# The Pisces Studies:

## Assisting the Smallest Economic Activities of the Urban Poor

Agency for International Development

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# THE PISCES STUDIES:

## ASSISTING THE SMALLEST ECONOMIC ACTIVITIES OF THE URBAN POOR


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ASSISTING THE SMALLEST ECONOMIC
ACTIVITIES OF THE URBAN POOR

**THE PISCES STUDIES**

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## PREFACE

Despite the constant reminders that development is a long process, one seldom is prepared to attribute that characteristic to the realization of one's sure-fire ideas. Nevertheless one is hard-pressed in a large organization to get a quick hearing, much more ready acceptance and support, especially when the organization has had little or no experience with the subject matter.

So it has been with addressing the employment problems of the urban poor. The Office of Urban Development recognized nearly ten years ago that a problem and an opportunity to assist existed in that sector of the economy in which many, if not most, of the urban poor earn their livelihood—namely, the informal ("traditional" and "artisanal" also are used) sector. The label defied acceptable definition and many efforts to discuss this idea foundered there. Of even greater concern was the notion of an A.I.D. project being targeted on that sector!

The need to do something about urban employment and the notion that it might be done in the informal sector persisted and, as time and resources permitted, the then two-man urban development staff probed further to see what might be designed.

The Introduction recounts the "breakthrough" which came as a result of the study which Simon Fass did in Haiti. Another "breakthrough" came when it was possible to expand the Office and to include someone on the staff who could give more expert atttention to this important matter.

This volume is a milestone in the long journey of helping the Agency and the development assistance community understand the nature and value of the informal sector of the economies of developing nations and prepare to assist at a very basic level in its growth and development. The Office of Urban Development is grateful to Michael Farbman for his continuing leadership and to the contractors for the professional skill and caring with which they carried out their assignment.

William R. Miner, Director
Office of Urban Development

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## INTRODUCTION

*The PISCES Project Context*

In 1978, the Office of Urban Development, in what was then known as the Development Support Bureau (forerunner to the current Bureau for Science and Technology) in AID/Washington, began implementation of a project titled "Small Enterprise Approaches to Employment." Its purpose was, in general terms, to improve AID's understanding of the nature and constraints of the small enterprise (SSE) "sector", and eventually to upgrade our ability as a development organization to design, implement and evaluate projects which promote employment for AID's target group through provision of assistance to institutions, individuals and enterprises associated with this sector.

Under the "Small Enterprise Approaches to Employment" umbrella, three separate subprojects were contracted. The first, with Michigan State University[1] and under the direction of Professor W. Paul Strassmann of the Department of Economics, was designed to further our understanding of the relationship between housing improvement and employment. It is concerned with the small enterprise dimension in two important respects: first, in analyzing the roll of small, labor-intensive, enterprises as providers of both building materials and construction services; and second, in terms of promoting shelter improvement in tandem with provision of space for productive activities, such as for workshop areas, retail sales areas, and storage space. This component has produced a series of survey analyses, policy documents and working papers, which are available from either the Project Director or the Office of Urban Development, AID.

The second subproject was designed to examine evaluation methodologies as applied to measuring the impacts of small enterprise assistance projects. Its purpose—in addition to reviewing the literature on, and assessing prior attempts at, small enterprise project impact evaluations—is to advance the state-of-the-art of cost-effective impact evaluation methodologies by field testing of new approaches to data gathering, monitoring and analysis as adjuncts to new and continuing SSE projects. This component is contracted with Development Alternatives, Inc., Washington, D.C., under the direction of Ms. Susan Goldmark.[2] A monograph reviewing the state-of-the-art of SSE impact evaluation and describing the current (1981/82) phase of field testing is available from the Office of Urban Development, AID.[3]

The third component—the subject of this volume—was and is what has come to be known as the "PISCES" component. As with so much else in the government, PISCES is an acronym. Fully expanded, it translates into the "Program for Investment in the Small Capital Enterprise Sector." Although the less said about the origins of the acronym, the better, it is the purpose of this section of the PISCES studies to acknowledge the origins of the project concept itself, which, among its interim accomplishments, has led to the publication of this volume.

*Origins of PISCES*

The PISCES project sprang from discussions that took place among the Urban Development Office staff during late 1977/early 1978. At that time we had just received a draft copy of a study, in part financed by the Office, on "the economics of survival" in a squatter settlement in Port-au-Prince, Haiti, by Simon Fass.[4] Among the most striking features of the group which Fass described

[1] Contract No. AID/DS/otr-C-0012.

[2] Contract No. AID/DS/otr-C-0016.

[3] Susan G. Goldmark and Jay Rosengard, "Evaluating Small-Scale Enterprise Promotion: State-of-the-Art, Methodologies and Future Alternatives", U.S. Agency for International Development, Washington, D.C., May 1981.

[4] "The Economics of Survival: A Study of Poverty and Planning in Haiti", U.S. Agency for International Development, Washington, D.C., October 1980.

were the high economic activity rates in the settlement, the nature of the economic activities in which the residents were engaged, and above all, the apparent simplicity of their enterprise needs. The fact was that most were engaged in household or other "informal" types of enterprise, mostly at a level so low that the enterprise would hardly show up in a count of business establishments. Moreover, Fass's data suggested that many of the activities reported upon remained small and precarious, not so much because of lack of entrepreneurial capabilities or of market opportunities, as because of lack of working capital, storage space or access to only slightly higher levels of technology. In short, the universal, shared condition in this settlement, apart from poverty, was lack of access to resources to help these small—some would say "marginal"—enterprises to rise above their low-level, stagnant equilibria.

In discussing this particular study, and in comparing the reported conditions against those known to predominate in similar "bustees", *bidonvilles, barrios* and *tugurios* worldwide, it became clear that surely no better opportunity existed to make a new and useful contribution to small enterprise assistance technology than to examine the potential for assisting small "micro" businesses at this level.

In the first place, it had to be acknowledged that if, indeed, AID's main focus of direct developmental assistance was meant to be the so-called poor majority, little question existed as to this impoverished group's eligibility. Secondly, a non-systematic review of then-existing AID projects showed precious few initiatives that were designed to assist the economic activities of this needy group. The problem, we soon came to realize, was: how to do it? How can AID get into the business of developing and implementing "enterprise" projects that reach this most difficult-to-assist target group?

The *needs* for enterprise development at this level seemed well-enough identified: working capital, management training, low-level technical assistance, security. So too were the constraints: lack of collateral, widespread functional illiteracy, lack of contact with potentially helpful institutions already in place, susceptibility to health, family and business disruptions, and heavy competition.

At this point I should acknowledge my eternal debt of gratitude to my erstwhile colleague, Dr. John W. Dickey, who was working with us while on leave from Virginia Polytechnic Institute and State University during 1977-79. It was he who came up with the germ of the idea for dealing with this lacuna in our assistance portfolio that eventually become PISCES. Using mirrors, wires, and assumptions of multiplier effects and human behavior, Dickey argued that small—say \$20 – \$100—unsecured loans for working capital was the answer, and he worked out a model to prove it.

While the model may have been the subject of much dispute at the time, the basic consensus emerged that *something* should be done, even at great risk, and probably very small loans would have to be part of it. We kept coming back to our original point that we had no institutional history with which to inform ourselves. Experience with small lending and enterprise assistance projects at this level, for AID at least, was a blank slate.

Clearly we needed real world knowledge and inspiration. Our response was to issue a competitive request for proposals to work with us under the Small Enterprise Approaches to Employment umbrella to document whatever it was that the real world had to teach us with respect to this question.

We were fortunate in receiving about ten proposals to carry out this research, the best of which came from a group of three private and voluntary organizations (PVOs). Two of them, ACCION International/AITEC and Partnership for Productivity (PfP), accounted for a substantial proportion of U.S. PVO-run projects in developing countries which came even close to operating at the level which we had in mind. More importantly, however, their longstanding commitment to working with local groups, complemented by their worldwide network of PVO and other nongovernmental organization contacts, promised success in identifying and analyzing these indigenous projects/programs. A third U.S. PVO, the Development Group for Alternative Policies (DGAP), rounded out the contracting team. While not a project implementing organization like AITEC and PfP, the DGAP had other complementary interests and experiences related to the small micro-enterprise assistance problem, particularly on the policy side.

In September 1978 a contract was signed, marking the official beginning of PISCES Phase I.[5] It was designated "Phase I" because we were optimistic that not only would appropriate lessons be

[5] Contract No. AID/DS/otr-C-0013.

there to be learned, but that the Agency would wish to move forward with this knowledge, at least to the stage of pilot/demonstration projects.[6]

The contracting team divided its coverage among the three regions of the world according to the experience and expertise of the personnel: AITEC, as prime contractor was responsible for the overall direction and administration of the project, the synthesis of the study results, and the Latin America case studies; PfP was responsible for the Asia case studies; and the DGAP for the Africa case studies. Stated broadly, their terms of reference boiled down to responding to three questions:

—Is it possible to reach very poor urban dwellers and provide to them assistance in respect of their self-initiated economic activities?

—What methodologies/approaches seem to be effective?,

—What are the implications for donor agencies?[7]

The actual project activities were launched with a series of workshops held early in 1979 to define the problem further and to develop a methodology for carrying out the field investigations. PISCES team members then proceeded to visit over twenty developing countries where their information led them to believe model projects existed and appeared to be working on a reasonably cost-effective basis. After determining that a number of the projects visited indeed were effective and employed interesting approaches worthy of further study, the series of in-depth case studies reported upon in this volume was carried out.

The case studies were completed early in 1980 and were circulated in draft form for comments. Subsequently, in April 1980, a one-day workshop was convened at the Brookings Institution to disseminate the accumulated information and to use the assembled experts from AID, other donors, PVO's, and private consultants, *inter alia*, as a sounding board for some of our conclusions and inferences. The workshop generated a considerable amount of debate at the time of its convening and for some time afterward about the issue of assistability of this sector, and particularly of the appropriate role of bilateral and multilateral agencies in this process. What no longer was debated, however, was the very existence of an assistance technology as such. The approaches and methodologies, opportunities and pitfalls, for working with the smallest enterprise needs of the urban poor, mostly through indigenous PVOs and other church and nongovernmental organizations, were now on the record, clearly documented. The reader of this volume is invited to consider for himself or herself the validity of these findings, as presented below in the remainder of this monograph.

### *Organization of this Volume*

While not wishing to preempt all details of PISCES Phase I's findings, it can be revealed here that the case studies do report on a great wealth of experience and activity "out there" in the real world, and do contain systematic analyses of possible assistance approaches which we hope through this volume to incorporate into AID's awareness and, ultimately, through PISCES Phase II (pilot/demonstration projects) into its regular development portfolio.

This volume begins with an executive summary, followed by a contribution (Part 1) by Jeffrey Ashe, the Project Director, which draws together the sometimes divergent, but frequently remarkably consistent, findings from the analyses of the projects. While it contains references to specific projects, Part I is most noteworthy for the way it systematizes the lessons learned into a logically consistent framework, which matches assistance approaches with types of persons and enterprises needing to be assisted, their specific needs, and the institutional context in which assistance takes place.

Parts two through five are the regional sets of case studies, containing the detailed background information and analyses which form the basis for the conclusions in Part I. The reader is advised to read Part I before attacking a specific regional section, if only to understand in advance where, analytically, the case studies are meant to lead him/her, and to provide a context in which to view all the detailed information presented.

[6] Refer to Chapter 12 in Part I for futher elaboration of PISCES Phase II.

[7] One AITEC staff person summarized these terms of reference quite succinctly: "We already demonstrated through our projects in Latin American that (*e.g.*) the artisan shoe manufacturers with three or four employees can be helped with a $1000 loan. Now we are being asked if it is possible to assist the curbside food seller who serves lunch to the shoemakers."

*Acknowledgments*

As AID Project Officer for the PISCES project and as editor of this volume, I would like to use this forum to record my deep appreciation above all to the three PVOs and their personnel who so professionally implemented PISCES Phase I. The project was not without the usual funding problems, communication breakdowns, and difficulties in relations with AID field missions and with developing country counterparts and cooperators. Yet throughout, and notwithstanding the additional pressures of extended separations from family to carry out the field work, the contracting personnel remained faithful to their assignment, persevered through the myriad operational difficulties, and came up with a highly professional output. I know that it was costly to them personally, and to their institutions, and I congratulate and salute them and their families.

My colleagues and former colleagues in the Office of Urban Development, especially John Dickey as mentioned above, provided inspiration and all the support on this project that one could reasonably have asked for. Dr. William R. Miner, Director, and Dr. Eric Chetwynd, Jr., Deputy Director of the Office of Urban Development, aside from having anticipated by two years the need for financing this project, were stalwart supporters of me and of the project, particularly when senior management got cold feet about the whole informal sector assistance idea and the risks involved. David A. A. Smith, erstwhile Graduate Work/Study student in the Office of Urban Development, performed yeoman services in helping with the editing of the manuscripts.

Finally, the usual debt must be acknowledged to Ms. Diannah McDaniel and Ms. Mary Gilmartin of the Office of Urban Development, mostly for their typing services, but also for the uncountable other services they performed on the project's or my behalf, mostly without having to be asked.

All the customary disclaimers apply to this volume on behalf of AID. The contracting team has done its best and has written what the members honestly believe. Of course, they speak for themselves only. I stand behind them personally and associate myself with their findings and conclusions. At the same time I accept responsibility for the editing of this volume.

## EXECUTIVE SUMMARY

It is estimated that the Third World will need 782 million new jobs between 1980 and the year 2000. Since more people are crowding into cities—the rate of population increase in many cities exceeds 5% per annum—an increasing proportion of these new jobs will need to be created in urban areas. Currently from 20% to 50% of those working in cities are employed in the urban informal sector in businesses ranging from street vending, to tailoring, to furniture making. In many areas the percentage working in the informal sector is increasing as larger-scale businesses have proved incapable of expanding rapidly enough to meet the demand for jobs.

This report focuses on programs of direct assistance to the smallest businesses within the informal sector where capital start-up is minimal, from a few dollars to one or two hundred dollars. We are differentiating between the informal sector artisan shoe manufacturer with two or three employees who could benefit from a $2,000 loan and the curbside food seller who serves lunch to the shoemakers who could use a $200 loan. Assistance to businesses at the level of the curbside food seller has as its goal increasing income and employment for very poor urban dwellers and providing needed goods and services for urban areas.

The programs and projects described in the summary report and the four regional case studies show it is possible to assist effectively the smallest businesses of the informal sector. Programs assisted significant numbers of businesses with initial loans ranging from $12 to $300. Administrative costs were relatively low and payback rates ranged as high as 90% to 99%. Other programs helped the poorest enter urban activities by providing loans of less than $100 to start hawking or selling prepared food. Our research also showed it was possible to train poor youths in higher paying skills and help them start new businesses, or to help establish cooperative businesses where people working together were able to pool resources and equipment and produce and sell collectively.

These programs often had significant impacts on the businessperson's family and on the community. Although evidence is scattered and often impressionistic, our initial observations are that programs that assist the smallest of already existing businesses often increase the income of the owners substantially. Many who were earning one dollar a day are now earning two dollars or more. New individual and collective businesses often provide one or two dollars of income a day to those who had no source of income. New income is most commonly used for basic necessities such as food, health care, schooling and shelter. New employment is often created for family members or others in the neighborhood as these businesses expand.

There are non-economic impacts as well. A project in India helped form an organization of poor women entrepreneurs that led to improved conditions in the markets and a reduction in police harassment. Project participants in the Philippines tended to provide more business assistance to each other, and to help more in community improvement efforts. Increased self-confidence and motivation were notable in all projects.

Finally, projects most commonly assisted women entrepreneurs. In general, the smaller the size of the business reached by a project, the larger the proportion of women business owners.

Enterprise assistance is a strongly felt need among the poorest urban dwellers. Many projects moved into enterprise development even though their original purpose was community development or to provide services. The poor people they worked with often made it evident to project staff that their most immediate need was earning an income. The intensity of this need is demonstrated by the extremely rapid growth of some of these programs, and that several of them could have served even more beneficiaries if they had had additional funding for loans and staff expansion.

### *Levels of Beneficiaries*

One major finding of PISCES Phase I was that within the category of the smallest businesses of the informal sector there are distinct levels that correspond closely with the most appropriate type of project assistance. At the smallest level (Level I) people do whatever they must to subsist. They do not perceive themselves as entrepreneurs, nor do they conceive of their moneymaking activities as "businesses." Activities are often extremely ephemeral—selling chewing gum or cigarettes on a corner, or colas and candy during parades. Even when they have potentially marketable skills such as sewing and weaving, their unfamiliarity with the competitive aspects of planning and organization for a profit-making business venture often limit the incomes they realize as a result of plying their trades.

Entrepreneurs at the next level (Level II) have a fundamental understanding of business practices and have a viable going concern. They may make tortillas, or sew clothes on an old treadle sewing machine, or hawk a well organized assortment of clothing or toys, or sell prepared food, etc. Level II entrepreneurs generally will dedicate to their businesses *whatever* resources are available—be it capital, raw materials, skills, effort, time, or ingenuity.

At Level III business owners have better-developed business skills. They understand the basic principles governing their markets and are flexible enough to expand when the opportunity arises. Examples of businesses at this level might include a shoemaker with a small rented shop who has an assistant, or a family of tailors, who informally divide their dwelling into a living area and a work shop.

### *Types of Projects*

People without businesses or whose businesses are marginal (Level I) are often assisted by community-based development efforts, concerned as much with access to such basic services as health, education, nutrition and sanitation, as with enterprise development and income generation. Enterprise development usually involves creating new individual and collective businesses to provide enough income to meet basic needs while increasing self-esteem and self-worth. In turn, that process, as part of an integrated community development effort, tends to promote the collective solution of problems in the community. Promotion among marginal micro-entrepreneurs is intensive and long term, reflecting the time-consuming task of directly promoting and organizing within poor communities projects that include several elements in addition to enterprise development.

Where poor community residents already own very small micro-enterprises (Level II) that have at least the potential to produce enough income to meet basic family needs, programs often focus on creating small informal groups within the community made up of business owners. Groups are generally set up to collectively guarantee loans. (Group members or group leaders act as co-guarantors for each other's loans.)

Once it is recognized that business owners are the best qualified to decide how to use the credit provided and that business advice will be provided informally by other business owners in the community, the process of designing programs translates largely into how to provide the right amount of credit to the small business owners quickly and economically while ensuring that the loans are paid back promptly. In these programs, groups are formed by the members themselves with little staff involvement, and leaders are often responsible for the daily collection of loans. Because these programs focus on enterprise development, the cost per beneficiary assisted is low compared to programs that address a range of community problems simultaneously.

Innovative commercial bank programs reach Level III micro-entrepreneurs individually by servicing owners who have acceptable collateral, a credit history, and/or someone willing to co-sign a loan for them. These businesses are far smaller than those traditionally served by small enterprise programs, but compared to the typical beneficiaries of community and group programs, they have developed business skills and contacts in the local economy sufficient for commercial lenders to consider them credit-worthy. Costs may be low when these programs are efficiently administered. One bank program even made a profit through its lending at this level.

The conclusion of this study is that all three levels of beneficiaries should be served by informal sector assistance projects, although the nature of this assistance may vary according to the level. The benefits of the programs examined also were seen to differ according to level. For instance, it is possible to reach large numbers of business owners at Level III through commercial bank projects, thereby increasing family income and generating a considerable number of new jobs. Level II group type projects, however, may significantly increase family income and generate employment, but will generate these benefits in the context of a distinctly different approach to assistance. The cost and complexity of these programs are in most cases relatively low. Reaching people with marginal economic activities who are outside even informal sector economic activities, however, tends to be more difficult and costly. Although in this last instance the neediest people are assisted, the greater project complexity involved means considerable effort is necessary to reach large numbers.

### *Characteristics of Effective Projects*

Despite the diversity of beneficiaries, the different types of implementing organizations and the varied environments in which they operated, in the most effective projects we found one precept to be universally valid: Program inputs are responsive to the plans and desires of those they serve and to the degree possible reflect the level of skills and knowledge that commonly exists in the community. When this precept is violated, project complexity and cost per beneficiary increase, while the number of people who can be served decreases significantly. Programs which follow this precept most closely tend to be simple and low cost and actively involve the community or assisted groups in the planning process. They also tend to use community volunteers for promotion, for outreach, for selection, for providing business advice, and for managing very small loan funds. These programs spread rapidly by word of mouth after an initial project implementation phase with very little promotion.

#### 1. *Design*

Even though programs spanned three continents and served a broad range of beneficiaries, the effective projects often exhibited similarities in program elements. Every project described in the four volumes of case studies is the product of an extended process of project design as well as of a continuous process of project evolution. Most were developed only after an intensive exercise was carried out to identify the problems of poor people. Most important, the major source of program modification seems to have come from daily interaction with program beneficiaries. Good project staff have the ability to listen.

#### 2. *Staffing*

It was frequently observed that the field staff of these projects are not trained in business. The most important skills are the ability to relate to people in the poor community and to organize at the grass roots level. A good case can be made for using this level of staff for field work. One obvious reason is cost. Several students can be hired for the same cost as an experienced business school graduate. Second, the tasks performed by promoters are simple. Most of their time is spent identifying potential clients, explaining the program and impressing upon them the importance of regular payback—tasks that would quickly frustrate and bore more highly qualified staff. Third, the work is rewarding. The often young promoters see working with micro-businesses as challenging and fulfilling an important social function.

#### 3. *Outreach*

No program we studied simply opened a micro-enterprise office in a central location and started to provide services. It is doubtful that such an effort could be successful even if tried. To reach the poorest community residents, program staff will first have to promote the idea directly in the community.

4. *Selection*

The most important selection criterion seems to be the individual's reputation among other community residents and local business owners, since few borrowers at these levels have a significant amount of collateral. For example, in group programs, group members determine who is credit worthy enough to be a member—a serious decision, since either the group leader or the other group members (depending on the project) are responsible to pay in case of a default by one of the members. Even in credit programs where loans are secured through inventory, fixed capital or a cosigner, initial selection may be based on the recommendation of community leaders, program participants, or other people with whom the applicant has had a credit history.

5. *Credit*

Owners of businesses usually desire credit more than any other services, and several projects have been highly successful in developing mechanisms to grant very small loans at relatively low costs while assuring loan repayment.

Loans are used for several purposes:

- *To pay off money lenders:* For larger loans to established customers, money lenders charge an interest rate of 20% or more a month. For smaller, unsecured loans, they may charge interest of 20% or more *per day*.
- *To reduce time-consuming trips for the purchase of raw materials and debt collection:* Where there is insufficient working capital, each day's production depends on revenue collected from the previous day's sales.
- *To reduce the cost of stock and raw materials:* Lacking working capital, the owner buys stock and raw materials daily in small quantities at high cost.
- *To reach new markets:* With more working capital, the small trader or manufacturer can reach new markets by extending small amounts of credit to those who cannot pay cash.
- *To improve equipment and methods of production:* The purchase of a better sewing machine, for example, may double productivity.
- *To start a new business:* Many business operators have used additional capital to start a new business.

Assuming that the program has selected a good client, several generalizations can be made about disbursing and collecting on very small loans:

- *Loan amounts:* The first loan should be very small for two reasons: first, it tests the individual's ability to repay; second, it avoids overburdening the business with more money than can be invested wisely.
- *Terms:* Most programs appeared to provide a first loan to existing businesses for no more than three to six months. A series of small loans in increasing amounts repaid quickly presents a manageable risk to both the businesses and the program.
- *Interest Rates:* It is generally thought that interest rates for micro-businesses should be low. Yet, if interest rates do not cover costs of risk and administration, financial institutions have little incentive to lend. While those who receive loans at concessionary rates have an important advantage, many others equally well qualified will not receive loans because of lack of funds.
- *Frequency of loan payback:* Loan payback periods should reflect the cash flow cycle of the economic activity in question and the time frame in which *the client* is used to thinking. Retailers generally pay their solidarity group leaders daily, since they purchase and sell their stock daily.
- *Loan collection:* Almost all the programs are businesslike about loan payback to maintain good relations with financial institutions, encourage good habits among beneficiaries and avoid the depletion of the loan fund.

### 6. *Bookkeeping and Management Training*

While there is apparently no lack of entrepreneurial talent for starting and maintaining small trading and manufacturing activities, the entrepreneurial skills required for larger, better organized businesses are generally lacking. To overcome these limitations, some programs have attempted to train business owners in simple bookkeeping and management. This has brought mixed results because it is difficult to convince owners of micro-businesses of the necessity of business training, since they often perceive that their own informal systems are adequate at this level. At the same time, it is difficult to translate apparently simple business concepts into terms understandable to largely illiterate or functionally illiterate slum dwellers who keep no records of any kind.

### 7. *Job Skills Training*

A good case can be made for providing special skills training opportunities for the youth of the very poor. Our study of training components of programs revealed that in areas where the demand for skilled labor is low, a large proportion of the graduates will remain unemployed because they do not have the attitudes, capital or business skills to start their own businesses. A combination of job skills training, business training, and intensive follow-up is essential if the job skills learned are to be put into practice. Separating technical training from business training and follow-up is a major limitation of most vocational education programs.

### 8. *Marketing Assistance*

The provision of marketing assistance is an additional support mechanism which seems sorely needed. For many small enterprises, marketing problems (*i.e.,* lack of assured demand) will continue to form the greatest constraint to their growth and prosperity.

Perhaps the most effective approach for dealing with marketing problems, adopted by some programs, is to identify carefully the demand for skills and products within local communities and then match the areas of training and enterprise promotion to these needs. Another approach seen in several of the programs reviewed involved the direct intervention of the assisting entity in the identification or establishment of marketing channels for client enterprises.

## *Implications for Donors*

The number of projects studied is small. The portion of the informal sector that has been served by these projects is minuscule. Yet these experimental efforts show that the smallest economic activities of the urban poor *can* be assisted, often very effectively. Assistance is delivered through a variety of programs, with objectives appropriate to the strikingly different needs of the various levels of beneficiaries.

These experimental efforts and many others like them can be encouraged. Donors can facilitate this process at three levels. They can strengthen small existing local PVO business development efforts, or enable small local PVOs with strong community programs to begin PISCES-level business development efforts. Some of the more successful programs were facilitated by grants provided just as they were getting started.

Another approach is to enable larger national PVOs, large cooperatives, national development foundations, and government agencies with a history of efficient delivery of services and an interest in assisting this sector, to set up special units and programs to reach PISCES-level enterprises. Finally the existing PISCES-level programs of PVOs, banks, and government agencies can be strengthened and expanded.

Other types of activities that might be funded include:

- the small enterprise development efforts of expatriate PVOs;
- visits between the staffs of projects to facilitate the exchange of ideas;

- special training programs for banks, PVOs, and government institutions;
- efforts to assess or change government policy favoring the informal sector; and
- increasing the availability of small loans through local credit institutions.

Funding these types of activities may have important implications for donors. While some of the large programs may be able to absorb enough funding to justify the sometimes costly and time-consuming project development sequence required by AID (requirements are similarly complex for other major donors), most of these PISCES-level projects will be much smaller, at least initially. Since these small projects are often the only ones reaching the bottom of the economic scale, donors desiring to assist this sector may need to reconcile themselves to working with these organizations and to supporting their projects, despite the relatively high unit programming costs. The PISCES research has at least given us an understanding of how such project assistance may be designed and implemented.

# Part I
# Synthesis and Overall Findings

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**SYNTHESIS AND OVERALL FINDINGS**

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Many project supervisors and staff dedicated their time and interest to this study. Without their assistance our work would have been impossible. Their observations helped either in the initial identification of projects or in the actual analysis of project methodologies.

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J.A.
Cambridge, MA
August 1980

*Preface*

The disquieting observation is frequently made that of the many tens of millions of dollars currently being made available by multi-lateral and bi-lateral assistance agencies to promote small-scale enterprises (SSEs) in developing countries, only a tiny proportion finds its way directly into the enterprises of the urban poor (e.g., small manufacturing, artisans, family traders, service entrepreneurs, etc.). These people are difficult to assist directly. In many cases they operate in an adverse economic policy environment with little government support and are viewed as non-viable risks by financial institutions.

In terms of its mandate, The Agency for International Development (AID) should be targeting a sizeable portion of its assistance to this group. However, AID's efforts and those of other donors only infrequently extend to the very bottom of the enterprise size distribution—what we call micro-enterprises*. The bulk of the direct credit and technical assistance that is made available to SSEs goes to larger and otherwise organized groups of enterprises—with the hope that benefits will eventually "trickle-down". To the extent that "trickle-down" effects are today less convincing as an argument than in the past, there is at least room for doubt as to whether the type of SSE-assistance currently in vogue and the sizes of firms currently attracting the bulk of this assistance are making optimum development, income-generating, and employment-stimulating use of available resources, particularly in respect of some of the poorest residents of developing countries.

The *need* for assistance to the smallest of entrepreneurs, many of whom could apply these resources profitably, is clear. However, without an understanding on the part of the donors of this group's special circumstances, constraints, and potential, the smallest of entrepreneurs will almost certainly never receive the wherewithal to help themselves.

This report examines the characteristics of micro-enterprises, paying close attention to their role and importance in their local economies. We then classify methods of assisting these enterprises and describe the projects observed. Finally, the report summarizes the lessons learned about direct assistance methods and discusses their implications for donors and practitioners. As such, the report does not seek to justify direct assistance approaches, nor does it mean to imply that such approaches are necessarily the best or the only means of assisting the urban poor. The report does, however, seek to highlight, what look like being the most promising features of current direct assistance efforts in order to inform better future attempts of this kind.

*Micro-enterprises are defined as the smallest-scale economic enterprises of the poor. They are normally run by a single owner-manager, and employees, if any, average less than two. Capital required for start-up is minimal, anywhere from a few dollars to one or two hundred dollars.

# INTRODUCTION

CHAPTER 1: *The Informal Sector*

Definition and Characteristics
Role in the Third World
Constraints
Summary

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## 1.0 THE INFORMAL SECTOR

### 1.1 *Definition and Characteristics*[1]

The breadth and diversity of informal sector enterprises are reflected in the multitude of definitions attempting to describe the informal sector. A compilation of more than fifty definitions of this elusive concept show wide discrepancies in their assumptions of the maximum number of employees, capital required, productivity, modernity, and integration into the economy (Georgia Institute of Technology, 1975).

The ILO defines the informal sector as a way of doing things, characterized by:

- ease of entry
- reliance on indigenous resources
- family ownership of enterprises
- small scale of operation
- labor-intensive and adapted technology
- skills acquired outside of formal schooling
- unregulated and competitive markets.

Informal sector activities are largely ignored, rarely supported, often regulated and sometimes actively discouraged by the government (ILO, 1972, p. 6).

This definition is misleading in some ways. The informal sector often has significant economic, occupational, territorial, social, and legal barriers to entry. Trying to arrange a loan of $100 to set up a small repair shop, the would-be business owner (often a woman) is turned away by commercial and development banks interested in larger projects. Crafts apprenticeships require longer periods of training than factory jobs. Hawkers may band together to limit the number entering their markets. One's tribal or caste affiliation or sex may restrict his/her entry into other occupations. Finally, the licensing fees and requirements of local authorities may discourage entry into the sector.

In addition, informal sector enterprises may be characterized as:

- *Ubiquitous:* Street newspaper vendors, cobblers, Mom and Pop grocery stores, cooked-food vendors, hawkers, and watch-repairmen are found in nearly every city and town of every country.
- *Small-scale:* The average size for all industrial firms in Sierra Leone is 1.8 workers (Chuta and Liedholm, 1976, p. 10). The average value of the stock owned by traders in St. Martin, Haiti is $17.00 (Fass, 1978, p. 85). In the Philippines, one could begin a trade (selling peanuts) with $1.25 for stock, a service (shining shoes) with $6.25 for a shoe-shine box, and a manufacturing enterprise (sewing stuffed toys) with $12.50 for materials (Brown, Philippine Case Studies elsewhere in this volume).
- *Often linked to formal sector:* Vendors are often the major marketers of formal sector goods—for example, cigarettes, newspapers, and soft drinks.
- *Localized:* The vast majority of informal sector industries and stores serve to meet the needs of local, low-income workers. Local cobblers repair plastic sandals, and hawkers sell individual cigarettes instead of packs or cartons.
- *Labor-intensive:* In most cities, labor is plentiful and cheap; capital is scarce and expensive. Entrepreneurs in the informal sector learn to deal effectively within those constraints, especially by intensifying all available labor inputs. In addition, this sector is often a principal user and innovator of appropriate, capital-saving technologies.
- *Low income:* The majority of informal sector workers earn somewhat less than unskilled workers in the formal sector, but more than agricultural workers.

[1] Adapted from material developed for the PISCES project by David A. A. Smith, a graduate student at the Fletcher School of Law and Diplomacy.

- *Low profit:* The micro-business owner often has little more than a few cents a day to save for re-investment. Even slight increases in their margin of profit, however, can make business expansion possible.
- *Flexible:* A food vendor in Colombia moves her cart to a new construction site to provide workers with lunch. A bucket maker in Kenya switches to making wash-basins when water lines are installed in his community.
- *Competitive markets:* Markets in the informal sector are often unregulated, and have *relatively* free entry and exit.[2] Hundreds of cobblers compete for a limited number of shoe repairs, thousands of food vendors compete for the purchases of urban housewives, and so on.

### 1.2 *Role in the Third World*

Informal sector activities play an increasingly large role in the urban economies of many Third World countries. That role can be defined in the following ways:

- *Source of employment:* The informal sector is a large, if not a major, source of employment in the burgeoning cities of the Third World. Twenty to fifty percent of workers in the major urban areas of Less Developed Countries (LDC's) find employment in the urban informal sector.[3]
- *Growing source of income opportunities:* The informal sector is expected to provide an increasing proportion of income opportunities, particularly where growth in modern/formal sector employment in urban areas is expected to lag considerably behind rapidly growing urban labor forces. For example, employment in the large-scale sector in Nigeria has been increasing by 1.5 percent annually, while the urban labor force has increased by 6 percent (Byerlee and Eicher, 1972). A smaller percentage of the Latin American workforce was employed in the manufacturing sector in 1970 than in 1925, despite the burst of industrialization in those intervening years (Barnet, 1980).
- *Large output:* For example, in Sierra Leone, 43% of the entire industrial sector's value added came from the small-scale informal sector (Chuta and Liedholm, 1976).
- *Supplier of goods and services:* The informal sector supplies much needed services. Evidence from Kampala suggests that 40% of every dollar earned is spent on informal sector goods (Institute for Development Studies, Nairobi, 1977). In Nouakchott, 91.3% of the total sales of informal sector manufacturing enterprises were to low and middle-income groups (Nihan and Jourdain, 1979).

### 1.3 *Constraints*

Despite the importance of these smallest enterprises to the urban economy, their continual growth and profitability is hindered by several factors.

- *Lack of capital:* Two-thirds of the Kenyan entrepreneurs surveyed by Marris and Somerset (1971) mentioned lack of capital as their biggest concern; few market-business owners thought any other problem was worth mentioning. In our survey of small business development programs in the Philippines, 83% of program beneficiaries felt credit was their most important need and the most important service rendered by these programs (Brown, Philippines Case Studies, this volume).
- *Lack of business skills:* Many entrepreneurs are constrained by their lack of basic business skills such as bookkeeping. Activities develop only up to the level where such skills are necessary to keep track of the flow of resources. Without further training at this point, businesses tend simply to stabilize or to falter.
- *Restriction, regulation, and harassment by local authorities:* In Nairobi, vendors, tailors, tea-sellers, barbers and hawkers, among others, have to obtain licenses from local authorities.

[2] It must be kept in mind, as stated earlier, that significant barriers to entry often do exist, and they are as complex as the cultural settings within which the activities are found.

[3] As John Friedmann and Flora Sullivan indicate in their study, "The Absorption of Labor in the Urban Economy", the informal sector is the most labor-intensive sector of the urban economy. (See also Barnet, 1980).

Controls by the police also limit incomes by denying informal sector enterprises access to downtown markets and heavily trafficked streets which offer the highest income possibilities.

- *Lack of reliable sources for raw materials and supplies:* Raw materials and needed supplies are either not available or are available only at high cost. Often a boom in a national industry will affect the smallest enterprises only by a rise in the cost of raw materials (Peattie, 1976).

## 1.4 *Summary*

The informal sector is a large if not major employer of urban workers, provides the majority of new income opportunities, produces a surprisingly large amount of goods and services, a significant amount of value during manufacture, is a major source of supply of inexpensive goods for the urban and rural poor in particular, and frequently uses capital saving technologies. The vitality and growth potential of the informal sector are impressive.

Recognizing that "the number of jobs that must be created in the Third World between now and the end of the century must equal at least the number of jobs that exist there today",[4] and that a major portion of these jobs will be generated in the urban informal sector, the need to understand and to assist this sector is clear.

This report describes how various projects, spanning three continents, have reached the present urban dwellers and their economic activities. It is hoped that this description will serve to increase the amount and effectiveness of assistance provided to this sector.

[4] Quoted in USAID's "World Development Letter", March 31, 1980.

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## A TYPOLOGY OF BENEFICIARIES AND PROGRAMS

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## A TYPOLOGY OF BENEFICIARIES AND PROGRAMS

To provide a context for the project descriptions which follow, it is important to understand that within the range of micro-enterprises which make up the informal sector, there are significant differences. These differences relate to the needs and styles of business owners. The poor are not homogeneous—their circumstances vary from place to place—and assistance approaches must be fitted to local circumstances. The different types of projects have sharply different objectives and entry points which relate directly to the characteristics of the people served. Essentially, the various programs are different because they address different priority needs of their beneficiaries.

### 2.0 CHARACTERISTICS OF BENEFICIARIES

#### 2.1 *The Urban Dweller*

Although the outside observer may have trouble differentiating the "street-wise" urban dweller from the recent migrant, the experiences of these two groups are distinct, as are the projects assisting each group. The native or long-term city resident probably has contacts with people outside the family: suppliers, buyers, money lenders, and officials—people who may provide advice and help. Growing up in a community surrounded by business activities, the long-term resident has probably worked in some sort of economic activity from childhood and has a good grasp of the notions of credit and marketing. Working with parents or relatives, skills may have developed that will serve in running a business. With some ability to save, this person can invest in a business and see it grow. (See Table I.)

#### 2.2 *The Rural Migrant*

In contrast, recent migrants from rural villages have few contacts outside their families, or their contacts are limited to other very poor people like themselves. Growing up in a farm community, their grasp of business functions in the city is limited and they have few or no marketable urban skills. In some countries, migrants are not only illiterate, but speak languages other than the national or commercial languages. Table I illustrates how the characteristics of project beneficiaries determine the relative degree of difficulty of providing assistance for enterprise development.

