife is the fourth largest city in Brazil with a population of approximately two million people. Many of these inhabitants are urban poor. Accion International/AITEC participated in and promoted its establishment.

The purpose of UNO is to design, develop, operate and evaluate a delivery system for providing credit, capital, technical assistance, orientation and motivation to small (individual and family) entrepreneurs and community groups in the informal sector. The experimental phase of the project ends in 1976. During this time, UNO expects to test their methodology, to develop cooperating relationships among institutions, and to measure the socio-economic impact of the target groups.

Both technical assistance and the type of loan given are tailored to the needs of the client. Technical assistance is provided by local institutions such as NAI (Nulceo de Assistencia Industrial) or by members of a recently formed Technical Bank. Credit is provided by five major regional banks. A Special Endowment Fund has been set up to guarantee against loss.

After more than two years of pilot activity, the results of the program are:

|                           |           |
|---------------------------|-----------|
| Total number of loans     | 341       |
| Total credit volume       | \$483,544 |
| Average size loans        | \$ 1,418  |
| Number of people affected | 1,725     |
| Credit per job created    | \$ 1,022  |
| Number of jobs created    | 473       |
| Credit to loss ratio      | 0.5%      |

Several outcomes of the UNO program are worth noting:

1) UNO has catalyzed the Brazilian banking and technical assistance community to extend its resources to the top portions of the informal sector. In the process, a new credit delivery system has been developed and portions of the informal sector have been employed.

2) UNO has demonstrated the necessity and value of a network approach to solving the problem of the poor. None of the organizations involved (UNO, AITEC, NAI, the banks, etc.) alone is able to create the necessary conditions for developing and implementing such a program.

3) UNO has demonstrated new possibilities for galvanizing the private sector and government interest in helping the poor.

4) UNO has demonstrated the applicability of its methodology to other regions of Brazil and possibly to other countries. The evaluation component of the program will produce a well-tested and documented model that can be further adapted for use elsewhere.

Neighborhood-Controlled Community Economic Development Corporations  
(United States)

The organizational form of neighborhood control carries different names, but most commonly it is called a Community Development Corporation (CDC). As such, it is a private nonprofit organization, and not a public governmental agency. It is governed by a board selected by neighborhood residents. It has its own funds -- most often coming from a federal grant but usually channeled through a local, citywide agency. For some of these CDCs, federal funds are complemented with funds from private foundations and from profits. It hires and fires its own staff. Some of these corporations have chosen social development as a way to impact on their target areas. Others have chosen employment generation as their way of impacting on their own communities. It is this breed of community development corporation that is of interest to us here.

The community economic development program is administered by the Office of Economic Development (OED) of the Community Services Administration (CSA) in Washington, D.C. The program first started in the second year of the "War on Poverty" almost nine years ago. Because of the broad policies of the CSA, each CDC is able to decide, along with its community representatives how it wants to implement its program. Some of these CDCs provide equity and loan financing and technical assistance and training to new and existing firms in their special impact areas. Potential community entrepreneurs learn of the CDCs through the CDCs representatives who live in the communities and who, when elected, become members of the board. Local business, the community-at-large and the poor are generally equally represented on the board. It is not uncommon for board members with the assistance

of their CDC staff to organize county associations which serve as a "back home" link with their CDCs. The activities of these associations or board members acting alone include the assessment of economic and social needs of target neighborhoods and the organizing of local resources, institutional support, entrepreneurs, equity capital, space, local residents, etc. which complement and leverage the resources of the CDC in attaining its objective of employing the poor.

CDCs are organized in a way which enable them to be representative of the residents in their impact areas and also accountable to the government agency funding them and to their constituencies. Two basic methods are utilized to obtain a representative board -- direct election by ballot and selection of representatives by neighborhood organizations. Both methods seem to work. On the related issue of accountability of board members to their constituency, several methods are used: neighborhood meetings, working committees that include nonboard members, newsletters, publication of proposed plans, and reporting back to groups which appoint the members. CDCs are also organized in a way which allow them to build in operational competence. Each CDC board oversees and employs a staff of technicians who are charged to carry out the objectives of the corporation.

The CDC network embodies several concepts which are potentially translatable to identifiable urban poor neighborhoods. For example, neighborhood controlled corporations which function, first, to organize local and outside resources and develop self-help activities in their designated areas. These activities would be carried to a point where the community is ready to absorb additional resources. Second, to serve as a community-based organization with which to channel, credit, technical