## TABLE I

## CHARACTERISTICS OF BENEFICIARIES

| | Urban Experience | Knowledge of Business | Income | Education | Residence |
|---|---|---|---|---|---|
| PROVIDING ASSISTANCE LESS DIFFICULT | Established Urban Dwellers:<br>— "street wise"<br>— good contacts with suppliers, buyers, money lenders, officials, etc.<br>— oriented to urban values | — grew up in community surrounded by business activity<br>— parents work as artisans or vendors<br>— worked with business from early age<br>— grasps concepts of credit, costs, markets, etc.<br>— has developed marketable skills | Near Poverty line:<br>— can meet basic needs of family at low level<br>— some capacity to reinvest savings<br>— access to basic services | Basic reading, writing, and arithmetic skills | — lives in central city<br>— markets, supplies, and raw materials close at hand |
| PROVIDING ASSISTANCE MORE DIFFICULT | Recent Immigrants:<br>— little urban experience<br>— few contacts outside of family or recent migrants like themselves<br>— oriented to rural values | — parents are farmers<br>— no personal business experience<br>— little exposure to business activities in rural community<br>— little grasp of concepts of credit, markets, etc.<br>— few or no marketable skills | Extreme Poverty:<br>— fundamental concern is day to day survival<br>— almost no capacity to save and reinvest<br>— little access to basic services | Illiterate | — lives in settlements distant from city<br>— transportation to markets costly and time consuming |

## 3.0 LEVELS OF ENTERPRISE[5]

Beneficiaries of projects tend to perceive themselves and their enterprises differently, according to the amount and type of entrepreneurial exposure they have had. Their basic orientations reflect different strategies, needs, and growth potentials. Using a series of three levels we will look at these orientations more closely.

### 3.1 *Level I—Marginal*

At Level I people do whatever they must to subsist. They do not perceive themselves as entrepreneurs, nor do they conceive of their moneymaking activities as "business opportunities." Their activities lack the systematic qualities of enterprises at other levels, especially planning and scheduling. Usually, the family of a person predominantly dependent on this sector cannot meet its survival needs with the income of the one marginal business, but must receive contributions from several micro-enterprises or income earners.

Activities are often extremely ephemeral—selling chewing gum or cigarettes on a corner, or colas and candy during parades. In many cases these marginal workers, who are often women or children, work on a day-basis as unsalaried distributors of large corporations. They are totally dependent on large producers for what they sell and seldom have enough capital to buy more than a day's worth of supplies at a time. They have extremely slim possibilities for reinvestment and/or capital accumulation. All of the above constraints limit these enterprises' adaptive abilities, where more often than not it is precisely the degree of flexibility that may determine an enterprise's viability.

The "Marias" in Mexico, women who migrate between the countryside and cities with their families, are an example of marginal workers. Their principal concern is day-to-day survival. Generally living with relatives from the same village in tightly knit "neighborhoods" within the city, they continue much as they would in the countryside: sleeping on straw mats, cooking over charcoal burners on a patio shared by numerous other families, and honoring the patron saints of their village.

Usually transient migrants from farming backgrounds, the "Marias" have no personal business experience. Even when they have potentially marketable skills such as sewing and weaving, they are unfamiliar with the competitive aspects of strategic planning and organization of profitmaking business ventures. Their principal employment option is to work as servants in the homes of the upper and upper-middle classes. Yet many prefer the hazards of selling on the street, as they do not like following orders, while they do like being outdoors with their children. In addition, both they and their husbands try to arrange their income-earning activities so they can return to their villages whenever the need or opportunity arises.

The "Marias" basic concern is simply day-to-day survival. The main advantage to them of working in the informal sector is that they can manage their own time much as they are used to doing in rural areas. This is apparently adequate compensation for the low earnings they receive.

### 3.2 *Level II—Very Small*

Level II entrepreneurs have a fundamental understanding of business practices and generally have either a viable going concern, or good business opportunities. After living in an urban area for a while, they can be expected to diversify or grow in the existing businesses, or might start more substantial businesses, albeit at a low level. Typically, Level II entrepreneurs will reinvest *whatever*

[5] Adapted from material developed for the PISCES project by Susan Sawyer, a graduate student in the Harvard School of Education.

resources are available—be it capital, raw materials, skills, effort, time, or ingenuity—into the business once it has been started. For example, a woman in Colombia began a tortilla business by making a few extra tortillas for a neighbor who spent her days at the market and who did not have enough time to make tortillas for her family. Before long the woman discovered that many women in the *barrio* were willing to pay for fresh tortillas. She employed one daughter who was old enough to make tortillas correctly and had the other daughter wash the clothes and tend the baby so she could devote more time to the income-producing activity of making tortillas. Often, as one woman in a *barrio* begins to specialize in a business, another woman's time is freed up to specialize in an activity which can add an income to her family. Within families, the use of older children as caretakers for younger siblings is often an important feature of the division of labor within a family, since the shifting of that burden of child care may be a prerequisite for the freeing of an adult woman's time for the purpose of specializing on income generation.

### 3.3 *Level III—Small*

At Level III people have better business skills, strong entrepreneurial drive, and generally a more substantial enterprise base off of which to work. They understand the basic principles governing their markets and are flexible enough to expand when the opportunity arises.

The owner of a chicken shop in the Philippines exemplifies the characteristics of a Level III entrepreneur. On Saturdays the streets around her shop fill with people selling fresh produce and goods brought in from the country. The chicken vendor, who grew plants in her home as a hobby, began to fill the entrance of her shop with her plants, offering them for sale. In addition, during a period when trade at this small Saturday market began to expand markedly, the vendor directed one of her daughters to prepare snacks on a little stand in front of the shop. This way they attracted people who grew tired and hungry while doing their marketing. The sight and smell of hot, freshly prepared food in front of a small shop which was obviously clean and thriving drew customers on its own. These people might then be enticed into buying a fresh chicken for their Sunday dinner or a new plant to make their homes more cheerful.

Other examples of small, Level III micro-enterprises include:

- an upholsterer, working with his wife, who has a little shop with one sewing machine;
- a shoemaker with a very small rented shop opening into the street, who has one older man as an assistant;
- a family of tailors, who divided their living area with a cloth in order to create a tiny work area.

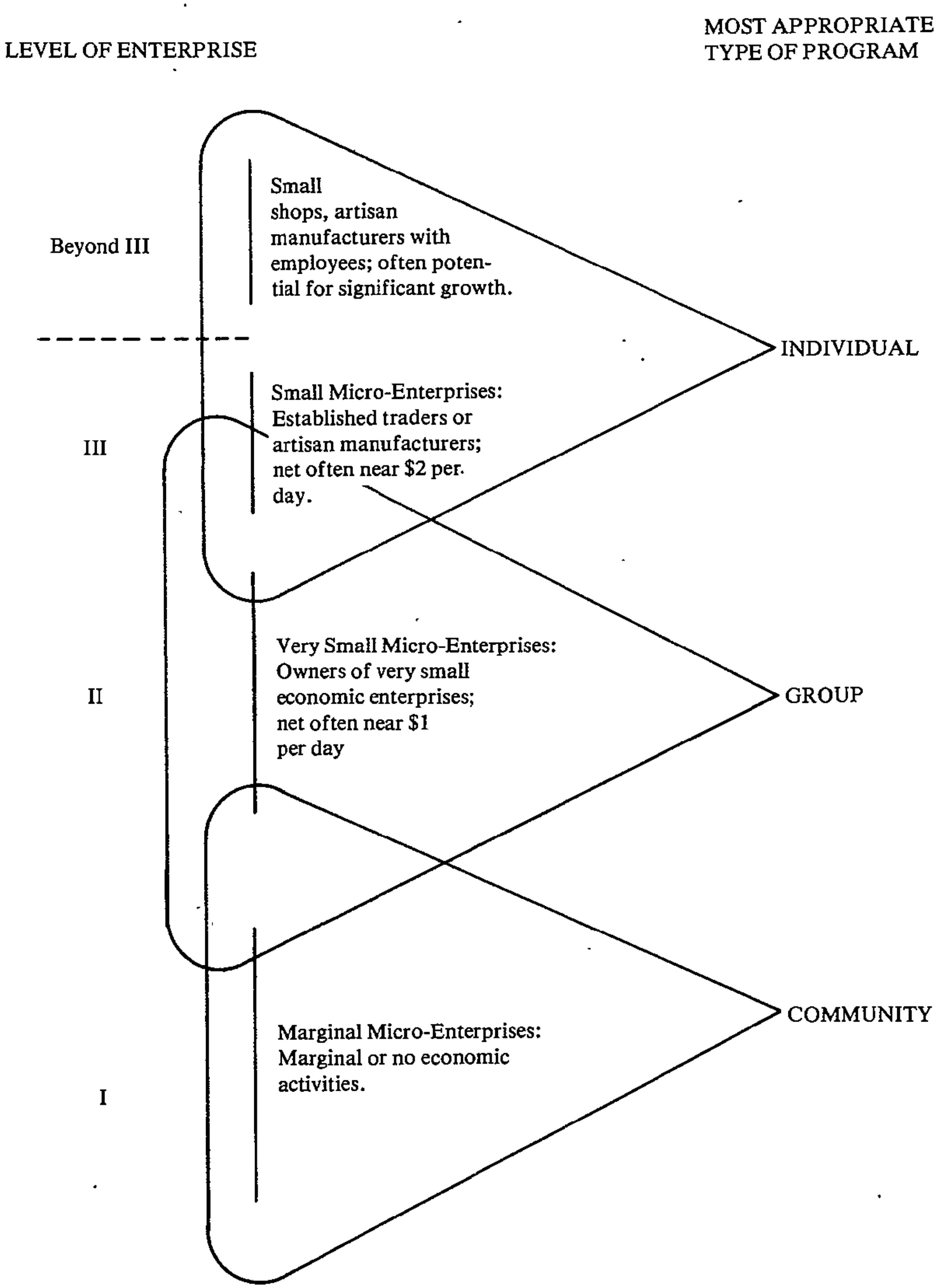
The owners of these tiny enterprises, at all three levels, are beneficiaries of the projects described in the following pages. These enterprises are far smaller than those served by commercial credit or by traditional small enterprise development efforts. The next section discusses the objectives and entry points of programs assisting the poor at different levels.

## 4.0 PROGRAM OBJECTIVES AND ENTRY POINTS

Table II shows how different types of programs reflect the needs of different levels of beneficiaries and micro-enterprises. Program objectives reflect both the degree of poverty and the degree of business experience of people living in poor communities.

**TABLE II**

**PROGRAM TYPE**



### 4.1 *Marginal Micro-Enterprises: Community Programs*

People without businesses or whose businesses are marginal (Level I) are often assisted by community-based development efforts, concerned as much with access to such basic services as health, education, nutrition and sanitation, as with enterprise development and income generation. Enterprise development usually involves creating new individual and collective businesses to provide enough income to meet basic needs while increasing self-esteem and self-worth. In turn, that process, as part of an integrated community development effort, tends to promote the collective solution of problems in the community. Promotion among marginal micro-entrepreneurs is intensive and long term, reflecting the time-consuming task of directly promoting and organizing within poor communities projects that include several elements in addition to enterprise development.[6]

### 4.2 *Very Small Micro-Enterprises: Group Programs*

Where poor community residents already own very small micro-enterprises that have at least the potential to produce enough income to meet basic family needs, programs often focus on creating small informal groups within the community made up of business owners. Groups are generally set up to collectively guarantee loans. (Group members or group leaders act as co-guarantors for each other's loans.) In some programs, the groups even take on some of the characteristics of community organizations, since they act as advocates for the community. For example, in one program, group leaders administer a fund to help start businesses for the very poorest in the community. In another, the leaders of the various credit groups, acting as the Board of Directors of the community-based organization, pressure the local government to improve conditions in the markets and to end police harassment of hawkers and vendors.

In these programs, groups are formed by the members themselves with little staff involvement, and leaders are often responsible for the daily collection of loans. Because these programs focus on enterprise development, the cost per beneficiary assisted is low compared to programs that address a range of community problems simultaneously.

### 4.3 *Small Micro-Enterprises: Individual Programs*

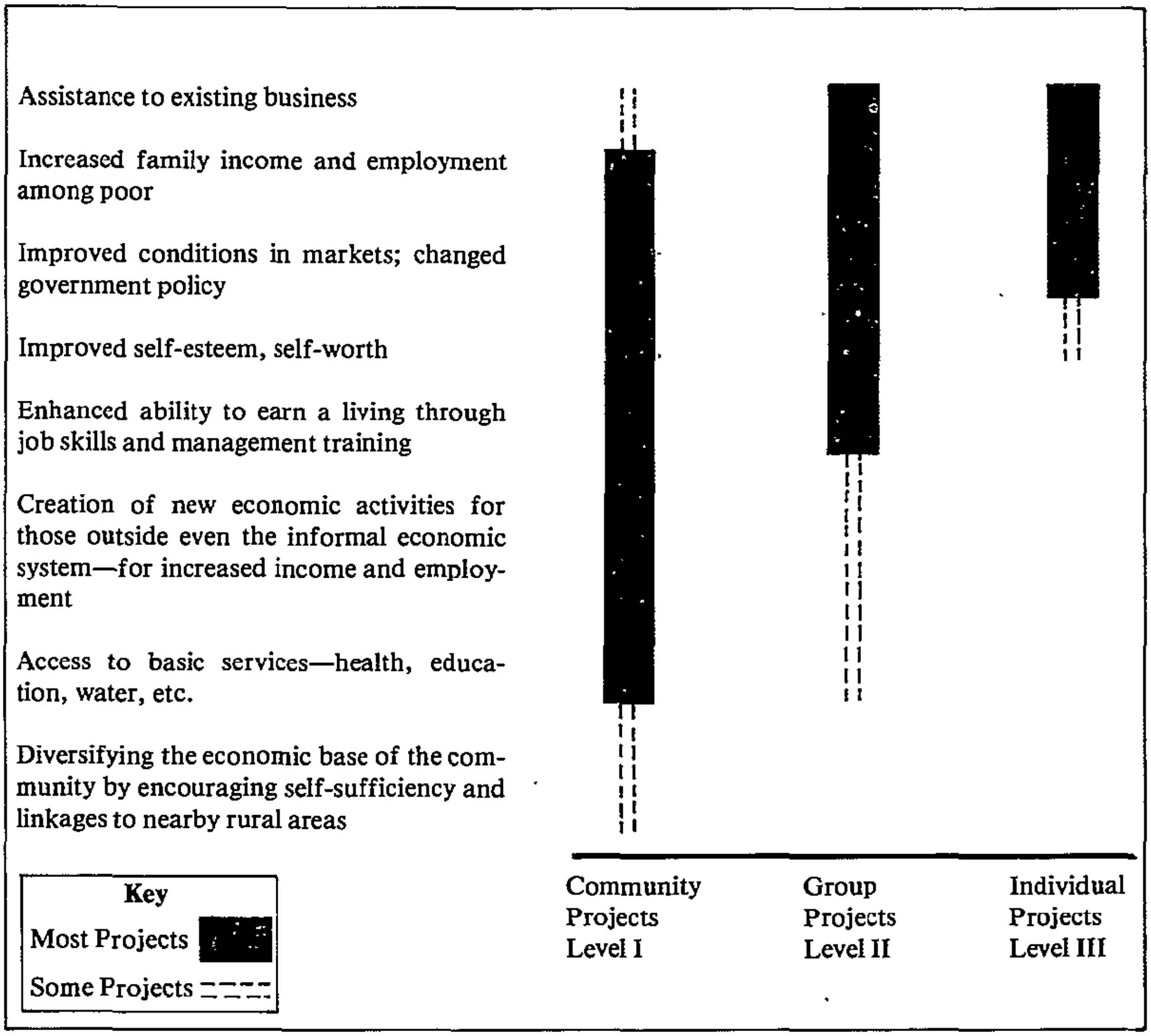
Innovative commercial bank programs reach small micro-enterprises (Level III) individually by servicing owners who have an acceptable inventory, a credit history, and/or someone willing to co-sign a loan for them. These businesses are far smaller than those traditionally served by small enterprise programs, but compared to the typical beneficiaries of community and group programs, they have developed business skills and contacts in the local economy sufficient for commercial lenders to consider them credit-worthy.

As can be seen in Table III, the objectives of "individual programs" are comparatively narrow: increased family income and increased employment. Costs may be low when these programs are efficiently administered, and normal profits were frequently observed amongst lending institutions who participated in these programs.

[6] In at least one community-based program (NCCK in Kenya) assistance is provided to viable, as well as marginal, enterprises.

**TABLE III**

**PROJECT OBJECTIVES**



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**ENTERPRISE DEVELOPMENT METHODOLOGY**

## ENTERPRISE DEVELOPMENT METHODOLOGY

Projects can be further categorized into two types: those which assist existing businesses and those which create new ones. Projects which assist existing businesses provide credit and, in some cases, basic bookkeeping and management training to very small micro-enterprises (generally through group mechanisms) and to small micro-businesses directly to individual business owners. Similarly, some comprehensive community improvement projects also assist existing enterprises. Projects which create new businesses intervene directly to create new individual or collective businesses either within the context of comprehensive community improvement efforts, or within the context of the production group. Many of the projects which have created new businesses have been strikingly inventive and effective in working with the neediest, the least skilled, and the least business-oriented individuals.

As the projects are described, it is perhaps useful to keep in mind a simple model that specifies how much staff intervention there is in the enterprise development aspects of projects. Although there are some exceptions, projects which assist existing businesses tend to range between "low intervention" and "moderate intervention". Projects which *start* new businesses, however, tend to range between "moderate" and "high intervention". Table IV, which follows, illustrates a rough way of conceptualizing projects with respect to the variable of staff intervention. In existing projects there might be different degrees of intervention for the different elements, such as skills training or management, etc.

As will be seen below in Chapter 9, the level of intervention is central to the issue of evaluating program effectiveness relative to program costs. In general, the higher the level of intervention, the higher the program costs.

### TABLE IV

### DEGREE OF STAFF INTERVENTION IN ENTERPRISE DEVELOPMENT PROJECTS

| | Type of Enterprise | Management | Skills Training | Credit | Marketing |
|---|---|---|---|---|---|
| HIGH INTERVENTION | Staff does needs assessment, selects most feasible enterprise for beneficiaries | Project staff manages all important aspects of enterprise, prepares beneficiaries to take over | Training often protracted and intensive | Credit given strictly in kind to pay for inputs needed for the collective economic enterprise | Program staff finds markets, handles sales, returns profit to producer groups |
| MODERATE INTERVENTION | Community or group consults with staff, selects enterprise based on beneficiary's present business or skills | Staff teaches management skills; intervenes when necessary | Training brief; supplements existing skills | Credit based on careful assessment of business, limited to specific predetermined uses | Staff assists in finding markets; business owner(s) responsible for sales |
| LOW INTERVENTION | Beneficiary already has started business | Beneficiary runs business; little or no management training | Training nonexistent; business-owners have necessary skills | Credit provided to put owner's plans into effect; little staff guidance | Business owner locates and develops (usually local) markets |

## 5.0 PROJECTS THAT ASSIST EXISTING ECONOMIC ACTIVITIES

Projects that assist existing businesses are either group programs, which tend to reach very small micro-enterprises, or individual programs, which tend to reach small micro-enterprises. Since credit is a major component of nearly every one of these programs, we will examine it in some detail before proceeding to a discussion of the group and individual programs.

### 5.1 *The Credit Component*

Properly designed and administered credit components *improve on the money lender*, usually the only alternative source of credit for most businesses at these levels, by providing money:

- *at lower interest rates:* often 2% a month or less, compared to 20% a month or more;
- *in larger amounts:* sufficient to significantly increase inventories and purchase equipment;
- *for longer periods:* usually for three months to a year, as compared to a day to a month.

These three factors may make the expansion of the enterprise possible. Among the range of services provided by assistance programs to micro-enterprises, small loans are almost always considered to be the most important for improving or expanding their businesses. Indeed some of the projects studied show it is possible to increase significantly the incomes of owners of existing micro-enterprises solely through extending credit. These projects rely on the ability of the business owner to find supplies, expand production, and increase sales without staff intervention in these areas.

Many of these micro-entrepreneurs have well-formulated plans for their businesses: typically the business owner has painstakingly accumulated savings to get started; selected a stall, a choice location on a main street, and a source of supplies based on hours of consultation with, and help from, friends and relatives; and attracted customers through referrals by friends and relatives as well as by their enterprise's word-of-mouth reputation for good products, good services, and low prices. As these entrepreneurs are responsible for the purchasing, manufacturing and marketing of their goods, it is not surprising that they have carefully considered how their businesses can be improved.

Micro-entrepreneurs use small loans for several purposes:

1. *To pay off money lenders:* For larger loans to established customers, money lenders charge an interest rate of 20% or more per month. For smaller, unsecured loans, they may charge interest of 20% or more *per day*. These interest charges are a significant burden on the micro-entrepreneur. A program in Honduras which extended credit at 2% monthly interest to replace the 20% loans offered by money lenders resulted in a significant increase in profit and income for market women.
2. *To reduce time-consuming trips for the purchase of raw materials and debt collection:* Where there is insufficient working capital, each day's production depends on revenue collected from the previous day's sales. Numerous time-consuming trips must be made each day to collect revenues and to purchase stock and raw materials. An elderly candymaker benefited from a credit program in El Salvador; she now has sufficient capital to purchase sugar and other ingredients in bulk, and to collect on consignment sales every few days instead of daily. The hours she works have been cut by 40%.
3. *To reduce the cost of stock and raw materials:* Lacking working capital, the owner buys stock and raw materials daily in small quantities at high cost. When a tortilla maker, a beneficiary of a program in El Salvador, bought cornmeal by the full sack, she enjoyed a substantial quantity discount. She also saved time and money when she purchased firewood for her stove by the truckload and had it delivered. Previously, she walked to the firewood seller and purchased it by the armload.
4. *To reach new markets:* With more working capital, the small trader or manufacturer can reach new markets by extending small amounts of credit to those who cannot pay cash. The tortilla maker mentioned earlier allows customers to pay weekly or biweekly, thereby reaching customers who were previously unavailable to her. A costume jewelry maker assisted by a program in the Philippines will open a stall on the principal avenue and sell at higher prices directly, rather than through a middleman.
5. *To improve equipment and methods of production:* The beneficiary of a commercial bank program in Quito, Ecuador, used her loan to replace a treadle sewing machine with an electric one.

Now she sews twice as much in the same time. A shoemaker bought a sewing machine to attach shoe uppers to their lowers, a task he previously contracted out to other shops at high cost and considerable delay.

6. *To expand the existing business:* Sales of small artisans assisted by a program in Ecuador increased by over 100%; monthly sales of small traders assisted by a program in the Philippines increased by over 200%. Although data are spotty and impressionistic, sales increases were reported in most of the programs we studied, indicating that the market is elastic and that these business owners have sufficient entrepreneurial talent to handle expanding sales.
7. *To start a new business:* Many business operators have used additional capital to start a new business. A seller of soft drinks in El Salvador now hawks cloth to rural villagers. The candymaker mentioned earlier now sells cheese in her neighborhood.

Once it is recognized that business owners are the best qualified to decide how to use the credit provided and that business advice will be provided informally by other business owners in the community, the process of designing programs to assist existing micro-enterprises translates largely into how to provide the right amount of credit to the small business owners quickly and economically while ensuring that the loans are paid back promptly.

### 5.2 *Group Programs*

Programs whose beneficiaries tend to be very small micro-enterprises provide assistance through various types of grouping mechanisms. For example:

- *PRIDECO/FEDECCREDITO Program, El Salvador:*[7] PRIDECO is a government-sponsored community development agency; FEDECCREDITO is a major credit union. Their program is based on solidarity groups of 5-8 members who are collectively responsible for paying back the individual loan of each business owner. Project staff do not form solidarity groups. Solidarity groups are formed when community members band together as required by the program to qualify for low-interest loans. Each group elects a leader responsible for handling group payments. Group members pay the leader daily. This money is then collected from the leader weekly by a program employee who is paid 1% of the total collected. The PRIDECO/FEDECCREDITO Program in El Salvador has provided loans to 2735 businesses in 18 months. Initial loans average $80-$200 with administrative costs of $30 for the first loan and $10 for the second and subsequent loans. The default rate is about 2%.
- *Working Women's Forum, Madras, India:* The Working Women's Forum, a local PVO, uses a similar group mechanism. The leaders of each group stand as personal guarantors for the loans to the 5-50 group members. Group members pay the leader daily who in turn deposits the money in the lending bank. Each group leader is a member of a very active Forum Board of Directors that lobbies to improve conditions in the market and to end police harassment. The Forum has channeled credit to 3,000 businesses in 18 months. Loans average $12-$36. Administrative costs are less than $2 per loan plus 10% of the loan's value. Ninety-nine percent of the loans are repayed.
- *Manila Community Services, Inc. (MCSI), Manila, Philippines:* In this local PVO's program, the group leader also stands as guarantor for loans to group members. Group members usually pay their loans to the leader daily. Leaders average 5 years participation in various MCSI programs and have been carefully trained. Increasingly, they are given more responsibility to train other group leaders and to do more loan screening. Each leader also administers a $175 discretionary fund to provide $5-$15 loans for emergencies to community people and to help those who are so disposed to get started as hawkers and vendors. The MCSI program assists 80-90 new small businesses annually. Initial loans average $62.50; second loans average $93.75. Administrative costs are about $100 per new business client, but this includes a 3-week orientation and training in basic business skills. Ninety-five percent of current loans are repaid.

The group selection mechanism in each of the programs appears to be the critical element in their success. Groups provide the essential loan guarantee and allow a large number of individuals to be

[7] Each of the projects briefly referenced here is described in detail in the regional case study sections of this volume.

reached with a relatively small number of staff. In most cases the solidarity groups:

- *select their own members.* Program staff have little say in the matter of who stands guarantor for whom. This is a key binding element for the group and its "ownership" in the program. Group members cannot blame staff for poor group selection since the members themselves determine who they feel are good credit risks;
- *select their own leadership;*
- *do not take a legal form,* as do many cooperatives; rather they are formally constituted within the framework of the agency concerned, normally through a contract signed by group members;
- *work on the basis of community responsibility, mutual trust, and peer assistance;*
- *take the responsibility for most of the up-front analysis and feasibility studies;* and
- *provide a basis and forum for organizing non-economic activities such as advocacy programs and social services.*

5.3 *Individual Programs*

Innovative projects carried out by commercial banks are reaching slightly larger micro-enterprises with encouraging results. Banks can at least break even, or sometimes make a profit, delivering these tiny loans. This opens the possibility of reaching many more of these businesses in the future.

- *Bank of Baroda, Calcutta, India:* The Bank of Baroda Multi-Service Center branch in Calcutta administers its portfolio of 4000 loans with 10 bank-loan promoters. Each promoter is responsible for supervising 400 loans and for securing new clients. Interestingly, as in the programs described earlier, bank officials group their clients by communities and depend on recommendations from other clients to involve new people in the program, a kind of informal solidarity grouping. Administrative costs are low (only $10 per loan) because loans require a minimum of processing and supervision.
- *Philippine Commercial and Industrial Bank, Philippines:* The Philippine Commercial and Industrial Bank (PCIB), through its 70 "money shops" scattered throughout the country, provides credit to established commercial stallholders in public and private markets. To qualify for a minimum loan of $125, the stallholder must have average daily sales of at least $7.50, and profits of at least 25%. Loans are repaid on a daily basis. Each money shop operates from a stall in a public or private market where there is a concentration of 400 to 800 sellers. By aggressively expanding into this market, the PCIB gains loyal clients, significant expansion of its portfolio, and an important source of profits. The money shops were to have $3,000,000 to lend in 1980 in amounts ranging from $125 to $1250. No figures were available on the administrative costs per loan, but the bank claims it is making a profit on these loans, and seven other financial institutions are now competing for this lucrative and expanding market.
- *Banco del Pacífico, Ecuador:* This bank makes small loans to established artisan manufacturers with good credit histories and co-signers. In contrast to the other programs mentioned in this section, the bank completes an economic analysis of the proposed project and develops a detailed plan for utilizing the loan funds. Its administrative costs are thus somewhat high—about $100 per loan upon an average loan size of approximately $1,100. All field work is completed by part-time university students with no business training. The Banco del Pacífico has a portfolio of 900 loans to small artisan manufacturers. These businesses have created 400 new jobs, doubled their monthly sales, and increased their owners' incomes significantly.

Although the projects which utilize bank financing spanned three continents, they share similar characteristics:

- *a separate unit in the bank with specially oriented personnel for this type of lending;*
- *simple methodologies for processing and administering loans;* and
- *formal contractual relationships, but with formalities held to a minimum.*

## 5.4 *Salient Features of Group and Individual Projects*

The most salient elements and characteristics of group and individual projects are as follow:

- *Beneficiaries:* The vast majority of the beneficiaries of these programs are women (e.g., over 86% of the clients of FEDECCREDITO are women) engaged in economic activities from which they gain all or a good part of their income. Typically, they run small production shops, corner stores, fruit stands, etc. They earn on the average between $1 and $2 per day. Businesses served by commercial bank projects tend to be slightly larger, well-established, and able to provide guarantees for loans—such as inventory, a lease on a market stall, or a co-signer. Most business owners have been engaged in some type of urban economic activity for between 2-20 years.
- *Promotion and outreach:* To promote their services effectively, programs must have credibility within the communities in which they operate; they cannot be perceived as posing a threat or as working for someone else's interest. FEDECCREDITO, for example, found it difficult to attract clients until it acquired legitimacy by linking up with a community development program which had the staff and the experience in the communities, and was known and trusted by the residents.
- *Personnel:* The efficiency of these projects is also reflected in the type of staff needed. Staff's primary role is to disseminate information about the project and to facilitate the simple paperwork. At the promotion level there is little need for staff with special training in business.
- *Credit:* Credit terms are considered as a package and should complement and reflect the repayment capacity of individual entrepreneurs. Most programs stress the importance of the educational experience of managing credit—of slowly increasing their clients' awareness of credit as a business tool and developing their ability to handle progressively larger loans. The programs have had great success using these methods—loan repayment rates for group or individual projects using solidarity group or individual loans were at least 90%, and often 98% or better.
- *Costs:* A primary objective of projects that serve established micro-enterprises is to offer credit to large numbers of people, in amounts small enough for them to handle, and with effective guarantee mechanisms. If the solution is to be more than a stop-gap mechanism, the program's costs must be held within bounds.

## 5.5 *Limitations*

Although the clients of these projects are concentrated in the poorest communities, they are typically not the most destitute. The beneficiaries of these programs tend to be long-term urban dwellers who have several years of business experience. They also live in densely-populated urban enclaves close to the market sources of raw materials.

The grouping mechanism also limits those selected for assistance. Groups select their members, leaving out those considered to be poor risks or recent migrants who might be good risks but who are unknown. Commercial bank programs are even more selective and generally require entrepreneurs to have physical assets or co-signers. Some selection process is necessary to ensure good payback; however, except indirectly as employees of businesses that have expanded as a result of assistance, the most needy will probably remain unserved by projects which assist more established enterprises on an individual basis.

In spite of these limitations, however, the advantages of such programs can be summarized as follows:

- *The program can keep costs per beneficiary down.*
- *Clients are easy to identify and service.*
- *Programs are not dependent on elaborate organizational arrangements and astute leadership.*
- *Such programs may prove to be readily replicable for the above reasons.*

Finally, note should be taken that the benefits accumulating to borrowers are a result of capital's relative scarcity for the poor. The programs described above provide "rations" of low-cost credit. If capital markets were to operate efficiently and without heavy distortions of the kind which exist in most developing countries, and if they were to effectively serve the smallest enterprises as these projects have shown possible, small-scale enterprises would be able to compete for markets more effectively. Although outside the scope of this study, the need for financial market reform in many countries should not be overlooked.

## 6.0 PROJECTS THAT CREATE NEW ENTERPRISES

The second major division of assistance methodology is that of projects which assist new enterprise efforts. Among these we studied community-based projects and group-based projects.

### 6.1 *Community-Based Projects*

The intensiveness of enterprise development activities of the community-based projects which create new enterprises can be analyzed along a continuum. Some of the programs that intervene least (*e.g.*, Bangalur Layout) provide credit to the project participants, but little else. On the other hand, some of the programs that intervene most (*e.g.*, the Institute for Cultural Affairs, Kenya) create complex organizations and manage them until local community people are able to assume responsibility for them. Most projects, of course lie somewhere in between.

- *Bangalur Layout, Bangalore, India.* Located in one of the poorest communities in Bangalore, India, this project moved into enterprise development after five successful years of integrated community development. It works with 120 families that have a strong interest in "improving themselves." With the assistance of a local bank, the project has facilitated the financing of 75 new businesses, the average loan being $61.25. These small commercial operations are identical to those commonly found in the community, so no additional skills or management training is necessary. Business ideas are presented to the staff by those who are soliciting a loan, so a commitment to the business to be started has already developed. Administrative costs are nominal for this program which is largely run by community volunteers.
- *National Christian Council of Kenya.* The National Christian Council of Kenya (NCCK) works throughout the country in primary and secondary cities. The vast majority of the beneficiaries are extremely poor women. Income is on the order of $15 per month and the average number of dependents is 6.5. These are essentially traditional people in a state of transition towards more formal economic activities. They have little "business" experience and low skill levels.

  The NCCK program both assists existing enterprises and helps in the establishment of new coöperative enterprises in conjunction with other community improvement efforts. These simple cooperative ventures—promoted by NCCK social workers with no special expertise in enterprise development—use the skills people already have, such as sewing and animal husbandry, as their starting point.

  The cooperatives which are formed market their goods collectively, sometimes through shops run by the NCCK, and arrange for the collective purchase of raw materials. Sometimes they work in the same shop together. When these groups are successful, beneficiaries, many of whom have heretofore only marginally participated in the economic system, have increased their incomes by about a dollar a day. Administrative costs of these groups are moderate.
- *The Village Polytechnic Program, Kenya.* The Village Polytechnic Program in Kenya trains poor youth at a low cost compared to traditional vocational education projects. It does so by involving a community in an assessment that determines the skills needed in the local community and then utilizing local skilled artisans as trainers. Early in their training, the youths sell their products cooperatively to defray part of the training costs. Part of the sales income is deposited in a fund that will help establish a cooperative enterprise for the group after the training program has been completed. This fund is also used to purchase tools for setting up new individual businesses or to help group members make the transition to wage labor in a factory or shop.

  Village Polytechnics are set up at the initiative of the local community with little staff intervention. After two years of successful operation, the Polytechnic is eligible for government assistance to expand the program, but the program is structured so that initiative remains with the local community.

- *Institute for Cultural Affairs, Nairobi, Kenya.* A comprehensive and intensive approach to new enterprise development has been adopted by the Institute for Cultural Affairs[8] (ICA) project in Kawangware, a large squatter settlement on the outskirts of Nairobi. Although there are several ICA projects underway in Kawangware, the largest is a highly labor-intensive urban agriculture project. The scheme is based on single-acre units being worked by five-person teams, each having a team leader. The major crop is French beans, which are harvested every ten weeks throughout the year. Each acre is divided into three rotating plots with 1/3 maturing, 1/3 being cultivated, and 1/3 seeded. There are currently two farms in operation as well as a demonstration farm, which also serves as a training site.

  The project is managed centrally. All farms have access to a single equipment pool, a central supply service and a shared irrigation scheme. Credits are extended on an in-kind basis for all inputs. Salaries are paid through a central finance unit.

  In sharp contrast to projects for assisting existing enterprises which assume that with more capital the owner will find the market for increased sales, or to community-based projects like that of the NCCK that help organize and orient small-scale already existing groups, the Kawangware project is functionally so complex that it would soon fail without continuing and extensive staff input. Consequently, it is managed directly by the ICA although it is assumed that eventually the local Association will take over managerial functions. This transition is seen as a long and intensive process.

### 6.2 *Salient Features of Community-Based Projects*

Characteristics of effective community-based programs include the following:

- *Direct Promotion.* Usually, programs are promoted directly within communities by experienced staff workers who are known to the people in the locales. This type of promotion is necessary to determine legitimate local priorities and to gain the trust of people who are isolated from the mainstream of social and economic activity and have little or no experience with formal credit and technical assistance institutions.
- *Intense, locality-specific assistance.* Services are provided to specific groups and areas. Centrally-located services, such as credit through banks and management assistance available on request, have not proved effective.
- *Range of services.* Because of the great diversity of needs of the population reached, these programs often provide a range of services extending well beyond the core elements of employment and income generation, including day care centers, literacy training, nutrition programs, community organizing and advocacy.
- *Client selection.* Clients are selected informally on the basis of personal knowledge of the promoters.
- *Focus of services.* With the exception of the Bangalur Layout, services are delivered to groups of clients organized into cooperative enterprises. Several reasons are given for grouping beneficiaries:
  1. to reach more people with less staff time;
  2. to provide a guarantee mechanism for the loan, since few beneficiaries have collateral;
  3. to lower fixed and variable costs involved in enterprise start-up and operation;
  4. to increase the sharing of skills, experiences and aptitudes among the population reached; and
  5. to provide mutual reinforcement during a difficult transition process.
- *Marketing.* Marketing is a difficult problem, and perhaps, the most serious challenge faced by these projects. Target businesses generally provide low quality products and services, work in very limited markets and lack access to the more profitable sectors, and face intense competition from both the formal and informal sectors. In response to these difficult realities, the Village Polytechnic Program, for example, attempts to identify needs within the immediate locality. A second alternative, practiced by NCCK, involves a direct marketing intervention

[3] The Institute for Cultural Affairs is a U.S.-based PVO.

(both domestically and internationally) on the part of the agency itself. None of the programs, however, have come up with a wholly satisfactory answer to the marketing dilemma.

- *Credit.* The provision of credit is an essential element of the projects studied. Credit is delivered as a part of a comprehensive assistance package. As most clients have never borrowed from formal credit channels, the programs are generally conservative and cautious, being diligent to match carefully credit terms with the needs and abilities of the borrowers. An aspect of this conservative approach involves very close supervision and the granting of in-kind credits, except in the case of retail businesses. Interest rates charged are lower than commercial rates and collateral requirements are waived. More important, perhaps, is that the terms of the loans (the interest rate, the amortization period and the principal) are carefully adjusted for each individual case. The high degree of flexibility and close supervision together appear to account for the very low default rates experienced by the programs.
- *Training and technical assistance.* Most projects dealing with adults do not engage heavily in skills training because of the high costs and inability of adult clients, especially women, to free up enough time. The focus of the training is on on-site managerial and technical assistance to complement and build on existing skills. A different approach is taken in youth projects, such as The Village Polytechnic Program, in which long-term higher-level skills training is undertaken in response to specific needs at the local level.
- *Enterprise promotion.* Reflecting the complementary approach of the training components, efforts are made to tie spin-off enterprise initiatives to what is economically feasible and to existing economic skills and talents. Thus, most projects help promote such activities as handicraft production, bookkeeping, sewing, etc.
- *Management assistance.* The management assistance provided reflects the basic assistance needs at this level, in the areas of costing of labor, pricing, marketing, and credit utilization.
- *Staffing.* Projects take great pains to recruit staff from within the communities in which they work. Most senior administrative staff in many of the programs began as field-level personnel. The programs are also highly decentralized, with relatively small and autonomous units free to make many of the important decisions affecting the beneficiaries.
- *Wider significance of projects.* The relationship of many programs to local and national governments is a critical aspects of their wider significance. Several have demonstrated an ability to attract public sector involvement and support to the level at which they operate. The Village Polytechnic Program, for example, which was started by NCCK, is now run by the Kenyan government.

### 6.3 *Group-Based Projects*

In contrast to the community-based projects that promote the development of new enterprises within the context of a single community, other projects form new enterprises organized as a productive group with no special effort to relate these to the larger community. One of the most creative examples of this type of project is presented below.

- *National Association of Educated Self-Employed Youth (NAESEY), Madras, India.* NAESEY creates new enterprises by separating into its component parts large complex businesses. Each resulting unit then receives support assistance as a separate business while at the same time remaining an integral part of the whole. One of NAESEY's projects, for example, divided a vertically organized dairy enterprise into its constituent milk production, collection, processing and distribution components, resulting in easily managed tasks, each performed by self-employed individuals with little business experience.