## Social Property System (Peru)

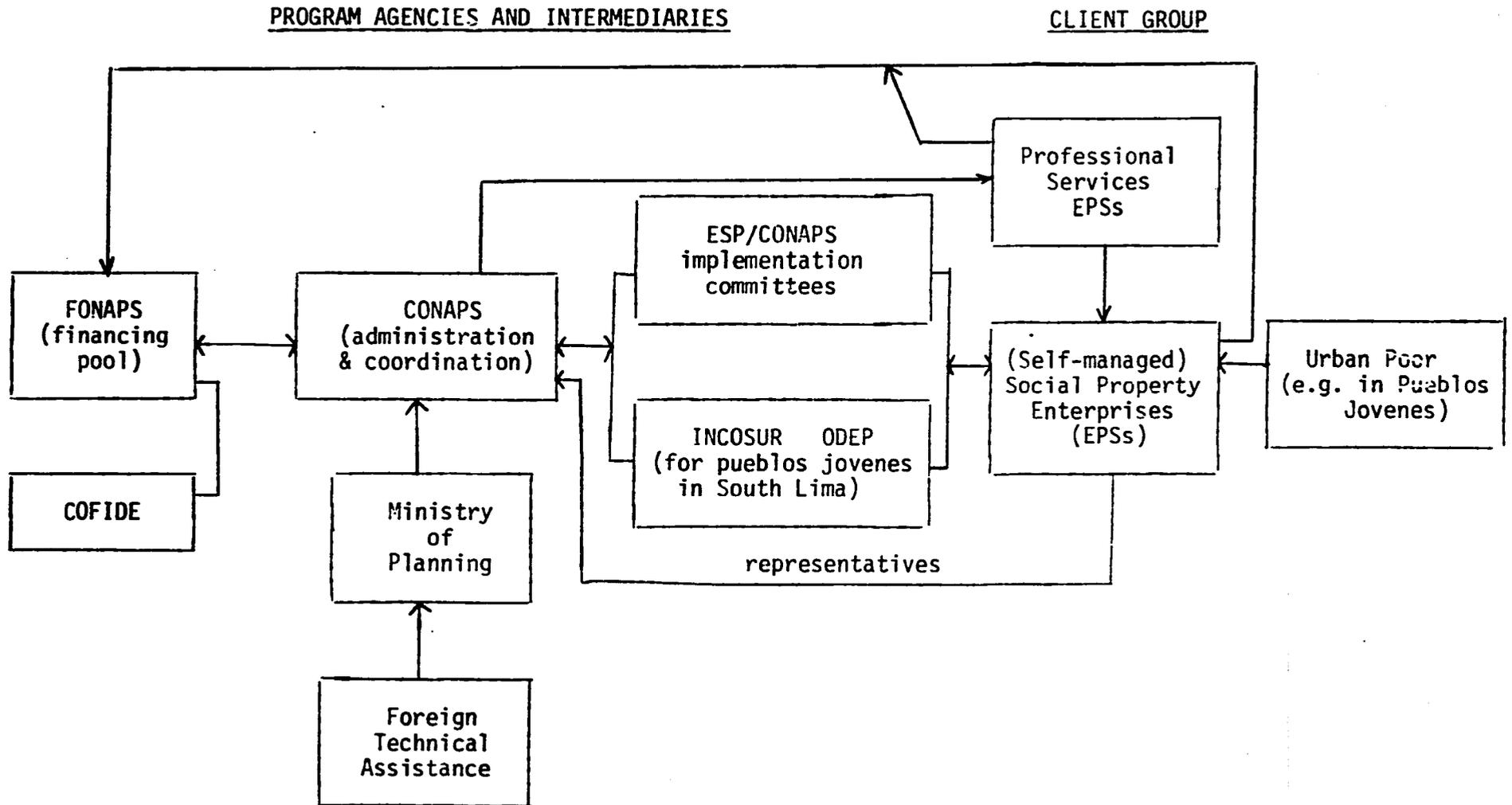
The social property system in Peru, initiated in 1973 after a few years of concept development and experimentation in other forms of ownership and worker participation, is itself only in an incipient and experimental stage. The system includes a mechanism for the transfer of resources for the development of new enterprises which can involve the urban poor. All enterprises in this sector are managed by their workers and owned by all the workers in an expanding sector. Its growth is being supported currently by the government, but will eventually be financed by a revolving fund of capital derived from the annual payment by all social property firms of ten percent or more of their respective pre-tax profits, as well as repayment (with interest, according to their level of labor-intensivity) of the initial capital financing for the right to use and deplete the existing equipment stock. Although the social property concept was not designed to emphasize SSE involvement, it has already proved to be an effective mechanism by which workers can finance the takeover of abandoned firms, both large and small, and by which small community enterprises can attain start-up capital. Government financial commitment to this sector, however, is not yet significant.

CONAPS, the coordinating body for social property sector activity, will eventually be controlled by representatives from sector enterprises. Its functions include acting as intermediary between enterprises/groups wanting to enter the sector and FONAPS, the sector's financing agency; participating in the enterprise screening process with FONAPS; and coordinating project implementation with group members. The social property sector is to be

assistance and training resources for the attainment of further development objectives that are defined by the local residents.

SOCIAL PROPERTY NETWORK FOR URBAN POOR (PERU)

Figure 5



self-financed, but as FONAPS does not yet have sufficient capital in its fund, COFIDE, the national development bank, plays an interim financing role.

The social property enterprise development process begins with a group of people -- the urban poor in pueblos jovenes, workers in an owner-abandoned firm, etc. -- who want to operate a self-managed enterprise and need capital to do so. They produce a plan for a new enterprise or the improvement of an existing one and submit it to CONAPS which screens the plan for feasibility and viability. CONAPS may choose to pass it on to FONAPS for approval or rejection and is then responsible for the implementation of approved projects. This is achieved through the work of a committee composed of CONAPS staff and project participants. In fact, CONAPS has formed at least one permanent agency, INCOSUR, which is responsible, through the work of its sub-unit, ODEP, for the development of industrial projects within the sixty-seven pueblos jovenes in the southern section of Lima. Although funded by COFIDE and partly staffed by CONAPS, it operates as an independent agency in its work with communities (particularly in Villa Salvador where the office is located), helping to identify projects, conduct feasibility studies, prepare investment plans, organize workers, and the like.

Aside from capitalizing new social property enterprises, FONAPS with CONAPS has the right to purchase control of private enterprises in which over fifty percent of the stock is being sold. Otherwise, firms in the reform capitalist sector can move into the social property sector if 75 percent of the ownership chooses to do so, or if workers present a viable plan for taking over an abandoned firm.

Foreign technical assistance needed by CONAPS for its enterprises is delivered through the Ministry of Planning. CONAPS plans to develop intra-sector technical capabilities through the establishment of several professional services enterprises, some providing technical enterprise in a variety of industries and others performing administrative and managerial support functions.

With a new law on small-scale enterprises promised for March (see Appendix B) exempting all enterprises with less than twenty employees from industrial community regulations,<sup>1/</sup> and with the government giving priority to the social property sector, SSEs seeking financial and technical support should increasingly be entering the latter sector. At the same time, the government has reaffirmed its commitment to a pluralistic economy, and hence there should remain a number of additional mechanisms for the support of SSE development.

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<sup>1/</sup> The reformed capitalist sector of Peruvian industry has as its basis increasing worker participation in management and ownership. Fifty percent of the shares of companies in this sector (firms with five or less employees are presently excluded) will gradually be acquired with a percentage of the companies' annual pre-tax profits by their industrial communities, which are composed of their firms' employees.

## Small Industry Development and Financing (Peru)

The Banco Industrial is the principal credit institution in Peru for small-scale urban enterprise. Although it has its own technical expertise to do basic feasibility studies and the like, it must also rely on the technical capabilities of the Ministry of Industries as well as those of other agencies. None of these institutions, however, have programs specifically tailored to the needs of SSEs and the Banco Industrial has no special credit program for this sector.

Both the Ministry of Industries and the Banco Industrial receive, review, and respond to requests from the poor urban areas -- the pueblos jóvenes and the turquios. The Banco Industrial tends to be conservative, shys away from high-risk SSEs (though its loans to these enterprises have increased considerably in number over the past year), and does not give the priority it should to social property enterprises. The new small-scale industries law will probably lower the interest rate for SSEs, but it will not shorten the time -- about three weeks -- it takes for a firm to get a loan. Most SSEs, which need working capital immediately, will have to continue to get it at exorbitant rates through non-official channels.