  Rural youth receive loans to purchase one to three cows to start milk production. Other youth receive loans to be set up in businesses for milk distribution, feed distribution and providing veterinary services. Each youth's business is linked to all the others involved in the project to create an integrated production and distribution scheme.

  There is a strong sense of group loyalty among the young owners who view this project as a movement as much as an opportunity to earn a living. Average income in the milk business is $65 to $100 per month—quite high by Indian standards. When the milk project is fully developed, 1,000 new jobs will have been created. Program costs are completely covered by a

1% levy on the gross sales of each business. There is no subsidy.

Several factors seem to account for NAESEY's success. First, it selects businesses that have a large unmet demand and that can be broken down into smaller component parts. Second, each of the small businesses which were set up is simple enough to run, such that training programs are unnecessary. Finally, the charismatic leadership of the founder of NAESEY infused all aspects of the enterprises with enthusiasm that has made participants feel they are an integral part of a growing movement.

## 7.0 IMPACT OF ASSISTANCE

The positive impacts of the various projects observed have a social component and an economic component, which are necessarily interdependent.

Evidence from several programs indicates that in many cases incomes of assisted businesses increased significantly. Most of the respondents from programs studied in the Philippines agreed that without these loans their income probably would not have increased much faster than the inflation rate (15% a year). In many cases their income more than doubled.

The difference in earning a dollar a day to meet the needs of an average family of 5-8, and $2 a day is dramatic: children may be sent to school, the sick can see a doctor, housing can be upgraded, and it becomes possible to save for future investment in the business.

There is also evidence of increased employment—*e.g.*, a seamstress hires another woman to help part-time to make tortillas; a candymaker now hires her two sons. A study of the Banco del Pacífico program in Ecuador showed a 20% increase in employment in the businesses assisted, and this was accomplished with no subsidy and no loss to the bank.

Participation in a solidarity group tends to increase one's involvement in other social and community activities. Participants in the programs in the Philippines were more likely to give others business advice and to participate in community improvement projects after they had joined the program. Conversations with members of solidarity groups revealed that the groups had become a source of mutual assistance and support for them. The dedication and sacrifice of the leaders of the solidarity groups was also noted. Participants in bank programs were active in encouraging others to join the program, as were the participants of all other programs.

Enterprise development was an integral and important component of the process of community upgrading in the community-based projects. In one program, the Working Women's Forum, there was a major effort to improve conditions through political pressure. With articulate leadership and the strength of five thousand organized women behind them, the Forum has been able to improve conditions in a public market, and to bring an end to police harassment.

The sections that follow present the general lessons learned from these projects. They will provide a basis for the discussion of what those projects imply for donors and practitioners, and for the activities planned in PISCES Phase II.

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## ANALYSIS OF EFFECTIVE PROJECTS

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## 8.0 CHARACTERISTICS OF EFFECTIVE PROJECTS

Despite the diversity of beneficiaries, the different types of implementing organizations and the varied environments in which they operated, in the most effective projects we found one precept to be universally valid: *Program inputs reflect the plans and desires of those they serve and to the degree possible stay close to the level of skills and knowledge that commonly exists in the community.* When this precept is violated, project complexity and cost per beneficiary increase, while the number of people who can be served decreases significantly. Projects that respond to what people want and which orient assistance according to the level of skills and knowledge of the business owner enable the following:

- *Efficient delivery of credit.* Existing businesses can utilize profitably small amounts of capital. They presumably have already thought through how they can expand their sales. Sources of raw materials, the skills necessary to transform them and the market remain essentially the same.
- *Setting up new businesses.* New individual businesses can be set up more easily when they are no more complex than others that are common in the community. This way they can use the assistance of interested neighbors with business skills when they have a doubt or need support. Enterprises consisting of large numbers of new separate businesses can be set up when the task performed by each individual business within the system is well defined and the relation between different businesses is clear.
- *Providing job skills training.* Inexpensive training programs are possible when the skills are known in the community and can be taught by local artisans.
- *Assisting cooperative enterprises.* Cooperative enterprises can be established more easily if they are built on a group that is already working informally together, if they share a common production technology and if they can identify a local market.

Programs which follow these principles tend to:

- be simple and low cost;
- actively involve the community or groups in the planning process.

They also tend to:

- use community volunteers for promotion, for outreach selection, for providing business advice, and for managing very small loan funds;
- spread rapidly, by word of mouth, after an initial project implementation phase with very little promotion; and
- employ staff whose expertise is community organization, not business.

Even though they spanned three continents and served a range of beneficiaries with a variety of programs, the effective projects frequently exhibited similarities in respect of the following elements: program design, staffing, outreach, selection, credit, bookkeeping and managerial assistance, job skills training, and marketing assistance. Each of these elements will be discussed below in turn.

### 8.1 *Project Design*

Every project described in the case studies which accompany this report is the product of an extended process of project design as well as of a continuous process of change since project inception. Most were developed only after an intensive exercise was carried out to identify the problems of poor people. Most important, the major source of program modification seems to have come from daily interaction with program beneficiaries. Good project staff has the ability to listen.

The case studies suggest in general that projects should be designed with the participation, and focused on the needs, of the beneficiaries and their local community, rather than attempting to impose upon them an externally-designed formula program. Even if it were possible to design a program without local inputs—which is doubtful—it would probably not be desirable. The staff, through interviewing potential program beneficiaries, develops contacts in the community and gains an appreciation of the needs and abilities of those whom their projects will serve. They then may incorporate this knowledge into their program design. Projects that do not incorporate new information can remain static, stagnate, or drift off course. Also, projects that consult beneficiaries are more successful in involving them in programs.

Probably one of the most important design elements of these projects is flexibility—the ability to adapt programs to meet the changing needs of their beneficiaries. This attribute finds its counterpart in the accommodation pattern of informal-sector businesses.

### 8.2 *Staffing*

It was frequently observed that the field staff of these projects are usually not trained in business. The most important skills are the ability to relate to people in the poor community and to organize at the grass roots level. In the Banco del Pacifico program, for example, part-time employees who are also university students completed detailed business analyses. In the Manila Community Services programs, community volunteers perform many of the functions of selection and loan approval. None of those persons were employed on the strength of their "business" expertise *per se*.

A good case can be made for using this level of staff for field work. One obvious reason is cost. Several students can be hired as part-time employees for the same cost as an experienced business school graduate. Second, promoters working with credit programs typically spend very little time with each business owner—the forms to be filled out are simple and do not require special qualifications to administer. Most of their time is spent identifying potential clients, explaining the program and impressing upon them the importance of regular payback—tasks that would quickly frustrate and bore more highly qualified staff. Third, the work is rewarding. The often young promoters see working with micro-businesses as challenging and fulfilling an important social function. This is demonstrated by their enthusiasm, commitment, and hard work.

Most programs recognize, however, that the generalist field staff needs someone at a higher level with business expertise to advise them or to approve loans. This can be provided within the program, as in the Self-Employment Assistance Program of the Ministry of Social Services and Development of the Philippines, where loan proposals developed by social workers are reviewed by a Project Evaluation Officer who can veto the proposal if it does not seem feasible. It can also be done outside the program, as in the programs coordinating their services with local banks where the bank officers make the final decision after the field staff develops a proposal. Indeed, many programs have found it advantageous to separate the functions of "packaging" from those of loan approval.

When this kind of backstopping is not available it is often mentioned as a key need. Thus the social workers of the NCCK stressed their lack of skills in selecting economically viable projects, a concern which was shared by Manila Community Services, Inc.

As programs intervene more directly in the process of enterprise development—*e.g.*, in respect of selecting viable businesses, job skills training, marketing, and establishing larger cooperative ventures—the need for technical expertise increases. Yet, assisting uneducated, often dispersed, informal sector entrepreneurs is vastly different from working with even small formal sector business people. Adapting the skills of the technician to the realities of promoting businesses at this level is a major area of needed innovation.

### 8.3 *Outreach*

No program we studied simply opened a micro-enterprise office in a central location and started to provide services. It is doubtful that such an effort could be successful even if tried. To reach the poorest community residents, program staff will first have to promote the idea directly in the community. This type of promotion is necessary to gain the trust of people who may have a profound sense of isolation and who may have little or no experience with formal credit and technical assistance institutions.

Successful programs have promoted their assistance services through the following mechanisms:

- house to house censuses of business activities combined with explaining the program;
- adding business enterprise components to an ongoing community development effort, in which case project staff already know people in their community;
- "piggybacking" business programs on groups developed by other organizations possibly for other purposes; and
- setting up offices in the midst of markets and hiring representatives of the local market leadership to work in the local office.

Once it is perceived by tiny business owners that the projects are a "good thing", they tend to be self promoting. In several programs, staff that previously worked in outreach are now working full time to process applications. As we talked with participants they frequently mentioned how they convinced others to join the program.

## 8.4 *Selection*

Once the program has informed people about the project, it must select those who should receive assistance. Although selection procedures vary from program to program, they are evidently quite effective as evidenced by high payback rates (in the case of lending programs), which implies that credit is being used productively.

The most important selection criterion seems to be the individual's reputation among other community residents and local business owners, since few borrowers at these levels have a significant amount of collateral. For example, in group programs, group members determine who is credit worthy enough to be a member—a serious decision, since either the group leader or the other group members (depending on the project) are responsible to pay in case of a default by one of the members. Even in credit programs where loans are secured through inventory or a co-signer, initial selection may be based on the recommendation of community leaders, program participants, or other people with whom the applicant has had a credit history.

The second part of the selection process is generally some kind of business or project analysis. The detail in which this appraisal is done may vary from a bank officer spending a few minutes with each client in a group session called by the solidarity group leader, to a complete cost-benefit analysis with projection of profits based on the purchase of certain equipment and raw materials. Typically, after the initial application for assistance is made, a field worker will visit the owner at the place of business to verify that it exists and to explain the conditions for assistance. Some programs have their staff fill out extensive reports on each client and the business which supposedly includes the objective information needed to make a decision on whether or not assistance should be granted. Other programs collect very little information. There seems to be little relation, however, between the amount of information collectcd, and success as measured by high payback, once again underscoring the importance of good reputation as the most important indicator for selection. The challenge which programs have dealt with creatively is how to assess who is a good risk.

## 8.5 *Credit*

Owners of businesses desire credit more than any other services, and several projects have been remarkably successful in developing mechanisms to grant very small loans at relatively low costs while ensuring loan repayment.

Assuming that the program has selected a good client, several generalizations can be made about approval of, and collecting on, very small loans:

- *Loan amounts:* To reach the smallest businesses, the projects we observed delivered first loans averaging \$12 - \$200, depending on the project. Loans for the slightly larger micro-businesses served by bank projects tend to be higher: \$200 in India, and \$1,100 in Ecuador, for example. Minimum loans of the Money Shops in the Philippines were \$125. The first loan should be very small for two reasons: first, it tests the individual's ability to repay; second, it avoids overburdening the business with more money than can be invested wisely.

- *Staging:* To minimize risk both to the program and to the client, loans to very poor people should be staged when possible. For example, in the Bangalur Layout program in India, when a woman was granted a loan to start a kerosene distribution business, she was given a $54 loan to rent all the necessary equipment and purchase kerosene. With two additional loans of $125 each, she was able to purchase a cart and a bullock. Each subsequent loan was paid back before the next was granted.
- *Terms:* Most programs appeared to provide a first loan to existing businesses for no more than three to six months. A series of small loans with increased amounts repaid quickly presents a manageable risk to both the businesses and the program. After business owners have a proven record of payback and business expansion, they can be considered for a longer term loan for equipment or installations. Programs starting cooperative businesses, however, often grant loans for longer periods, arguing that businesses need more time to begin to accumulate savings. This is especially true if there is a considerable investment in equipment and installations.
- *Interest Rates*: It is generally thought that interest rates for micro-businesses should be low. Yet, if interest rates do not cover costs of risk and administration, financial institutions have little incentive to lend more than that decreed by government regulations, or by their sense of corporate responsibility. While those who receive loans at concessionary rates have an important advantage, many others equally well qualified, will not receive loans because of lack of funds. Loans even at comparatively high interest rates are generally more advantageous for the micro-business borrower than would be the alternative of securing funds from a money lender.

  Others argue convincingly that the owners of the smallest enterprises should receive a concessionary interest rate, at least for their initial loans, so that their businesses can become better established. Alternatively, the amount of time for paying back the loan can be extended. Resolution of this issue is beyond the scope of this study. A project funded by A.I.D. in Bangladesh is experimenting with variable interest rates up to 35 percent per annum. Evaluation of that study may throw some light on this issue.
- *Frequency of loan payback*: Loan payback periods should reflect the cash flow cycle of the economic activity in question, and the time frame in which *the client* is used to thinking. Retailers generally pay their solidarity group leaders daily, since they purchase and sell their stock daily. Clothing or shoe manufacturers might pay their loans back on a weekly or monthly basis.
- *Loan collection*: Almost all the programs are businesslike about loan payback to maintain good relations with financial institutions, encourage good habits among beneficiaries and avoid the depletion of the loan fund. This is accomplished through several mechanisms:
  - group members pay group leaders;
  - loan holders pay the "Money Shops" daily;
  - banks hire local people as loan collectors and pay them a commission; and
  - loans are collected by project staff.

All programs maintain some flexibility in loan rescheduling because of sensitivity to the financial impact of sickness in the family or some other emergency. Loan rescheduling tended to be quite frequent in programs at the lowest levels of beneficiaries.

If these loan collection mechanisms fail, program staff follow up vigorously. They, or the banks, can employ a number of sanctions, including halting further loans until outstanding loans are repaid, taking legal action, and repossessing equipment. Generally, the incentive of future loans and the peer pressure from other group and community members are sufficient to keep the rate of payback high.

### 8.6 *Bookkeeping and Management Training*

While there is apparently no lack of entrepreneurial talent for starting and maintaining small trading and manufacturing activities, the entrepreneurial skills required for larger, better organized businesses are generally lacking. For example, the few dollars of daily transactions of small traders, service-providers, and manufacturers are rarely recorded. People sell, perhaps set money aside to purchase stock or raw materials, and use the rest for family necessities. Often their methods are inefficient: there are too many stoppages in production, and products are not well displayed and marketed.

To overcome these limitations, some programs have attempted to train business owners in simple bookkeeping and management. This has brought mixed results because it is difficult to convince owners of micro-businesses of the necessity of business training, since they often perceive that their own informal systems are adequate at this level. At the same time, it is difficult to translate apparently simple business concepts into terms understandable to largely illiterate or functionally illiterate slum dwellers who keep no records of any kind. At the minimum, what is required is that the notion of the business's economy must be kept distinct from the family economy in the mind of the entrepreneur.

In addition to more formal management training, upgrading of at least rudimentary management skills may occur informally through conversations between staff members and program participants, and conversations between project beneficiaries and others in the community. Project beneficiaries, especially group leaders, explained to us how they gave advice to others in the community about matters such as what line of business to get into. Understanding how business expertise is exchanged informally through conversations with staff and among the business owners themselves, is an area that should be more thoroughly investigated.

## 8.7 *Job Skills Training*

Many of those living in urban areas are unskilled and illiterate; most of these people are destined to work as unskilled laborers, hawkers, or petty traders. Some of the unskilled will find jobs where they can learn trades or be apprenticed. In addition, a good case can be made for providing special skills training opportunities for the youth of the very poor. For instance, with training in carpentry, automobile mechanics, radio repair, or sewing, particularly when supplemented with management training, people who might not otherwise be absorbed into formal sector wage employment can start their own businesses and earn more money than they could as petty traders or unskilled laborers.

Our study of training components of programs revealed that:

- in areas where demand is high for skilled workers (urban Kenya, for example), most training program graduates will be hired by larger firms (rather than starting their own businesses), where their incomes will be higher than those of unskilled laborers;
- in areas where the demand for skilled labor is low (such as Metropolitan Manila), a large proportion of the graduates will remain unemployed because they do not have the attitudes, capital or business skills to start their own businesses; and
- if trainees are to start their own businesses after graduation, programs must provide training in basic business skills as well as a loan fund, supervision and encouragement after the course is complete.

A combination of job skills training, business training, and intensive follow-up is essential if the job skills learned are to be put into practice. Separating technical training from business training and follow-up is a major limitation of most vocational education programs. The Village Polytechnic Program in Kenya creatively dealt with this problem by organizing students into work groups that start producing to defray the cost of training from the earliest months. The program tries to provide small amounts of capital to graduates so that they can start their own businesses. Although it has had mixed results in enterprise creation because of a shortage of staff to follow up and assist the graduates, its mechanism is certainly worthy of further experimentation. The key is to distinguish among the set of occupational skills those that are critical from a technical point of view, and those essential to entrepreneurship and business management.

## 8.8 *Marketing Assistance*

The provision of marketing assistance is an additional support mechanism which seems sorely needed. For many small enterprises, marketing problems (*i.e.*, lack of assured demand) will continue to form the greatest constraint to their growth and prosperity.

Most of the enterprises run by the poor produce and/or trade very basic and simple goods and services, usually in highly competitive markets. Due to lack of access to large and assured markets for their goods and services, micro-enterprises seldom can achieve even rudimentary scale economies, thereby limiting their profit/income potential. To counter this circumstance, programs either assist in the identification of stable marketing channels, or establish central marketing places for the goods produced by client enterprises. Simply put, in the absence of market opportunities there is no purpose to any of the other enterprise upgrading activities discussed in this paper.

In practice, limitations on the marketing side take several forms. For example, demand for handicraft items can be highly variable, and for that reason may not be a reliable source of income. Producing simple consumer goods, such as clothing and footwear, may be subject to competition by large-scale firms. There is also the problem of static final demand if the local economy is not expanding. Attempts to overcome this problem by exporting the goods produced can be logistically complex, may lead to severe exploitation, and/or expose entrepreneurs to the risk of becoming specialized in areas of production which are heavily dependent on market forces well beyond their control or understanding.

Perhaps the most effective approach for dealing with marketing problems, adopted by some programs, is to identify carefully the demand for skills and products within local communities and then match the areas of training and enterprise promotion to these needs. In the Village Polytechnic Program, for example, local management committees are required to asscss the local need for particular skills before selecting the training courses to be conducted. Another approach seen in several of the programs reviewed involved the direct intervention of the assisting entity (e.g., the PVO) in the identification or establishment of marketing channels for client enterprises.

## 9.0 LESSONS LEARNED

### 9.1 *General Conclusions*

- *The urban informal and micro-enterprise sector provides a large and in some countries an increasingly important source of income and employment.* It is estimated that the Third World will need 782 million new jobs between 1980 and 2000. Since more people are crowding into cities (the rate of population increase in many cities exceeds 5 percent per annum) an increasing proportion of these new jobs will need to be created in the urban areas. Currently from 20 percent to 50 percent of those working in the cities are employed in the urban informal sector, and, in many areas, this percentage is increasing as larger scale industries, services and commerce have proved incapable of expanding rapidly enough.
- *The micro-businesses of the urban poor face many problems.* These problems include, in many areas, a policy environment that provides concessions to larger businesses while saddling smaller businesses with excessive regulation and outright harassment, lack of credit at commercial interest rates, lack of access to raw materials and equipment, and lack of access to adequate markets.
- *The programs described in this study demonstrate that it is possible to assist informal sector micro-businesses.* These programs have:
  1. assisted significant numbers of the smallest already existing informal sector businesses with initial loans of less than $100. Administrative costs are relatively low, and payback rates often range from 90 percent to 99 percent;
  2. helped the poorest people enter urban economic activities by providing loans of less than $20. Other very small micro-retailing businesses were established with loans averaging $60;
  3. successfully intervened to create new businesses that link together suppliers of raw materials, producers, and markets, while increasing incomes at each level;
  4. trained poor youths at relatively low cost, and provided the necessary experiences and follow-up support to help them start new collective and individual businesses; and
  5. established cooperative businesses where people working together were able to pool resources and equipment and to sell collectively.

- *Programs have significant impact on the family and community.* Although evidence is scattered and often impressionistic, our initial observations are that:
  1. programs that assist the smallest of already existing businesses often increase the income of the owners substantially. Many who were earning one dollar a day are now earning two dollars or more. New individual and collective businesses often provide one to two dollars of income a day to those with marginal economic activities who are outside even informal sector economic activities. New income is most commonly used for basic necessities, such as food, health care, schooling, and shelter. As these businesses expand, new employment is often created for the family or neighborhood;
  2. there are also non-economic impacts. In some projects enterprise development is a core around which a comprehensive effort of community change is organized, while in others, enterprise development has emerged out of community improvement efforts. At least one project helped form an organization of poor women entrepreneurs that led to improved conditions in the markets and a lessening of police harassment. Project participants in the Philippines tended to provide more business assistance to each other, and to help more in community improvement efforts, than before they joined these projects. Increased self-confidence and motivation is notable in all programs; and
  3. finally, projects mostly assist women entrepreneurs. In general, the smaller the size of the businesses reached, the larger the proportion of women business owners.
- *Enterprise assistance is a strongly felt need among the poorest urban dwellers.*
  1. Many projects moved into enterprise development even though their original goal was community development or to provide social services. The urban poor often made it evident to project staff that their most immediate need was earning an income.
  2. The intensity of this need is demonstrated by the extremely rapid growth of these programs. Many could have served a larger clientele if they had additional funding for loans and staff expansion.

## 9.2 *Program Setting*

Each program appeared to be responsive to the obstacles and opportunities presented by the local setting and the characteristics of the beneficiaries. In general, the needier the population, the more long-term, intensive, and comprehensive is the program.

Project development and implementation may be facilitated where certain preconditions are met. For instance:

- *if* a government policy favors the urban informal sector, *then* banks and other financial institutions tend to be more receptive to extending credit to this level directly or through local intermediary organizations;
- *if* the local population is rapidly increasing and *if* economic conditions are improving, *then* the local market will also be growing, and new opportunities will tend to open up at the bottom as more established informal sector firms expand to serve new markets,
- *if* there is adequate physical infrastructure, *then* it will be easier and cheaper to transport raw materials and finished goods;
- *if* the project beneficiaries live close to the city center, *then* markets and supplies and needed contacts will be closer at hand;
- *if* the community has a tradition of working together, possesses trust and solidarity, and is open and experienced in working with outsiders, *then* the initial barriers of suspicion of outsiders (and of each other) will be easier to overcome; and
- finally, *if* the program beneficiaries are long-term residents, already own their own microbusinesses, have enough income to save as little as a few cents a day, and are literate and have job-related skills, *then* program inputs with each business may be less intensive.

On the other hand, when the local setting is less favorable:

- credit must often be managed and provided by the project because banks are unwilling to lend;
- skills must be taught because they are not common in the community; and
- markets must be found externally because they are not available locally.

Projects may work effectively when the local setting is not favorable and the level of beneficiary is very low, but assistance is more protracted, more intense, and more uncertain in its results.

## 9.3 *Types of Projects*

Projects must be responsive to particular relationships among economic and political conditions, the community setting, and the characteristics of the beneficiaries. It has been found that programs tend to work through:

- *the community*, when the needs to be addressed are basic services, and when the beneficiaries have no, or only very marginal, economic activities;
- *groups* comprised of business owners, when the principal needs are loan guarantees for credit, and a mechanism for mutual support within the larger community; and
- *individuals*, when the basic need is credit that can be guaranteed through inventory, previous credit history, or a co-signer.

## 9.4 *Project Objectives*

Project objectives must reflect the differing needs of the levels of beneficiaries they serve.

- The objectives of community-based programs tend to include access to basic services, commitment to community improvement projects, generation of increased self-esteem, basic job skills training, support to very poor enterprises, and the creation of new individual or collective enterprises.
- The objectives of group projects tend to favor the efficient and rapid provision of credit (usually in small amounts), improving environmental conditions for informal sector businesses, and increasing family income and employment through expanded businesses in the informal sector.
- The objectives for projects that assist individual enterprises tend to emphasize increased income and employment in poor communities.

*The conclusion of this study is that all three levels of beneficiaries should be served by informal sector assistance projects.* The benefits of the programs examined have to be carefully weighed. It is possible to reach large numbers of business owners at level III through commercial bank projects, thereby increasing family income and generating a considerable number of new jobs. Projects at this level can break even or make a profit. Level II solidarity group projects may significantly increase family income and generate employment. The cost and complexity of these programs are relatively low. Reaching people with marginal economic activities or who are outside even informal sector economic activities, however, tends to be more difficult. Although in this last instance the neediest people are assisted, the greater project complexity involved means considerable effort is necessary to reach large numbers.

## IMPLICATIONS AND CHALLENGES FOR DONORS AND PRACTITIONERS

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## 10.0 IMPLICATIONS FOR DONORS

The number of projects that we have studied is small. The proportion of the informal sector that has been served by these projects is minuscule. Yet these experimental efforts show that the smallest economic activities of the urban poor *can* be assisted, often very effectively. Assistance is delivered through a variety of programs, with objectives appropriate to the strikingly different needs of the various levels of beneficiaries.

None of what we are reporting here should be construed as a comprehensive justification for massive direct assistance to the informal and micro-enterprise sector. Put more modestly (and accurately), we are attempting to highlight how the projects we examined point to a developmental doorway that has been opened a notch by highly motivated and innovative individuals and organizations that believe in the effectiveness of the "bottom-up" approach. Without question, major economic and financial policy reforms are also in order in many countries, and may lead to substantial improvements for this sector. But, as indicated at the outset of this paper, favorable policy in itself may not constitute a sufficient condition for assisting effectively the self-initiated economic enterprises of the urban poor. Based on what we have seen, we wish to promote acceptance of the notion that whatever the policy environment, donor agencies, together with cooperating governments and local organizations, can and should at least make a serious attempt to provide *direct* assistance to informal sector and micro-enterprises as a method of accelerating the alleviation of poverty.

### 10.1 *Characteristics of Implementing Organizations*

To understand what these efforts imply for donors it is important to review briefly the characteristics of the implementing organizations. The diversity of the organizations that implement these programs is striking—small local PVOs, more sophisticated PVOs with a national scope, expatriate PVOs, government agencies, and commercial banks. Few of these programs work in isolation. Most have close ties with other organizations (most frequently with local banks that provide credit) and with various local and governmental agencies.

Despite their diversity, these organizations have several characteristics in common:

- strong, highly-respected and often charismatic leaders who are committed to assisting the poor;
- dedicated and hardworking field staff who are willing to work for low wages to be involved in a program they believe in;
- decentralized organizational structures which extend decision-making responsibility to field staff;
- a high degree of autonomy that allows field staff the flexibility to adopt strategies they feel are appropriate and to modify and improve strategies over time; and
- a compact size that permits intensive staff contact and the exchange of ideas.

Also, most program administrators maintain that the adoption of bureaucratic organizational structures with prescribed selection criteria and heavy supervision, would decrease efficiency and limit their ability to assist the poor.

Not surprisingly, the types of organizations that work at each level are distinct:

- *Community-based programs* usually are directed by private and voluntary organizations (local, national, and expatriate). Community-based programs appear ideal for PVOs, since they require grass roots organizing skills more than business skills, intensive contact with those receiving assistance, highly flexible promotional systems, the mobilization of community volunteers, and active community involvement in the development process.
- *Most group-based programs* are also directed by PVOs, which are the logical choice for this type of program for many of the same reasons as mentioned above. Significantly, however, three group-based programs studied are directed by local governmental agencies—Community

Development (El Salvador), Ministry of Industry (Philippines), and Department of Social Services and Development (Philippines). The first two programs are relatively small, autonomous, newly-formed units functioning within their larger parent organizations. As in the PVO programs, the staffs are generally enthusiastic and highly committed. The Department of Social Services and Development program provides enterprise development assistance as a regular part of its casework services.

- *Most individual programs* work through commercial banks. Here too, the banking programs often are based on special units administratively separate from general banking functions. They use highly simplified business systems and selection criteria, and personnel are usually specifically trained.

### 10.2 *Types of Projects to be Funded*

These experimental efforts and many others like them can be encouraged. (They can also be easily distorted by the wrong kind of, and too much, assistance.) Donors can facilitate this process at three levels. They can:

- strengthen small ongoing local PVO business development efforts, or enable small local PVOs with strong community programs to begin PISCES-level business development efforts. Some of the more successful programs—the Bangalur Layout, the Working Women's Forum, and the Manila Community Services programs, to name three—were facilitated by grants provided as they were getting started;
- enable large national PVOs, large cooperatives, national development foundations, and government agencies with a history of efficient delivery of services and an interest in assisting this sector, to set up special units and programs to reach PISCES-level enterprises; and
- strengthen and expand ongoing PISCES-level programs of PVOs, banks, and government agencies and organizations.

The PISCES regional teams, in their last visits to the field, began the initial designs of projects that would assist in each of the above three categories:

- In Bangladesh, an "umbrella" PVO is being set up (funded by the local A.I.D. mission) to provide assistance to non-governmental organizations working with small and micro-enterprises. Since there are few projects actually assisting the smallest level businesses in Bangladesh, the first task is to identify interested local organizations. It is expected that many of the groups identified will be small and community-based.

  To facilitate the exchange of ideas and mutual assistance, and to identify other organizations to participate, the small enterprise office will set up an advisory committee of project directors. The advisory committee will play a key role in the next stage, when small pilot demonstration projects will be designed, thus helping to ensure that programs will be responsive to local needs.

  The "umbrella" PVO will also help arrange for the funding of these small pilot efforts, ideally using requirements for proposals and reporting that will not exceed the capabilities of these small organizations. The small enterprise PVO will also monitor and evaluate projects and act as a central clearing house and broker between donors and the local organizations.

  Similar small enterprise organizations could be set up in other countries. Local groups in the Philippines have expressed interest in this approach and are now setting up a foundation for this purpose.
- In the Dominican Republic, the A.I.D. mission funded a study of the informal enterprise sector that was carried out jointly by the Dominican Development Foundation (FDD) and ACCION International/AITEC. The FDD, with many years of experience in extending credit to groups in the rural areas, has made establishment of a small enterprise unit for the urban areas one of its top expansion priorities. The study has provided the FDD an opportunity to learn about the sector and its problems. For the A.I.D. mission, the study has helped to identify bilateral programming priorities for the cities. Specific opportunities for creating new PISCES-level enterprise development units in organizations as diverse as banks, cooperative federations, larger local PVOs and government agencies were also identified.

In April 1981, based on the FDD/AITEC study, the A.I.D. mission in the Dominican Republic awarded the first tranche of grant funding to the DDF to help finance technical assistance and the establishment of a revolving loan fund for PISCES-level small enterprises. Focussing initially on enterprises in and around Santo Domingo, the capital city, the program is expected to expand its reach into five secondary cities during its second year of operation.

- In Kenya, the local A.I.D. mission and the National Christian Council of Kenya (NCCK) agreed in September 1980 to upgrade a broadly-based community development program run by NCCK to include more effective and wide-reaching enterprise assistance. In contrast to the effort described immediately above, which creates a whole new organizational capability, and focusses on a formerly unfamiliar target group, the principal purpose of the NCCK grant is to provide funds for expansion, and technical backup to community workers already delivering essential non-enterprise-related services to the PISCES target group.
- In Egypt, pre-feasibility work was completed by a PISCES sub-contractor in Spring 1981 to develop on behalf of the A.I.D. mission in Cairo proposals for two PISCES enterprise assistance projects for two Egyptian PVOs, and the design for creating an Egyptian intermediary assistance organization capable of developing and supporting by itself further PISCES projects like the first two. The two demonstration projects will provide assistance to the Coptic Evangelical Organization for Social Services (CEOSS) and the Helwan Upgrading Scheme (HUS) respectively. The "intermediary" capability is proposed to be established in the first instance in a U.S.-based PVO operating in Egypt, Catholic Relief Services (CRS), with subsequent transfer of these support functions to an Egyptian entity, which CRS will help to create.

Other types of activities that might be funded include:

- the small enterprise development efforts of expatriate PVOs;
- visits between the staffs of projects to facilitate the exchange of ideas;
- special training programs for banks, PVOs, and government institutions;
- efforts to assess or change government policy favoring the informal sector; and
- increasing the availability of small loans through local credit institutions.

Funding these types of activities may have important implications for donors. While some of the large programs may be able to absorb enough funding to justify the costly and time-consuming project development sequence required by A.I.D. (requirements are similarly complex for other major donors), most of these projects will be much smaller, at least initially. Since these small projects are often the only ones reaching the bottom of the economic scale, if donors want to assist this sector, they will have to find ways to work with these organizations and support their projects.

Given the characteristics of these organizations, donors will need to:

- spend a good deal more time just to locate appropriate intermediaries;
- develop simpler mechanisms for arranging loans and grants, and for doing initial project analysis;
- develop a more flexible and responsive position to reflect and be congruent with the evolutionary and experimental nature of effective organizations;
- relinquish some of the control presently exercised over projects, so that organizations with roots in local communities can maintain that sense of ownership that is the very essence of what makes them work; and
- restrict the amount of money they try to move, as many excellent programs could be facilitated with only small amounts of additional funds.

It is expected that at least in the initial stages, many of the projects will be funded by A.I.D. and will use Operational Program Grants (OPGs)[9] to local organizations. Regular USAID development loans and grants are also envisaged for use in later projects. Alternatives for funding include the Small Project Fund of the Inter-American Development Bank, the Inter-American Foundation, Private Agencies Collaborating Together (PACT), and AT International, all being organizations with similar commitment to funding informal sector and micro-enterprise assistance projects.

[9] An OPG is a funding mechanism normally used by an A.I.D. overseas mission to support a development activity of a U.S.-based or host country private and voluntary organization operating in that country.

## 11.0 MAJOR CHALLENGES FOR DONORS AND PRACTITIONERS

For donors, the major challenge will not only be to upgrade and increase the size of larger projects, but to assist flexibly large numbers of small local efforts, and build these up to serve more people. Where appropriate, projects should be given adequate assurances by donors that with growth, and the expansion of their need for more resources, such resources would be likely to be forthcoming.

For practitioners, some of the major challenges for reaching the smallest economic activities of the poor, are as follows: (These are also indicative of the types of efforts that donors might help to facilitate.)

- *Reaching smaller businesses.* Some programs have been able to reach smaller businesses, or are at least contemplating doing so. For example, The National Association of Educated Self-Employed Youth, which began by assisting unemployed university students, is currently assisting village youth with much less education. The Calcutta "Y" program, which provided job skill training exclusively to educated youth, is now helping untrained rural people start businesses. The tendency of many projects, however, is to gradually increase the size of the businesses assisted. It seems to require a strong commitment to assist the smallest businesses, and considerable innovation to ensure that they will be reached.
- *Increasing technical competence.* As long as programs work with the owners of existing small businesses which are expected to produce and/or sell more without further program assistance, the major challenge of project development is to design systems for appraising and administering loans, and for delivering simple, basic business guidance. Where programs provide a wider and continuing range of services, however, there are several areas where more comprehensive outreach and assistance capabilities need to be developed, including:
  - guidelines for selecting or creating businesses with significant potential for increasing their owner's earnings;
  - methods for teaching rudimentary business concepts to illiterates, and for providing simple assistance to business owners;
  - local market studies and programs to develop and secure national and international markets;
  - methods for improving production techniques; and
  - ways of dealing with a raw material constraints.
- *Flexibly assisting different types of local small enterprise opportunities.* A limitation of many programs is that they only address one area of need—credit assistance to small existing businesses, for example—while other needs are ignored. A major challenge in program design might be the development of a "package" of simple enterprise development activities that could be understood and implemented by the field staff. Such a "package" of activities might incorporate ideas from several of the programs studied, such as:
  - assisting tiny existing businesses organized in solidarity groups (*e.g.*, PRIDECO/FEDEC-CREDITO program);
  - having solidarity group leaders administer a small discretionary loan fund that would help the poorest would-be group members enter economic activities such as hawking and vending (*e.g.*, Manila Community Services);
  - promoting cooperative businesses, consisting of producers of similar goods or services who are interested in working together—perhaps for the collective purchase of raw materials, equipment or marketing (*e.g.*, The National Christian Council of Kenya); and
  - financing the training of youth by local artisans through the sale of the goods and services produced by the groups of trainees (*e.g.*, The Village Polytechnic Program).
- *Reaching large numbers and institutionalizing small programs.* As projects reach more people, the intensive, *ad hoc* and personalized system of promotion that served the program when it reached smaller numbers, will need to be streamlined. Authority will need to be delegated to less skilled (and perhaps less dedicated) promoters, and more systematic record keeping procedures will need to be introduced. At the same time, programs must continue to be flexible and innovative if they are to serve the smaller businesses as well. Increasing the size of a program without losing flexibility is another major challenge faced by these programs.

- *Using evaluation and feedback as a tool for change.* Many programs are unresponsive to the target group's needs because they are overly complex. Some also do not meet their clients' needs as well as they might because they lack procedures for incorporating into future program directions feedback from the community served. Similarly, lack of impact evaluation or close monitoring leaves some programs ignorant of how clients are actually (rather than presumably) using their assistance. Oversights such as these can, and routinely do, lead to such anomalies as:
  - projects which provide social services to people whose most urgent felt need is not social services, but simply a small loan to purchase more stock for their businesses;
  - projects which use complex, costly systems for assessing the economic viability of businesses when much less information would serve as well; and
  - projects which provide technical training that is not utilized or not needed at this stage by micro-entrepreneurs.

As one examines the most successful programs, one often is struck not by how much they do, but by how much they do *not* do. Rather they leave to the beneficiaries themselves the major responsibility for selecting who is to be served, for deciding what assistance is to be provided, and how it is to be used. In such cases, the "outside" resources of the project *per se* merely "nudge along" this ongoing process.

## 12.0 PISCES PHASE II

The examination of programs that reach the smallest economic activities of the urban poor was encouraging. These programs are for the most part very new, however, and reach only a tiny fraction of those that potentially could be served. Their impacts on the beneficiaries and on the larger community are also imperfectly understood, as are the ways donor organizations can assist these and similar efforts in the field.

On April 29, 1980, the PISCES team held a workshop to review the findings of PISCES Phase I, with 75 representatives of A.I.D. and other agencies and practitioners in attendance. In the lively discussion that followed the formal presentations, several areas of concern were noted that bear careful consideration if A.I.D. (and other donor agencies) is to commit significantly more resources to supporting the urban informal enterprise sector:

- How does program impact vary with different types of assistance reaching different substrata of the poor population under differing local conditions?
- How do programs most effectively work to achieve their goals?
- Since many programs are small and dependent on charismatic leadership, committed staff, and close ties to the local community, what significance do they have for reaching people on a larger scale under less ideal circumstances?
- How can donor agencies best assist efforts to provide more help to the urban informal sector?

Recognizing the need to answer these questions, A.I.D. has contracted ACCION International/AITEC, which has in turn subcontracted with Partnership for Productivity and The Development Group for Alternative Policies, to attempt to address these issues over a three-year period. This project, to be known as PISCES Phase II, is outlined below.

1. *Demonstration Project Development.* Over the life of the project, six PISCES demonstration projects will be designed, funded and implemented in collaboration with A.I.D. missions overseas. As mentioned earlier, projects developed are expected to reflect at least three assistance modes for donors:
   - the creation of local "intermediary" or "umbrella" organizations, the functions of which will be to identify small local efforts, help design projects and provide a conduit for funding for these projects;
   - the provision of intensive assistance to local development organizations interested in establishing a capacity for PISCES-level enterprise development; and
   - the expansion and technical upgrading of ongoing PISCES-level enterprise development efforts.

   The use of different approaches should provide donors with valuable insight on how they can optimally assist the urban informal sector. It is also expected that the demonstration projects will use a variety of methodologies, including providing enterprise development assistance within the framework of an overall community development effort, and providing assistance directly to groups and to individual entrepreneurs.

2. *Design a methodology for evaluation.* As important as the development of specific projects is, the most significant output of PISCES Phase II may be to use the demonstration projects to answer fundamental questions on the impact of these programs, the relationships among specific program inputs and changes in the target population, and the implications of these findings for the role of A.I.D. and other donor agencies and practitioners. The issues to be addressed have never been successfully explored for programs of this type, so the methodology should, in itself, be of interest to the development community.
3. *Monitoring and evaluation.* For the monitoring and evaluation systems to generate the data needed, the project or program to be evaluated will have to perceive evaluation as a beneficial and nonthreatening project component. Evaluation guidelines will be flexible in order to permit the inclusion of issues and concerns of the local agency, and results of the evaluation will be fed back in a way that will contribute to better project/program planning. As always, the importance of close working relations with the local organization is paramount.

   Since not only the impact on the beneficiaries will be measured, but also the way specific program inputs have caused these changes, both the program and its impact on beneficiaries will be monitored. In addition, the strictly economic monitoring and evaluation of program impact on the beneficiaries will be expanded to include social indicators as well as changes in the businesses assisted. For example, in the PISCES Phase I studies, our impressions were that several programs facilitated a positive community orientation towards change; also, the fundamental way these businesses were seen to operate (in terms of management, production and marketing) changed as a result of the program.
4. *Dissemination and workshops.* In addition to developing demonstration projects and monitoring and evaluating them, an integral part of this project concerns the dissemination of the results to donors and practitioners. Dissemination will be achieved through several mechanisms. Each member of the PISCES team is a spokesperson for the project, and will have numerous opportunities to explain PISCES to interested people, and to assist groups with project development. Also, the reports written for PISCES Phase I, and the reports to be written for PISCES Phase II, will be distributed to the network of persons now known to be interested in the PISCES approach, as well as to those whose interest these activities may help to stimulate.

   Workshops will be another major vehicle to disseminate information and to receive feedback from scholars and practitioners of informal sector assistance. There will be at least two interim workshops and a final workshop held over the life of the project. One of the interim workshops will bring together operatives from *all* of the PISCES demonstration projects in a "cross-fertilization" exercise, in which experiences on project operations, liaison with funding bodies, evaluative and similar information will be exchanged.
5. *Secretariat.* The PISCES staff will design and maintain on a continuing basis a centralized monitoring system for supporting the field components of PISCES Phase II. This "secretariat" will provide an institutional memory, and will be the point of cognizance for monitoring, evaluation, analysis and dissemination of the experimental information generated in the course of executing this project in the field. It will also serve to integrate this information with similar information on other ongoing projects not affiliated with PISCES.

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# Part II
# Case Studies: Africa



by Fred M. O'Regan and
Douglas A. Hellinger
The Development Group for Alternative Policies

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## CASE STUDIES: AFRICA

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# CHAPTER 1

*Introduction*

This exploratory study was undertaken in late 1979 to examine and assess various methodologies utilized by income- and employment-generation programs which directly reach and assist the very poor in urban and peri-urban areas in Africa. The principle objective of the research was to abstract elements of structure and process which seem to be related to effectiveness in assisting people at this economic level. A synthesis of these key programmatic factors is presented at the conclusion of this report.

There are two distinct features of the study. First, it is not concerned with the informal enterprise sector *in toto*, as are most studies on this subject. The informal sector in Africa comprises a broad range of enterprises in terms of size and relative sophistication; not all people engaged in economic activities in the sector are necessarily poor. Accordingly, this study was undertaken with the specific purpose of examining those programs which assist the very poor who are (i) engaged in self-employed activities of one form or another, and (ii) not normally assisted by conventional small-scale enterprise programs.

Second, the study focuses upon assistance methodologies utilized in ongoing projects to reach and assist this segment of the population. Thus, it should prove useful to professionals working with donor and other assistance agencies which wish to either initiate or strengthen programs of support to income-generating activities among the very poor in African urban and peri-urban areas.

The research was carried out in two phases. On the basis of an initial search through secondary sources, an exploratory trip was made to directly contact and outline the assistance methodologies of various projects which appeared relevant to the purposes of this study. An effort was also made in preliminary project selection to include programs which collectively served populations in and around both primary and secondary cities in East, West, and Southern Africa; an attempt was also made to include both Anglophone and Francophone countries. The only change in original itinerary occurred when a visit to Ghana had to be cancelled on route.

As is normally the case, many of the projects identified through intermediary channels differed from the descriptions rendered, with some proving to be more relevant to the research and others less so. At the same time, other projects were identified through further investigation in the field. All projects deemed relevant to the research are included in this report. They are:

—The Urban Community Improvement Program of the National Christian Council of Kenya, which supports income-generating activities as part of its integrated community-upgrading program;

—The Village Polytechnic Program (Kenya), which offers informal training and enterprise-development assistance to youth throughout the country;

—The Kawangware Community Development Project of the Institute for Cultural Affairs (Kenya), which promotes employment generation as a major part of its general community development strategy;

—The Small Industries Development Organization (Tanzania), which provides technical and managerial assistance to locally promoted industries on a national basis;

—The U.N.D.P. Women in Development Program (Swaziland), which is engaged in the formation of production groups involving very poor women;

—The Centre d'Education à la Promotion Collective (Cameroon), which has initiated artisan-assistance activities complementary to its ongoing community education program;

—The artisan-assistance efforts of L'Institut Panafricain pour le Développement (Cameroon), which focus on the upgrading of the artisan sector in a major urban settlement;

—The Centre National de Perfectionnement des Artisans Ruraux (Upper Volta), which provides training, technical assistance, and credit to a network of artisans throughout the country; and

—The Indigenous Business Advisory Service (The Gambia), which extends managerial assistance and promotes credit extension to local entrepreneurs.

As the time spent with these projects during this first visit by necessity differed from one project to the next, the level of detail and analysis on each correspondingly varies. At the same time, concerns over publication of information, such as budgets and funding sources, which were considered sensitive by some program administrators have been respected in all such cases.

Consistent with the methodology established for the work on all three continents, one program—the Urban Program of the National Christian Council of Kenya—was selected as the focus of an in-depth study. This project was chosen on the basis of its offering a wide range of income-generating and other supportive assistance to extremely poor clients in both primary and secondary cities. To broaden the scope of in-depth analysis, a follow-up study of the Village Polytechnic Program, which concentrates on training, was also undertaken. All of the field research in Africa was conducted between April and August of 1979.

As a limited and exploratory effort, this study was not designed to produce conclusions on methodology that are universally valid for application to every employment- and/or income-generation effort among the urban poor in Africa. While the projects which were selected for in-depth analysis (and upon which many of the conclusions are based) employ most of the assistance techniques utilized by the other programs examined, they are limited to the context of one country on a vast and diverse continent.

An additional constraint in drawing conclusions arises from the nature of the programs themselves and their clientele. The urban and peri-urban poor in Africa constitute a very diverse group in terms of ethnicity, age, sex, type of employment, skill levels, and degree of poverty relative to the rest of their respective nations' populations. At the same time, the programs identified serve different groups in different ways. Some, like the Village Polytechnic Program, train youth, while others, such as the Swaziland Women in Development Project, extend technical assistance and credit to artisan groups. Similarly, some of the programs service inner-city slum areas, while others deal with peri-urban or secondary-town populations.

Despite its limitations, however, we believe the study brings to light many important elements of program methodology related to reaching and assisting the urban and peri-urban poor in Africa. Quite a few commonalities in structure and process emerged from an analysis of the various programs, and the more in-depth studies undertaken in Kenya have allowed for a more thorough exploration of some of these key factors. We are therefore confident that the conclusions presented provide an indication of those programmatic elements which are important in the attempt to effectively assist the economic activities of the very poor. In this sense, we believe an important groundwork has been laid both for futher investigation in this critically important area and for the strengthening or initiating of assistance efforts.

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## CHAPTER 2

### I. Project Identification

The Urban Community Improvement Programme
of the National Christian Council of Kenya (NCCK)

Principals: Ms. L. Kadzo Kogo, Director
Mr. Charles Gikonyo, Director, Small Business Scheme and Handicrafts Industries
Mr. Nelson Kibathi, Outreach Coordinator, Nairobi

Researchers: Fred O'Regan and Douglas Hellinger, The Development GAP

### II. Setting

Kenya has experienced tremendous urban migration since the early 1960s. Nairobi, one of the largest cities in East Africa, has become a classic example of urban dualism, with sophisticated commerical and industrial sectors, on the one hand, and sprawling squatter-settlement slums, on the other. The Mathare Valley and Kawangware—two of the largest settlements—have combined populations of over 150,000. On a smaller scale, secondary cities such as Mombasa and Kisumu are experiencing similar urban problems. In the words of NCCK,

> Kenya like any other developing country is experiencing rapid changes in the society. The changes have brought about social problems which were never faced by the traditional society. This is especially true in the major towns where one finds a multitude of school leavers frustrated by unemployment, old people isolated from their families, couples whose marriages are under strain and destitute families living in poverty. These problems are increasingly alarming from year to year.

In Kenya, urban informal-sector economic activity is, by African standards, both widespread and vibrant. As such, it has been the object of much research and was the focal point of the ILO's well-known identification of the informal artisan as a legitimate "target" of development aid.* Kenya's public development assistance programs, however, have not expanded sufficiently to address the problems of the urban informal sector. With the notable exceptions of the urban Village Polytechnics and fairly recent housing projects supported by the World Bank and USAID, assistance to the urban poor has come from the private development sector and has been mostly church-related.

### III. Project Description

A. The *goal* of NCCK's Urban Community Improvement Programme (UCIP) is to upgrade the quality of every aspect of local squatter-community life, principally by helping people to become economically independent and to make desired changes in their own lives. Based upon this comprehensive perspective, the program is designed to deliver services in the areas if housing, health, education and literacy, nutrition, child care, and employment.

B. *Brief Description and History.* The National Christian Council of Kenya is the nation's pioneer agency in urban development. Its approach in all areas of development is to identify unmet needs

*See ILO, *Employment, Incomes and Equality: A Strategy for Increasing Employment in Kenya,* Geneva: ILO, 1972.

among the poor, begin organizing communities around these needs, initiate service delivery, and then advocate the adoption and expansion of the new program by the public sector. The Urban Community Improvement Program operates in Nairobi, as well as in the secondary cities of Mombasa, Kisumu, Eldoret, Nakuru, Kakamega and Nyeri. The Mathare Valley in Nairobi was chosen as the initial site for assistance because of its extreme poverty (per capita income estimates range from $13 to $20 per month), its lack of essential services and infrastructure (despite its close proximity to the city center), and its particular social characteristics (NCCK estimates that 80 percent of the adult population is female, with an average of six children to each woman).

C. *General Structure and Function.*

1. *Organizational Structure.* NCCK is a constituent organization representing about forty distinct member churches and private, mostly religious associations within Kenya. It is governed by a general assembly, made up of member church representatives who meet at least once a year, and a variety of committees which oversee the diverse functions and departments of the organization. The organization is headed by a general secretary, who reports to the assembly and its executive committee and is responsible for all financial, administrative and staff functions. The purposes of NCCK are both ecclesiastical and developmental, with the latter purpose apparently dominant. Its ecclesiastical functions include facilitating inter-church cooperation and communication, publicizing and promoting church efforts, channeling international funds for church construction and other such activities, and strengthening members' approaches to religious and family-life education. The Council is noted for speaking out on major moral and social issues, such as the refugee problems of East Africa and interethnic rivalry in Kenya.

The development assistance functions of NCCK are far-reaching. One of its most significant development roles is that of a conduit of private, mostly church-related, international funds to local communities and representative organizations. Through its Projects Endorsement and Priorities Committee, the Council channels roughly $250,000 each year to forty local self-help projects. These funds are received from private donors, including Christian Aid (Britain), KED (Germany), and CODEL (USA).

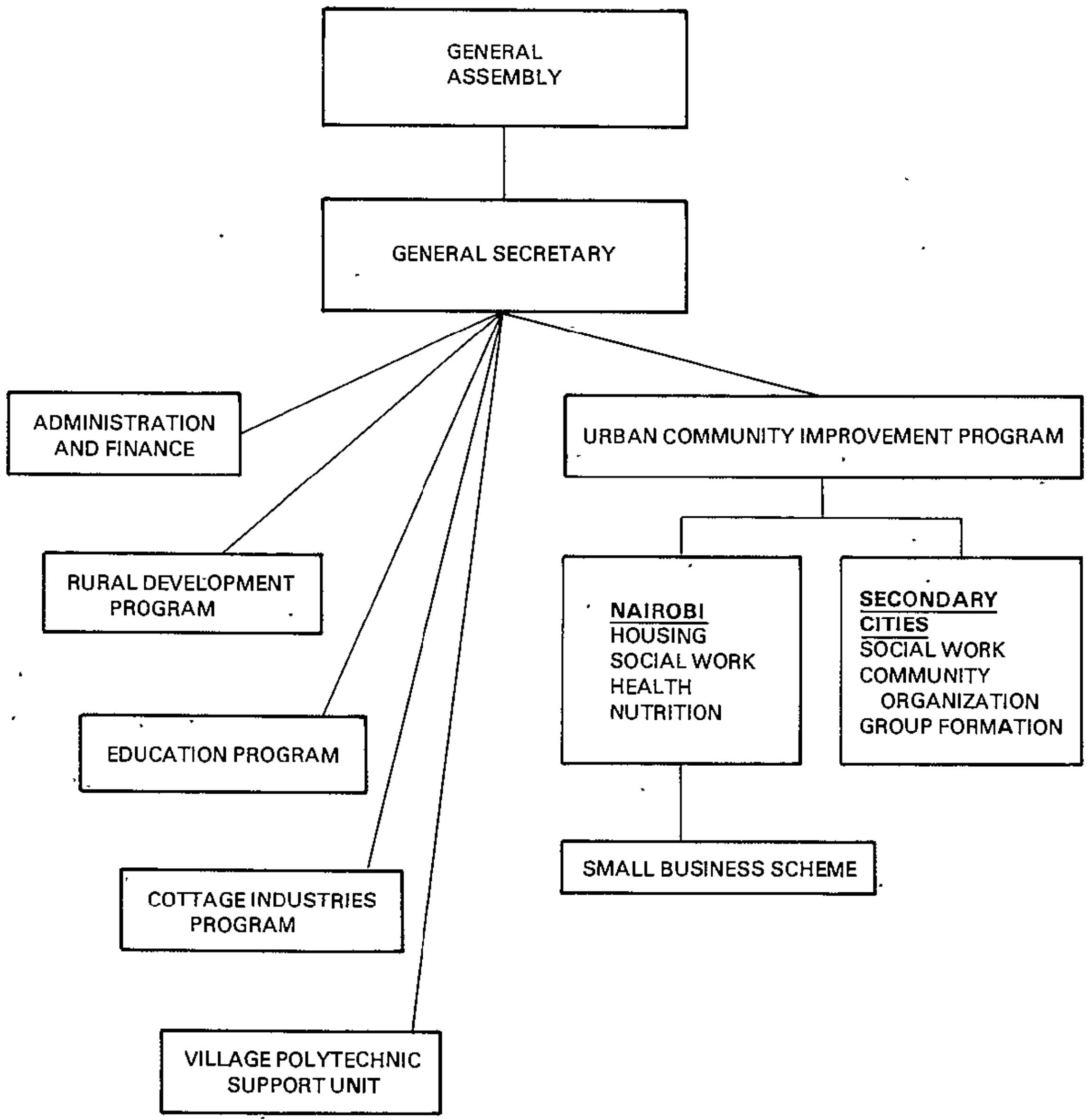
NCCK also delivers a broad range of technical, managerial, planning, and training services to development projects and service programs of its own. To do this, the organization employs a staff of approximately 120 people, who are divided into various departments. These include the Department of Rural Development, the Urban Community Improvement Program, the Village Polytechnic Support Program; the Department of Education and Training, and the Cottage Industries (handicrafts) Program.

Although the various departments coordinate activities among themselves and come under the central control of the General Secretary, they are somewhat autonomous. Each is administered independently, operates under its own budget, and receives earmarked development funds from international entities. Most of the departments are overseen by a sectoral committee appointed by the general assembly.

The Urban Community Improvement Program (UCIP) is one of the larger, better known, and most important programs of NCCK. It provides housing, nutrition, small-business, and organizational assistance through local community social workers to the urban and peri-urban poor in Nairobi and secondary cities.

The director of UCIP is Ms. L. Kadzo Kogo, who has been with the program for five years and recently received a masters degree in social work in the United States. She is supported by staff both in Nairobi and the secondary cities. In Nairobi, there are two administrators, seventeen nutrition workers, two nurses, one midwife, one small-business expert, one community development worker specialized in resettlement, two social workers, one assistant social worker, and nine community organizers. Two social workers operate in Mombasa and Kisumu, while Kakamega, Eldoret, and Nakuru are assigned one each. Community organizers and social-work assistants are also utilized in these secondary cities. All community organizers are residents of the community and have been trained by NCCK; some also receive specialized training in technical fields. All specialized personnel, such as nurses and social workers, are certified in their respective fields. Based on current budget figures, the average staff salary is roughly $300 per month, which is quite competitive in Kenya considering that housing and other benefits are also provided.

**ORGANIZATIONAL DIAGRAM FOR THE NATIONAL CHRISTIAN COUNCIL OF KENYA***




* THE PROGRAMS SHOWN ARE NOT INCLUSIVE OF ALL NCCK EFFORTS

2. *Relationships with Other Programs.* The activities of the urban program are carried out in accordance with a number of other programs, both intrinsic and extrinsic to NCCK itself. Among the most notable of these working relations are with: (a) the World Bank and Nairobi City Council in the planning of a self-help housing program; (b) the Ministry of Cooperatives in the training of production co-op members in Mathare; (c) all local hospitals and health clinics; (d) the Ministry of Housing and Social Services in the areas of Village Polytechnic development and direct social referral on social services; (e) various local government schools for the purpose of primary-school and literacy education; (f) the Kenya Cooperative Development Bank for the extension of credits to small businesses; and (g) various local churches and community organizations.

3. *Role of Beneficiaries.* Within the NCCK's organizational structure itself, beneficiaries play no direct participatory role, but within project development and assistance activities they are directly involved. For example, NCCK was instrumental in helping to form the Mathare Valley Development Committee, which was composed of fifty representatives drawn from both the local community and the city's broader private and public sectors. All development programs within the Valley, including Nairobi City Council efforts, were carried out with the advice and consent of this group. During the early stages of NCCK's urban improvement efforts, the Committee assisted in fostering public support for the program's local activities. As assistance was delivered, local committees began to play a coordinating role; hence the Committee outlived its usefulness and ceased to function.

The local-level coordinating committees are composed of chiefs, District Officers, village leaders, and representatives from UCIP-assisted groups. Leadership in these groups revolves each year, with NCCK social workers providing leadership training. The goal of both NCCK and the villages is to create integrated programs which, in time, the latter can carry on themselves.

D. *Funding.* Exact figures on total funding of NCCK programs were not available. However, current figures on some of the urban program components do give a fairly solid picture of the scope and emphasis of various NCCK activities. Total funds budgeted for urban housing, for example, equal \$2,678,494; of this \$442,200 is for program costs, while \$2,326,295 is used to cover capital costs associated with housing projects and the construction of community centers. The budget for community social work (social services) is roughly \$100,000 for all seven cities within which the program works, while the total, published budget for the small-business program is \$37,879.

Most funds for NCCK are provided by international agencies. No detailed figures on donations were available. Major donors include ICCO of Holland, EZE of W. Germany, the World Council of Churches in Geneva, and CODEL and Church World Service of the United States.

E. *Beneficiary Characteristics.* The people serviced by the Urban Community Improvement Program are indeed the poorest of urban residents in each of the serviced cities. As previously mentioned, the population of the urban and peri-urban squatter settlements in Mathare Valley suffers from extremely low per-capita income and consists in large part of women with dependent children. Ethnically, the entire urban population being served incorporates a diverse mixture of tribes from throughout the nation.

It is interesting to note that although there are many skilled and semi-skilled artisans residing in slums like the Mathare Valley, the actual beneficiary population of the urban program in many cases is below this skill level. The majority are women and youths who, for the most part, have had neither the training nor traditional apprenticeship opportunities which would provide them the necessary skills to compete in the informal sector. This population group is clearly distinct in character from the urban, self-employed artisans assisted in other African development programs.

F. *Project Activities.*

1. *Approach.* The general approach to assistance of UCIP is to: (a) work with the community in defining and prioritizing problems to be attacked; (b) organize the community to begin working toward the solution of these problems; (c) institutionalize both decision-making and development-action capabilities within the community; (d) deliver services and funds in support of these efforts; and (e) advocate, to the government and the general public, continued support (in the form of needed services and relevant policy decisions) to the community.

All assistance activities revolve around the core activities of the social workers and community organizers. Social workers are sent into depressed urban areas where they work with local populations in identifying local problems and finding practical solutions. More specifically, the social workers are directed to "... help people enhance and more effectively utilize their own problem-solving and coping capacities; establish initial linkages between people and resources systems; facilitate interaction, modify and build new relationships between people and societal resource systems; dispense material resources; and serve as 'change agents' ... specifically employed for the purpose of creating planned change."

Into the early 1970s, NCCK social workers handled cases individually, adopting social case work as their operational method until it became clear that this method was no longer adequate. In many instances, whole communities were found to require assistance, often in a material or financial form, and basic economic problems were growing faster than they could be solved. As it was considered futile to continue attacking root economic problems at an individual level, emphasis shifted to group work, where it remains today.

The NCCK has typically begun its work in poor communities in response to crisis situations, such as the outbreak of cholera in Mathare Valley in 1969. The organization responded in that instance by successfully organizing the people to put in a piped water system in order to avoid eviction from the land. Generally, action is not taken until the social workers have been able to informally survey, or assess, the needs of the people and organize the community. Community organization is carried out through the process of community meetings, which are always coordinated with the local chief and sub-chief and carried out in consultation with the local District Officer and/or the local Community Development Officer. Initially, the NCCK social worker helps organize groups and assists them in determining their most pressing social and economic problems, as well as possible solutions. A decision is then made on how to attack the major problem, or problems, immediately facing the community.

Subsequently, people from the various communities (Mathare Valley, for example, is organized into nine villages) will approach the social workers with requests for assistance on specific local problems. Once the latter decides that the number of requests reflects a community problem, a community meeting is called and the group decision-making process is utilized again to decide upon the action that should be taken. The NCCK nutrition program grew out of the Mathare social-work program in this manner, as did the small-business assistance effort. In both cases, simple surveys were carried out prior to project design, with the focus on the types of existing economic activities, family backgrounds, and local demand patterns of a limited section of Mathare.

One of the principal needs which has surfaced in almost all cases, however, has been the need to find income-earning opportunities. In dealing with this problem, NCCK has addressed the issue of unemployment, which it has found to be a root cause of much of the suffering in urban areas. The majority of the people who come from the rural areas into these towns are illiterate, have very little formal skills training, and, hence, are ill-prepared for urban life. They are therefore unable to find worthwhile work (and end up living in slums where housing is the cheapest), to afford nutritious food, and to provide school fees for their children. NCCK endeavors to create employment for these people and/or to prepare them for employment. It is with this in mind that in the early 1970s social workers began to encourage the formation of groups in which young and old were taught such trades as traditional handicraft production and dressmaking. After training, they were expected to form cooperatives or find employment in established firms. At the same time, NCCK set up a series of handicraft-production workshops, which are now administered by the Cottage Industries Program rather than by UCIP.

As the training and organizational assistance proved insufficient for the creation of new enterprises, UCIP social workers tried to convince formal enterprise programs to provide assistance. Unsuccessful in this endeavor, NCCK then established the Small Business Scheme (SBS) under UCIP in 1975. It was designed to provide management and financial assistance to small-scale enterprises in the urban and peri-urban informal sectors of Nairobi. The next two sections present descriptions of specific NCCK employment-generation activities, including the operation of the SBS in Nairobi and other programs in the secondary cities.

2. *Nairobi.* In Nairobi, UCIP's social workers recommend clients for the SBS program on the basis of their need, reliability, and accessibility to NCCK staff. Most have no regular employment or salary and may have about $70 in cash on hand. (For those even worse off—usually women who cannot support their children—the SBS may make available a small grant of about $14 to buy produce which is then sold to generate some family income and allow for reinvestment in more produce.) The

social worker then brings the prospective borrower to the administrator of the SBS for an interview and further screening. The client's plan and request for financial assistance are reviewed to determine how much capital the borrower would be able to handle; this process is facilitated if the person or group has a record of borrowing from NCCK in the past. Clients who have outgrown the NCCK program, or are financially better off to begin with, are referred to commercial lending institutions.

The administrator also asks for an identity card and requests that a loan application be completed, with the help of the social worker if necessary. That form, entitled "Nairobi Urban Squatters' and Low-Income Areas Small Business Loans, Assistance and Training—Creation of Employment Under the Small Business Loans Scheme—Business Loan Application Form," requests the following information:

1. name, identity card number, district, sub-location (plot), parents' names, home address, name of chief at home;
2. marital status, number of wives/whether husband is alive, number of children, number in secondary school, primary school, nursery school and at home;
3. amount of money spent monthly on school fees, clothing, housing, and food to feed the whole family, plus total amount spent on all the children in one year;
4. name of the business, postal and business addresses of the enterprise, monthly rent, nature of present or proposed trade or business, length of time in this trade, type of business (private or limited company, registered partnership, unregistered partnership, or registered business), photostat copy of certificate of registration, present or intended number of regularly engaged employees, and the name, address, and occupation of each partner, if applicable;
5. other employment status, other salary or income, other business interests (including farming), educational level, amount of commercial or technical training received, and person who keeps the books;
6. amount of loan required, amount of monthly repayment expected, average monthly profit expected with loan, details on how loan would be used, and a complete budgeted proposal for loan use;
7. nature and value of security offered, including land, buildings, machinery, vehicles, tea stumps, coffee trees, other cash crops, or cattle dip; if no security to offer, give names and addresses of three guarantors, which can include businessmen, M.P.s, councilors, accountants, managers, senior public or private sector officers, advocates, priests or pastors, or other trustworthy people;
8. estimated value and list of present saleable stock, average total goods purchased monthly, average sales per day/week/month, average monthly gross profit, names and addresses of a few good customers, details and copies of outstanding orders, bank where applicant has a current or savings account, if any;
9. owner of present business site if not owned by applicant, degree of permanence for applicant of present business premises, whether permission has been granted by owner to trade there, whether the government or the Nairobi City Council has approved the premises, and whether the applicant has received a Government trading license or a NCC or other kiosk card; and
10. number and total size of loans received from NCCK, and source and date of any other business or agricultural loans received (or applied for) in the past five years.

In addition, signatures are required under the following statements:

—"I understand as a condition of the loan and agree to employ at least 75% of business labour requirements out of bonafide residents of the area/villages where the business is situated."

—"I understand that: (i) If I am granted a loan I must start and/or continue to maintain acceptable books of account. (ii) All the facts given above will be checked at my place of business and that my application will be rejected outright if I have given any false information."

Given the level of clientele, it is not expected that all items on the form will be completed. After the relevant information is provided, the application is submitted to, and evaluated by, the SBS administrator. His recommendation, along with that of the social worker, is attached to the application before it goes to a five-member Small Business Committee. The individuals on this loan committee are not members of the NCCK General Assembly; rather they are appointed by the organization on the basis of their expertise in business and enterprise development. Disbursements of approved loans are made by check from NCCK's central accounting office to the borrower's bank account, which he or she must open to get the loan. The loan agreement contains a draw-down schedule, and the program administrator, with the help of the social worker, checks to see if the initial disbursement is used for the purposes laid out in the agreement before the next one is made.

The management assistance component of SBS was initiated after the completion of an assessment of the needs of the intended beneficiaries. A survey carried out by NCCK when the program was initiated revealed that the beneficiaries usually identified the lack of money and adequate facilities as their major problems. However, it was discovered that a lack of management know-how was also an important problem facing most of the enterprises. NCCK therefore employed a full-time small-business administrator, who, in collaboration with officers from the government's Cooperative Development Department, provides technical advice and expertise to these people.

The intensity of the management assistance provided to a client is decided on a case-by-case basis. For example, it can be a prerequisite to funding for a group lacking a bookkeeping system, or it can be extended supplementally when an adequate accounting system already exists. Regardless of the client, the primary focus of all training is on teaching them how to record sales and purchases, cost their inputs—including their own labor—and mark up their goods in order to produce a profit. After the discipline of making daily bookkeeping entries is established, monthly close-outs are taught. Costing is particularly emphasized with commodity retailers, who must learn how to cost their stock. All individuals and groups are taught to physically separate their revenue into three bags—one to be the source of funds for the purchase of new stock and for loan repayment, the second for covering labor costs, and the third for profits. In this way, they can see how much of the money they are able to personaly consume or save.

In addition to assisting them with pricing and cash accounting, the program administrator also advises clients on marketing, joint purchasing of materials on a wholesale basis (from a factory, if possible), licensing, cooperative registration, and how to get access to public extension services, among other things. These matters are taught in weekly sessions, with follow-ups with group leaders, treasurers, and financial managers. As NCCK's clients are extremely poor and have very limited entrepreneurial and technical skills, no fees are charged for the training and assistance.

Just as NCCK's approach to the delivery of the social services evolved from a case-by-case to a more group-oriented approach, SBS financial assistance has moved from an individual to a group orientation. There are many reasons for this, not the least of which is that searching for an individual loan defaulter in a place like Mathare can be a hazardous, impossible task. The increased interest in a group orientation is also due to the greater ease and cost-effectiveness of training and the greater financial discipline practiced by group managers responsible to the other members. Leadership in these groups rotates annually, unless the same officers are chosen at the yearly elections. It has been found that this enhances mutual trust, while also spreading responsibility and the acquisition of financial skills.

This preference for group lending was operationalized in 1978 when a "Trade in Group" program was announced, wherein loans would be made to groups. Four groups were organized in areas of charcoal selling, meat butchering and retailing, second-hand clothes marketing, and patchwork material production. The Ministry of Cooperative Development was approached and responded favorably to the idea of registering these groups in a cooperative society (the Mathare Kogeria Handicraft Society) so as to allow them access to a number of services. These services include training facilities in simple bookkeeping at a Nairobi cooperative college and the acquisition of loans from the Cooperative Bank of Kenya.

It has proven easier to monitor the use of funds by members of the Society because an official from both the Ministry of Cooperatives and NCCK are signatories to bank accounts. In fact, monitoring may be unnecessary, as group members check on their financial officers and are directed to report any misuse of funds to the officials mentioned above. Success in the cooperative area has led the SBS administrator to encourage the development of other trade groups in such areas as woodworking, leather work, metal work, bicycle repair, and the retailing of such commodities as fruit, vegetables, and fish.

SBS loans are made at a 3.5-percent annual interest rate, apparently taken on the average outstanding balance. NCCK considers this to be the maximum it can charge retailers, who usually work on a 10-15 percent mark-up, and allow them a fair profit. The mark-ups of these retailers are often limited by government controls on certain basic commodities, and, operating at low volume, this places them at a great disadvantage. After a two- or three-month grace period, monthly payments are required, with the clients making the payments directly to the NCCK/UCIP central office; that office issues a receipt and also notifies the SBS office of the repayment. The amortization period granted the borrower is determined by the size of the loan, type of business, size of enterprise, and volume of sales. Larger clients may get as much as two and a half years to repay loans for the purchase of inventory or tools, while very poor clients dealing in low volume may be given only three months.

Total lending in 1977 and 1978 amounted to twenty loans for $8599. Individuals accounted for 68 percent of the total, with such loans ranging from $67 to $934; average loan size was $366. Groups received the remaining 32 percent of the loan capital in this period. NCCK lent three groups with a total of 21 members a total of $1400 ($67/member), while providing the largest (162 members) $1333 worth of financing. Except in two or three cases, repayment has been very regular. Eighteen thousand six hundred dollars is budgeted for SBS loans in 1979, and group lending should increase substantially while individual lending drops off.

3. *Secondary Cities.* The social workers of UCIP began working in the secondary cities of Kenya at the same time as they began their work in Nairobi. Since then, they have helped organize a number of groups in five urban areas and have delivered or facilitated the delivery of assistance in the areas of organizational development, education, training, and marketing. Financial assistance is also necessary, but, although some credit has been available through NCCK's Cottage Industry program, the Small Business Scheme does not operate in the secondary cities. Nonetheless, NCCK's effort through the UCIP social workers and the Cottage Industries program has helped a number of groups develop considerable potential for growth as small-scale enterprises.

a. *Mombasa,* the country's second largest city with a population of 371,000, has been a site of much NCCK activity. The Tototo Home Industries Project has operated in Mombasa since 1967 under the auspices of NCCK's Cottage Industries Program, and UCIP social workers have worked there in association with Home Industries in both urban and nearby rural areas since 1969.

The objective of the Tototo Home Industries Project is to train and assist girls, women, and men in the lowest income groups to produce and market handmade articles, while generally participating in the economic and social development of the area. As many as four hundred people, mainly women and girls, presently benefit directly from the project. These include young girls with limited education who are trained in dressmaking; poor urban women who are given workshop space for training, production, and income generation in dressmaking piece work; and twelve organized groups of rural and urban women who are provided markets (and some technical assistance and business advice) for their handicrafts and other products made with local raw materials. All operations are supervised by the director, Elvina Mutua. A designer and a product-quality advisor assist the various groups, while an NCCK store, with a staff of five, purchases and sells, at a fifty percent mark-up, the goods produced by the groups and the workshop.

The Tototo Workshop (Towosho), situated in old town Mombasa, is one of the programs run by the NCCK Project. The program employs and trains more than seventy women and girls in dressmaking, and has a five-person staff. The staff includes three teachers responsible for the training, a general supervisor, and a production supervisor.

At any one time, there are two distinct groups receiving training. Training category "A" currently contains some fifty girls who are taking a dressmaking course. These are girls who do not qualify for secondary schools and whose parents cannot afford to put them through private schools. In 1975, twenty school leavers were accepted into the course; the number of trainees increased to twenty-five in 1976, thirty in 1977, forty-six in 1978, and finally fifty in 1979. Due to this large number and the limited capacity of the workshop, training is delivered by two instructors in four daily two-hour shifts, with the girls taking turns on the six available machines. In each of the first three years, an average of seven girls were referred by NCCK social workers as needy cases and paid no fees. This number has increased by ten or fifteen and the $6.50/month paid by the other girls is not enough to cover all the training expenses. Tototo also cannot afford to purchase the two new sewing machines which are needed, nor hire a highly qualified teacher to train the girls to a Grade I Government Trade Test level and diploma.

Currently, the 18-month course prepares trainees to a Grade II level, which qualifies them for jobs in factories, shops, and Village Polytechnics, as well as for self-employment. In 1975, for example, of the seven girls who finished training and passed the government test, one was helped by her family to open a business, another was employed in a factory, and a third by a private shop, while four others went on to category "B" on-the-job training. In 1978, when sixteen girls completed one-and-a-half-years' training, thirteen passed the exam and went out to find employment or start their own business. The thirty others receiving training in 1978 completed their course in July 1979.

The category "B" training and production program shares the same, limited space with the straight training component. Thirty very needy women—mainly unmarried and divorced mothers—are referred to the project by NCCK social workers operating in the Mombasa slums. Their training, which is continued until the individual finds employment, consists of making dresses by hand, by machine, and through the process of tie-dying. The women are paid for what they make, earning an average of $32/month in 1978. On the average, leavers are employed at a starting wage of about $41/month. In the event leavers are interested in self-employment, the women are encouraged to first learn how to hand sew, for even if they were to set up a cooperative, the cost of a sewing machine might be prohibitive. This training in hand sewing calls for the women to work at home, bringing in their work to be checked each week.

In the meantime, other women are working on machines, while others are turning out finished tie-dye products. These products include dresses, shirts, and tablecloths produced in a variety of designs on contract to shops, which, in turn, sell to both the tourist and local markets. A technical production supervisor is in charge of the whole production process, from design through final preparation. The products that are sold to the NCCK store are priced to cover all costs, including training, and to turn a profit. Somewhat faulty, but improving, inventorying and cost accounting systems were responsible for a slight loss in 1978.

The two training programs are not self-supporting, as trainee fees and the limited sales of student-made articles together only cover about one-quarter of expenses. Category "B" badly needs financing for the purchase of more raw materials and two additional sewing machines in order to adequately expand training and production. About $13,000 would do as seed capital for the former, while $1300 would cover the latter. The project's supervisors feel confident that, with this investment, the profits from Category "B" production could within one year easily support Category "A" training, including the salary of a new teacher. In addition, the whole program could use more physical space.

Since the Tototo training program was recently registered under the Village Polytechnic program, the Ministry of Social Services has visited the workshop often and has made a $1300 grant. Part of the grant was used to purchase two sewing machines to add to the three others donated by Bread for the World of Germany, while the rest went toward teacher salaries. Other grants have been made to the Tototo Project by such church-related groups as Christian Aid, the Anglican Church of Canada, and the Swedish Section of the Lutheran World Federation. The project has also received one soft loan from Germany for purchasing materials, and utilizes bank overdrafts for meeting immediate purchasing needs.

As far as workshop graduates are concerned, many go back to their rural areas, as a wage of $40/month can barely support a single woman in Mombasa, much less a woman with children. Those who would like to attempt self-employment are in need of small loans for the purchase of materials, tools, and equipment. The case of two women who went through the training and production program and set up their own dressmaking shop illustrates the problems associated with initiating one's own enterprise. Although they were fortunate to have two sewing machines and some limited funds of their own, they have not had the capital to invest in enough materials to produce at any significant volume, nor the collateral to secure a loan (which would be risky anyway, due to banks' inclination to repossess once repayments fall in arrears). In addition, the two partners had to pay $67 for a trade certificate, $13 in city licensing tax, $16 for disposal services, and $27 for a month's advance rent.

The immediate solution to their financial problem was to rent two additional machines at $6.60/month each, and start training ten students, charging each $8/month. After six months in operation, they clear $7/month in this fashion, but hope to expand the production part of their business as they become better known and are able to obtain credits to purchase materials in bulk. They have good skills, produce a good cross-section of dresses, and keep a good, simple, daily record of accounts, but they suffer badly in competition with local Asian shopkeepers.

In addition to the workshop, NCCK, through the work of UCIP social workers, has assisted rural and urban groups in the production of handicrafts to generate the income necessary to undertake more stable economic (and sometimes social) endeavors. UCIP often donates initial materials (deducting their cost when paying the groups after marketing their output) and advises on product quality and design, new product lines, and simple business practices. Social workers also teach handicrafts as part of their community work. Group workers can earn as much as $40/month, or about $24 on average. When the market allows a group to make a profit, the group generally invests in other projects that which is left after their members are paid.