Once a loan has been made, neither the Banco Industrial nor the Ministry of Industries have the in-house capabilities to extend technical support to the enterprise. The Ministry does have a body of generalists and some product specialists on its staff and has composed a list of consultants -- both Peruvian and foreign -- but little of this expertise is appropriate for the unique technical problems of SSEs. The Ministry lends some support to

small-scale producers in subcontracting arrangements by using ITINTEC (the national technology research institute) to arrange programs of production upgrading in those cases in which there is a narrow gap between present product quality and that required by a contracting firm. By and large, however, there exists no system of quality control and subcontracting for small enterprises, nor technical institutions which are oriented to assisting such firms. The activities of institutions like ITINTEC, SINATE (training institute) SINAP (productivity), and ESAN (graduate management school) are not relevant to the special needs of SSEs. There remains a need for a further development, rationalization, and centralization of SSE technical support capabilities in the areas of training, technology, extension, and other technical assistance. The Ministry of Industries, recognizing these limitations, has been considering the establishment of a Lima SSE extension system as a step toward filling some of these gaps.

### Credit Cooperative System (Peru)

The industrial cooperative movement in Peru predates the recent industrial reforms. As private collective, worker-controlled enterprises, the cooperatives fall neither exactly into the reform capitalist nor the social property sector, and as the government does not presently see it in its interest to support them, they receive neither financial nor technical assistance through official government or banking channels. Integration into the social property sector appears to be the government's goal.

There are presently about ten industrial cooperatives in Lima. The largest, Metalica Cuba, has some 170 employees, with about 130 working on the factory floor. Some of the other co-ops have far fewer employees, however, and can be considered small-scale enterprises. Industrial cooperatives develop in a variety of ways. Three of the most common processes are: 1) a group of individuals come together to form a joint enterprise cooperative in which the factors of production, including the materials in process, are owned by all the members of the co-op; 2) a group of (small) firms form a common facility cooperative which provides common services while the individual enterprises and materials in process remain privately owned by their members; and 3) the workers (and managers) of an enterprise abandoned by its owners form a workers' cooperative to take over, manage, and control the firm. Metalica Cuba was established through the third process about four years ago. At that time, prior to the founding of the social property sector, the government assisted the workers by lending them the money with which to pay the firm's creditors. Today that role is played by CONAPS (FONAPS) as part of the process by which the enterprise enters the social property sector.

As a low priority area as far as official assistance is concerned, cooperatives have had to find other ways to meet their financial and technical needs. Most of Lima's co-ops were originally established with the help of the strong local credit union movement, which continues to be a major financier. A local credit union -- there are some 450-500 whose membership includes cooperatives of all types -- will lend up to about nine percent of a member's credit needs and the central union (CCC) will lend an additional twelve percent. Capital for materials and parts procurement, as well as for other working capital needs, is difficult to obtain and the co-ops have had to work through intermediaries which finance the purchase of the inputs at a high price. The credit union system in Peru generates its own loan capital internally and receives loans from such international agencies as the Inter-American Development Bank through the Latin American Credit Union Federation (COLAC) in Panama. It does lack, however, the capital necessary to develop the technical capabilities for project development, marketing and other feasibility studies, and technical assistance to ongoing cooperatives.

Community Enterprise Generation by Private Voluntary Organizations  
(Peru)

Church and other private groups were active in the pueblos jovenes long before the organizational work of SINAMOS (the government agency formerly functioning as liaison with localities) and the efforts of the social property authorities. In many ways, their work has been complementary; in some ways, conflicting. The net result has been, however, fairly politicized, well-organized, and socially and economically motivated communities prepared in many cases to move into organized, self-managed, productive activities.

SINAMOS (which now works in part from within the National Office for the Participation of Pueblos Jovenes) has helped organize the people and homes of these communities into blocks and sectors which have their own organizations and secretaries for various functions. Private groups have been working with these organizations and others, and some communities on their own have organized to provide their own services or to petition the government for the same. The Church, through Caritas and local parish priests, have helped form small production centers, principally for women and youth, supplying credit for simple machines, and training in areas such as shoe and garment making, auto mechanics, electronics, and electrical installation. In Comas, a center has been established for carpentry and furniture making. As is generally the case elsewhere, training is integrated with the formation of new production enterprises, which receive some financing from church and private groups to buy materials and other inputs, but are still lacking in marketing and other assistance.

In Pamplona, a group of a half dozen pueblos jovenes, the Equipo para el Desarrollo Humano (Team for Human Development), a private voluntary institution

with Maryknoll Father involvement, works with the local secretaries and in particular with the finance secretaries, who are responsible for fund-raising, community savings, and project organization and support. The team trains the secretaries in simple bookkeeping and investment and coordinates projects with them. Presently, groups of women are being trained to produce dolls, toys, handbags, sweaters, and other clothing. Trainers from within the team teach classes on a rotating basis to groups of fifteen women in ten different sectors of Pamplona. The courses of eight to ten months duration are also designed to produce local trainers who will be capable of taking over the training responsibilities. The team may buy materials in bulk, arrange for a grant of some simple machines from donor agencies (including AID), and occasionally make small loans for working capital. Products are marketed through orders placed from within the local marketplace. The team, which is involved in six major programs (though principally non-production in nature) is backed financially and materially by a dozen church groups, foundations, foreign governments, and international institutions.

That which would most interest these private groups and members of the communities themselves is the establishment of local technical centers, training the locally unemployed in plumbing, electrical wiring, auto mechanics, wood-working, metal-working, sewage pipe and cement post production, cement block making and other trades, and helping to form and support productive enterprises in these areas producing for local needs. Some of these activities are already underway in some pueblos juvenes, as some of the skills, such as block-making, have been learned on the job in construction work in Lima. Others require training and technical support, and most all require investment in training/investment equipment.

### III. RESEARCH AND TECHNICAL SUPPORT

There is an increasing awareness by the international development community that there are probably more questions than answers to assisting the urban poor through enterprise development. In the following section we have attempted to raise and describe some of these questions. It should be noted that some of these research areas are more macro in scope than others. They all, however, have one thing in common. They are areas for action-research, where research informs action and vice versa.

International lending agencies like the World Bank are only beginning to formulate programs for small-scale enterprise (SSE) development and for the informal sector. These programs will require a variety of technical assistance inputs, a good part of which will not be available in the host countries. Multilateral and bilateral technical support organizations which offer training programs, technical and other extension services and assistance in developing local institutional capabilities will increasingly be called upon to provide logistical support in this area. Figure 5 outlines the functions and services provided by a number of the leading agencies in this field.