Regarding reinvestment, one enterprise, the Shimoni Group, for example, puts one-quarter of its profits into a poultry project. At the same time, the Bomani women's group has successfully built a small bakery and is selling bread; the women at Ngamani on the outskirts of Mombasa are selling eggs from their poultry project; the Mawani Group is selling firewood; and the Mkoyo women are building a badly needed nursery in their village. The problem is that the tight handicraft market severely limits the speed at which these groups can expand their other economic and social projects. Help has been solicited from the Ministries of Agriculture, Health, and Social Services for the support of these activities and other ways are being explored to help the women raise more funds.

The Tototo Home Industries store is the principal outlet for workshop products and those handicrafts produced by the other groups. The shop is in good financial shape, with $80,000 in total sales and a healthy profit margin in 1978. The store's profits, totalling $7123, were used to support both the training and the group projects; deficits run by those projects can be as much as $17,800. If the shop has a major problem, it is the lack of sufficient up-front capital to pay its suppliers within a month's time.

b. NCCK's support for employment and income generation is not as highly developed in the country's third largest city, *Kisumu* (pop. 150,000), as it is in Nairobi and Mombasa. As in Mombasa, there has not yet been established a division of the Small Business Scheme in the city, but NCCK's local Wananchi Craft Shop does market the goods of various independent groups under the Cottage Industries program. What other economic activity that does take place under NCCK's auspices is stimulated by UCIP and its social workers. Upon entering a community, the social worker for Kisumu, Nerea Aoko Otongla, conducts a general survey, meets with people to determine the common interests and problems that exist, and helps to form groups for social and economic purposes.

One of these groups, the Town Group, consists of two organizations—a girls' club and a women's group. The girls' club was formed to help uneducated school leavers, including single mothers. Group discussions are held, and family planning, home economics, and bead work are taught. The women's group consists of twenty-nine women, half of whom come from outside the town. All members of this group are unemployed, but at the community center they make tie-dye materials, papyrus lamp shades, and necklaces from local beads.

With UCIP assistance, the Town Group was able to obtain two sewing machines, allowing tailoring to be introduced using their tie-dye material. The women are learning how to make dresses, skirts, shirts and tablecloths, all of which are popular in the surrounding community. Profits have been minimal, but $2.50 to 6.60 per month has been distributed to each member. The women have now reached a stage where they need professional guidance if they are to turn out more professionally finished goods. A tailoring training program has been established, but it lacks the support necessary to properly assist the tailoring groups.

The Orongo Group, located in a new squatter settlement, has been the most successful of the UCIP-assisted groups in Kisumu, with some fifty members. The men make fish traps and baskets, while the women work with fabrics. In addition, land has been acquired for a small agricultural project. In 1979, however, local competition wiped out much of the market for fish traps and it was found that the lake flooded the acquired land when the rains came, so interest and attendance fell along with group income. Regardless, the members continue to meet on their own. Soon they will be constructing, on a recently donated plot of land, a building to be used for a meeting place, a nursing school, and a store for their handicrafts, as well as a bakery for the village.

Another organization in downtown Kisumu is a group of ten to fifteen women that has benefited from UCIP assistance. Like other groups, it meets twice weekly. It has focused on sewing, tie-dye, nutrition, home economics, and kitchen gardens, but has not been very active due to individual household problems.

Thirty-five female members from all three groups in Kisumu have also joined the UCIP's tailoring program. About half of those are able to pay the membership fee of $1.40. Although the girls can come to the Christian Fellowship Center daily for training, the young women can meet only twice a week for a total of only four hours—not sufficient time to learn a trade. Their income from the sale of their dresses, skirts, blouses, tie-dye materials, and bead products has been small, despite the fact that most of these products are sold.

As the social worker, Miss Aoko, is an expert in neither tailoring nor dressmaking and is overwhelmed with her group work, committee meetings, administration, and marketing activities, an instructor who can also help turn out quality products is badly needed. Skills training should extend into the tie-dye area, while a grant would be most useful for the purchase of more sewing machines with which to teach; presently, there are two machines for twenty trainees. In addition to a tailoring instructor, a general business advisor for the area is badly needed to help organize groups into workshops, help them set up books, and assist in the marketing of their goods. This advisor could also extend assistance to individuals who presently eke out an existence by trading in produce and other commodities. In addition, a small loan fund would be useful both to groups and individuals.

On the other hand, the Wanachi Crafts Shop has been doing quite well since it was taken over by NCCK in June 1978. In the first twelve months of operations, monthly sales averaged over $1035, while monthly rent, shop salaries, and licensing fees totalled about $780 by the end of the period. Most of the margin is passed on to the various producer groups. These groups could use the assistance of a designer who could help them redesign their products; NCCK feels that poor or unvaried design is responsible for a recent decline in the shop's sales. For their part, the groups complain that it is too expensive for them to transport their articles to market, thus NCCK has decided that it must both hire a designer and purchase a vehicle to cover all of Western Province.

c. In *Kakamega* (pop. 50,000), UCIP's social worker is responsible for organizing groups among the city's poor. Mrs. Batroba has been very effective in her work since she started in 1972. In addition to working with orphans and poor families and helping to start a Village Polytechnic, she has helped organize three producer groups and one group of retailers. The last is composed of six older, poor and illiterate women who began by selling vegetables, seeds, and maize and who now sell fish and old clothes as well. Mrs. Batroba advanced each of them $14 from the NCCK emergency fund to purchase initial stock to sell in the local market. As in the case of the Small Business Scheme in Nairobi, it is expected that those who receive such grants will be able to begin generating income for their families by rapidly turning over the produce they purchase. Being illiterate, the women do not keep books and receive no assistance in that area, as the local social worker does not have this expertise.

Another seven women, all members of the same local church, belong to a knitting group. As a precooperative, they meet two days a week to produce sweaters and are now employed in different shops the rest of the time. With savings from piecework and some knowledge gained by one member from a friend, the group was able to purchase its own machines and move from small handicraft production into the manufacture of sweaters; UCIP also advanced it some $275 for that purpose. The women now make an average income of $24/month, and, with their husbands unemployed, this money goes directly to support their families and pay their children's school fees.

Another group of thirty, very poor, Muslim women, who are organized around their desire for literacy training, has moved on to handicraft production as well. The social worker saw that some of the members were able to make such things as mats, baskets, and tablecloths, and encouraged the others in the literacy class to learn from them. They now purchase palm leaves, sisal, and thread for very little and turn these materials into income-generating products. Information on exact incomes was not available.

Finally, a new group of seven women (also from the same church) has been formed and has begun making brooms from grass. The social worker will be checking the quality of the products before searching out markets in Kisumu. She feels that new groups like this one lack the experience to deal with credit; however, the other Kakamega groups, particularly the retailers, could use additional funds on a credit basis. The program would also benefit from assistance in the areas of skills training, production management, and marketing.

d. An NCCK social worker began operating in *Eldoret* in 1969. She originally worked on a case-by-case basis, distributing milk and food to the poor. The social worker has also attempted to pursue community organization but has found it difficult because of the highly transient nature of the urban squatter population in this city of 75,000 inhabitants. The new migrants have not been able to secure settling rights on their occupied lands, causing an air of uncertainty which makes organizing difficult.

Nonetheless, the social worker has been able to start one small women's group. Established in 1976 with the help of a UCIP contribution of $70 to cover start-up costs, its purpose is to help destitute women begin to earn incomes for themselves and their families. The group members, which now total ten, make and sell sisal products and have learned tie-dye. They meet once a week in the Municipal Social Hall and also work at home.

The social worker has also been pursuing the construction of a community center in Eldoret. She has been instrumental in finalizing plans for the center and acquiring approval for its construction. Once the center is built, the social worker will assist women and girls in learning such crafts as weaving, pottery making, tie-dye, bead work, and sewing, and eventually will introduce courses in typing, bookkeeping, and adult literacy.

e. NCCK has its own community center in *Nakuru* which helps the social worker there to provide support to existing groups and promote the organization of new ones. Beyond extending health and educational assistance, she has assisted four women's groups to develop income-generating possibilities.

The Doboro Community Group was one of the groups organized with NCCK assistance. The Community of 3,500 is located twenty miles from Nakuru in the Nesuit forest. The social worker has started adult literacy classes and has tried to stimulate alternative income-generating activities since the traditional village collection of honey has been disrupted. Handicraft production and modern beekeeping are being pursued as substitutes.

A second group, composed of nineteen church women, was organized by a minister's wife. The purpose of the group is to establish a means through which the members, who are all unemployed with large families, could earn some kind of living. The church granted the group $40 and each member makes a monthly contribution of $.65 to purchase wool and thread to make crochet articles and children's clothes. The products sell well in the community, but generate low profits due to insufficient sales volume. With the help of the UCIP social worker, the group has applied for a $265 grant for raw materials. It is believed that this will help generate another $13 per month per person, which is still insufficient but better than the current monthly earnings of $2.50 to $6.60.

The Tembuya women's group was formed in the early 1970s by the UCIP social worker, but did not gain momentum until 1977. It started with seven members, who had no steady income and relied on occasional casual work for survival. Members, however, were able to raise the group's start-up capital by contributing $1.30 each per month. This was used to buy raw materials to make articles needed by local working mothers, including wool for making ponchos and materials for children's clothes. In 1977, membership reached fifteen and income per member grew to about $20 per month. Output has since expanded and members are now earning about $27 per month.

A fourth group to grow out of NCCK efforts in Nakuru is a small one of six married women, each with a sewing machine at home. The women use the machines to make garments from scrap material they buy from local industry. Their incomes are reported to be low, but indispensible, as their husbands do not make enough to support their respective families.

The Bangladesh Group, a self-help organization registered with the government, operates independently of the social worker but comes into contact with the NCCK community center because of the need for marketing assistance.

A handicrafts store has been opened with help from UCIP. The four women's groups contribute $6.60 per group per month toward rent and a sales-girl's salary. Ten percent of sales also goes toward the shop's expenses. The store has been successful, in terms of sales volume, although the theft of about $400 caused a temporary setback. Figures on participant incomes were not available.

## IV. Impact and Assessment

A. *Nairobi.* To more clearly analyze and assess UCIP's work in Nairobi, an informal survey was conducted of both group and individual clients of the Small Business Scheme. The interviewing of clients was carried out by UCIP community organizers in The Mathare Valley. Responses from clients were sought concerning: the use of SBS credits; improvements made as a result of NCCK assistance; current levels of income, sales, and equipment; the biggest problems of their enterprises; and NCCK services that were perceived to be most beneficial. Responses were received from the majority of members of the four cooperative groups formed in the Mathare Valley (with the exception of a patchwork sewing cooperative which, with over 100 members, is uncharacteristically large) and from four of the eleven individual client enterprises currently being assisted. The individuals queried included two tailors, one kerosene and clothing retailer, and one general dry goods retailer, while butchers, charcoal sellers, patchwork sewers, and second-hand clothing retailers made up the four co-ops, respectively.

The major findings of the survey are as follows:

1. Of the four cooperative groups receiving assistance, SBS credits played a direct role in the creation of three of them which now employ 28 people. The fourth group, a patchwork cooperative, has expanded by 62 members since receiving SBS assistance—although this expansion is also due to assistance from the NCCK Cottage Industries program. Of the four individual enterprises which responded, only one had increased employment beyond the owner or immediate family members; this enterprise (a tailor) had hired two people.

2. The vast majority of SBS credits to these groups were used to purchase raw materials for production or stock for retailing. The only other use of credits that was reported was for the purchasing of minor tools and equipment such as butchery knives and sewing machines. This result is not surprising given the need of people at this economic level to quickly turn over stock and materials to maintain incomes.

3. Of all 22 clients interviewed, only one had received any assistance outside of that provided by NCCK. This client had received training in sewing from a Village Polytechnic.

4. Responses identifying the most difficult problems facing the clients' enterprises varied widely and addressed most of the problem areas commonly associated with the very poorest of informal-sector enterprises. Responding clients focused on the lack of sufficient capital, tools, materials, markets, and secure physical space. While it is difficult to abstract a clear consensus from the responses received, greater emphasis was placed on problems associated with marketing and insufficient capital. In many cases, problems were reported in trying to sell what was already being produced or in stock. At the same time, many clients said that they needed more capital—especially for the purchase of better tools. In addition, most clients interviewed—including all individual clients—mentioned the lack of secure, well-located premises for production and/or sales as a major problem.

5. The average income of the clients who responded was $36 per month. Monthly incomes, as reported, ranged from $16 to $80, with individual entrepreneurs at both ends of the income spectrum and exhibiting higher average incomes than group members. This may be due in part to the fact that, in general, co-op group members are less skilled than their individual counterparts. On the other hand, group incomes were reported to be more stable than individual incomes. The average number of dependents per client—both group members and individual entrepreneurs—was found to be 6.5 people.

6. In response to questions concerning improvements in the enterprise made as a result of NCCK assistance, the majority of clients noted improved management and bookkeeping as the major advances. Improvements in tools, stock, and/or materials were also cited. No clear distinctions in the types of improvements made emerged between individual and group clients, although the former tended to emphasize stock and sales improvements in addition to better bookkeeping, while the latter tended to cite better group management and greater unity and cohesion within the cooperative. Estimated increases in sales ranged from 30 to 500 percent, with the number of exact responses being too few to abstract a meaningful average.

7. Responses regarding the most valued NCCK/UCIP services varied significantly between individuals, on the one hand, and group members, on the other, except for credit, which emerged as the single most valued service within both client categories. Beyond credit, individual entrepreneurs cited only SBS assistance in locating and purchasing stock and materials. Group clients, however, cited the full range of NCCK/UCIP social services being offered in The Mathare Valley. In order of client preference, these services are: nutrition (child feeding program), health (innoculation, health education, and nurse-practitioner pediatric services), community and group organization, and individual social case work. As most respondents cited two to three categories of UCIP social and organizational assistance, these services, taken together, far outweigh all other types of assistance offered in terms of client preference—at least in so far as the very poor, group clients are concerned.

This last result is not surprising given the fact that the majority of UCIP clients are at the rock bottom of the economic ladder in Nairobi and are therefore far more concerned with their own survival and that of their dependents than with economic growth *per se*. This basic fact underlies NCCK's approach to all of its urban anti-poverty work.

Although limited in scope and technical personnel, the Small Business Scheme in Nairobi has produced moderate but significant results. The program is clearly reaching the poorest and least skilled segment of the urban population and, within this difficult context, has managed to register some important gains in the areas of group-enterprise formation, credit extension and the upgrading of management and bookkeeping capacities among clients. While the results of the program are by no means astounding in terms of increased incomes and enterprise growth, new enterprises and jobs have been created, and, in most cases, have survived. This viability of enterprises is demonstrated by the fact that twenty loans, totalling $8590, have been made with only one recorded default. Only one enterprise (the butchers' co-op) has failed, its members citing lack of capital as the reason.

Improvements clearly seem to have been made by clients in the purchasing of stock and raw materials, in the upgrading of tools, and in enterprise management. Perhaps most importantly, the Small Business Scheme seems to be achieving its major goal of affording clients, for the first time, some measure of economic security and an enhanced perception of dignity and self-worth.

In large part, the success of the SBS itself is probably due to the extremely sound promotional, outreach, and organizing work performed by UCIP social workers and community workers. This is understandable since the Small Business Scheme was, in the first instance, planned as a complement to the social-service and community-organizing network already established in the Mathare Valley. At the same time, however, the program has added two significant services without which sustained, independent employment among UCIP clients would not be possible: credit and management assistance. While the credit component has been rather slow to develop in terms of loan volume, the scheme is well thought out (see the Analysis section which follows) and seems to be appropriate to the needs of most clients that it has reached. Similarly, management and general enterprise assistance seem to be equally significant, since most clients report improvements in the quality and level of their stock and raw materials brought about by NCCK assistance in bulk procurement, and in bookkeeping, as a result of NCCK training and on-site assistance.

The one missing element of the SBS appears to be in the area of marketing assistance. Although marketing advice to clients is provided by the SBS administrator as part of management training, many clients report continuing problems in this area. While most small-scale entrepreneurs (especially retailers) usually complain of low sales regardless of their actual volume, the low incomes of SBS clients would seem to indicate that there are in fact some marketing problems. Probably NCCK's major problem in this regard is a lack of technical personnel. The program has only one small-business expert who simply cannot maintain a sufficient level of technical follow-up to satisfy all client needs. The program is still in its developing stages, however, and NCCK hopes to add technical personnel as increased funding is received and the program expands (see Future Plans).

B. *Secondary Cities*. A broad canvassing of NCCK clients in the five secondary cities which the program serves was not possible. The following discussion is therefore based upon informal discussions with social workers, support staff and some clients, as well as upon observations of the program's operations in these cities, and a review of program reports and documents.

With the exception of clients in the Tototo Industries' training program in Mombasa, the direct economic impact of NCCK's work in secondary cities in terms of production, sales, incomes, and enterprise growth, is somewhat lower than that in Nairobi. This conclusion, however, must be considered in light of the distinct settings in which the secondary-city program operates and the more limited objectives of this program at its current stage of development.

To begin with, the majority of secondary-city clients are located in peri-urban areas, are engaged in subsistence agriculture to produce basic foodstuffs for the family, and therefore do not pursue direct income-producing activities to the same degree as their counterparts in inner-city slums. These clients—mostly very poor women with large families—are basically traditional, rural people who are not accustomed to urban life and who possess very little knowledge of the mechanics of trade in a cash economy. In Mombasa, for example, a large number of the clients served by UCIP social workers are squatters in peri-urban areas who have never lived in a truly urban environment and who have had little exposure to artisan production or trade. In addition, they lack access to potentially profitable cities for marketing whatever goods they may produce, because they are located far from the city center and their typically large families limit their mobility. These types of clients constitute a very difficult segment of society to reach and assist.

As the only assistance entity reaching these clients, NCCK's objective is to slowly introduce income-generating activities which build upon existing knowledge and skills, patiently attempting to help these clients to establish viable enterprises of one sort or another. For the most part, its work has focused on group formation and the production of either simple handicraft items or local primary goods, such as poultry (Mombasa) and honey (Mombasa and Kakamega). The major exception to this approach in the secondary cities is the Tototo program in central Mombasa which focuses heavily upon client training in a new skill area—sewing. In all cases, NCCK has played a major role in marketing the goods that are produced, through the opening of handicraft stores (Kisumu and Mombasa) or by establishing marketing links for the work groups.

This approach, while necessary in the attempt to help generate some form of cash income among the exceedingly poor, low-skilled, and relatively isolated clientele, constitutes a major challenge to the social workers who have implemented it. Groups must be organized, product ideas and skills introduced, markets identified, and, in many cases, marketing outlets established. All of this has had to be accomplished without large-scale funding and/or outside technical and managerial assistance.* Within this context, NCCK's results have been impressive, especially in the area of group formation and concomitant social development. Numerous work groups incorporating poor women have been formed as a result of sound community organizing, and the vast majority of these groups have established internal democratic decision-making processes and seem to have made significant gains in achieving a higher level of self-initiation and enhanced control over their social and economic environment.

As a result of this effective social work and group organizing (and, in the case of the Tototo program in Mombasa, sound training), incomes have begun to be generated by clients. These economic results, however, have not come about without considerable effort and some trial and error in the choice of goods to be produced and the identification of marketing channels. The marketing of handicrafts has run into some difficulties, for example, due to the variable demand for these goods in tourist markets. Marketing such goods from secondary cities, i.e., outside the major tourist centers of Nairobi and Mombasa, presents additional problems of transport and central-city market identification. Through the establishment of handicraft stores in Mombasa and Kisumu and a central marketing outlet in Nairobi, NCCK has played a major role in the marketing of simple items produced by work groups. However, due to the relatively low quality of handicrafts produced by many of the groups which have not received the comparatively intensive training afforded to clients in the Tototo program, incomes to many producing groups have not been very high.

At the same time, demand for fairly high-quality items, such as fish traps produced by groups near Kisumu, has fluctuated sharply, making it difficult for the craftsmen involved to form stable enterprises. Some problems are also present in the social workers' attempts to generate incomes through such activities as poultry raising and beekeeping. While potentially profitable as group industries, technical assistance is required in such endeavors to adequately plan production and to determine the appropriate costing of both inputs and end product. Such detailed business advice, is in most cases, beyond the expertise of the social workers, and the participation of public-sector, technical advisors has not always proven to be reliable. As a result, some of the group enterprises seem to be generating quite small profits and, hence, low incomes for its members.

In large part, the shortcomings in the delivery of technical and business assistance in the secondary-city program are due to a lack of technical staff to back up the promotional and organizational work of the social workers. This lack of personnel (in all components other than the Small Business Scheme in Nairobi and the Tototo Industries Project in Mombasa) is, in turn, due to a lack of funds at the disposal of NCCK.

Despite such limitations, however, NCCK has rendered impressive achievements in the secondary cities. In all cases reported and observed, incomes have been generated among very poor clients, many of whom are receiving cash incomes for the first time. Viable, internally supportive groups have been formed, and no cases of groups breaking up were reported, regardless of the level of economic return. As in the case of Nairobi, services, in the areas of nutrition, child care, literacy, and

*As mentioned previously, The Small Business Scheme operates only in Nairobi.

individual social case work are delivered simultaneous with community and group organization. By all accounts, these services are deeply appreciated by NCCK's clients, the vast majority of whom receive no other assistance.

Perhaps most importantly, however, clients are given the opportunity for the first time to produce and market goods through their own labor, thereby increasing their economic capacities and their sense of individual self-esteem. It was this aspect of their work that most social workers interviewed found most rewarding. Given the level of poverty and isolation at which this program operates, the introduction to clients of methods by which they can initiate their own economic activities is in and of itself a significant achievement, and the commitment and general competence of the NCCK workers involved in this difficult and sensitive task are clearly exceptional. With technical support, especially in the areas of training and marketing, and additional funds for enterprise creation and expansion, there is little doubt that the economic gains of the secondary-city program could be increased significantly.

## V. Analysis of Methodology

The major points of analysis may be summarized as follows:

1. NCCK's urban improvement program is essentially a social program with economic spin-offs. Its specific purpose is to reach and assist, in whatever way possible, the very poorest of urban and peri-urban squatters. The organization realizes through experience that clients from this segment of the population are at a basic physical survival level, and, in most cases, do not possess sufficient economic knowledge or productive skills to make them competitive even within the informal sector. Thus, the goals of the program are "not to make them rich," but rather to afford the very poor some measure of physical security together with greater control over their own lives and an enhanced awareness of their own self-worth.

2. Consistent with this view, the program is based upon outreach (through personal contact within poor communities), comprehensive needs assessment, and community and group organization. Perhaps the most distinguishing aspect of this program is the fact that it operates almost entirely within the squatter communities—community educators are recruited from the communities and they remain to work there. At the same time, social workers work with these educators and organizers to comprehensively assess local needs, while beginning to organize the community around meeting these needs.

These two essential program elements—direct, continuous personal contact and local needs assessment—have allowed NCCK to a) plan service programs which are directly related to client needs and priorities; b) establish trusting relations with squatter communities and thereby generate support for programs within the communities; c) form a decentralized network of community-based personnel through which services can be promoted and delivered, and d) identify the poorest people within communities who are most in need of services. In short, the formation of such direct and continuous outreach links within communities is a critical factor in NCCK's success in identifying, reaching and assisting the very poor.

3. NCCK understands that the problems and needs of the poor are multifaceted in nature and can vary in type and intensity from one setting to the next. Therefore, its basic program development methodology calls for the initial establishment of successful service efforts to meet priority needs within a community, and then the building of additional programs on top of the existing promotional and service structure to increasingly meet total client needs. As a result, a diverse array of service programs have been developed by the organization in its work in various communities with which it is involved. NCCK's high degree of *flexibility* in responding to priority needs as they arise is best exemplified by its work in the Mathare Valley of Nairobi. Health problems were initially identified as the major priority in Mathare and a community preventive health system was thus initiated. This was followed by the establishment of programs in nutrition, child care, literacy, employment, and housing. Such compounding and expansion of services over time, together with community organizing, is undoubtedly a major factor in NCCK's ability to establish significant levels of trust and popularity within local communities.

4. The fact that employment services have not been among the initial services delivered by NCCK to the very poor reflects the fact that the most immediate needs of clients at this level are often those

of a physical nature, i.e., food, health maintenance, nutrition, and shelter. This certainly appears to be the case with NCCK's clients, the majority of whom are poor women with dependent children. It is therefore NCCK's contention that basic support services must precede or accompany any employment-generating efforts at this level.

5. NCCK's responsive, diversified approach to service delivery is based upon a decentralized organizational structure. While administrative and financial management services operate in a centralized manner, program planning, budgeting and fund-raising activities, as well as control over day-to-day program operations, are left to those directly involved with the distinct programs and subprograms. At the same time, field staff are extended significant responsibility and latitude in forming relationships within local communities and in delivering services. This decentralized decision-making structure affords NCCK both flexibility in terms of diversified program planning and the capability to respond quickly in meeting client needs in the areas of program initiation and service delivery.

6. Perhaps the most critical factor in NCCK/UCIP's success is its sensitive, committed and highly competent staff. While salaries within the organization are generally competitive in Kenya, total benefits in most cases do not equal those at comparable civil service levels. NCCK must therefore depend upon factors other than financial remuneration to attract and keep competent personnel. The organization's professional and para-professional personnel find NCCK's autonomy, together with the independence extended to staff and a shared sense of commitment, to be more attractive than the more lucrative employment which many of them could obtain elsewhere.

7. It should also be noted that the network of field staff already in place within local communities provides the outreach and assessment mechanism through which clients to be assisted in self-employment are identified and selected. As the selection of clients is based upon economic need and accessibility to local social workers (for the purpose of follow-up), the selection process is informal. Such informal selection seems highly effective, however, since community workers know the local communities and residents well and can therefore identify clients who are truly needy and reliable.

8. Field staff are also in a position to maintain intensive personal contact with clients throughout the assistance process. This intensive follow-up is a crucial aspect of the program, as many clients are being introduced to formal economic activity and enterprise assistance for the first time. These people require significant personal attention to gain self-confidence and acquire the basics of enterprise management. Such attention is extended from the beginning in the SBS application and selection process in Nairobi, with potential clients usually being assisted in filling out their questionnaires and accompanied by field staff during their interview with the SBS administrator.

9. As the field workers know the clients well, the latter are not referred unless staff are fairly certain of acceptance. Also, no attempt is made to secure a credit for the client until the SBS administrator is satisfied that their financial management capabilities have progressed to a sufficient level. These steps are indicative of NCCK's patient attempt to bring clients along at an appropriate pace. It is aware of client limitations and is careful not to push too much assistance too soon. The low failure rate of client enterprises is in all probability related to the adoption of such an approach.

10. NCCK has limited financial and technical resources and therefore lacks the capacity to engage in wholesale, specialized training in a variety of technical fields. It thus attempts in all cases to build upon the existing productive skills and enterprise knowledge of its clients. After utilizing their personal knowledge of clients to identify economically viable trade areas, field personnel advise in the formation of enterprises and then concentrate on financial and management assistance. Hence, the majority of clients are engaged in trade areas relevant to their backgrounds and experience, e.g., handicraft production, the retailing of basic goods, etc. Where extensive training has been carried out, such as in the Tototo program, the focus is on sewing—a skill that is at least somewhat familiar to the women involved. This approach is also quite appropriate to the needs of clients, as most of them are extremely poor, have many dependents and therefore cannot afford the time to attend lengthy training courses without earning some income in the process.

11. Group enterprise formation has become a critical element of NCCK assistance, especially among the poorest and least skilled of clients. As most clients are not entrepreneurs by choice, and would as soon engage in steady wage employment if it were available, individual entrepreneurship has not been the focus of the program. Rather, clients are advised to form collective enterprises in order to share knowledge and skills among themselves, provide group guarantees for credit, purchase raw materials and market products in bulk, and increase their accessibility to professional assistance

from both NCCK and other sources. In addition, NCCK believes that the poor must become organized at all levels if they are to effectively demand increased access to resources and gain further control over their lives. In large part, however, NCCK's group work with clients is carried out to enhance self-confidence among clients through internal group support and a shared responsibility in decision-making. The rotation of group leadership and group management responsibilities among members, as advised by NCCK, seems to be a very effective mechanism for promoting trust among group members, many of whom have not previously worked together. The viability of most of the work groups which have been formed is evidence of the organization's success in this endeavor.

12. The use of separate funds as a means of teaching accounting and financial management to clients seems to be an innovative and highly effective management-assistance technique. As most of the clients are illiterate and lack any formal knowledge of bookkeeping or management, the physical separation of cash income into distinct "accounts" is an excellent method of introducing discipline in financial management. Judging from client reports of improved bookkeeping and the low default rate in the credit program, this method has worked exceedingly well.

13. Flexibility also characterizes NCCK's delivery of financial assistance to client enterprises. As previously stated, clients are selected informally, and field workers, in conjunction with administrators, determine the timing, level, and type of financial assistance to be extended. Clients receive financing when they are judged ready to effectively utilize such assistance, i.e., after they have established their enterprise and adopted the organizational and financial management procedures recommended by NCCK.

The type and terms of this financing are determined on a case-by-case basis to meet specific client needs. Thus, both individual and group clients who have generated no sales activity and therefore have no basis upon which to absorb credit, can receive grants to purchase initial stock, materials and/or simple tools with which initial income can be generated. In Nairobi, very small cash credits are extended on a short-term basis to clients who have already begun to generate income; larger credits are extended on a longer-term basis to clients once they gain a more secure financial footing. This ability to adapt financial assistance to specific needs is undoubtedly a critical element in NCCK's success in enterprise assistance at this level.

14. At the same time, tight control over the utilization of funds is maintained through the monitoring of client expenditures by the SBS administrator and through intensive follow-up supervision by field staff. Realizing that the viability of working with the very poor must be demonstrated if increasing support is to come from the public sector, NCCK has been very diligent in guarding against high default rates. As in the process of client selection, intensive personal contact in loan supervision and follow-up has proved to be the key to success in this effort. In addition, NCCK has been successful in keeping program costs per client relatively low—perhaps as low as $145 per person per year, even in the early start-up stages of the SBS program. There is reason to believe that, as the program expands and a greater percentage of the loans are delivered through cooperative channels, cost per client will be lowered further.

15. An examination of the program also calls attention to the need to provide marketing assistance and technical training as a complement to management and financial assistance to enterprises at low levels of society. While the majority of NCCK-supported enterprises seem viable, the rather low quality of the goods and services produced, together with the difficulties of marketing inherent to all informal-sector activities, poses the problem of possible enterprise stagnation in the future. To counter this potential problem, further and rather intensive assistance in either the establishment or identification of marketing channels must be undertaken. At the same time, training and technical assistance in costing, production planning, and skills upgrading will also be necessary. NCCK is well aware of the upgrading needs of the program, but currently lacks sufficient financial resources to acquire technical personnel to meet these needs.

## VI. Future Plans

Currently, NCCK/UCIP plans to upgrade the enterprise-assistance efforts of the Small Business Scheme in Nairobi and extend the credit and technical assistance components of that program to the secondary cities of Mombasa, Kisumu, Kakamega, Nakuru, and Eldoret. The two basic elements of this improved and expanded program would be 1) a team of four new technical extension agents hired to cover the Nairobi, Mombasa, Kisumu/Kakamega, and Nakuru/Eldoret areas, and 2) an expanded revolving loan fund which NCCK would like to increase to a total capitalization of approximately $105,000 by 1982. NCCK is presently seeking international assistance to help them achieve these goals.*

To effectively incorporate these new components into the overall program, the technical extension agents would provide back-up business advisory services to the social workers in each of the cities; expand program outreach; coordinate the delivery and collection of loan funds; and deliver basic managerial and accounting assistance to individual and group enterprises. Consistent with the program's current operations, these extension agents would work directly with their social-work counterparts, receiving referrals from the latter as clients are continually identified. They would also assist in the organization of work groups, in addition to coordinating the flow of credits and delivering on-site technical assistance. Qualifications for extension agents would include a B.A., or equivalent, in business administration or economics.

The build-up of a technical staff to handle all direct field work would free the present program director to handle full-time program administration and management. In this capacity, he would be in charge of program planning, staff selection and training, central credit administration, and overall program coordination. The increase in loan-fund capital is being planned to match the expansion in program activity.

With outside assistance, NCCK has also drafted preliminary plans for the construction of a small industrial estate which would provide secure, sheltered sites to poor artisans who are currently operating either out of their homes or in non-secure premises. The development of this small estate, however, is not being pursued as a priority at this time, as NCCK first wishes to concentrate on the upgrading and expansion of its current enterprise-assistance efforts.

*As mentioned in Part I, Chapter 10, of this volume, in September 1980 the A.I.D. mission in Nairobi awarded a $275,000 grant to NCCK to expand their program as described above. This grant also represents the first field demonstration to be designed and implemented as part of PISCES Phase II (see part I, Chapter 12).

# CHAPTER 3

## I. Project Identification

The Village Polytechnic Program (VP), Kenya

Major Participating Agencies:
—Village Polytechnic Support Unit,
Ministry of Housing and Social Services
—Center for Research and Training (CRT)
—National Christian Council of Kenya (NCCK)

Researchers: Fred O'Regan and Douglas Hellinger, The Development GAP

## II. Setting

One specific problem facing Kenya has been the growing problem of unemployment among primary and secondary school leavers and youth in general. In Kenya, as in other African countries, independence was accompanied by an enonormous push toward formal education, especially in rural areas. Significant subsequent gains in general education, however, have proved to be a mixed blessing. While Kenya has succeeded in producing hundreds of thousands of primary and secondary school graduates each year, the labor absorption capacity of the formal sector has not grown accordingly.

Equally critical has been the lack of vocational skills training within a formal education system which continues to turn out thousands of graduates who share high expectations but are ill-equipped to pursue formal or self-employment. Thousands of youths caught in this bind flock to cities, further swelling slum populations and contributing to growing urban crime rates as their frustration rises. With 65 percent of Kenya's population under twenty-five and almost 50 percent under fifteen, training and employment opportunities among the young are critical issues.

At the same time, demand for affordable, good quality, locally produced goods and services has continued to grow within local communities—both urban and rural. Given Kenya's current foreign reserve problems, the need to substitute for imported consumer goods and materials has also become increasingly important. Hence, there exist economic reasons beyond employment generation for stimulating such local production.

## III. Project Description

A. The *goals* of the Village Polytechnic (VP) program are various, and can be divided into three categories. At the level of the individual, the major objective is to provide sound, informal training in marketable skill areas to primary-school leavers and other youths between the ages of 16 and 25. Beyond this, the program is designed to assist VP leavers secure sustained employment, preferably in their home areas and in the form of self-employment in work groups.

As regards local communities, the goal is to provide needed, locally produced goods and services to communities throughout Kenya at a competitive price, while promoting self-sustaining and locally controlled economic development. Innovative thinking has particularly been shown in this area, as the architects of the program saw that, by exploiting local markets, money would be retained in the given rural or peri-urban area, thus providing the basis for other local economic initiatives.

Finally, at the national level, the goals are to further the process of democratization and decentralization in the nation's development, while helping to shift the emphasis of Kenyan education toward non-formal training.

The best and most succinct statement of the goals of the VP program, however, has been made by the NCCK. "The basic aim of the programme," it states, "is to give school leavers from the local area, skills, understanding, and values which will make them able to engage in money-making opportunities where they live and at the same time contribute to local development by building up the economic strength of their community. The dual objective of developing individuals and their communities are interdependent."

B. *Brief History and Description.* The Village Polytechnic Program was begun by the National Christian Council of Kenya after it organized discussions on the problems of primary-school leavers with government, church, and academic representatives. The first four, experimental VPs were established as low-cost training centers by NCCK and local communities in four different provinces in 1966. The program spread rapidly through self-initiated *(Harambee)* efforts in other communities, with the help of NCCK's promotional efforts and its publication of *The Village Polytechnic Handbook.* In 1971, management of the overall movement was assumed by the Ministry of Housing and Social Services, which assembled a distinct project unit to provide promotional, managerial, financial, and technical support to VPs throughout the country. Although coordinated and assisted by the government, the VP movement itself consists of over 200 community-managed programs. The government's role is thus one of providing responsive support; there is no central implementing, administrative or executing unit *per se.*

C. *General Structure and Function*

1. *Organizational Structure.* The organizational structure of the program is therefore dualistic, including the government and PVO support system, on the one hand, and the Village Polytechnic unit within the community, on the other.

a. *The support system.* The VP program within the Ministry of Housing and Social Services consists of two major sub-units: Administration and Finance, located in the Central Ministry offices, and the Center for Research and Training (CRT), located at Karen, 30 km. from central Nairobi. The central administrative/finance unit consists of three people—the Principal Youth Officer and two assistant officers, one of whom is in charge of monitoring all finances; actual accounting is performed by the central finance department of the Ministry. The research and training unit consists of a specialist in each of the following areas: general education; occupational surveys; village technology (one Kenyan, plus three UNICEF appropriate technology experts); general curriculum development; informal curriculum development; rural industrialization; instructor training; research; women's education; and community education. These professionals often travel in teams to Village Polytechnics to help organize courses, upgrade the skills of the instructors, and evaluate the level and condition of the VP's tools and equipment. The CRT is directed by a Research and Training Committee.

In addition, there are sixteen field extension agents—Provincial Youth Training Officers (PYTOs) and District Youth Officers (DYOs)—who operate within the eight provinces of Kenya and are attached to regional development offices; one of these agents is responsible for the Nairobi area. The program also utilizes the services of other government technical personnel, including community development officers and agricultural experts. The functions of these personnel will be described in the section on project activities.

In addition to the government support system, a number of assistance organizations, both domestic and international, contribute substantially to the development of VPs. This assistance can be either direct, delivered to individual communities and VPs, as in the case of Peace Corps volunteers; or in the form of indirect financial assistance, exemplified by NOVIB's (Netherlands) financing of a tools and equipment credit fund for trainees, with loans made through the Ministry. Much of this assistance is coordinated by the Project and Finance Committee, which annually decides which VP and other youth development projects will receive financing or other aid. Along with the Government, NCCK and other private groups sit on this committee.

b. *Local VP units.* Currently, there are approximately 270 Village Polytechnics throughout Kenya, with a total of about 300 projected by the end of 1980. Of these 270, 220 receive government support and, of those, only 190 are considered proper VPs. The others include Christian Industrial Training Centers (CITCs) and Craft Training Centers, which are somewhat more structured, provide higher skills training (although in similar trade areas), and tend to prepare leavers for wage employment. (The fact that the Government is changing the name of all VPs to Craft Training Centers reflects its interest in further structuring the individual projects; for that reason, NCCK is not in agreement over the change in name.) Of the total of five urban VPs in Nairobi, Mombasa, and Fica, three are CITCs. There are also approximately 30 peri-urban VPs functioning in district towns or located near, and using the services of, such cities as Kisumu, Kakamega, and Nyere. These tend to be larger than rural VPs, offering more courses to a greater number of trainees.

The structure of a typical VP includes a VP management committee composed of fifty percent community representation and fifty percent public officials. Public representation on an average VP committee of thirteen will usually include the local VP field representative, the District Youth Officer, the District Development Officer, and an education outreach officer. These representatives serve in an *ex officio* capacity, except for the VP field rep, who usually plays an active advisory role to the committee. Typically, the community membership will include the local chief or sub-chief, a local pastor, and a women's representative, along with the local people who were active in the formation of the VP. In some cases, members are chosen by categories, with the whole community called together on a given day in order to form farmers' groups, businessmen's groups, parents' groups, etc., and choose representatives from within each one.