#### Research Areas

##### Trans-Organizational Issues Which Inhibit the Operations of Networks

Increasingly, many problems including the employment problem, which impact significantly on organizations and on society are not conveniently bounded or defined by a single organization; they are trans-organizational. Central issues like policy-making, directionality, power relations and conflict management are important issues that need to be better understood.

Trans-Organizational Issues Which Inhibit Industrial Authority Structures From Becoming More Participative and Democratic

Industrial democratization is a manifestation of the relationship between the organization and its environment and is, therefore, trans-organizational. More needs to be known about the extent to which participative and democratic industrial authority structures facilitate and promote worker self-management (rather than worker supervision as now exists in most organizations), and greater social and political democracy.

Problems Encountered in Getting Effective Policies Chosen and Implemented and in Understanding How Policy Choices May Widen or Narrow Future Conditions of Political Feasibility

There is a growing awareness that the employment problem involves more than the modification of technical variables such as national resources, population, technology and the availability of capital. The problem also involves matters of political economy that have to do with getting policies chosen and implemented and how they may widen or narrow future conditions of political feasibility.

The Feasibility of Establishing Special Capabilities Among Support Institutions for Small-Scale Enterprise Development

A major difficulty frequently encountered by small-scale enterprises is the lack of interest in and understanding of their special problems, needs, and capabilities on the part of supporting institutions. The practicability and nature of special units, programs, and capabilities -- within these institutions -- suited specifically for dealing with SSEs is deserving of study, as are the relative merits of establishing a central agency which would coordinate and tap these resources.

### The Nature of Clandestine Operations and Methods by Which to Bring Unregistered Firms into the Formal Sector

A substantial percentage of small-scale enterprises in Latin America -- employing among them a significant number of the urban poor -- operate clandestinely to avoid taxes and government regulation. Others operate openly but have never registered. Hence, they do not have access to assistance through official channels. Extensive research into all facets of clandestine operations is badly needed. An understanding is also required as to how to induce these and other unregistered firms to enter the formal sector.

### The Feasibility and Method of Increasing Small-Scale Enterprise Involvement in Government Procurement and Other Sub-Contracting Arrangements

Many governments foster local industrial production through import substitution programs in which large companies must purchase parts, components, and other production inputs from domestic firms. There are also examples of government local procurement programs for public projects. Investigation is warranted to determine the possibility of purchasing these products from small-scale, informal-sector firms or of upgrading the product of small enterprises to meet the quality and standardization levels required by the contractor. Research in this area may require a comparative examination of the contributions made by sub-contracting intermediaries -- such as small business associations, cooperatives, prime contractors, or government agencies -- in linking enterprises, upgrading product quality, and equalizing the negotiating positions of contractor and supplier.

### The Merits and General Applicability of Mechanisms Which Transfer Resources From Existing Enterprises to Enable New Enterprise Creation

Special mechanisms are required for the particular problems that SSEs confront in obtaining start-up capital. The system devised in Peru's

social property sector whereby a percentage of pre-tax profits and loan repayments from each of its member enterprises are placed annually in a revolving fund from which new enterprises can receive their initial financing represents what appears to be an effective way to help spawn small enterprises. An investigation should focus on the feasibility and merits of utilizing similar mechanisms in different settings and for a variety of enterprise forms.

#### The Potential for Maximum Impact Upon Poverty Through a Focus on Outer-City Settlements

An increasingly large majority of Peru's urban poor are living in Lima's pueblos jovenes; they already constitute an estimated one-third of the city's total population. There, not only are they more concentrated, easily identifiable, and reachable with assistance than are the poor in the inner-city turquorios, but there also already exists the level of organization and initiative required to sustain the socio-economic progress that has been generated from within. More needs to be known about the degree to which this phenomenon exists in similar settlements in other urban centers in the developing world, as well as the relative impact on urban poverty that a concentration of attention and resources on such communities might have.

#### Purchasing Patterns of the Urban Poor and Marketing Opportunities for Community-Based Production

In many of Lima's pueblos jovenes, there are present the skills, manpower, purchasing power, and desire for the establishment of community enterprises which could produce for local needs. Most of the goods used and consumed within the pueblos jovenes, however, are presently purchased in the wider

Lima market. An examination should be made of the purchasing patterns within poor communities and of the relative availability of community resources and capacity for a program of community "import substitution". Research should also be undertaken to determine the feasibility of various lines of production, including the practicability of marketing goods outside the community.

#### The Feasibility of Establishing Urban Community Technical Centers for Training, Support, and Enterprise Development

Regional technical support centers have been established in rural areas as part of rural industrialization programs to offer training and industrial extension in relevant areas. Less formalized support, usually for activities such as crafts production and garment making, has been available within some urban communities. The feasibility of establishing formal community technical centers which would offer skills training in a variety of trades, help establish enterprises, and provide extension services is an important research area. This research must be situation-specific, involving cost-benefit analyses of the installation of various types of equipment, the provision of specific training courses, and the formation of a back-up pool of industry specialists. More also needs to be known about the needs, interests, and capabilities of specific communities and their members before such centers can be designed.

#### Trade-Offs Which Accompany Production by Community-Controlled Versus Private Entrepreneurial Small-Scale Enterprises

Participatory and community-controlled approaches to SSE development and employment generation are likely to:

- enhance learning by building on the needs of the learner;

- raise the consciousness of the participants of their capacity to further change their socio-economic environment;
- expand a freedom of choice (and life style) at the local level;
- reduce administrative costs of reaching dispersed target populations;
- curb the tendency of development planners toward sophisticated technology;
- ensure production for local needs; and
- have a direct impact upon the problems of the poor.

In most countries, however, the experience with community-controlled, small-scale enterprise has been limited. Considerably more knowledge is required to enable a comparison with private, entrepreneurial activity in terms of maximizing the impact upon the problems of the poor and their home environment. Additional information can provide an understanding of the trade-offs inherent in each form, in terms of enterprise efficiency, product quality, managerial and skill development, non-material satisfaction, employment, income, and the growth of the economic and political power of the sub-group, and other considerations.

The Justification of Supporting the Development of Private Entrepreneurial Small-Scale Enterprise on Economic and Social-Behavioral Grounds

Small-scale enterprises which are not community-controlled or self-managed do not necessarily benefit the urban poor beyond offering some a minimum income. In fact, since many SSEs fall outside the realm of government regulation, they are often sweatshops which can be more exploitive than larger operations. This exploitation can be of two types: economic and social-behavioral. The economic exists in the form of poor wages and working conditions. The social behavioral manifests itself in negative indicators such as alienation, powerlessness, isolation, apathy, and a general loss of self-esteem.