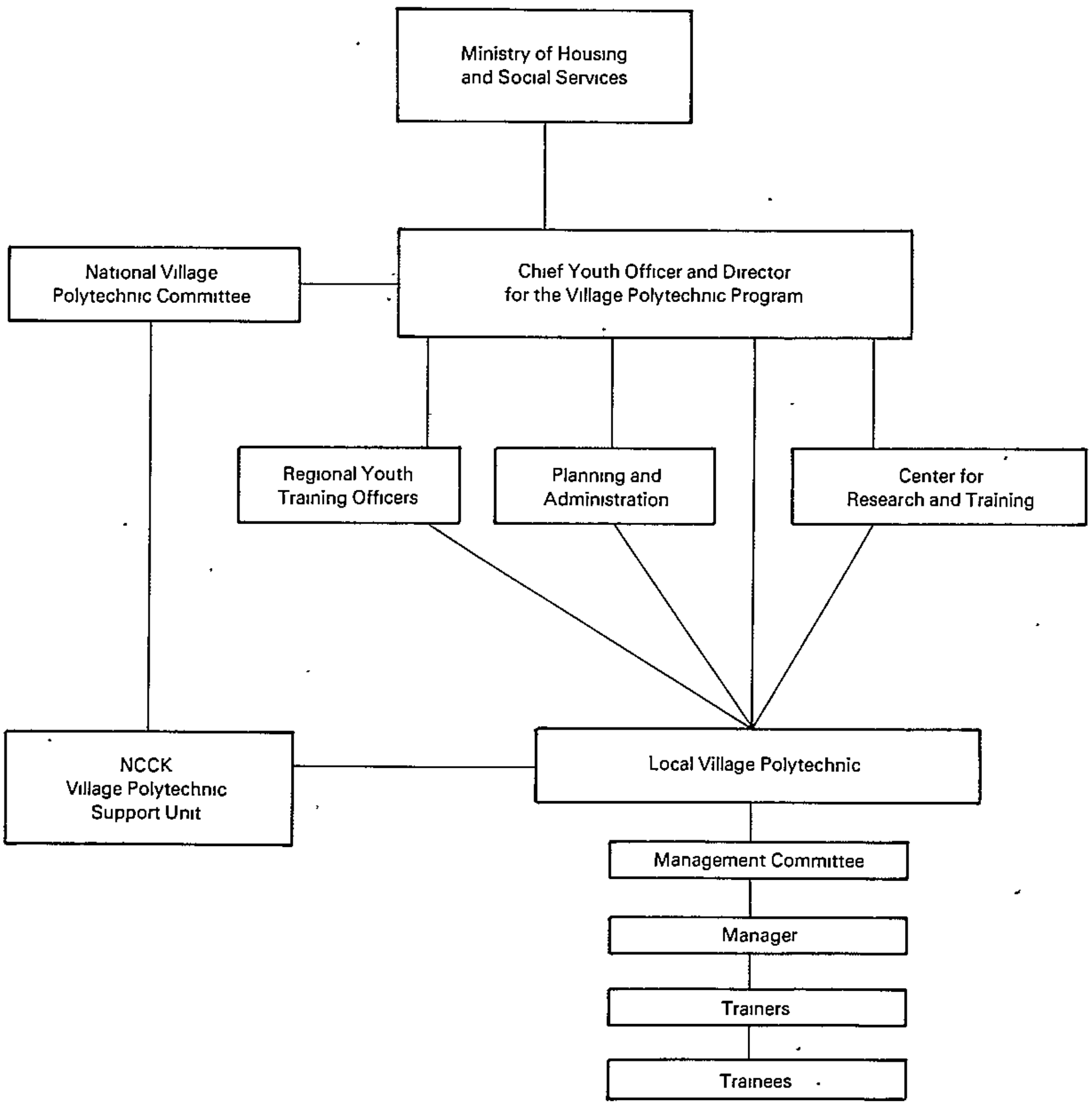
These committees, along with the VP managers, are charged with the responsibility of running their respective VPs. The manager is the key person, as he has the most direct involvement in the long-term planning and development of his center. Although the managers report directly to the committees, there is now some confusion over whether they are employed by the committees or the government. While the committees understand the needs of their local areas, the government feels it knows more about the overall program and the training requirements for managers and trainers. Hence, the government requires managers to send regular reports on their VPs to the proper officials and also reserves the right to transfer managers from one VP to another. These policies demonstrate the changing nature of the VP program itself, with original decentralized decision-making processes being replaced by more direct government involvement in the entire program.

Most VP managers, especially those in smaller, rural VPs, carry out part of the training, while also administering the VP center. On average, with the manager included, a center will have five instructors. In some instances, these trainers are expatriates serving two-year stints, during which they train Kenyan counterparts. The urban and peri-urban VPs tend to have a larger number of courses and instructors. For example, the Kisauni Polytechnic in Mombasa—one of the oldest and largest VPs—has a total staff of eighteen, including thirteen instructors teaching close to 150 trainees in nine courses (plus some bookkeeping and simple cost accounting). With an operation of this size, the manager no longer teaches a course as he did when he took over six years ago. Likewise, at the Maseno Craft Training Center near Kisumu—which was established one year after Kisauni in 1968 with the help of NCCK—a manager, seven instructors, and three support staff are responsible for some 109 trainees. In sum, the 220 government-supported centers throughout Kenya employ approximately 1100 trainers teaching some 19,000 trainees at any one time. With thirty national-level staff, forty-two provincial personnel, and the number of trainers expected to climb to 1,250 with the addition of new centers next year, the government considers this to be a significant program.

2. *Salaries.* Salaries within the support system itself vary according to organization, position, etc. Government VP employees within either administration and finance or research and training are civil servants. While their average salary is calculated at about $500 per month (by dividing the total number of Ministry employees assigned to the VP program into the stated allocations for recurrent salary expenses), this figure has not been verified. VP managers receive somewhat less from the government—about $300 plus certain allowances.

On the other hand, instructors' salaries are very low. Grade 2 and Grade 3 instructors in rural areas make less than $100 per month, while even Grade 1 trainers received only $120 a month before new pay scales recently went into effect. The top trainers' salaries in the larger, urban VPs, however, reach $150 per month. Although the Youth Services Department establishes grade levels and pays in-

## ORGANIZATIONAL DIAGRAM FOR THE VILLAGE POLYTECHNIC PROGRAM



structors' salaries through grants from the Ministry, the trainers are hired directly by the local management committees and are not civil servants. Thus, they do not receive the pension and health benefits of their PVO or civil-servant counterparts. This condition, together with the comparatively low salaries offered, is cited as a major cause of rapid turnover among trainers at the local level. The salary problem is difficult as the Ministry already spends three-quarters of its VP money on instructors' salaries, leaving shortages in other areas, such as the local stocking of tools and equipment.

3. *Relationship among Contributing Entities.* As it is referred to in Kenya, the VP program is actually a "movement," which is rather loosely coordinated at the national level. The relationship between the government's central VP program units and participating assistance organizations is indicative of the excellent relationship between the public and private development sectors in the country. Within the flexible structure of the VP program, the private Kenyan and international assistance agencies are seen as an inherent part of the movement, rather than as external contributors.

While coordination by government of all contributors is stressed, the VP directorship within the Ministry of Housing and Social Services does not attempt to dominate all assistance activities. Essentially, private groups initiate VP support activities in whatever manner they wish, as long as they follow the general guidelines which govern the establishment of all VPs. Many assistance organizations also contribute centrally to the entire movement by providing managerial, technical and research support through the Center for Research and Training at Karen (see "Project Activities").

Interestingly enough, most inputs into the VP movement come from private and international assistance entities rather than from other Kenyan government agencies. Criticism, both internal and external to the support system itself, has been raised over the problem of lack of coordination with other public programs in such areas as agriculture, community development, and general, formal education. Coordination is reported to be improving, however, especially with the Ministry of Education and the Ministry of Commerce and Industry.

The list of entities contributing to the VP movement is a lengthy one and includes the UNDP, ILO, UNICEF, FAO, NORAD (Norway), NOVIB (Netherlands), CIDA (Canada), DANIDA (Denmark), Oxfam (UK), CEBEMO (Netherlands), CARE (USA), and the World Council of Churches. Volunteers involved in promotion, training, and research come from the U.S.A., Denmark, Holland, the U.K., Germany, Sweden, Norway and Japan. Negotiations are currently in progress with the World Bank for soft credits to construct and equip fifteen distinct VPs. This list of participants does not include the many local churches, missions and civic groups within Kenya that have been instrumental in initiating and maintaining many VPs.

The full participation of these contributing agents together with that of the local community management committees is evident in the many workshops, conferences, general meetings, and implementational activities which, in sum, determine the overall direction of the movement. In fact, the government VP unit depends strongly on contributing agency inputs for the continued promotion of new VPs, for technical and research support, and for the introduction of innovations within the system itself. More than seventy VPs currently receive voluntary agency assistance.

Illustrative of this point is the role of the National Christian Council's VP unit. Consistent with its general policy of initiating new development efforts and advocating their expansion through formal government channels, NCCK began the VP program in 1966 and handed over central management of the support program to the Ministry in 1973. Since that time, NCCK's small VP unit has assumed an initiating, promotional and advisory role; it continues to promote the creation of new VPs—especially in neglected areas—proving technical and managerial assistance to local programs where necessary. NCCK now sees its role as that of an innovator and trouble shooter seeking to identify problems and introduce new methodologies, especially in the areas of local program management and job creation for trainees. Coordination of efforts between NCCK and the government VP unit is very strong, with the former contributing thought pieces and operational suggestions (such as the idea of a revolving loan fund) together with assistance requests from local VPs with which it is in contact. Out of NCCK's total VP-support budget of $40,000, roughly $13,000 is channeled directly to local VPs, while the remainder is used for its general support activities.

Likewise, government assistance is provided only upon request to local VPs, and only after a rather thorough consultation with central research and training staff. Usually, the government support unit does not provide financial assistance to a local VP until it has completed one to two years of operation. This is done purposely to ensure local commitment to the project. After such time, research and training staff visit the site to determine the viability of the project and its assistance needs with the local committee.

The government's role, however, has evolved over time into a more pervasive and directive one *vis-a-vis* the local management committees in the some 220 VPs the government currently assists. Neither the chairpersons nor the treasurers of the committees, for example, can any longer issue VP checks on their own, as the co-signatures of the local youth officer and/or the VP manager are now required. At least in part, these tightened fiscal procedures have arisen out of the government's desire to guard against misuse of funds. At the same time, however, such policies can lead to decreased local control and participation, a concern which has been raised by NCCK.

4. *Role of Beneficiaries.* It is the responsibility of the local communities to plan, initiate, manage, evaluate and, to the extent possible, finance their own VPs. The movement is conceptualized as a self-help, community-development effort, and without community involvement in all phases of operation no government support is given. (The community's role is further detailed under "Project Activities.") Despite government policy to involve trainees in decision making—perhaps, as has been recommended, through the establishment of local Trainee Councils which would communicate with the respective management committees—substantial progress in this area has not been made. One would speculate that this is, to some extent, due to the limited role traditionally extended to youth in community decision-making in African society.

D. *Funding.* In the initial five or six years of the VP movement, NCCK and the individual sponsoring churches were the principal sources of funding of the individual VP projects along with the respective communities. Although the Council still utilizes about $40,000 per year in church and other private donations for project innovation, it is the government, picking up on NCCK's work, which has become the major funder of VP efforts. Starting in 1971 with the support of twenty VPs, the GOK has annually increased its commitment to the program. In 1980, the number of local projects receiving assistance will reach 250, with the total number of trainees exceeding 22,000. Most of that support has gone fairly evenly into Western, Nyanza, Rift Valley, Central, Eastern, and Coast provinces.

Figures on total appropriations and expenditures for 1979 are estimates based on various interviews and available data, and include only funds channeled centrally through Ministry accounts. They are as follows:

| | | | | |
|---|---|---|---|---|
| 1) | Recurrent support costs, including salaries, for central administrative staff | | | US$ 67,567 |
| 2) | Support to local VPs | | | |
| | (a) | trainer salaries | US$1,197,297 | |
| | (b) | workshop construction | 54,054 | |
| | (c) | equipment and materials | 297,297 | |
| | (d) | miscellaneous, including grants to participating Kenyan agencies | 83,719 | |
| | | | | 1,632,367 |
| 3) | Research and Training Center, recurrent | | | |
| | (a) | salaries | 162,059 | |
| | (b) | furnishings, supplies, etc. | 110,568 | |
| | (c) | operational expenses, including staff training | 81,081 | |
| | (d) | vehicles | 81,081 | |
| | | | | 434,789 |
| 4) | One-time construction costs (workshops and housing, Research and Training Center) | | | 588,675 |
| | | Total Expenditures | | US$2,723,398 |

These figures do not include local loan funds, which will be discussed under "Project Activities."

More specifically, government assistance takes the following forms:

1) *Staff Salaries.* An evaluation of local instructors is carried out by an education specialist, while an economist conducts a detailed occupational survey. Upon completion of these studies, the government will often agree to subsidize trainer salaries but only for those trainers who are judged to be qualified and who are teaching in trade areas deemed to be relevant. (Total annual support: $1,197,297)

2) *Tools and Equipment.* Again, assistance is provided only in trade areas approved by the staff economist, and financial resources available in this area are severely limited. (Total annual support: $297,297)

3) *Training Materials.* These include timber, cloth, metals and specific materials that are not easily obtained locally. Some subsidies are available, but, like tools and equipment, most materials are procured locally. (The figure on total annual support in this area is included in appropriations for tools and equipment.)

4) *Construction Grants.* This includes funds for workshops and staff housing. Assistance is only given to complete buildings already under construction. (Total annual support: $54,054)

5) *Travel Subsidies for Trainer Follow-Up with Work Groups.* Funding is provided for this activity to promote ongoing technical assistance, especially in rural areas where travel can require overnight journeys of 100 to 200 miles.

6) *Equalization Grants.* Special emphasis is placed on the promotion of VPs in poor, relatively neglected parts of the country, such as the northern part of Kenya. In these areas, government provides heavier subsidies—up to 85 percent of total expenses. Total annual appropriation is estimated at roughly $100,000, much of this being channeled to voluntary agencies.

Government reports indicate that government and community financial support for the VP program as a percentage of total assistance expenditures has risen from 57 percent in 1975-76 to 74 percent in 1979. Minimum foreign contributions being sought each year by the government to cover the balance of projected expenditures is slightly over $800,000. In 1978-79, this amount was raised from four principal donor sources. Some of the figures which follow represent ongoing contributions, while the others represent one-year, one-time donations:

| | |
|---|---|
| DANIDA | US$472,972 |
| CIDA | 324,325 |
| EEC | 81,081 |
| IBRD | 40,540 |
| | US$918,918 |

On the other hand, local contributions to the VPs have unfortunately diminished as expectations from government have grown. Even if all forms of local inputs—donations of land, *"Harambee"* construction, proceeds from fund-raising drives, VP proceeds from local contracts, trainee fees, etc.—were to be included, the VPs on the whole are not drawing the forty-percent local support originally expected. In an effort to raise more money, some VPs have increased fees above the average $5-to-$25 per year level (depending upon the course taken, with the urban VP average somewhat higher) and have required that trainees buy VP-made uniforms. While many trainees can pay this amount, some of the poorest cannot, and the situation has been exacerbated in cases like the Maseno VP near Kisumu where the fees for at least one course were raised to over $100 per year per trainee. Very poor trainees can, in such cases, be screened out of the VP movement, and without increased community and public financial support to VPs this could become a serious problem.

E. *Beneficiary Characteristics.* Trainees must be between 16 and 25 years of age. The majority are between 16 and 18 upon entering the program and between 18 and 20 upon leaving. Figures for 1976 show that 75 percent were male. Although specific data were not available, it is clear that most of the trainees, like the VPs themselves, are located in rural areas, as one of the basic goals of the program is to stem youth migration to the cities. The approximately 25 percent of the trainees who are in the larger, urban-based VPs come in part from the urban slums, but there is evidence to suggest that most are rural youth who are temporarily in the cities looking for jobs. The exception may be the Mathare Valley VP in Nairobi, as it appears that most of the students there come from the surrounding slum area.

It is clear, however, that regardless of their place of origin, the vast majority of trainees are from the poorer segments of society. Although no figures on trainee incomes were available (as program research focuses on training and job-creation information), most people interviewed maintained that trainees had hardly any income and were dependent on their families (or relatives, in the case of migrants) for support while training. It was also pointed out that it could be assumed that trainees were from poor families, since the "well-connected youth" continue in school and find white-collar employment. On the other hand, VP youths are essentially primary-school leavers who have usually completed up to Standard VII (roughly 8th or 9th grade, U.S.), although there are also drop-outs from secondary schools. A quick interviewing of some twenty trainees yielded the information that only three of their fathers had gone beyond Standard VII education and only three had salaried jobs; average land ownership was 1.5 acres.

F. *Project Activities*

1. *Promotion and Creation of VP Programs.* The VP movement is well known in Kenya. It is promoted in newspapers (through numerous articles reporting on local VP activities), through radio spots and news, and on television. Pamphlets and other simply presented publications are prepared by the VP Center for Research and Training, as well as by NCCK. The promotional publications present the steps and organizational guidelines to follow in the creation and management of a local center.

Although NCCK turned over management of the program to the government six years ago, it has continued to remain active in the promotion of new VPs. In the early days, the Council's director of the VP program, Edward Wanjala, spent three weeks out of every month visiting various communities upon request to promote and help establish the individual projects. Today, once a community becomes interested in forming a VP, it will more likely contact the local government extension agent through the regional or district development office. This agent becomes responsible for advising the community and helping it secure necessary assistance.

The first organizational step to be taken by a community is the formation of a local management committee (the composition of which is described in section III.C.1.b.) through the election of at-large community members. The committee must mobilize its own resources to begin a program. Land must be set aside to establish the training center, and although many VPs begin either in quickly constructed sheds or in the open, workshops must eventually be built. In addition, tools and equipment must be bought or donated in order to initiate the training program. NCCK, in a few selected cases, still makes small grants of capital and tools and equipment to communities which make counterpart contributions of time and resources. Whereas NCCK felt that a project could be initiated with as little as $675, when the government took over in 1973 it felt that ten times that amount was necessary to cover salaries and other recurring costs, as well as $1350 for workshop construction. In any event, no government assistance is usually channeled until a VP is well underway.

Prior to initiating training, the management committee—with extension agent assistance—seeks to determine what skills, products or services could best be developed to serve both the job-creation needs of trainees and the future development needs of the community. To help in this regard, some years ago NCCK produced the book, *What Happens to Money in a Rural Area,* to show communities how to trace their expenditures and determine which external sources of supply could be replaced by local VP-trained artisans. This determination, together with an assessment of resources, forms the basis for planning the initial training program. Once the size of the initial trainee enrollment and the skill areas to be pursued are established, the committee recruits local, skilled artisans to become trainers and has the responsibility to raise funds to pay them. Trainers are given guidelines for the formation of work plans (internal curricula), program management, trainee evaluation, etc.

In the selection of enrollees, the trainers work in conjunction with the management committee. While functional literacy and adequate dexterity are two qualifications for acceptance, great emphasis is placed on individual economic need. There is usually substantial competition for the limited number of spots available at each VP; at the Kisauni VP in Mombasa, for example, there were 75 applicants for the 15 slots in the motor-mechanics course this past year. Applicants are interviewed and in the case of primary-school leavers, a meeting is held with the parents to determine which is the best trade area for their son or daughter. Even if the trainee plans to return to his nearby rural area from an urban-based VP, the VP trainers and management will often know enough about the area and the local demand composition to be able to give good advice. Trainees can lose their seats if, after two weeks, they do not prove themselves to be dedicated students. Management committees are mandated to set fees for trainees and to base the rates on local income levels.

2. *Training*. Training is offered in a wide variety of trade areas. In the 192 VP projects assisted by the government as of March 1978, there were thirteen trades which were taught at at least two VPs. They were:

| | |
|---|---|
| Carpentry | (178 courses in 1978; 24% of the trainees in 1976) |
| Masonry | (160 courses in 1978; 20% of the trainees in 1976) |
| Tailoring/Dressmaking | (158 courses in 1978; 22% of the trainees in 1976) |
| Home Economics | (137 courses in 1978; 4% of the trainees in 1976) |
| Agriculture | ( 74 courses in 1978; 10% of the trainees in 1976) |
| Metal Work | ( 46 courses in 1978; 5% of the trainees in 1976) |
| Leather Work | ( 38 courses in 1978; 3% of the trainees in 1976) |
| Motor Mechanics | ( 17 courses in 1978; 5% of the trainees in 1976) |
| Typing/Bookkeeping | ( 14 courses in 1978; 2% of the trainees in 1976) |
| Plumbing | ( 10 courses in 1978; 1% of the trainees in 1976) |
| Painting/Signwriting | ( 6 courses in 1978; 1% of the trainees in 1976) |
| Electrical | ( 4 courses in 1978; 2% of the trainees in 1976) |
| Fitting/Tanning | ( 2 courses in 1978; .05% of the trainees in 1976) |

The urban VPs are typically larger than their rural counterparts and offer a broader range of courses. The Kisauni VP in Mombasa, for example, offers training in ten of the above areas, while the Maseno VP near Kisumu offers seven courses and the Keveye Craft Training Center in the peri-urban area between Kisumu and Kakamega offers six. Many of the rural and peri-urban VPs teach agriculture to all the trainees, regardless of their specialty, in order to make them more self-reliant upon returning home. It is typical that the trainees are each given a small plot to work and that they get part of the return from the marketing of the produce they harvest. At one peri-urban VP—Solongo, also between Kisumu and Kakamega—fish breeding will also be taught at a new project site.

As far as training methodology is concerned, the approach taken in VP programs is termed "work directed," with trainees taught skills through the production of marketable goods and services for which contracts have been secured. It is the responsibility of the local management committee and the manager, as well as the instructors, to secure such contracts from local sources for their VP. This is done for two basic reasons: first, to get trainees involved in income-producing, professional activities as quickly as possible and thereby instill discipline and a confident attitude toward self-employment; and, second, to raise money to defray the operating costs of the VP, which in many cases has become an important, low-cost producer of essentials within the community.

In some trade areas, it is easier for the VPs to get contracts than in others. Masonry and carpentry, for example, are both popular with trainees and money-makers for the VPs, despite the fact that training materials are rather expensive. If trainees help build a house or make some furniture on contract, the VP typically will charge for labor, have the client supply the materials, and perform the work at a discount rate. Some of the profits will be used to subsidize courses which cannot generate much contract work, such as typewriting, clothes-making, and home economics (which is one course demanded of all VPs by the government).

According to the program's guidelines, the earnings from contract work are to be divided into three equal shares. One-third is to be distributed to the trainees as pocket money; another third should help capitalize local loan funds or individual trainee savings accounts for the purchase of leavers' tools and equipment; and the remaining share is to be utilized for general VP operating expenses. While figures were not available on the actual disbursals of such funds, and it is therefore difficult to estimate the extent of the problem, it was reported that a number of local projects have not been paying attention to these guidelines, especially in regard to paying trainees their share. Many trainees leave the program without any cash savings and therefore do not have the capital to start their own endeavors. Often, money is diverted from the trainees to pay for much needed tools and equipment at the VP itself, but there have been cases cited in which trainees have been exploited as cheap labor to carry out jobs for privileged persons in the community.

Training methods in VPs are highly flexible. The training curriculum for each trade area is determined by the trainer in consultation with the manager, who also coordinates work-plan development. The content of the training is highly influenced by the level of tools and equipment available, as well as by the types of local contract work that can be arranged. These constraints are viewed as positive rather than negative program factors, as trainees have the opportunity to work under the local conditions they will face upon leaving the program. Similarly, in order to accommodate entrants' varying skill levels and the levels demanded locally in the various trade areas, the program is designed with no set period of instruction. A trainee supposedly leaves the program as soon as he feels comfortable with his skill and is encouraged to leave when a solid employment opportunity arises. The final decision is made in consultation with the trainer.

Two major problems have arisen, however, in this regard. First, the average of two years of course work for trainees has increasingly become institutionalized for all trainees. While this may be necessary in highly technical areas which require more standard training, a great deal of flexibility has been lost to accommodate the individual's needs and those of the community. Second, there has been a decrease in the degree of individual counselling and follow-up due to the fact that in general, classes are getting too large. In many cases, there are twice as many people in a course than the ten to fifteen recommended by those involved in making VP policy, despite the fact that there are not enough tools and equipment to go around. In sum, these policy-makers see a danger that the VP program is taking on the characteristics of more conventional training forms rather than remaining what might be called a "structured apprenticeship" system.

Finally, it should be noted that strong emphasis is also placed on working in groups within the VPs. This is done mainly to ensure the internal transfer of skills from more advanced to lesser advanced trainees and to introduce trainees to normal working conditions. In addition, self-reliance is stressed from the beginning of training, with, for example, construction trainees building the workshops in many of the new VPs.

3. *Job Creation Process.* As far as job creation is concerned, the emphasis is on self-employment in response to local demand. In reality, however, although seventy to eighty percent of VP leavers find employment, about two-thirds of these are employed by existing firms. This is particularly true in urban areas where the competition faced by would-be entrepreneurs is much stiffer. Of the 39 students who finished the motor-mechanics course at Mombasa's Kisauni VP last year, for example, eighty percent secured wage jobs in local service centers. It is also estimated that sixty percent of the leavers from the CITCs in Mombasa and Nairobi found wage employment and that the leavers from Nairobi's Undugu VP also had little trouble in doing so. On the other hand, those who had taken plumbing and typewriting courses at Kisauni had trouble finding jobs. Most leavers in the tailoring and dressmaking areas pursue jobs in factories, although some do try to leave to set up their own shops in their home areas. In fact, most urban VP leavers are encouraged to go back home to work. From various studies carried out in the early 1970s, however, it would appear that close to forty percent of the leavers who found employment did so in the urban areas and almost a third did so outside their home areas.

This is not to say that there are not examples of successful attempts at self-employment. Most self-employment has been achieved in the form of cooperative work groups, with few individual entrepreneurial successes being reported, especially in urban areas. Group formation is encouraged by the VPs to allow the leavers to: 1) share and better coordinate enterprise management functions; 2) lower costs in purchasing raw materials or agricultural inputs; 3) pool their individual savings; 4) form group guarantee mechanisms for obtaining credit; 5) give greater security to contractors; and 6) more easily receive follow-up technical assistance from trainers.

The process of forming work groups begins when a trainee goes to an instructor with an enterprise idea he or she would like to develop. The instructor will typically survey the area to determine the level of local need and demand, and, if sufficient, will get others at the VP from the trainee's home area to form a group. Often, these groups are formed during the second year of training and can also be of assistance in training first-year students. The initiation of work groups at the VP site is sometimes restricted, however, by the lack of land at the center.

At the Undugu VP in Nairobi, two work groups have been established on the VP grounds. One, a carpentry workshop, is technically part of the VP itself and is used to help leavers make the transition out of the VP. There are six workers at any one time (two of whom may be second-year trainees) and a graduate from a higher-level technical school who helps in product design. Although they do have some orders from schools for desks, it is more difficult to get contracts in urban areas due to the higher standards demanded. This has been found to be an even more restrictive factor for urban VP leavers in a field like masonry, for they are effectively kept out of building construction by very high engineering standards.

A more typical VP-leaver work group—in that it is not run by the VP itself—is the Kisauni Building Cooperative Society located in Mombasa. It was organized by a qualified builder/contractor from the government's Youth Services Division who began working with the youths at the Kisauni VP for five weeks in May 1977. Charged with promoting youth employment in the area, he has brought together fifteen VP leavers—eight masons and seven carpenters—who have carried out three major jobs from early 1978 to date. First, they constructed buildings at the VP, then a private house, and, most recently, the grandstands for the Mombasa Agricultural Show Grounds. These jobs have not paid well (the last job yielded each worker only $30/month) and were undertaken principally to give the leavers needed experience. Their biggest problems have been the lack of tools and equipment, working capital (to bridge payment delays and down time), and further technical and management assistance. Although being registered as a cooperative has permitted some access to the extension services of the Ministry of Cooperatives and the Kenyan Savings and Cooperative Union, greater technical upgrading in the areas of planning and blueprint reading, along with more bookkeeping and management assistance, is needed if the group is ever to become self-managed.

A look at a more successful work group would also be instructive. The Maseno Builders' Society was initiated on the VP grounds outside Kisumu in 1972 by five VP leavers with some basic tools and the help of a German volunteer. Later, thanks to a grant from the German Voluntary Services and $3,000 in profits on its first major construction job, the Society was able to purchase two machines and new tools, as well as construct its own building. Subsequent profits, which have been maintained at a 25 percent rate, have in large part been reinvested in building construction and the purchase of adjacent land. Expansion has also meant an increase in the number of workers—currently, 23 cooperative members are employed full-time and as many as forty non-members may be employed on a job basis; salaries vary according to experience and skill level, but average somewhat under $50/month. In addition, the group is committed each year to taking on, on a six-month probationary basis, two new VP leavers, who are usually first given sub-contract work to do when they are still at the VP.

After successfully establishing the group on sound footing, the German volunteer left after five years, to be replaced by a Kenyan technical advisor. The latter is now responsible for managing the workshop (although ultimate control rests with a Members' Committee), pursuing contracts, and, with the assistance of a second technician, designing the group's products. The workers do get some *ad hoc* training in product design. The group also has two bookkeepers, one of whom came from the VP, as did the present general foreman.

The Society works on a contract-to-contract basis, with most of the contracts coming from the private sector and calling for building construction, furniture making, and other wood-working. It uses the contracts as a guarantee for the purchase of materials, as it has never taken out any type of a loan. It has been able to grow in a stable fashion without outside financing, but now may approach the Cooperative Bank for a credit to buy a molding machine or a large vehicle. A loan could also help it build a materials store or showroom it has planned.

Despite varying degrees of success, the three work groups described above have two important things in common: they have survived over a period of time, and they may have done so due to a high degree of professional follow-up and supervision. In recent years, in fact, it has become clear that such groups not only need follow-up, but also intensive supervision. Most leavers, particularly in urban areas, do not appear to be ready to go it alone at first, and, just as importantly, most prospective clients tend to perceive them as too young to competently run group enterprises. Therefore, each VP—i.e., its management committee, the trainers, and especially the manager—takes on the added task of securing contracts from local sources for the products and services of groups and individuals even after they leave the center.

Unfortunately, VPs have been unable, in many cases, to assist effectively in the establishment of sound VP-leaver group enterprises, as evidenced by the thousands of VP leavers each year who must search for wage employment. The management obstacles to creating one's own enterprise are too great for most leavers, and their former instructors, overburdened with too many students, are unable to give the leavers the attention they require. Furthermore, even if a VP sets aside fair shares of contract profits for leaver tools and equipment, in some fields, like carpentry and masonry, this capital may represent as little as ten percent of that needed to get a successful enterprise off the ground.

In the meantime, the situation is being exacerbated by the growing number of VPs and trainees per VP which have put a further strain on public resources and on local trainers and managers, respectively. Little counselling or follow-up assistance is generally given to leavers, much less intensive supervision. Many VPs do work hard in pressuring local institutions and businesses to purchase products from their leavers, but this can often run into conflict with their efforts to secure contracts for the training programs themselves. There also remains the problem of a lack of leaver tools and equipment and other resources needed for enterprise start-up. With greater resources of its own, NCCK, as a program innovator, would choose to focus on this last problem in particular and on follow-up assistance and supervision, in general.

Undugu and Maseno do provide two models for overcoming these difficulties. In the former case, the VP has accepted contracts for relatively sophisticated goods, such as modern furniture, to be produced by leavers using the tools and workshops already available. With the leavers being paid normal skilled labor rates on such projects, contracting of this nature can provide a transitional step for them toward successful entrepreneurship. The Maseno case, meanwhile, provides an example of intensive supervision being applied to a work group, in terms of both time and professional expertise.

Based upon cases such as these, as well as upon the lessons learned from their failures, the orginators, instructors, managers, and administrators of the VP program have developed various ideas for program reform in the follow-up area. It is clear, above all, that the VPs must limit the number of trainees and/or allocate more resources to follow-up activities. Extra funds would allow for the hiring of more staff and the purchase of vehicles, freeing instructors to assist and supervise geographically dispersed leaver groups. Better yet, supervisory personnel could be hired, or, as in the Kisauni case, full-time government personnel could be provided to work closely with a number of groups. Thought has been given to the idea of having a single manager directing and coordinating the activities of a series of similar groups in an area encompassing a few VPs. This supervisor would arrange for contracts and instruct leavers in leadership, bookkeeping, administration, finance, production, marketing, etc. over a period of two or three years, leading to some form of self-managment for the entire group or the splitting off of self-reliant subgroups.

4. *Revolving Leaver Loan Scheme.* In 1975, mainly through the efforts of NCCK, a loan scheme was established to provide small credits to VP leavers for the purchase of tools, equipment, raw materials, and agricultural inputs. The program was initiated through the government VP support unit and has received grant financing from Freedom from Hunger (Canada), NOVIB and CEBEMO. Total loan capital is roughly $135,000.

The program is structured around a revolving loan fund, with credits disbursed through local management committees. The local committees first apply to the central VP support unit for funds; requests are assessed and approved by a central finance committee within the VP unit in Nairobi. All local VPs are required to raise matching funds of at least $13.50 per VP leaver before funding can be approved. Upon approval, funds are disbursed to the VPs as grants. Loan management is the responsibility of local committees, assisted by field agents and VP managers. A separate bank account must be opened by each VP for their funds. An annual financial report, detailing the total amount lent, the number and amounts of loans, and the trade areas and groups or individuals receiving loans, is also required. The report must also contain repayment information.

Approvals on the loans themselves are made by the local committees. Decisions must be based on the applicant's need (level of income, number of people he/she supports, etc.), and projected ability to repay. Managers usually play a strong advisory role in this process, and field agents (usually Provincial Youth Training Officers) are also available for advice.

Reliable, current figures on the loan schemes were not readily available, and a compilation of data on both the CEBEMO and NOVIB loan funds is only now being undertaken. The following figures are therefore only estimates drawn from interviews and require verification. Of the 220 operating VPs, about 190 have applied for loan funds and about 70 have received such funds. Based on various estimates, the average grant is probably about $1,500. The number of individual loans made was not ascertainable. Sample data available from reports from fourteen VPs show that most loans are made to working groups with between seven and nine members, the loan average being about $475 to these groups, or roughly $60 per group member.

Seventy-five percent of the loans disbursed, however, are said to be related to agricultural activities. This is no doubt due to CEBEMO's requirement that its funds be used for agricultural production. Of the remaining loans, the trade areas most commonly receiving credits (in order of incidence) are carpentry, tailoring, masonry, home economics, and leatherwork. By and large, leavers from urban VPs and those trained in non-agricultural areas elsewhere have limited access to these loan funds. Since conventional public and private financial institutions do not serve their needs, these leavers are left with virtually no source of credit for either start-up or working capital.

The credit terms of the local revolving funds are determined by the respective management committees, according to some external guidelines. Interest rates cannot exceed two percent per annum, and most VPs lend at one percent. There is a further encouragement that no interest be charged on loans repaid within eighteen months. Repayment periods vary with local conditions and trade areas. For example, with agricultural loans the first full crop season is usually considered a grace period, with repayment scheduled over two to three years. In nonagricultural areas, the grace period is usually six to eight months, with repayment schedules similar to those in agriculture.

No cash loans are made. It is the manager's responsibility to draw down on the loan account for the purchase of tools, equipment and/or raw materials, and then to schedule and monitor loan repayment. At least eighty percent of the non-agricultural loans are made for the acquisition of tools and equipment, with the remainder going toward raw materials purchase.

Security for loans usually takes the form of group guarantees and collective responsibility for repayment, with the tools and equipment purchased being offered as further collateral. In the case of individuals, the co-signature of a notable local person or relative is usually required. Although no comprehensive figures on repayment were readily available, default is reported to be fairly high. It is maintained by many, however, that the problem does not lie with the VP-leaver groups themselves.

On the other hand, virtually everyone interviewed mentioned that there in fact have been big problems with the administration of the loan scheme. The problems most often cited were: 1) committees simply sitting on the loan funds or utilizing them for other purposes, such as covering operating costs; 2) funds simply disappearing; 3) lack of adequate financial management and reporting; and 4) lack of adequate follow-up and loan collection. The reasons most commonly cited as causes of these problems are the lack of adequate central management controls over the revolving scheme itself and the lack of experience in financial and/or credit management among local management committees. These issues are the subject of much discussion in local and regional management conferences, and the government intends both to tighten its control over the funds and increase its on-site management assistance to local programs.

5. *Other Activities of Village Polytechnics.* Aside from their role in local training and production, VPs also serve as centers for informal adult and community education (most notably in the fields of literacy, nutrition education, and community development) and as focal points for the introduction of appropriate village technologies. These additional functions have for the most part accrued naturally to VPs, since they constitute centers of community participation and operate in a flexible, informal atmosphere.

## IV. Impact.

The impact of the Village Polytechnic program which is now in its fifteenth year of operation, must be considered in light of the original goals of the movement (see pp. 2-3). To begin with, the 270 VP centers established by communities around the country are proof that, at least in the area of informal training, the development process has been significantly enhanced and decentralized in Kenya. Likewise, the establishment of a similar number of community-based management committees would appear to have further democratized development efforts at the local level. Although greater public sector involvement has led to a tighter structuring of the training program itself, the program has remained a significant innovation within the Kenyan educational system and has been accepted on equal footing with the country's formal education program. It has positively influenced many communities to accept purely vocational or prevocational training as an integral part of the national development effort. In so doing, the individual VPs have in most cases established themselves as important parts of the communities in which they are situated.

Direct, community-level impact, however, is difficult to measure. While VPs and their leavers have successfully produced and marketed goods and services for local consumption, and local resources have been mobilized in support of the VPs, it is unclear to what extent local self-reliance and control have been enhanced. On the other hand, it is apparent that: 1) a majority of the leavers (about two-thirds of those who find employment) remain in the local area and make a productive contribution to the broader community; 2) at least some additional capital generated from these activities is retained locally for other community endeavors; and 3) VPs have made a positive contribution toward increasing the awareness of communities as to alternative forms of local economic development.

Most important, from the viewpoint of PISCES, is the impact of the VP program on the intended beneficiaries—the trainees and the leavers. In 1979, the program turned out approximately 9000 young people (at the cost of approximately $150 per trainee per year in national and foreign funds) trained in a variety of important trades. This number is significant when it is taken into account that only twenty-five percent of the 220,000 youths who sat for secondary-school entry exams in 1978 were accepted for further education. Among those who have taken technical qualifying exams for public licensing in various fields after completing their VP course, a high percentage have done very well, attesting to the quality of the skills training. In Mombasa, for example, over 80 percent of the second-year trainees in electrical work and auto mechanics passed qualifying exams in 1978. This success in training has been accomplished at a relatively low cost and, for the most part, without screening out the country's poor from participation in the program.

The second objective of securing employment for these trainees upon leaving the centers seems also to have been successfully fulfilled. As mentioned earlier, the average employment rate of leavers in the early to mid-1970s, as determined by four separate studies, was found to be over 70 percent. This is clearly an impressive outcome. In addition, while three of the studies found female employment to be about twenty percent below that of male leavers, all of the studies concluded that women were almost as successful as men in establishing themselves in self-employment—an important objective of the VP program. As cited earlier, about one out of every four VP leavers initiates independent enterprise activity on his or her own, or, more commonly, as part of a group. The self-employed, however, represent as much as one-third of the total number of employed VP leavers. Unfortunately, exact figures on individual versus group self-employment were not available. However, most trainers and managers who were consulted reported that most self-employment—especially in urban and peri-urban areas—resulted through group formation.