Far more needs to be known about the extent of exploitation in SSEs and about the relationship of size and form of organization and ownership to the level of material and psychological/social gratification and development of workers and their communities. Such an investigation, as well as a study of the comparative direct and indirect employment effects of small- and large-scale enterprise, are required before substantial investment in the development and support of private entrepreneurial SSEs in developing countries can be justified on either social or economic grounds.

Figure 6

## INTERNATIONAL TECHNICAL ASSISTANCE AGENCIES

## Summary of Functions

| AGENCY                                   | DESCRIPTION   | COUNTRY   | TECHNICAL SERVICES   | OTHER EXTENSION SERVICES   | TRAINING  | INSTITUTION BUILDING  |
|--|---|---|--|--|---|---|
| ILB<br>(Geneva,<br>Switzerland)          | UN agency achieving objectives of employment, income distribution, productivity, and worker and consumer satisfaction, primarily through support of handicrafts, small-scale agro-industry, other rural SME and cooperatives, training emphasis with extensive field staff of training experts; works with other UN organizations.                  | Worldwide, with no country preferences; specific SSI manager training programs in Greece, Korea, Uganda and Pakistan; industrial cooperatives established in Burma, El Salvador, Tanzania, etc. | Help managers select appropriate technology through expert cost analysis (Also helps make authorities aware of policy issues involved in and affecting technological choice.)  | In-plant consultants assisting general managers in application of new management techniques. Services often tied to local financing organization, i.e. development bank or corporate.  | Management Development Branch with SSE section; training in elementary management functions and on technicians and supervisors.<br>Cooperative Branch: cooperative education and manager training.<br>Vocational Training Branch: technical education and on-the-job skills training in selected occupations.<br>Achievement motivation training for entrepreneurs.<br>Training of trainers emphasis. | Management Development Program has helped develop national management institutions in over 50 countries, forging links with industry.<br>Helps governments set up national institutions to promote SSI.<br>Cooperative Program helps establish national centers for coop promotion; has helped set up industrial coops.<br>Helps establish handicraft design and common facility centers. |
| UNIDO<br>(Vienna,<br>Austria)            | UN agency which establishes, strengthens, and supports local institutions and common facility structures and assists on SSI development policy and program formulation; rural decentralized industry focus; promotion of new enterprises and modernization of existing ones.  | Mainly Africa and poorest regions elsewhere.  | Provides guidance in selecting appropriate technology and product lines, primarily at policy level.  | Industrial surveys, feasibility and pre-investment studies.  | Training of entrepreneurs and managers, worker in-plant group training. Training of local personnel in techniques and methods of SSI development; individual fellowships abroad.  | Helps establish industrial extension and SSE development programs. Establishes and operates institutions and servicing facilities which include research, marketing and extension services.<br>Helps plan, construct and manage industrial estates, industrial areas.<br>Establishes domestic subcontracting exchanges.<br>Some work on financial institutions for SSE.                   |
| UNEP<br>(New York, N.Y.,<br>U.S.A.)      | UN agency with broadest T/A program in UN group (UNEP/DA); Special Fund component for larger projects; services include T/A training, some equipment, pre-investment studies, institution building and policy and program advice to governments; provide services of industrial consultants, and specialists in particular industries.              | Worldwide   | Provides equipment to SSI development centers if establishing for demonstration purposes.  |  | Trains national personnel in doing industrial surveys and feasibility studies.<br>Six-month training abroad (fellowships) for personnel engaged in SSI development.<br>Assistance in vocational training programs   | Helps establish SSI development centers, providing T/A, on-site training and some equipment.<br>Teams of experts for 4-5 years to plan and establish: 1) SSI service institutes; 2) industrial advisory services; 3) industrial R&D centers; 4) industrial estates. Implementation stage involves team of experts and training of national counterparts.                                  |
| AIYDC<br>(Cambridge, Mass.,<br>U.S.A.)   | Independent, non-profit agency specializing in research, evaluation, and the implementation of local, regional, and national development programs in Latin America; develops experimental programs; stresses employment, income distribution and community improvement; has helped establish cooperatives, small industry, and "micro" enterprises. | Programs including small industries development in Brazil, Venezuela, Colombia and Costa Rica, with small local staffs.   |  |  | Vocational training.<br>Training of local personnel.<br>Organizes seminars and training courses for managers and local extension workers.   | Establishes local institution, providing seed capital, manager, and managerial assistance, taking on local and using local T/A institutions, phasing out and taking new role of the former of successful model to build new institutions elsewhere.   |
| TECHNOSEVE<br>(Durham, Conn.,<br>U.S.A.) | Private, non-profit, U.S. organization responsive to self-help initiatives of groups with wide ownership base, local resource use, and employment, income distribution, and self-reliance goals, playing catalytic role.  | El Salvador, Ghana, Kenya, Honduras.  | Local expatriate staff assists in development and selection of labor-intensive technology, testing, design, and installation of processing equipment; and improvement of product design quality.   | Provides experienced managers until local personnel ready. Market research and negotiates export contracts.<br>Helps identify sources of debt equity capital, occasional credit guarantees and small temporary equity position.<br>Prepares feasibility studies. | Training of local managers to eventually take over projects in key to organization's approach.  | Strengthens local development assistance capabilities through sharing of experience and methodology in promotion of self-reliant development and related managerial training.   |
| ITDC<br>(London,<br>England)             | London-based organization emphasizing practical application of intermediate technology for maximum use of local resources, labor-intensive production, and local self-help; U.K. project staff and consultants provide appropriate technical information to communities as well as to integrated development plans.                                 | Primarily in Africa and subcontinent with SSE emphasis in Nigeria, Pakistan, Tanzania, India, and Guyana.<br>Overseas project staff in Zambia, Ethiopia and Brazil.                             | U.K. R&D units and associated industries and technical colleges develop small-scale, labor-intensive industrial equipment and techniques and new product designs according to overseas requests.<br>Field project officers develop and field test new products designed for local construction with local materials. | Provides some accounting financial, and managerial advice to cooperatives and other groups.  | Education of local industrial extension agents on availability and selective of appropriate technology.   | Assists governments and other agency programs with technical inputs, selecting in SSE planning and R&D projects, and installing technology development unit with goal of local self-reliance.<br>Helps establish local appropriate technical centers.   |