While exact figures on VP-leaver incomes on a national basis were not available, it was determined through interviews with managers and trainers at seven different urban VPs that, in general, VP-leaver incomes compare favorably to those of unskilled laborers, but vary significantly according to trade area. For example, while unskilled laborers in the construction industry earn a monthly income of approximately $60 to $65, VP-trained carpenters and masons employed with private enterprises can earn up to $160/month and are rarely hired at less than $110/month. The earnings of VP leavers employed as auto mechanics and electricians were reported to be higher, averaging $150 to $170 monthly. At the same time, however, incomes in other areas, such as tailoring and secretarial work, were reported to be significantly lower. For example, VP leavers in sewing and dressmaking who find employment with clothes manufacturers in Mombasa and Nairobi earn, in most cases, less than $45 per month. Similarly, VP-trained secretaries who find government employment will start at approximately $40 to $45 and will earn up to $80 per month after three to four years.

Incomes among VP leavers who form work groups were reported to be, in most cases, lower than those of their salaried counterparts. It was felt, however, that the self-employed enjoyed the potential for higher longer-term incomes, since their enterprises would eventually be generating greater profits and the workers' equity in the firm would be increasing over time.

## V. Assessment and Analysis.

The Village Polytechnic program in Kenya is a unique and important attempt to link non-formal vocational youth training with collective self-employment within the context of increasing local self-reliance. While the program is focused primarily on rural areas, it operates in secondary cities and towns, as well as peri-urban areas on the outskirts of cities and the densely populated areas between such towns as Kisumu and Kakamega. VPs are also found in all primary cities, including Nairobi. Given the higher level of competition and technical standards facing enterprises in many trade areas in primary cities, however, much of what can be learned from the VP program might better be applied to enterprise-support activities in less-concentrated centers of activity.

These lessons, which cover program orientation, administration, and methodology, are presented as follows:

1. *Community orientation.* The VP program is designed to accomplish much more than the training of youth, the generation of employment, and the development of enterprises. In addition to its specific objective of providing school leavers with competitive skills, the program also has been concerned with the development of the entire community by giving localities greater control over their own social and economic development. Its creators and current sponsors have understood that without the generation and commitment of resources at the local level and the improvement of capabilities of communities to resolve their own problems, the country would lack the ability to bring about meaningful change on a national basis. Hence, local management committees, through which the participation of a cross-section of community leadership is achieved, are established to help assess community needs and determine appropriate trade areas for VP skill training. The VPs then attempt to turn out trained leavers who are able to use local resources and secure contracts to produce for local needs and meet local demand. The success of this strategy is evident. By responding to local priority needs for youth education and new goods and services and by promoting the VP concept through churches and other local-level institutions, NCCK was able to spark off a national movement at the community level which spread without large-scale outside support.

2. *Decentralized program administration.* Closely related to the community orientation of the VP program is the decentralized nature of its administration. In the early years, the VPs were run as individual program units responsible for their own operations, with NCCK as a promoter and coordinator of activities, as well as an initiator of new VPs. As a private-sector, non-bureaucratic institution with an interest in stimulating rather than controlling the movement, NCCK was the ideal institution to work at this level. It has allowed both its own staff and those working in the VPs themselves a maximum of operational latitude, and, thus, has attracted dedicated program personnel, VP managers, and trainers who enjoy working with youth. As is its normal practice, NCCK turned over administration of the program to the government to ensure the availability of resources as the program rapidly expanded. Although the government does not intervene in the running of VPs during their first one or two years of operation, once it has been asked for assistance it has tended to centralize control and administration. In turn, the centralization of control poses the problem of an increased formality in training and a decrease in local participation and support. This shift in emphasis points to the importance of the educational process which must accompany the transfer of program responsibility from smaller social organizations to larger, usually public entities once local endeavors grow to a significant level. Some attempt must be made to transfer the knowledge and sensitivity of the original promoters to public agency personnel when the latter take over control of the program.

3. *Selection of program participants based on economic need.* The VP program attempts to reach and assist the very needy among Kenyan youth. Hence, the interview and selection process is established not only to determine functional literacy and physical dexterity, but also to ensure the admittance of candidates from truly low-income families. Dedication to learning is determined during an initial probationary period for trainees. At least in principal, fees are kept low and income is generated by and for the trainees during training in order to decrease individual financial strain. Despite problems in these two areas, the VPs seem to have been successful in retaining most of the poor, unskilled entrants and transforming them into artisans with competitive skills.

4. *"Work-directed" training.* The key to the VP training program itself is its "work-directed" methodology. The attempt is made to place trainees in as realistic a work environment as possible so as to render the training relevant to local needs and conditions and to prepare trainees for the transition to self- or wage-employment upon leaving the program. In essence, the trainees go through a structured apprenticeship, learning their trade on the job and turning out marketable products on contracts with local firms, individuals, and public entities. They are also introduced to the practice of self-reliance by making uniforms, preparing food, typing letters, repairing auto engines, or constructing workshops for the VPs themselves. Finally, in recognition of the difficulty in making it on one's own after leaving the VP center, trainees are given experience in working and producing together in groups.

5. *Link between training and self-employment.* It is this recognition of the need of trainees for support when they leave the centers that has led the VPs to establish a variety of follow-up

mechanisms. On balance, however, these support activities have not worked well, making the transition for leavers considerably more difficult. On the positive side, the formation of work groups is encouraged during the second year of training and trainers are able to assist a number of trainees in identifying enterprise possibilities in their home areas; at the same time they help locate colleagues from these same areas who are interested in going into business on a cooperative or partnership basis. Far less successful have been the attempts to set leavers up with capital—i.e., savings and tools and equipment—with which to start their own enterprises. That the VPs have almost universally failed to provide trainees with adequate returns from VP contracts does not, however, indicate the unworkability of this mechanism. Rather it points out the need to find new sources of financial support for the VPs themselves. Likewise, VPs have the best of intentions to assist leavers with intensive counselling and follow-up assistance during the formative stages of their self-employment. Trainers, however, have been severely restricted in their extra-VP activities by the increasingly large work load they must carry as VPs continue to accept greater numbers of trainees without having the financial resources to manage them adequately.

6. *Self-employment through work groups.* This emphasis on collective self-employment is rooted in both the original goals of the VP program and in practical business sense. The VPs were seen from the start as a means by which to increase community self-reliance. Rather than having them go off to the primary cities to find unskilled, wage employment, young people would be trained to meet the needs of their own rural, peri-urban, and urban-slum areas. To do this, however, leavers would have to initiate their own enterprise, and this was correctly seen as difficult to accomplish on an individual basis. Group formation was encouraged not only to help overcome a lack of individual self-confidence and business knowledge, but also for the technical reasons listed on page 23, that is: 1) to share and better coordinate enterprise management functions; 2) to lower the costs of purchasing raw materials; 3) to pool individual savings; 4) to form group credit guarantee mechanisms; 5) to give contractors greater security; and 6) to allow for easier follow-up technical assistance from VP trainees and other institutions. While these methods of job creation appear to work well when adequate follow-up support is extended, the fact that approximately two-thirds of employed VP-leavers initially or eventually opt for salaried employment is evidence of the difficulties facing young people considering self-employment.

7. *Assistance to work groups.* There is a strong reason to believe, in fact, that most young VP leavers are not ready to effectively manage their own enterprises without intensive supervision over a period of time. In part, this is due to the fact that the VPs provide trainees with, at best, only introductory bookkeeping and managerial assistance. Principally, however, VP-leaver enterprise problems appear to result from the lack of any types of prior managerial experience on the part of leavers. This problem is compounded by the fact that the intensive follow-up delivery of technical and managerial assistance by VP trainers, which is called for as part of the VP program, has not been forthcoming due to work overloads. On the other hand, there have been instances of non-VP personnel from government or voluntary agencies providing the intensive supervision and management which appears to be needed by these groups in their formative and early stages. While leaver work groups have apparently survived with very little assistance, they have not flourished. Thus, the close supervision of these groups by managers and outside technicians is increasingly appearing to be one effective way to span the transition from training to full self-management.

8. *Revolving loan fund.* In order to help leaver groups obtain the raw materials, tools, and equipment which they were not able to finance from their minimal returns from VP contracts, NCCK established the Revolving Leaver Loan Scheme as a new credit system. In terms of assistance methodology, this decentralized scheme is well adapted to the needs of the leavers, with an average loan size of $60 per group member, low interest rates to assist in enterprise start-up, flexible credit terms, and only personal guarantee requirements (i.e., group guarantees or co-signatures). The scheme would appear to work well were it not for the poor administrative capabilities of the local management committees charged with managing the funds at the local level. What is clearly needed, and currently being considered by the government, is the exercise of greater administrative control over the program while intensive managerial assistance is extended to the various committees.

In conclusion, therefore, it is clear that in a program of this nature a balance must be struck between decentralized administration and local control, on the one hand, and the extension of intensive technical assistance from central sources, on the other. The rapid spreading and apparent success of the VP training program demonstrates the critical importance of promoting development programs within local communities in response to local need and of leaving responsibility in the hands of those most involved in, and affected by, project implementation. Without such an operational methodology, it is doubtful that NCCK could have gotten the movement off the ground in the first instance. Thus, while it is crucial that the levels of technical and managerial assistance be increased to strengthen the capacities of VP-leaver groups and management committees, it is equally important that this be accomplished without over-centralizing control over the operation of the program at local levels.

## VI. Future Plans

Both the government's Ministry of Housing and Social Services, as program administrator, and NCCK, as program innovator, are interested in seeing the VP program progress in a variety of areas. The government looks forward to an expansion of the number of local centers to approximately 300, up from the current 270. In addition, it intends to exercise greater control over the individual management committees, particularly as regards the management of credit funds, and, if resources permit, to deliver increased managerial assistance directly to the VP units themselves.

NCCK's focus, on the other hand, will be on finding ways to reverse the trend toward increasingly structured training programs and centralized program administration, as well as on improving VP follow-up with leaver groups. In this second area, NCCK would like to increase the availability of tools, equipment, and other inputs to such groups, provide them with more intensive technical and managerial assistance, and perhaps hire technical personnel who could help supervise new collective enterprises on a regional basis. At present, however, NCCK has only one person engaged in VP support activities, and its ability to accomplish these tasks will depend upon the organization's success in finding the required resources.

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## CHAPTER 4

### I. Project Identification

Institute for Cultural Affairs (ICA)
Kawangware Community Upgrading Project,
Nairobi, Kenya

Principals: Fred Lamphear, ICA Regional Director, East Africa

Mr. and Mrs. Gene Boivin
Coordinators, Kawangware

Researchers: Fred O'Regan, The Development GAP
Jeffrey Ashe, Accion/AITEC

### II. Setting

As urban migration in Kenya continues, the squatter settlements in and around central Nairobi have grown enormously. Taken together, the Mathare Valley and Kawangware—two of the largest settlements—have populations of over 150,000. Kawangware's problems are quite similar to those faced by Mathare,* but it differs in two essential respects. First, its adult male population is proportionately higher, perhaps 40-45 percent of the total. Second, being far from the city center, Kawangware is more economically, politically, and socially isolated. Residents come from various Kenyan tribes and live in twelve villages. The number of people in the settlement who are less than fully employed is extremely high.

### III. Project Description

A. The *goal* of ICA's effort is to "enhance the total quality of life through community mobilization." Its stated economic objectives are to double the gross product of the community within five years and to create one thousand additional jobs per year.

B. *Brief History and Description.* The Kawangware project began in 1975 as an effort of the Institute for Cultural Affairs (ICA), an American PVO with a religious affiliation to the Ecumenical Institute. ICA has over 2000 people engaged in its developmental affairs, with well over 50 community projects being promoted in different parts of the world. Although the stated aims of ICA are outwardly developmental in nature, controversy has arisen regarding possible subtle proselytizing efforts while working within communities.

ICA has developed small enterprises in construction, metal fabrication, sewing, and basket making, and has promoted urban agriculture through training programs, demonstration farms, and marketing assistance. These are deemed cooperative endeavors, as they seek to equitably spread the benefits among all participants.

The growth of small enterprises and the expansion of small farms are constrained by the lack of credit, due primarily to the strict collateral requirements of commercial loan funds. However, an AT International (Washington, DC) project, scheduled for implementation in late 1979, was to provide ICA with funds to establish a credit mechanism to assist the enterprises and farms.

*See "Study on Urban Community Improvement Program", Nairobi: NCCK.

C. *Organizational Structure.* There are presently fourteen ICA personnel working in Kawangware, and five of these reportedly are involved directly in community development at the site. The rest are engaged in constructing and organizing an ICA training center in Kawangware for all of Eastern and Southern Africa. All ICA personnel live together in the community itself and receive minimal living allowances. Two of the members hold regular professional jobs in Nairobi and support the other twelve on monthly allowances of approximately $70.

The group is headed by Mr. Fred Lamphear, an agromist who holds a teaching position at the University of Nairobi in addition to his role as director for ICA projects in East Africa. ICA's Kawangware program is headed by Mr. Gene Boivin who has worked in community development for eight years. There are also a number of Kenyans employed in various development assistance positions. These include four village promoters, three local fund-raisers in the community, ten agricultural assistants, ten construction supervisors, eleven pre-school teachers and three health workers.

1. *Relationship with Other Projects.* Aside from relations with international funders, the project did not appear to have a continuous working relationship with any local assistance agency or project. Those interviewed, however, did speak of having well-established ties with both public and private sector individuals in Kenya.

2. *Role of Beneficiaries.* The stated ICA methodology relies almost entirely on community mobilization and participation. As will be described later (see Project Activities), local participation in Kawangware is structured through two integrated organizational networks: local "guilds" (cooperatives) and a federation called the Kawangware Cooperative Society. Both planning and implementation of development projects are reportedly carried out through these bodies. Leadership meetings are held once per week; additionally, there are open "marathon" community sessions occurring six to eight times per year and lasting up to 24 hours.

D. *Funding.* Exact figures on total program funding and a breakdown of total expenditures were not readily available. Recorded donations include: $52,000 from the Barclay's Bank Development Fund for urban agricultural irrigation; $8,000 from the International Heifer Fund for livestock purchases; and contributions from World Neighbors (figures not available). As stated previously, AT International has approved a low-interest loan to the Kawangware Co-op Society for $72,340 to be used to establish a credit system for local co-ops and enterprises. Total operating overhead in Kawangware, including administration and promotional expenses, is estimated to be $37,000 per year.

E. *Beneficiary Characteristics.* The direct beneficiaries of ICA efforts are primarily young adults who live in Kawangware and have numerous dependents. They are of different tribes and religions, and have come to the urban center in hopes of finding work. Unable to secure such employment, they have turned to the small-business and urban-agriculture opportunities offered by the ICA project. While income figures for Kawangware residents were not available, the general level of poverty is at least equal to that of the Mathare Valley (see case study on National Christian Council of Kenya).

F. *Project Activities*

1. *Approach.* Upon entering a poor community, ICA begins with an intensive program of gathering information from local residents called a "Consult." ICA personnel arrive in fairly large numbers (about 30 in the case of Kawangware), having paid their own travel expenses. According to a prescribed methodology, they canvas the community for five days, eliciting local needs. They try to reach as many people as possible—up to 40 percent of the residents—and recruit and rapidly train local volunteers to assist them in this effort. Basic to the approach is an atempt to have residents discover underlying social "contradictions" which inhibit human development.

After collating information collected through the "Consult," a comprehensive development plan is drafted. All areas of implementation are outlined on the basis of this plan, which is approved by the community at their regular meetings. While the community upgrading is viewed as an integral and comprehensive effort, there are a number of distinct programs which include low-cost housing, preschool education, community health services, and employment and income-generation projects. The generation of employment and income are accomplished through small business and urban agriculture projects.

2. *Small Business*. Four distinct industries are presently operating. They are: 1) a construction cooperative which employs 18 people to construct low-cost houses, market booths, etc., in the community; 2) a metal fabrication enterprise, which is a privately run, metal-box business employing 20 people; 3) a handicrafts cooperative employing 30 women (mostly on consignment basis) in the production of banana leaf baskets and other artifacts; and 4) a sewing (garment) co-op which employs ten people.

With the exception of the metal enterprise, all of the above-mentioned enterprises were instituted through ICA's promotional, training, and ongoing management programs. A central finance and accounting office has been opened in order to manage ICA finances and to serve as an ICA funding channel. This office is nominally under the board of the general co-op society, but is managed mutually with ICA. Excluding the private metal industry, individual salaries for all enterprises, reportedly averaging $32/month, are paid by the central accounting office. Any resulting profits are reinvested in materials and equipment. There also exists a central equipment pool established to lend tools to the various industries, along with a wholesaling unit which provides lower-priced consumer goods to local retailers.

Although a Small Business Association was initially organized, it is at the moment largely inactive. The most significant accomplishment has been to convince some local retailers (the majority of whom are in far better financial condition than most residents) to capitalize the wholesale unit with initial investments of $300 each.

Loans can be channeled to the local co-ops through the central finance unit. It is not clear how much credit has been approved and disbursed so far. All loans are made in-kind and do not carry an interest rate. The metal industry has thus far utilized approximately $1000 in credit, and has made timely repayments of all loans received.

3. *Urban Agriculture*. Given the fact that Kawangware township itself contains 900 hectares of land (of which only 200 hectares are densely populated), and that most residents are recent migrants from rural areas, a highly labor-intensive agriculture project has been developed as an attempt to generate employment. The scheme is based on single-acre units being worked by five-person teams, each having a team leader. The major crop is French beans, which are harvested every ten weeks throughout the year. Each acre is divided into three rotating plots with 1/3 being harvested, 1/3 maturing, and 1/3 being cultivated and seeded. Given the full-year growing season, teams are continually harvesting and boxing beans, weeding, fertilizing, and sowing. The beans are boxed on site, sold for export in Nairobi, and flown to Europe for retail sale.

The project is divided into "farms," each one consisting of five single-acre units (and therefore 25 people) and an additional sixth acre which is planned to be utilized communally for animal-husbandry projects. Each farm is overseen by a manager, who receives $53 per month. Each team leader earns $33 per month and each team member has a monthly salary of $27. There are currently two farms in operation as well as a demonstration farm, which also serves as a training site. The program trainers and farm managers select the five separate teams at each farm unit. It is felt that, ideally, each team should have two women and three men, each with adequate basic skills in one of the following areas: management, marketing, crops, livestock, equipment, or irrigation. An effort is made to form teams with mixed ethnicity so as to eliminate any problems regarding ethnic rivalry among teams. Each team meets once per month with the farm manager to review all progress made to date. Additionally, weekly meetings are attended by all farm employees, and every three months there is a "celebration" in which the entire agricultural project unites to assess and evaluate agricultural progress. Participation by all members is encouraged.

The project is managed centrally. All farms benefit from the use of an equipment pool, a central supply service, and a shared irrigation scheme. Credits are extended on an in-kind basis for all inputs: seeds, lime, fertilizer, tools, and insecticides. Salaries are paid through a central finance unit, with corresponding deductions for the repayment of all borrowed inputs, including initial capital investments for the collective irrigation system and land rental.

Training is provided at the demonstration farm site. The training courses have a three-month duration and are designed to provide on-the-job practice along with theoretical instruction. Management, marketing, crops, livestock, equipment, irrigation, English, and literacy are the subjects currently being taught. Training facilities are extremely simple and are designed to operate as an actual working farm. As most of the trainees are illiterate, the training is carried out informally and experientially;

trainees tend to crops and livestock under trainer supervision. There are reportedly no formal selection criteria for trainees other than that they be Kawangware residents aged 18 years or older. Recruitment problems were reported and said to be due to residents' interest in securing urban factory work. ICA now maintains, however, that 30 trainees enroll each month and 25 are finally selected to join teams—the other five either dropping out or being de-selected due to lack of interest.

According to ICA figures, the total costs of working one acre per year for French bean production equal $2516. The total gross income per acre is estimated at $3067 and the balance, or profits, should therefore equal $417. As the costs per acre reflect both capital costs (lease of the land, irrigation expenses, etc.) and operating costs, including worker salaries, the balance of income over expenditures represents surplus to be distributed to workers and reinvested for expansion. Currently it is reported that the two existing farms are either operating in the red or "just breaking even."

The lack of profits is attributed partially to motivational problems with some team workers who are said to simply want their monthly salaries. Problems have also been attributed to marketing. While the Nairobi export market is said to be sufficient to absorb all current and future bean production, the prices paid for the beans fluctuate from a high of $2.15 per box to a low of $.70 per box.

To expand the marketing and profit potential of the urban agriculture scheme, ICA is currently experimenting with the raising of locally consumable crops, including tomatoes, brocolli, cabbage, and lettuce, as well as with animal husbandry. In the latter category, both chickens (layers) and pigs are being experimented with at the demonstration farm. Neither local cash-crop nor animal production, however, has been introduced to the two existing farms. Of the options being considered, pig production is deemed the most feasible, with potential profits at $916 per five-member team per year, and will constitute the first addition to the current bean production.

## IV. Future Plans

Currently, ICA plans to expand the agriculture scheme by six acres (one farm) each month over the next two years. The consequent increase in employment through this scheme is estimated to be 26 people per month, or approximately 650 people over two years. It believes that incomes to these farm workers can increase to a total of $67 per month through a combination of cash-crop and animal production. In addition, plans call for an expansion of the small-business scheme, the initiation of low-cost housing (with concomitant growth in construction employment) and the strengthening of the community's organization.

The principal stimulus for this growth will come from the credit systems that will be established by the AT International loan. The Kawangware cooperative society will lend at commercial rates to the cooperative farms, to the four group enterprises, and to the wholesaling unit. AT International's loan to the Society will be interest-free and will be repaid over 12 years. The interest and capital repaid on loans made to groups by the Society will form a revolving loan fund. About $61,300 is being made available for Society lending and a $22,600 loan-guarantee fund will be established in the Cooperative Bank of Kenya.

## V. Assessment and Analysis

1. After cutting through the rather complex terminology used by ICA to conceptualize its work, one discovers a traditional, but well-thought-out, community development methodology. Local needs are elicited in comprehensive fashion, priority needs are identified, and programs planned to meet these needs through widespread community mobilization. At the same time, the basic approach calls for the establishment of local-level organizational mechanisms and capabilities through which social and economic gains can become self-sustaining within the community.

In recognition of the need to upgrade the community in comprehensive fashion, social services and local organizing are planned in coordination with programs of economic development in various sectors. Given the general level of poverty within the community itself, the stated economic goal of the program is to generate sustained growth within the whole community, and thus income- and employment-generation are not viewed as ends in themselves. This comprehensive methodology seems very well suited to the general upgrading needs of Kawangware.

2. The program is somewhat difficult to judge in regard to total impact, as the focus of the interviews and site visits was upon only its employment and income generation aspects. In terms of employment, to date the project has reportedly created 70 jobs in the small businesses, 50 in the urban agriculture scheme, and is training 25 people per month in basic agricultural concepts; incomes have been estimated at approximately $30 per month. These results certainly indicate that progress has been made, but considering the five years of ICA involvement in the community, they are not actually impressive. Furthermore, most of the enterprises created have resulted from such intensive and continuing ICA involvement in planning, marketing, and management that it is difficult to tell how viable these enterprises actually are.

While a rather low impact in job creation is understandable within a comprehensive community development scheme in which a high percentage of inputs are relegated toward citizen mobilization and organizational development, solid achievements in these latter areas are not highly evident in Kawangware. Neither the public works nor the housing schemes have been implemented to any recognizable extent, and the central cooperative society has yet to assume a significant role.

3. In part, implementational problems must be attributed to the sheer difficulty of attempting to implement a fairly comprehensive, community-upgrading methodology among very poor, low-skilled clients. In such circumstances, it is difficult to expect any immediate results. At the same time, however, ICA's implementation methods seem, to some extent, questionable. The most basic problem seems to be the degree to which central control over the development program itself in Kawangware is exercised by ICA. For example, while policy control over the economic development process is meant to be exercised through the Kawangware Cooperative Society, the society itself is administratively and politically weak and ICA appears to play the central decision-making role in all aspects of the program. At the same time, all group industries are administered centrally through an ICA finance unit, which handles all accounts and pays both staff and participant salaries.

While some degree of centralization and facilitator control is inherent to any development intervention, in this case central control seems to be inhibiting the independence and potential self-reliance of the client enterprises. With the exception of the metal-fabrication industry, which existed prior to the initiation of the project, all of the enterprises developed are actually ICA industries which employ local workers. ICA identifies the industries, recruits the workers, provides initial capital through its own finance unit, and seems to play a heavy management role. While such intensive intermediary involvement in such enterprises may be justifiable at the outset, the future independence and self-reliance of these industries cannot be promoted in this manner. This calls into question the impact of the program under ICA's stated goal of promoting self-initiated and self-generating development.

4. Despite its implementational problems, the program does demonstrate some interesting concepts and techniques in promoting income generation at this economic level. For example, given the fact that Kawangware is a rather isolated settlement, and thus possesses a self-contained internal economic system, the attempt to "export" locally produced goods to generate influxes of capital into the community is a necessary step in generating economic growth. At the same time, every effort seems to be made to involve the very poor in these endeavors and to distribute equally any resulting benefits.

The most interesting aspect of this program involves the urban agriculture scheme. Although marketing and recruiting problems have occurred—the latter perhaps being due to ICA's promotional methods rather than to a lack of local interest—the scheme seems to be highly practical and well thought out. As the majority of residents are essentially rural people, work in agriculture is complementary to existing skills, and the project makes sound use of an accessible and valuable local resource—arable land. In addition, with five people employed per acre, the scheme is highly labor intensive.

Since land that can be used for cash-crop production is accessible to many African squatter communities—especially those in peri-urban areas—urban agriculture would seem to present a potentially viable mechanism for employment and income generation. Through its promotion of a team approach in crop production, its collective approach to the acquisition and use of tools, equipment and essential inputs, and its establishment of a central irrigation scheme, ICA has introduced what seems to be an efficient, low-cost production and employment scheme that could be adopted elsewhere.

However, while it is difficult to actually judge the economic viability of the project from the information made available, the widely fluctuating prices on the French beans reflects the unstable market conditions for this crop. This being the case, the experimentation with locally consumable cash crops which fetch somewhat lower but more stable prices may prove more worthwhile than continuing to concentrate solely on the current export crops. While the projections in potential incomes from poultry and pig raising are reported to be high, the scheme has not yet been implemented and thus no assessment can be made.

CHAPTER 5

## I. Project Identification

Tanzania Small Industries Development Organization (SIDO)

Principals: Mr. B. Mramba, Secretary General
Mr. Mlagala, Director of Planning
Mr. D. Rulagora, Director of Training

Researcher: Fred O'Regan, The Development GAP

## II. Setting

Tanzania is one of the poorest developing nations, with a population of approximately 17 million and, according to World Bank figures, a per capita GNP of $180 per year. The country suffers from an extreme scarcity of natural resources, with minimal exportable mineral wealth and a relatively low percentage of highly arable land as compared to its immediate neighbors, Kenya and Zambia. As a consequence of its modest extractive wealth, Tanzania inherited comparatively little in terms of infrastructural, financial, and organizational development at independence. Most of Britain's colonial energies and resources in East Africa were focused upon countries such as Kenya, Uganda, and Zambia.

The nation is perhaps best known for its innovative developmental and political philosophy of "Ujamaa," a theory of African socialism espoused by President Julius K. Nyerere. In this regard, Tanzania has been jokingly referred to by observers as being one huge integrated development project rather than a nation; in fact, the pervasiveness of Nyerere's influence is such that it is difficult to explain any government program without setting it within the Tanzanian socialist context.

Tanzania's major national goal is to achieve local, self-reliant development through the decentralized channeling of technical, managerial, and financial inputs to locally controlled development endeavors. The strategy is based mainly upon rural development through the mechanism of "Ujamaa" villages—roughly 2000 collectively run communities which contain over 80 percent of the rural population. Capital and services are delivered through an integrated, centralized network of technical and financial agencies, while promotional and organizing activities are undertaken through regional and village-level development commissions and political party units of Chama-Cha-Mapinduzi, the national political party. The national development agencies, therefore, are usually more technical than promotional in nature as compared to their counterparts in other countries, since they respond to technical and capital needs as these arise out of ongoing local-level development activity.

Planning for both general economic development and service delivery is "up and down," with central agencies aggregating local inputs and determining policies and resource allocations that are then directed downwards. At the same time, rather strict control over both the economy and the delivery of development-related services is exercised centrally. The end result is thus a mixture of centralization and decentralization in all development activity. The most relevant point to be considered is that all planning and implementation of development activity involves a high level of interaction among different central agencies and local officials (both administrative and political) who are responsible to their respective communities. While development agencies are held technically responsible within their respective domains, they are not usually charged with direct outreach and promotional activities to the same degree as their counterparts in other African countries. Most development endeavors, including small production units, are expected to arise out of the decentralized promotional apparatus in place at regional and community levels.

Tanzania has not experienced as high a level of urban growth as have many African nations. This is in part due to the expansion of economic opportunities in the rural sector, as well as to strict social and legal controls on migration, with urban squatters in some cases simply shipped back to their rural areas. Migration does, of course, continue despite controls, and the problem of urban settlements is probably underestimated by the government. Large communities with substandard housing and services exist in all major cities and, while the distribution of incomes is comparatively excellent in Tanzania, general poverty is widespread.

The official emphasis on employment in Tanzania is not one of employment creation *per se*, for within the socialist structure all citizens are understood to be employed in one capacity or another. Rather, stress is placed upon improvement in working conditions—including increased incomes to workers—and greater self-reliance. In this regard, the term "informal sector" is not used in Tanzania. In the words of SIDO's General Secretary, ". . . in a sense, we consider the whole country to be one informal sector to be upgraded; we do not promote the dualism out of which the term 'informal sector' has arisen." Similarly, the term "industry" is used rather than the more capitalist term, "enterprise."

Perhaps most importantly, the upgrading of small-scale industries is viewed as a primary vehicle through which to achieve increased earnings, greater domestic production, stronger support to other economic sectors (especially agriculture) and, ultimately, local cooperative self-reliance.

## III. Project Description

A. *Program Goals.* The Small Industries Development Organization (SIDO) was created by an Act of Parliament in 1973 to promote the creation and growth of "small scale production . . . in both urban and rural areas . . . to help in achieving the broader goals of self-reliance, balanced regional development and a high level of community and cooperative control over the means of production." Within this context, small-scale industries are defined as "any unit whose control—in terms of capital and know-how—is within the capability of our people." These industries range in size from very small groups of artisans and school leavers (termed "small-scale industries" or "small-production units") to more developed, more highly mechanized cooperatives and worker partnerships in industrial estates (termed "larger small industries"). Major emphasis is placed on the increased production of goods and services and not on commercial (i.e., retailing) activities.

B. *Brief History and Description.* SIDO is a parastatal organization which operates as a semi-autonomous arm of the Ministry of Labor. While it is immediately answerable to only its board of directors, the board is chaired by the Junior Minister of Labor and SIDO is expected to coordinate all activities with his ministry and other appropriate government entities. (See General Structure and Operations.)

The organization was created with the strong backing of President Nyerere, who retains an active interest in all SSI* activity. It replaced the National Small Industries Corporation, which had been in charge of SSI activities. SIDO's creation was viewed as both a gesture to emphasize the importance of SSI development nationally and a means to expand promotional and technical support to this sector.

SIDO's major responsibilities in terms of SSI assistance are to: upgrade local skills (both technical and managerial); introduce and diffuse technologies (through both training and on-site technical assistance); provide industrial and physical planning services; and assist in the procurement and distribution of tools, equipment, and scarce raw materials (through a central purchase and supply service). While the organization is engaged in general SSI promotion, its main role is to provide technical back-up to ongoing promotional efforts taking place at local levels. (See Project Activities.) Its only credit functions relate to equipment and raw materials; SIDO does not disburse cash credit. Lending for start-up and working-capital purposes are the responsibility of banks, all of which are nationalized and mandated to provide such credits.

In addition to its direct assistance role, SIDO is charged with all national small-scale industrial planning—including the planning and development of industrial estates. It also plays a strong ad-

*Small Scale Industry.

visory role with the National Planning Commission in the latter's formation of long-term industrial strategies.

C. *General Structure and Operations*

1. *Organizational Structure and Staffing.* As a parastatal organization, SIDO is headed by a ten-member board of directors, composed of public ministry officials, party members, and artisan association leaders. (Diagram #1 illustrates the structure of the organization.) The staff is headed by a General Secretary and by the directors of four departments: Accounting and Financial Administration; Research and Planning; Training; and Marketing. The General Secretary, Mr. Basil Mramba, has headed SIDO since its creation. He holds a degree in political science and has had over ten years experience in employment programs. The department directors are highly qualified technically; most have masters degrees and over ten years of work experience. SIDO has about 55 professional engineers and over 40 economists, most of whom are either industrial economists or marketing experts. Staff salaries reflect those of the government in general in being rather low. The highest grade professionals may earn approximately $500 per month (President Nyerere earns approximately $550 per month), with the average professional salary being between $200 and $250 per month.

Outreach and most service delivery to industries are carried out through a decentralized system of Small Industries Promotional Officers (SIPOs). Each of Tanzania's twenty regions has one SIPO team which consists of an economist/coordinator, a marketing expert, and an industrial engineer. These SIPO teams are backed up by SIDO's central administrative and technical staff in Dar-es-Salaam, which consists of about 40 professionals.

Training staff number approximately 180 and operate either in travelling teams (for village and on-site training) or out of the twelve Training-cum-Production Centers (TPCs) operated by SIDO. Other professionals are engaged in economic and physical planning, equipment and material procurement, industrial estate management, and goods and services procurement for government agencies. Total SIDO staff, including non-professionals, totals roughly 400, all of whom are civil servants.

ORGANIZATIONAL CHART OF THE SMALL INDUSTRIES DEVELOPMENT ORGANIZATION (SIDO)

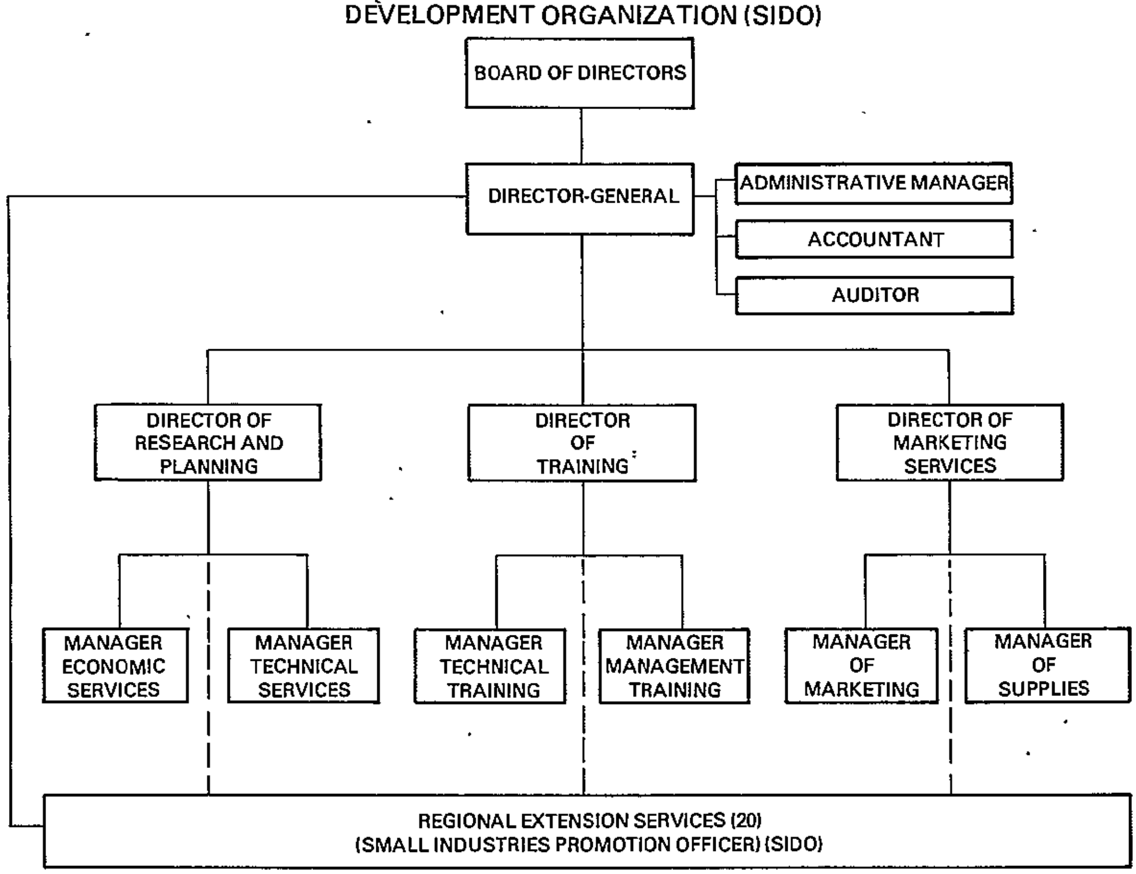


Diagram #1

2. *Relationship with Other Programs and Institutions.* SIDO coordinates its efforts with a wide range of Tanzanian and international development agencies, both public and voluntary. Its closest working relationships are with the Ministry of Labor, to which clients may be referred for technical and vocational training, and the Department of Cooperatives, through which most managerial training to small industries is delivered. In addition, it puts clients in touch with National Bank outlets for cash credits and deals with all ministries in coordinating tenders for the purchase of goods and services from small industries. As has been stated, SIDO works in close coordination with all regional and community-level development-promotion entities, including district and regional development commissions, local political party leaders, village and urban-community councils, local churches, and artisan associations.

SIDO receives volunteers from a number of countries—the U.K., West German, Japan, Holland, and all Scandinavian nations. Volunteers usually have technical backgrounds and are assigned direct training and technical assistance roles, mostly at local levels with production units and/or training centers.

3. *Role of Beneficiaries.* While there is little direct beneficiary participation within SIDO itself, artisans and workers in general do have roles in the determination of local and regional-level development policies through their participation in artisan associations, cooperative organizations, and local political party chapters. As SIDO plays mainly a technical role, direct beneficiary participation in its activities is not deemed essential by the agency. It was not directly ascertained what role clients play in SIDO's planning at the national level. However, local consultation and needs assessment were cited by staff as primary functions in all of SIDO's activities, and it could therefore be assumed that those processes do have at least some impact on policy formulation.

D. *Funding and Expenditures.* SIDO's funding is provided by both the Tanzanian government—through central allocations authorized by the parliament—and international agencies, with domestic funds composing sixty percent of the total and international assistance the remainder. The major international donors are DANIDA (Denmark), SIDA (Sweden) and various Dutch development agencies. Funding has also been received from the World Bank and UNDP. Published figures on the Tanzanian government budget for 1978-79 show international grants to SIDO totalling \$3,484,770 (mostly from Scandinavian countries) and loans totalling \$1,543,111 (from World Bank and SIDA). These figures are probably lower than actual current support, as they do not include in-kind contributions of equipment and technical personnel.