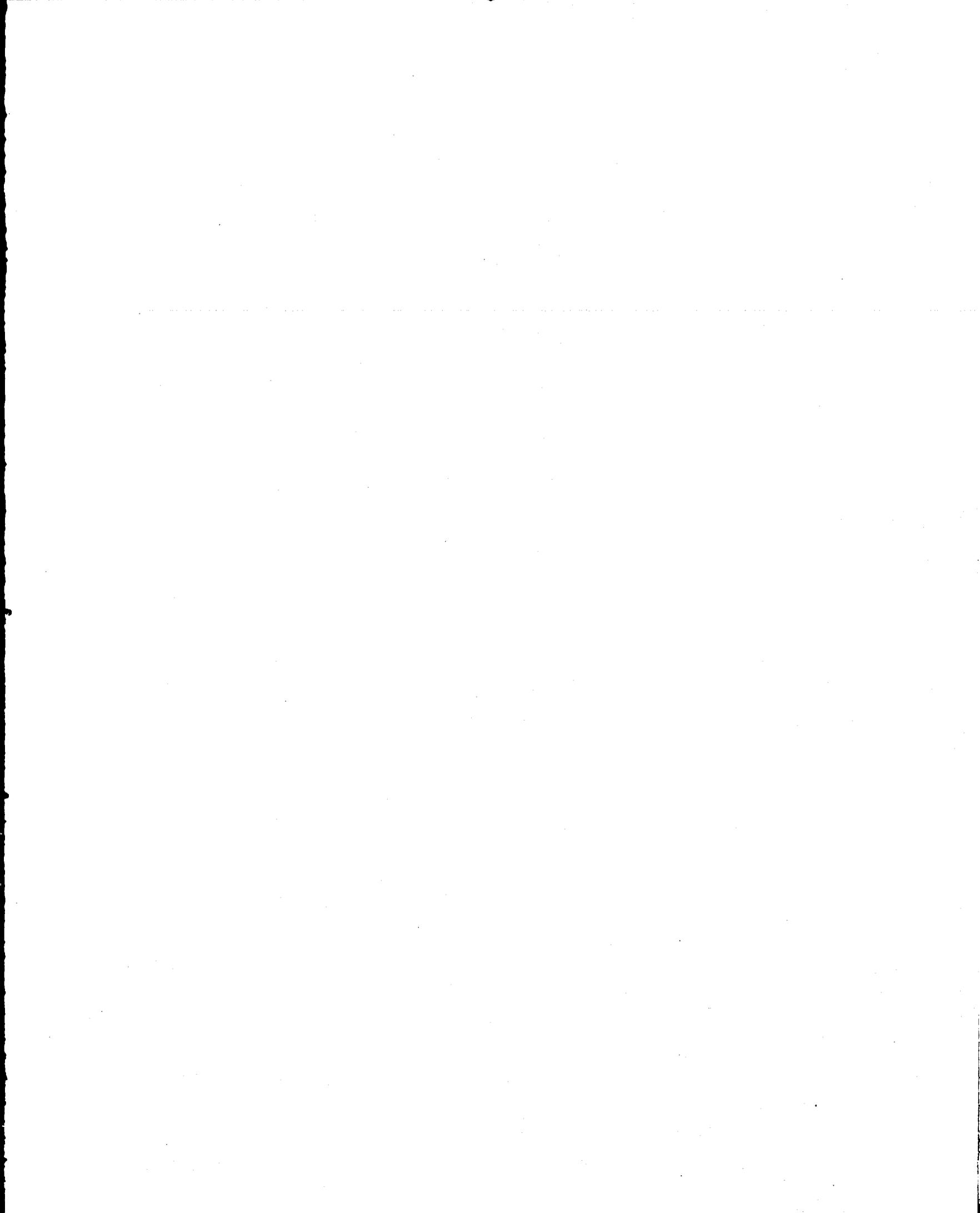
Figure 6 (cont.)

| AGENCY  | DESCRIPTION   | COUNTRIES  | TECHNICAL SERVICES   | OTHER EXTENSION SERVICES  | TRAINING  | INDUSTRIAL SERVICES  |
|---|---|--|--|---|---|--|
| VITA<br>(St. Eustace,<br>Maryland)  | U.S. volunteer organization which provides knowledge on adapted underdeveloped technology to poor areas to meet the needs of small-scale rural industry and cooperatives.   | Brazil, Dominican Republic, El Salvador, Honduras, Nicaragua, Nigeria, etc.  | 6000 volunteer consultants respond to specific written requests (through VITA), adapting or devising new technology to fit project needs. VITA also has own resource files.  |   |   | Helps form VITA entrepreneur organizations which are independent, but frequently act as ultimate implementers of VITA projects.  |
| IRRI<br>(Los Baños,<br>Laguna,<br>Philippines)                                  | Industrial R&D institute which provides intensive on-line product development assistance in appropriate farm machinery to local, mainly rural industry, utilizing local materials and skills to produce commercially viable products meeting small farmer needs.  | Philippines with subcontracting arrangements in other Asian nations.   | Technology transfer; emphasis on product design and design release, develop and field test prototype, and link with firm for commercialization; assistance with custom fabricating; occasional contact with firm re adaptations in design. | Market research and other feasibility studies. Provide firms with leaflets, instruction manuals, test results, etc. during custom fabricating stage to help promotions. | Training of engineers and field workers overseas.   | Build industry through carefully tailored industrial R&D programs in public institutions. Subcontract with organizations in Asia to adapt IRRI equipment, encourage local production and employ IRRI-trained engineers.  |
| IRI/AMERICA IRI<br>(Atlanta,<br>Georgia,<br>U.S.A.)                             | U.S. university-based extension service operating overseas operations through IRIED contract; emphasis on technical advice to strengthen existing industries and create new ones with optimum use of local resources and initiative; rural focus with greater expertise in processing, wood-working and textiles. | Ecuador, Brazil, Nigeria, Kenya, Kenya, Philippines, Venezuela, Honduras, Paraguay.  | Work with local information center re technology transfer, adapt product and process information, improving products and reducing costs, etc. Weeks/months of on-site assistance working closely with counterpart institution as team.     | Pre-feasibility, detailed feasibility, and simple market potential studies.   | For the owner/operator/entrepreneur: 13-week training program for counterpart staff at Tech; general, then specific, helps to transfer program to field.        | Identify, assist, and work with local entrepreneur institutions with similar objectives (e.g. employment generation); currently six counterparts, including those counterparts.  |
| IRDC<br>(London)  | Worldwide   | British government agency under Ministry of Overseas Development concerned with technical education, management development, and industrial training; operates through U.K.-based specialist staff and through organizations and officials from industry, training establishments and academic institutions.   |  |   | Arrange UK placement for overseas trainees and training for technicians, training staff, and supervisors; helps train industrial training instructors overseas. | Plan and develop industrial training centers and programs, and management training institutions.   |
| STANFORD RESEARCH CENTER<br>(Stanis Park, Cal.,<br>U.S.A.)                      | Worldwide   | Private, non-profit problem-solving organization that performs basic and applied research under contract, its International Development Center does research for and offers technical services to industrial firms, government agencies, foundations and individuals; more than 20 years experience advising S&I in developing countries.                        | For clients, SRI engages in new products, processes and equipment.   | Technical assistance provided for craft industry development.   | In-service training for S&I development personnel, arranges foreign training fellowships as well.   | Helps establish S&I service institutions, development programs, extension training programs and industrial centers.  |
| INDUSTRIAL R&D DEVELOPMENT (IRD)<br>(Vienna, Va.,<br>U.S.A.)                    | Honduras, Colombia, Brazil, Ghana, Sudan, Kenya, Pakistan, Indonesia, Sri Lanka; others worldwide.  | Private voluntary organization which establishes indigenous businesses in LDCs with help of human and financial resources of US private sector; focuses upon small- and medium-scale job-generating projects; aids in proposal preparation and recruitment of US and national entrepreneurs/committees; growing emphasis upon rural and food-related industries. |  |   | During project implementation, has provided financial, marketing, legal and management assistance.  | Will, in conjunction with local groups, organize, staff, plan, and implement training centers for local entrepreneurs with training provided by US businessmen in selected occupations and labor-intensive businesses and general business courses given by local, experienced businessmen; program now in experimental stage. |
| COMMISSARIAT INTER-INDUSTRIEL DE DEVELOPPEMENT INDUSTRIEL<br>(Paris,<br>France) | Mainly Africa, but also work in Peru and elsewhere.   | French, privately-supported organization with goal of increasing productivity and employment, particularly in rural areas of LDCs, helping to establish small enterprises; also works with craftsmanship development.  | Gathers and provides technical information necessary to solve problems of S&Is; supplies labor-intensive production techniques and index of selected suppliers.  | Supervises the initiation, implementation, and direction of small industrial enterprises.   |   |  |

Prepared by Developing World Industry and Technology for the World Bank, February 1976.

Figure 6 (cont.)

| <u>AGENCY</u>   | <u>COUNTRY</u>   | <u>DESCRIPTION</u>  | <u>TECHNICAL SERVICES</u>   | <u>OTHER EXTENSION SERVICES</u>  | <u>TRAINING</u>  | <u>INSTITUTION BUILDING</u>  |
|---|--|---|---|--|--|--|
| <b>INSTITUTE FOR NEW BUSINESS DEVELOPMENT (INBD)</b><br>(Belmont, Mass., U.S.A.)      | None outside US, but interest shown at 1975 International Symposium and Entrepreneurship and Economic Development. | American, non-profit organization with established process to screen identity and assist enterprising entrepreneurs establish their own businesses; helps would-be entrepreneurs evaluate their own skills and motivation and banks identify good credit risks. |   |  | Uses a series of 2-day week-end workshops as well as individual counselling.   |  |
| <b>TECHNET - ASIA</b><br>(Ontario, Canada, Canada)                                    | Hong Kong, Indonesia, Malaysia, Philippines, Singapore, Thailand, Bangladesh, Korea, Sri Lanka.                    | Cooperative grouping of 11 organizations in 9 Asian countries which assist SSI and MSIs; emphasis upon transferring knowledge about known techniques to existing enterprises; joint effort to build up extension services for industry in SE Asia.              | Has back-up services from the Technical Information Service of the National Research Council of Canada (NRC/TIS) which can provide technical inquiry and industrial extension support to SSI. |  | Sponsors training courses for industrial extension engineers from member Asian organizations at the Small Industry Extension Training Institute (SIET) in Hyderabad, India, accenting in-plant work; arranges training visits by member organization staff members to NRC/TIS in Canada. | Helps participating organizations establish new programs and capabilities. |
| <b>ORGANIZATION FOR HUMAN DEVELOPMENT THROUGH TRAINING (OHT)</b><br>(New York/Geneva) | Africa, Asia and Latin America, with recent emphasis upon Africa.  | American private non-profit development training organization with 95 years of experience in technical education and vocational training in LDCs  |   |  | Provides specialized vocational training programs to government and private sector; have nearly 1,000 training units in 25 countries, on-the-job training recently emphasized; trains counterparts at facility in Geneva; also trains them locally to design their own programs.         |  |
| <b>EAST-WEST CENTER</b><br>(Bonn, U.S.A.)   |  |   |   |  | Training of extension agent personnel  |  |
| <b>INTERNATIONAL COOPERATIVE MOVEMENT (ICM)</b>                                       | Worldwide; regional offices in East and Central Africa and SE Asia.  | An association of national cooperatives, promoting and safeguarding the interests of the cooperative movement.  | Technical assistance from member organizations like the Cooperative League of the United States (CLUSA) to help establish cooperative industrial projects in the Third World.                 | Helps coordinate information exchange and technical assistance from inside and outside the cooperative movement, e.g. more advanced cooperative movements in Europe supply manpower and T/A to cooperatives in the Third World | Advises on education and training for LDC cooperatives, helping member organizations to increase the effectiveness of their training programs.   | Helps build and strengthen national cooperative movements.                 |



## Appendix A

### THE FRIEDMANN SULLIVAN TAXONOMY

The urban economy is composed of three major sectors -- the individual enterprise sector, the family enterprise sector, and the corporate enterprise sector -- each of which functions as a discrete subsystem. Each sector possesses economic attributes and social relations and rules of ethical conduct that are different from each other. These are as follows, briefly:

#### Individual Enterprise Sector (I)

##### Unemployed (U)

- No income
- Illiteracy
- Survival Sector

##### Self-employed Enterprise (I)

- Individual enterprise, self-financed, no fixed abode
- Personal savings
- Informal credit
- Family income transfers, mutual aid
- Low capital/labor ratio, less than \$50/worker
- Some primary education, functional illiteracy
- Intermittent income, less than \$30 to \$60/month
- Survival sector

#### Family Enterprise

##### Family Enterprise (F)

- Small family enterprise, self-financed, fixed abode.
- Personal savings
- Informal credit
- Family income transfers, mutual aid
- Medium capital/labor ratio, less than \$2000/worker
- Some secondary education, mostly primary education; functional illiteracy for domestic sub-sector
- Wage sector, \$30 to \$150/month
- Non-protected sector

Corporate Enterprise Sector  
Corporate Production (Cp)

- Workers of bureaucratic organizations
- Corporate savings
- Bank credit
- Government resources
- High capital/labor ratio, \$15,000/worker
- Some secondary education mostly primary education
- Wage sector, \$30 to \$180/month; family income transfers
- Protected sector

Professional/Management (P/M)

- Professional-managerial elite
- Corporate savings
- Bank credit
- Government revenues
- High capital/labor ratio, \$30,000/worker
- University education
- Capitalist of Salaried sector
- Privileged

The Individual Enterprise Sector (I)

Sector (U) includes a) first time job-seekers (mostly school leavers); b) recent migrants to the city (often the most qualified workers in this sub-sector); and c) workers laid off from jobs in any of the sub-sectors up to and including corporate production (Cp).

The self-employed include: a) handicraft workers (seamstresses, embroidery makers, basket and mat makers, rope makers, silversmiths) working on their own account; b) street traders and service workers (peddlars, shoeshine boys, parking lot attendants, messengers, street entertainers, repairmen, gardeners, masseurs, food vendors, public letter writers, night watchmen); c) casual construction workers (carpenters, bricklayers, plumbers, electricians); and, d) "underground" occupations (prostitutes, professional beggars, police spies, dope peddlars, pickpockets).

The characteristics of the self-employed sub-sector are:

- Job specialization is carried to extremes
- Quality of workmanship is uncertain

- Business competition is fierce
- Marketing often based on personal relationships
- Prices are depressed
- Business relations tend to conform to social as well as economic rules of conduct

### The Family Enterprise Sector (F)

The trade and service establishments include among others: small shop proprietors, salespersons in small businesses, garage mechanics, truck, bus and taxi drivers, barbers, beauticians and restaurant workers.

The manufacturing workshops include among others: bakeries, rice and corn mills, noodle shops, shoe and leather ware manufacture, tailoring, carpentry, metal work and saw-mills.

The characteristics of the F Sector are:

- Produce traditional commodities
- Lack standardization and quality control
- Use indigenous raw materials
- Pricing is highly competitive
- Sell to low-income mass market
- Difficult to earn more than family subsistence due to competition and income sharing
- Business relations often conform to social as well as economic rules of conduct

Informal sector enterprises do not have formal relationships with the government, with the banking system, with their workers and with the large commercial and industrial enterprises. They do not depend on foreign inputs or technology and do not have formal marketing channels and distribution networks. Their products lack standardization and quality control. Ownership patterns are limited to the family enterprise and to unstable self-employment. There are no barriers to entry for new enterprises. Technology is often indigenous and always labor-intensive.

Mejoran con la Ley de la Pequeña Empresa

# EN MARZO LEY DE PEQUEÑA EMPRESA

VER PAGINA 2

Pagan 11 millones: remate de Acho (Ver Pág. 5)

Cloroformo es causa de cáncer en ratas (Ver Pág. 4)

Banzer cierra Universidad (Ver Pág. 16)

## Ministro de Industria: sector privado reformado no será minimizado

En marzo se promulgará la Ley de la Pequeña Empresa. El anuncio lo hizo el Ministro de Industria y Turismo General Gastón Ibáñez O'Brien. Al tratar sobre la Empresa Privada Reformada dijo que "es la no desaparecerá y no es ánimo del Gobierno que sea minimizada. Esta es una expresión oficial", remarcó el Ministro. Fue un diálogo franco, directo con empresarios y comerciantes. El titular del portafolio lo precisó con toda claridad el concepto del pluralismo económico como elemento fundamental dentro de la Democracia Social de Participación. Afirmó que el Sector de Propiedad Social es el prioritario de la economía nacional, pero no es excluyente de otros.



El Secretario de Estado de los Estados Unidos continuó ayer su visita de 22 horas al Perú. En el aeropuerto internacional fue despedido por el Canciller Miguel Ángel de la Flor Valle.

## El mayorista sigue siendo trampa para los minoristas

(Ver Pág. 8)

SEU DIARIO DE LA MAÑANA - S/. 5.00  
 DIRECTOR: Hugo Nebra  
 Jefe de Redacción: Julio Higashi  
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Ministro de Industria y Turismo

# Ley de la Pequeña Empresa

-06- será promulgada en marzo

La Ley de la Pequeña Empresa será promulgada en marzo. El anuncio fue hecho ayer por el Ministro de Industria y Turismo, General Gastón Ibáñez O'Brien durante la reunión que sostuvo con empresarios y comerciantes.

Al tratar sobre la Empresa Privada Reformada, el titular del portafolio fue muy claro al afirmar que ésta no desaparecerá.

"No es el ánimo del Gobierno Revolucionario que ésta desaparezca o que sea deliberadamente minimizada. Esto es una expresión oficial", remarcó el Ministro.

## PLURALISMO ECONOMICO

El General Ibáñez O'Brien precisó, con toda claridad, el concepto del pluralismo económico como elemento fundamental dentro de la Democracia Social de Participación Plena que propugna el Gobierno Revolucionario.

"En este marco conceptual —dijo— los cuatro modos de propiedad de los medios de producción: el estatal, de propiedad social, de propiedad privada reformada y de pequeña empresa, están claramente definidos y tienen el carácter de permanentes".

## DINAMIZAR CONTROL DE PRECIOS

El Ministro de Industria se refirió también, a la pronta promulgación de un dispositivo legal que dinamice la política del control de precios y la torne más expeditiva.

Precisó que la Comisión Intermunicipal de Asuntos Económicos y Financieros está terminando los es-

tudios y antes de un mes, posiblemente, ya esté promulgado el dispositivo legal correspondiente.

Anotó igualmente con respecto a la próxima promulgación de la Ley de la Pequeña Empresa que ella dinamizará la economía nacional al absorber grandes masas de la población.

## NO ES EXCLUYENTE

Más adelante el Ministro analizó brevemente el rol de la Empresa Privada Reformada y el Sector de Propiedad Social.

Sobre la Empresa Privada Reformada reiteró que ella no desaparecerá.

Y a renglón seguido dijo que el Sector de Propiedad Social es el prioritario de la economía nacional, pero no es excluyente de los otros.

Concurrieron a la entrevista dirigentes de la Sociedad de Industrias, Cámara Peruana de la Construcción, Asociación Automotriz, Federación Nacional de Cámaras de Comercio y delegados de las Cámaras del norte y Arequipa.