SIDO's total operating budget for fiscal year 1978-79 was approximately \$12.8 million. Of this amount, approximately \$1 million was for operating costs (including salaries) and \$10.8 million for direct development expenditures. The reported budget for fiscal year 1979-80 totals roughly \$18 million, with \$2.2 million in recurrent operating expenses and \$16 million in project development expenditures. The majority of development support allocations are targeted for the development of "larger small industries" and industrial estates; twelve such estates are being developed. Close to \$4 million is allocated for construction costs, \$8.8 million for equipment and machinery, \$2.1 million for direct training and technical assistance, and roughly \$1.2 million for small-scale production-unit equipment and raw materials. The large capital expenditures allocated to physical development and equipment reflect the agency's movement toward "larger small industry" development over the last few years. The allocations for training, technical assistance, and small-scale production unit tools and equipment (totalling \$3.3 million) reflect continued SIDO support to small-scale production units. This continued support to smaller-scale production units was confirmed personally by SIDO's General Secretary.

E. *Beneficiaries.* There is currently no specific SIDO program aimed exclusively at the urban sector. Its policies emphasize a balance of urban and rural service delivery. At the present time, however, about forty percent of SIDO's clientele are urban based and a trend in this direction will be strengthened by the current planning of new industrial estates for either secondary towns or peri-urban areas.

SIDO clients include members of all Tanzanian ethnic and religious groups. While exact figures on client incomes upon entering the SIDO program are not available, they were cited as being less than \$40 per month on average and as low as \$5 per month in the case of early school leavers. Although criteria for client selection differ by program, it was repeatedly emphasized by staff members that, consistent with all government policy, primary consideration in all cases is placed upon economic need (see Project Activities). It is assumed by the agency that assistance to small-scale producers (not retailers) inevitably reaches the poor. Given the general level of poverty in Tanzania outside the commercial sector, this is probably true, at least at the artisan level.

Most of the entities being serviced by SIDO are small groups of artisans, since the movement toward promotion of "larger small industries" has only occurred during the last few years. These small groups are a mixture of existing SSIs and newly initiated units which have arisen either independently or as a result of direct SIDO promotion. SIDO skill acquisition programs are aimed mostly at youth, especially school leavers, whereas skill-upgrading training and general SSI assistance are aimed at all Tanzanians engaged in independent production. The male-to-female ratio of clients receiving training is 2.5 to 1, and this ratio was cited as being generally representative of all SIDO clientele.

F. *Project Activities*

1. *General Approach.* SIDO's activities in support of SSI creation and growth are quite broad. In all cases, its promotion and service delivery is responsive in nature and planned on the basis of an assessment of a) local SSI assistance needs and b) local demand for SSI goods and services. These assessments are continuous, and are done on both a general and case-by-case basis. For example, when SIDO first initiated activities it carried out surveys of urban-based SSIs to elicit artisan views on assistance needs. The majority of responses to this survey indicated that tools, equipment, and raw materials were the most immediate needs of small producers, and SIDO has in large part focused on the delivery on these inputs. SIDO continues to elicit local artisan needs on a regional basis, both formally through surveys and informally through regular contact with clients.

At the same time, staff assessments of local demand for different SSI goods and services are carried out to identify the local marketing potential of various goods and services. The resulting demand analyses determine which types of production units are to be promoted and which skill areas are to be emphasized in the areas of training and technical assistance. Lastly, feasibility studies are carried out on each SSI which is seeking assistance. These studies, or "profiles," for small artisan groups take into account local demand for the products in question, the skill levels (both managerial and technical) of the artisans, and the appropriateness of the technology being utilized in production. Additional consideration is given to the availability of local resources to support the producers, including raw materials and maintenance and transportation services. These analyses are used to determine whether or not a particular small industry is viable and to form a base of information upon which appropriate assistance inputs are determined.

SIDO's specific assistance activities will be discussed under the headings of promotion and selection; technical and managerial assistance; financial and material assistance; and training.

2. *Promotion and Selection.* SIDO's promotional role involves both responding to requests for assistance from existing artisans and SSIs and directly creating small industries to fulfill local demand. In the latter case, data on local demand are reviewed and, if certain necessary products are not being locally produced, SIDO will directly promote the creation of appropriate industries—often on its industrial estates. The agency's promotional activities vary according to the demands of these different roles, and thus will be discussed separately.

a. *Direct promotion of SSIs.* In this work, SIDO will plan the appropriate production process for the industry in question, assist in acquiring the physical plant, procure the initial equipment and raw materials, and recruit both local workers and technical specialists to work with the industry, typically for a period of two years. Such industries may be "larger small industries" in regional industrial estates or small village or local urban-community production centers. SIDO will often recruit workers for these new industries through advertisements and published notices which are sent to local development commissions, training institutions, representative community councils, and schools. The selection of workers is made by the local promotional team in conjunction with the technical personnel directly responsible for the industry. In all cases, economic need, together with some experience or training in a related skill area, reportedly form the basis for selecting individuals for immediate employment. The determination of need is based on one's level of income, number of dependents, age, and family educational and financial background.

In many cases, skills training must precede the establishment of such industries. In such instances, trainees are recruited from local communities to attend either regional vocational training institutes or SIDO's Training-cum-Production Centers with the understanding that they will return to their respective communities to work in the new industries (see Training). This training currently serves roughly 2,000 technical trainees per year; this is in keeping with plans that call for the eventual establishment of over 8,000 new community-level industries nationwide. These smaller, local-level industries employ from five to seven workers in rural areas and ten to fifteen in urban communities; larger small industries employ up to 45.

b. *Industrial estates.* Many of the larger small industries initiated by SIDO are planned as part of the development of regional industrial estates. There are currently three operating estates (in Dar-es-Salaam, Arusha, and Dadoma), with twelve additional estates under development. As stated earlier, SIDO has allocated large amounts of capital for industrial-estate industries (see Funding). While labor-intensive, these larger small industries are more heavily capitalized, in terms of equipment and physical plant, than their smaller, community-level counterparts. They are created to generate employment while providing goods which are currently imported and must be produced with more sophisticated technology than those turned out at the artisan level. The Dar-es-Salaam industrial estate, for example, contains a foundry, a metal-work shop, an eyeglass-frame shop, a furniture-production shop, a central machine shop, and a chain-link fence production shop.

The Dar-es-Salaam estate consists of twenty distinct physical sites available for small industries, with a ten-person central administrative and technical staff and an on-site equipment maintenance and repair shop. There are currently thirteen industries operating within the estate, employing between five and forty-five people, or an average of twelve per industry. Taken together, the three operating industrial estates incorporate approximately 45 industries of varying size which employ a total of 650 to 700 people.

While SIDO maintains no equity in any supported ventures, it grants industrial-estate industries subsidies in the provision of plant and equipment and intensive technical assistance. Rent of physical facilities may be subsidized for up to two years, and a technical expert is often retained on a full-time basis to oversee production and management and provide ongoing training to workers. If Tanzanian experts are not available for the particular industry in question, expatriates are used (often as part of a foreign assistance program) while a Tanzanian is trained. Management and accounting assistance is provided to these industries by industrial-estate staff. Assistance in the form of equipment and raw materials is provided through SIDO's equipment hire-purchase program and raw materials supply division (see section on Material and Equipment Provision below). Like all SIDO-promoted entities, larger small industries both within and outside industrial estates are usually organized as either cooperative or worker-managed partnerships.

c. *Responsive assistance.* As one of its major activities, SIDO provides assistance in response to requests from existing artisans. These services are open to any Tanzanian engaged in self-employed production activity, and are promoted through radio and newspaper advertisements and frequent contact with all local development, administrative, and political entities. The promotional information distributed by SIDO explains the assistance services available and urges potential beneficiaries to contact regional SIDO promotional teams either directly or through local development commissions.

SIDO policy is to assist producers who work collectively in groups of at least five people. This requirement is the same for all small client industries regardless of size. According to senior SIDO staff, this policy is followed to 1) ensure maximum labor utilization among all assisted entities; 2) facilitate service delivery and thus assist more clients per man-hour of assistance; 3) streamline management and production processes; 4) lower costs incurred in raw material procurement and marketing; and 5) allow for the formation of group mechanisms for the guarantee of credits. SIDO policy, however, is to assist all needy Tanzanians engaged in self-employment. Therefore, when individual artisans approach field staff, they may be referred to existing group production units engaged in a similar trade within their locality. At the same time, field staff from both SIDO and local development agencies are charged with organizing groups of artisans in the same trade areas to form collective production units.

3. *Organizational, Managerial, and Technical Assistance.*

a. *Organizational and management assistance.* Once contact is established with the beneficiary group—whether it be a SIDO-initiated industry or a self-established group—regional SIDO staff assist the beneficiaries in gaining legal status, either as a cooperative or as a private, worker-managed partnership. This is done to qualify them for receiving bank credits for working capital or equipment, as well as additional services from other public agencies.

Initially, SIDO advised most assisted production groups to adopt cooperative status, as co-ops are eligible to receive on-site managerial and accounting assistance from Department of Cooperative field agents and low-interest credits from national cooperative banks. Over the last four years, however, SIDO has begun to promote worker-partnership structures along with cooperatives. According to staff, SIDO has made this change because of the complex regulations and bureaucratic "red-tape" surrounding cooperative operations. For example, Tanzanian co-ops must have the co-signatures of Department of Cooperative field agents on checks and bank withdrawals, and must conform to rather stringent management structures and administrative systems. SIDO has concluded that cooperative structures can work well for larger, more established groups of producers which can benefit from centralized administration and inputs. Given current Tanzanian regulations and controls, however, it does not feel that the co-op system lends sufficient flexibility and autonomy to small production units in their formative stages. Such units must often alter their production and management style until an optimum system evolves.

In many cases, therefore, a worker-partnership arrangement is now considered by SIDO to be more appropriate, especially for new groups of artisans who are not used to working together. While these partnerships have many of the democratic elements often found in cooperatives—such as elected, chosen, or rotating managers and equal incomes—they also have greater flexibility than co-ops in achieving legal status (the registration process, for example, is faster and less complex) and instituting and altering accounting systems (there are less controls on the accounting and expenditures of income). Despite being able to receive credits and services from cooperative sources, they have also demonstrated, according to SIDO, a greater ability to "get off the ground" by efficiently utilizing available inputs (they do qualify for SIDO and bank credit) and "feeling their way through" to the adoption of the most appropriate production and management systems. It should also be noted that, over time, worker-partnerships can change to cooperative status.

While the client group is gaining legal status, SIDO field staff continue to assist it in designing and implementing a managerial and production system. The group is usually advised to select members to be charged with accounting and management responsibilities, with the number of individuals selected for these functions varying with group size; for groups of less than ten, however, members do not serve in an administrative capacity on a full-time basis. Follow-up training and on-site management assistance are then focused on these members, creating an efficient delivery system for the upgrading of a group's capabilities in these areas. This has been cited by SIDO as a major advantage of grouping.

SIDO's policy is to make local SSIs as independent as possible in the shortest period of time, delivering increasing levels of assistance to these units as they continue to demonstrate their feasibility at each stage of their growth. Initial on-site accounting and management assistance, provided by either SIDO or Department of Cooperatives field staff, focuses on a simple "in-out" cash accounting system. After management assistance is initiated, clients can be referred to the regional training institutes of either the Department of Cooperatives or the Ministry of Labor for further, more intensive skills upgrading. The decision to refer clients for intensive training is made on the basis of progress made by the production group as a whole. Continued training is provided through local, small-group courses conducted by Department of Cooperatives agents. As the group progresses further and more sophisticated assistance is required, one to three members charged with management duties may be referred for more intensive training. Such training is free of charge to clients and usually of three months' duration.

SIDO's management and accounting assistance program has recently intensified. Initially, it relied upon Department of Cooperatives staff for most of the extension work, but, because of increased management needs and the proliferation of non-cooperative groups, SIDO is currently initiating a small management training institute. The first function of this institute, which is receiving assistance from Holland, will be to produce a Swahili-language accounting and management manual for use by both field staff and local production units. Currently, all such materials are available only in English.

b. *Technical assistance.* SIDO's technical assistance is provided, in conjunction with management and accounting assistance, by regional field staff and, when necessary, by central technical staff and/or consultants. It is planned on the basis of the initial feasibility profile of the client unit, which details its particular technical assistance needs. Its focus is generally on the design and organization of production processes; technology transfer; and the upgrading and maintenance of tools, equipment, and physical plant. In the first stages of the program, clients are advised on efficient group production techniques, including division into sub-units of individuals and small specialized groups. On-site assistance then focuses on these sub-units. As the production unit progresses and enlarges, selected members may be referred to SIDO and Ministry of Labor regional vocational training centers for intensive technical skills upgrading.

At the same time, assessments are made of the work group's tools, equipment, and physical plant. Recommendations are made regarding new tools and equipment needs, leading in some cases to applications by clients to SIDO's equipment hire-purchase program; raw material needs are handled in a similar fashion. Physical plant upgrading is viewed as a primary concern by SIDO only after equipment and raw materials needs are satisfied. Once groups reach a certain size and level of sophistication, they may be either recommended for a plant within an industrial estate or referred to a bank for credit to upgrade facilities. This process is utilized for all client groups except for SIDO-initiated larger small industries for which initial equipment, materials, and physical space are procured from the outset.

Within the SIDO promotional team, it is the industrial engineer who is charged with carrying out preliminary technical feasibility assessments and providing on-site technical assistance. His particular responsibilities are in the areas of production organization and the procurement, installation, and maintenance of equipment. Central technical staff are also available for both consultation and the delivery of direct technical assistance when necessary. Many of these technicians have either equipment or trade-area specializations and can provide either case-by-case or region-wide assistance in a particular product or service area. For example, a mechanical engineer may be called in to advise on the specific type of equipment needed to upgrade a local construction unit, while a specialist in agro-processing may be assigned to a particular region for one year to provide assistance to a number of local food-canning industries.

At the same time, one of SIDO's major goals is to act as a conduit for the transfer of technology—both internationally and intranationally. This role is played in a number of ways. The research and planning division is continually monitoring technical developments in labor-intensive production processes and equipment that are relevant to Tanzania's consumer and industrial needs. Technological information is assessed and disseminated to SIDO regional staff through in-house publications and training seminars; in turn, field staff advise client groups on new production techniques and the availability of affordable and efficient tools and equipment.

SIDO also has an appropriate technology research, development, and dissemination unit in Arusha. This unit develops A. T. equipment (much of it energy-related), introduces these innovations to local villages and SSIs, and evaluates their efficiency and adaptability in local, usually rural, environments.

As a further effort to introduce production technologies, SIDO sponsors and coordinates "sister industries" projects with Scandinavian countries. In this program, small industries are initiated with the assistance of established firms from the donor nations. The types of industries promoted in this program include a foundry, a cutlery production unit, and an eyeglass manufacturing unit. Equipment, technical assistance, and employee training are provided by the parent industry, with SIDO providing physical plant and materials on a credit basis to the new industries. This program is essentially part of SIDO's "larger small industry" development program, but is cited as a major technology transfer and training effort. The largest concentration of these industries—twelve to fifteen—is in the Arusha region.

4. *Provision of Materials and Equipment.* All transfers made under SIDO's loan program are made in kind in the form of either tools or equipment. Scarce raw materials are made available to clients through a central supply system, but on a cash-payment basis. As stated previously, cash credits for working capital are not made by SIDO.

The reasons for this approach are two-fold. First, SIDO's initial research on SSI needs (undertaken in urban settings) identified tools, equipment, and raw materials as the primary needs of artisans. Second, it is SIDO's intent to encourage client groups to rapidly become independent. In the General Secretary's words, SIDO attempts to "wean clients from our assistance as soon as possible." It is for this reason that no cash loans, including working capital credits, are made available by the agency. Rather, clients are encouraged to approach national and cooperative banks for all cash and working capital credits. In line with this policy, Tanzanian national banks are mandated to lend to small industries, and do so at interest rates averaging about 7½ percent. SIDO staff, however, are not fully satisfied with the response of national banks to the needs of small artisan industries, claiming that collateral requirements are in some cases too conservative. Regional field staff assist clients in approaching banks, preparing loan applications, and making use of the group guarantee mechanism as the primary means of securing clients.

a. The *hire-purchase program* makes tools and equipment available to clients on a credit basis. Production groups are advised on equipment needs by SIDO field staff, who also assist them in the application process. The information required for application iucludes the type and size of the industry, its total assets, its level of production capability, and its financial history. The application must first be approved by the local District Development Commission; it is then passed on to SIDO headquarters where it is reviewed by senior technical staff. The approval decision is made on the basis of client need and the overall capability of the applying production unit. Feasibility studies accompany each application and contain the basic information used to evaluate the applicant.

Other than physical assets, group guarantees are used to secure the loans. Once an application is approved, the client signs a repayment guarantee in the presence of a magistrate. In case of default, the equipment is repossessed by SIDO and made available to other groups. Simple tools, such as manual equipment for carpentry, tailoring, and shoemaking, are provided in kits. Such kits, as well as simple tools and domestically produced machinery, are delivered to clients within three months. The delivery of larger, imported machinery, such as lathes and drill presses, takes from six months to one year.

A ten percent down payment is required on all hire-purchase loans. This cash down payment may be borrowed from banks. The balance of the loan is repaid over a five-to-seven-year period, depending on the size of the loan and the cash-flow projections of the work group; there is usually a one-year grace period. Repayments are made either quarterly or bi-annually.

To cover SIDO administrative costs, an interest charge totalling five-percent of the face value of the loan is demanded of all clients. Repayment is monitored by regional teams and managed centrally in Dar-es-Salaam. Failure to meet payments first results in an inquiry by field staff; failure to meet two consecutive payments results in an official warning letter. Continued failure to make payments finally results in the repossession of equipment.

Approximately fifty equipment loans are made to production units each year and, as of May 1979, 273 such credits were reported to have been extended. The loans range in size from $1,000 to $50,000, with the average loan size at approximately $5,500. As the average client group is reported to have twelve members, the average loan breaks down roughly to $460 per individual. Adjusted for interest, repayments per year average $1,150 for a group of twelve over a five-year period, or $95 per member. Only about forty of SIDO's loans have been in arrears at one time or another, and there have been only three defaults resulting in repossession.*

While information on the breakdown of loans by trade areas and the type of equipment purchased was not available, it was reported that the smaller loans which were made were extended primarily to such trades areas as shoemaking and repair, welding, carpentry, tinsmithing, weaving, tailoring, maize grinding, and vegetable canning for the purchase of simple tools and equipment. The types of groups receiving loans are the following:

| | |
|---|---|
| Village-level industries | 121 loans+ |
| Worker partnerships | 73 loans |
| Cooperatives | 56 loans |
| District Development Corporations | 9 loans |
| Other | 14 loans |

Approximately 120 of the loans have been made in urban or peri-urban areas, while 31 have been made in Dar-es-Salaam. These figures do not include $360,000 in credits which were made available in 1978-79 to seventeen industries on the Arusha estate from a special Swedish loan fund.

*It was not ascertained how long loan repayments remain in arrears before a loan is classified as a default.

+ Village-level industries are usually worker-partnerships, but may also be cooperatives.

SIDO also acts as an intermediary in the purchase of equipment for medium-scale industries. In this program, equipment worth up to $100,000 can be acquired by an established industry. No credit is extended by SIDO in this program. Twenty percent of the cost of purchase must be paid in advance by client industries and five percent must be deposited in a bank as insurance of payment upon delivery. Roughly $9 million in equipment is purchased through this program each year.

b. *Raw materials procurement program.* This service was initiated to make scarce, imported raw materials available to SSIs at wholesale prices. Such materials include steel wire (for chain-link fencing), sheet metal, angle iron, plastics, certain types of yarns, and various chemicals, such as dyes. The program operates as a revolving fund, but not on a credit basis. Clients place orders through District Development Commissions and SIDO promotional teams. These requests are passed on to the central supply officer in Dar-es-Salaam, where they are compiled and the necessary materials are ordered in bulk. Clients pay 25 percent of the total estimated purchase price upon ordering and pay the balance plus a five-percent handling charge upon delivery. Delivery usually takes two to three months.

The total amount of capital allocated for SIDO's upfront purchasing of materials supplies is $150,000. According to staff, the program is currently meeting only one-quarter of client demand for raw materials, and the amount of capital allocated for purchasing should therefore be increased substantially.

5. *Training.* SIDO offers both technical and managerial training. The types of training offered and the selection criteria for the acceptance of trainees differ with the age of clients, the technical complexity of the trade area in question, and the needs of the local community. In all cases, however, training is geared toward self-employment in trade areas which address local economic needs. As part of their ongoing activities, regional promotional teams assess both artisan training needs and demand for different goods and services at local levels. On the basis of these ongoing assessments, decisions are made at the regional level regarding the trade areas upon which training should focus and the type and intensity of training needed in these different skill areas. This approach to the planning of training programs is based on the twofold objective of upgrading artisan skills while ensuring that necessary goods and services are supplied within local communities. To ensure the coordination of training with other SSI-development activities, SIDO training staff are diffused throughout all departments. In addition, each region has a training officer who plans all training programs in consultation with the regional promotional team.

a. *Management training.* As stated previously, management assistance is delivered on-site to clients by regional promotional teams. More intensive training is delivered to work group members by Department of Cooperatives personnel. Management training is also carried out at regional vocational centers operated by the Ministry of Labor. In these centers, training in elementary accounting and management is given along with technical skills training. In recognition of the increasing need for management training among SSIs, plans are currently being made by SIDO to form its own management training institute. The institute would provide training to production-unit managers and develop training materials for use in local-level training and on-site assistance.

b. *Technical skills training.* SIDO technical training is carried out for the purpose of both skill upgrading and the acquisition of new technical skills. In the case of employed artisans, training to upgrade skills is provided either through short courses of one-to-six months' duration which are offered at regional vocational centers or through on-site group training provided by SIDO technical trainers.

Basic skills training is focused on youth, especially school leavers. Most of this training is provided through Training-cum-Production Centers (TPCs). There are currently twelve such centers located in regional capitals. The courses in each TPC are determined by SIDO regional teams, which recommend the adoption of certain courses on the basis of local demand surveys. Trainees who attend regional TPCs are recruited from local communities in groups of three to five per trade area. They must have legitimate economic need, be literate, and possess a certain minimum level of physical dexterity. Local officials must guarantee physical space and, if need be, working capital for these recruits before they are accepted for TPC training. Group recruitment and local sponsorship are required as a means of ensuring that the investment made in training will result in the availability of necessary skills and products in local communities, and that there is local commitment to the development of SSIs.

TPCs differ from Regional Vocational Training Centers in that they are oriented toward self-employment and carry out training in conjunction with production. Trainees work in groups under the tutelage of a skilled artisan and begin to produce marketable goods and services after the first three months of training. Incomes from the marketing of TPC products covers approximately 30 percent of SIDO's youth-training costs. This defraying of costs is considered to be crucial, since all training in Tanzania is free to participants and all costs are absorbed by the government.

Beginning trainees receive at least six months of training, and training can last up to two years. No certificates are awarded to trainees upon course completion, as the program is meant to be informal. After training, the trainees are expected to return to their communities and either initiate or join a production unit in their specific trade area. It is the responsibility of the regional SIDO team to follow up with TPC graduates upon their return to their communities and to offer assistance, especially in the acquisition of tools through the hire-purchase program.

On average, each TPC covers three trade areas, with 60 trainees and three senior instructors in each area. The total number of trainees currently attending the twelve TPCs is approximately 2100. A specific breakdown of trainees by trade area was not available. The major training areas cited, however, were handicrafts production, carpentry, metalwork, weaving, vegetable-oil production, and soap manufacturing. Other trades covered include leatherwork, carpet production, bamboo craft, and lime manufacturing.

Training in heavier industries, such as foundry and cutlery work, is carried out through apprenticeships within industrial estates. Currently, SIDO employs six highly skilled foremen in industrial-estate production units who train groups of apprentices. These apprentices are recruited and selected in the same manner as their TPC counterparts.

6. *Marketing*. For the most part, SIDO clients are expected to market their products either within local communities—in response to predetermined demand—or through Regional Trading Centers operated by the government. Direct marketing assistance by SIDO staff has not been viewed as a priority, and such assistance usually takes the form of advising clients on the determination of appropriate levels of output to satisfy local demand. The actual marketing of products is left up to the production units themselves.

SIDO does, however, offer marketing assistance by securing subcontracting arrangements for small industries and by offering tenders for government procurement of SSI products. Subcontracting is arranged mainly in the leather and textile industries, with SIDO working out subcontracts for small production units with larger domestic and international corporations. At the same time, SIDO accepts orders from various government ministries for the procurement of SSI products and, in turn, offers contracts to be bid upon by small industries. These contracts for the procurement of products, such as school equipment, office furniture, fencing, and wiring are distributed to field staff and advertised in newspapers. Preference is given to small local firms which cannot normally compete with larger industries. These production units are assisted in planning their production to fulfill procurement orders, and can make use of SIDO assistance in acquiring raw materials.

7. *Handicrafts*. SIDO has a special program through which it assists artisans in the production and marketing of handicrafts. A handicraft division within SIDO provides handicraft production units with physical space, tools, equipment, and product-design assistance. This division operates a handicraft estate in Dar-es-Salaam which houses over 200 artisans who work in units of three-to-five persons. The estate's staff provides management assistance to production units and makes tools and raw materials available on a credit basis.

To assist in the marketing of handicrafts, SIDO has created a subsidiary organization—HANDICO (Tanzanian Hand-craft Marketing Corporation). HANDICO is an independent corporation with a board of directors composed of participating artisans, tourist officials, and SIDO marketing personnel; the Board is chaired by SIDO's director of marketing. This firm searches out domestic and international markets, accepts orders from wholesale and retail dealers, and fills these orders through bulk purchases from artisan production units throughout Tanzania.

HANDICO attempts to increase artisan productivity and incomes through identifying profitable lines of handicrafts and then ordering these products in bulk from the production groups. The groups are then able to systematize their production around a few items for which a market is guaranteed and make bulk purchases of raw materials to fill orders. Major items marketed by HANDICO include wood carvings, batiks, tie-dye fabrics and clothing, traditional baskets, and jewelry.

HANDICO currently employs approximately 40 people, and has average monthly sales of $54,000. Handicrafts are purchased from over 400 artisans, and there are 245 people currently being trained in handicraft production—both within TPCs and in apprenticeships with experienced craftsmen.

### IV. Future Plans

SIDO is currently finalizing its next five-year plan, which covers SSI development in three different areas: industrial-estate factories; private, "larger small" industries; and smaller, artisan-level industries. Within the last two categories, five-year investments totalling $45.5 million are being planned to create approximately 25,000 jobs. Approximately 700 "larger small" industries which are to be developed or assisted outside industrial estates will absorb $32 million in investments and provide 16,000 jobs. Over 3000 small, community-level production units will also be developed through a total investment of $13 million, with the expectation that at least another 9000 jobs will be generated in the process. Sixty percent of SIDO's support activities are slated to be focused on rural areas and forty percent on urban and peri-urban areas. Based on past experience, it is expected that half of SIDO's finances will go toward the purchase of tools, equipment, and raw materials, with the remaining fifty percent being invested in training and technical assistance.

There are no current plans to institute any special program aimed at the urban poor, as SIDO maintains that this sector of the population is already serviced by the organization as part of its ongoing activities. According to the General Secretary, however, SIDO can receive and utilize funds earmarked for specific projects or sectors as long as they conform to established goals and policies. Thus, funding specified for use in urban or peri-urban areas could be utilized by SIDO in carrying out its future plans.

### V. Impact*

According to SIDO estimates, up to 5000 small industries have been assisted either directly or indirectly at one time or another. The agency further estimates that these industries provide employment to approximately 25,000 Tanzanians. In addition, roughly 2000 people per year receive technical skills training. Calculating that all program beneficiaries continue to receive some degree of assistance, it is estimated that recurrent operating costs and technical assistance and training expenditures together averaged less than $200 per individual in 1979. As SIDO does not regulate SSIs nor dispense cash credits, it does not keep close check on its clients' financial performance or collect figures on client incomes. (Data on client performance, however, are currently being collected by staff as part of an evaluation scheme.) Various estimates by SIDO staff place small-production-unit worker incomes at between $60 and $75 per month. In addition, SIDO estimates that ten percent of Tanzania's GNP is produced through such industries.

Short site visits were made to the Dar-es-Salaam industrial estate and an artisan-production cooperative comprised of over fifty work groups in central Dar-es-Salaam. Particularly in the case of the artisan cooperative, clients appeared to be representative of the urban poor, and relations between SIDO staff and clients seemed sound. Additional interviews with SIDO field and administrative personnel left the impression that they were both motivated and serious about their work.

The major problems encountered by SIDO, as reported by both staff and third-party sources, appear to be in the area of management. As a large, nation-wide and centrally administered organization, the agency certainly suffers from its share of bureaucratic inefficiency and appears to have problems in coordinating the delivery of services on such a broad scale. There is also reported to be a variability from one region to the next in terms of both staff performance and the relative accessibility for clients of credit, transport, marketing, and other services. For these reasons, SIDO's impact reportedly varies from one situation to the next.

With the absence of hard evaluative data, it is thus difficult to render an overall judgment of SIDO's effectiveness. With this in mind, the following analysis has been undertaken for the purpose

*No independent studies of SIDO's impact were available during the preparation of this report.

of abstracting those elements of SIDO's methodology which may be constructively transferable to other income- and employment-generation programs.

## VI. Analysis

An analysis of SIDO's support of small industries may be summarized as follows:

1. The SIDO program is a nation-wide effort to promote the development of small-scale industries. As such, its goals encompass the increasing of domestic production and the provision of essential goods and services at local levels, in addition to the generation of employment and income. It therefore promotes both "larger" and "smaller" small-scale industries. The program is somewhat unique in comparison to its public sector counterparts in other countries, however, in that, consistent with Tanzanian policies, greater emphasis is placed on achieving these goals through the collective mobilization of the poor at local levels.

Given the Tanzanian context, it is difficult to analyze SIDO in isolation, as the agency essentially plays the role of a technical conduit in a national attempt to generate self-reliant, worker-controlled industries in all sectors of the economy. It is an integral but small part of a broad, decentralized model of development, and is thus highly dependent on the locl promotional, financial, and administrative functions of other agencies and organizations in the Tanzanian system. Its success, therefore, is at least in part dependent on the success of the whole Tanzanian development model.

An enormous amount of research has been done on this model, and a prolonged discussion of the strengths and weaknesses of Tanzania's development process is beyond the scope of this analysis.* There are, however, two salient points which should be noted. First, there are few countries in which public policy supports development of and by the poor to the same extent as in Tanzania. The pursuit of development from the bottom up is, in fact, the dominant national priority. Second, this policy support has been translated into a high level of promotional and organizing activities at local levels, both rural and urban. This local promotional activity in turn provides a basis for reaching the poor with the delivery of various types of assistance. Taken together, this policy and local organizational support constitutes a promotional base upon which it is possible to make a much broader attempt to assist directly the very poor than is possible in most countries.

This does not mean, however, that SIDO is totally free from promotional responsibilities or that the Tanzanian system always works to the direct benefit of the very poor. According to SIDO's General Secretary, one of the organization's major challenges is to establish trusting relationships among poor artisans, who often distrust formal, public sector development efforts. At the same time, the hesitancy of national banks to take risks in extending working capital credits to small work groups can undermine SIDO's promotional efforts. Still, in pursuing its SSI assistance efforts, SIDO seems to enjoy a level of political and organizational support far above that found in most African countries.

2. The attention paid by SIDO to analyzing local demand in the process of promoting SSIs results from its attempt to ensure that a) local consumer needs will be met, and b) that assistance will be extended to local industries which are feasible. This assessment of demand seems crucial to the selection of appropriate trade areas to promote through on-site assistance, training, and credit extension, and is undertaken prior to the delivery of assistance in all cases. This up-front work could well be related to the reportedly low default rate of the credit program, and was cited by SIDO staff as being crucially important.

3. SIDO's policy of only assisting groups of five or more people allows it to extend direct assistance to a far greater number of beneficiaries than would be possible on an individual basis. In addition, the grouping of clients allows for the informal sharing of skills, the differentiation of production and management functions, and the formation of bulk-purchasing and local credit guarantee mechanisms within production units. This differentiation of functions in turn allows the amount of management assistance and training that is required to get a small production unit going to be cut down.

*A sound analysis of Tanzania may be found in "A Critical Assessment of the Tanzanian Model of Development," by R. Blue and J. Weaver (Reprint no. 30, Agricultural Development Council, New York, N.Y., July, 1977).

4. Although it is a large organization, SIDO is relatively decentralized and has been allowed to operate with a significant degree of autonomy. While the agency must coordinate its activities with other entities, it is directly responsible only to its own board of directors and is free to select appropriate assistance methods as it sees fit. This autonomy allows the organization to develop its assistance methodology in response to local SSI needs, which are continually being discovered. At the same time, SIDO's regional field staff are accorded significant latitude in determining the type and amount of assistance to be delivered on a case-by-case basis, although policy formulation within the agency remains fairly centralized.

5. SIDO attempts to promote as much independence as possible among clients. In order to "wean" clients from its assistance, it does not hold equity in any supported ventures, does not extend cash credits (thus forcing clients to deal with the national banking system), and delivers only indirect marketing assistance. It also limits its involvement in these areas because of the policy- and institutional-support mechanisms—such as "people-directed" bank lending policies and regional marketing facilities—which are at least nominally in place in Tanzania. However, as stated previously, problems have arisen in regard to these support mechanisms, and SIDO is, to some extent, being forced to adopt an advocacy role in attempting to leverage increased cooperation and outside support for SSI development. It is also important to note SIDO's problems with promoting the creation of new production units in cooperative form which will rapidly become self-sustaining. Rigid administrative and legal requirements facing cooperatives in Tanzania seem largely responsible for these difficulties. To the extent that such requirements exist in other countries, it may be preferable not to convert work groups of very poor people into cooperatives during their formative stages of development.

6. The in-kind credit scheme for tools and equipment operated by SIDO seems to work well, as evidenced by its low default rate. In large part, the apparent success of this scheme may be due to the feasibility studies which are carried out on each group applying for credit. As these studies are carried out to determine the total needs of each assisted client, other types of services are usually delivered prior to the extension of equipment credit. This is also helpful in ensuring that the enterprise is ready to manage and repay the loan. In addition, SIDO's credit terms seem to be appropriate to the needs of its clientele. Low interest rates, together with long amortization periods and group lending policies, have allowed them to make relatively large equipment loans without placing undue monthly repayment burdens on clients. This provision of equipment is a critical element in SIDO's attempt to generate employment among the poor through the support of both small artisan units and larger, more technically sophisticated collective industries.

7. SIDO's work-directed training program, carried out through the TPCs, is designed to facilitate eventual self-employment among its trainees and the independence of the enterprises which are formed. While this approach to the training of youth is similar to that of the Village Polytechnic movement in Kenya, the SIDO program has a quite different structure. Instead of establishing training centers in local communities, Tanzania has opted to recruit locally, provide training in regional centers, and then have trainees return to their communities to initiate production units. As local demand is first assessed within communities and trainees are recruited locally in groups to be trained in needed skill areas, potential employment problems of TPC leavers would seem to be minimized. The additional requirement that local authorities ensure support for trainees upon their return also helps in this regard.

In short, there is one central technical element involved in SIDO's apparent success in assisting employment and income generation among the very poor. Consistent with Tanzania's commitment to local-level, self-reliant development, the agency bases its selection of trade areas and local industries upon an assessment of local consumer demand, thereby matching local production capacities of artisans with the economic needs of communities. In this fashion, it is attempting to spur widespread economic development of, by, and for the poor with the limited resources available.

# CHAPTER 6

## I. Project Identification

Artisan Training and Credit Program of the Centre
National de Perfectionnement des Artisans
Ruraux (CNPAR), Upper Volta

Principal: Mr. Da, Director

Researchers: Fred O'Regan and Rick Boudreau,
The Development GAP

## II. Setting

Upper Volta is a rural society whose limited urban areas are characterized by recent migration and a marked dependence on agriculturally related activities for survival. In good years, the ninety percent of the population engaged in agriculture produce just enough for themselves and the remaining, non-farm population. Farming technologies are virtually the same as those which have been utilized for hundreds of years. In its efforts to increase agricultural production, the government has therefore chosen to orient its agricultural policies toward small farmers and to encourage the development of improved tools and other implements which can be manufactured, maintained, and repaired in rural areas and small towns.

Key to the government's policy are the rural and town-related blacksmiths and carpenters who make, maintain, and repair such things as animal-traction plow equipment. Similarly, other industries, such as construction, draw upon local masons, carpenters, and well diggers. Although traditional craftsmen exist, their skill levels are inadequate to support the necessary increase in rural economic activity. At the same time, most Voltaic artisans practice their craft on a part-time, seasonal basis with very limited tools and often without a fixed, secure workshop. Without access to the necessary training—as well as to credit, raw materials, and support services—local craftsmen cannot effectively play the role laid out for them in the current national economic strategy.

## III. Project Description

A. *Goal.* The principal goal of the Artisan Training Program is to raise both the level of productivity and the incomes of existing Voltaic artisans. The attainment of that ideal is based on the pursuance of the following objectives:

—upgrade the skills of existing craftsmen;
—provide trainees with basic, improved equipment and techniques to establish or improve their workshops;
—provide in-kind credit for additional tools, raw materials, and workshop-construction materials; and
—provide follow-up technical assistance and marketing services.

B. *Brief Description and History.* The Artisan Program, which began in 1970, is carried out by three organizations: the primary institution responsible for training, CNPAR; a recruitment and extension agency, Le Service d'Assistance, Conseil et Soutien (SACS); and a marketing-assistance agency, Atelier Régional pour la Construction de Matériel Agricole (ARCOM). With assistance from the UNDP and the ILO, CNPAR was established in 1971 to provide training to local artisans. Training centers were established in the urban centers of Ouagadougou and Bobo-Dioulasso, and currently over 120 craftsmen receive training each year. A combined follow-up technical assistance program and a credit fund were later created to help graduates start up and manage their own workshops.

CNPAR is in the process of establishing regional centers in Dedougou, Diebougou, Ouahigouya, and Fada N'Gourma to facilitate the provision of follow-up assistance and to allow the training program to respond more immediately to local needs. CNPAR has also submitted a proposal to USAID to improve the program's capacity to provide rural artisans with local training and follow-up management assistance. Specifically, the project would help CNPAR to build, equip, and initiate operations in three regional centers and to develop a follow-up business management effort based on the innovative work done by Partnership for Productivity (PfP) in the eastern regional development district of the country.

C. *Organizational Structure.* The Artisan Training program, with a total of eighty employees, is under the direction of the National Office for Employment Promotion within the Ministry of Labor. The primary institution in this effort is the training institution, CNPAR, which has eighteen instructors on its permanent staff. SACS supports the centers with three, two-member teams which provide recruiting and extension services, as well as carrying out credit promotion and supervision on loans for tools, equipment, and the establishment or upgrading of workshop facilities. ARCOM subcontracts with the graduates of the training centers for the provision of goods and services to the Voltaic government. Upper Volta's Regional Organizations for Development (ORDs), which are integrated, administrative units for regional development, nominate local artisans for participation in the program. Another organization, SAED, is developing appropriate technology prototypes to be disseminated and tested through CNPAR and SACS. According to current expansion plans, PfP will provide on-site managerial assistance in the eastern development region to artisans who have completed training. Figure 1 depicts the institutional relationships of the program.

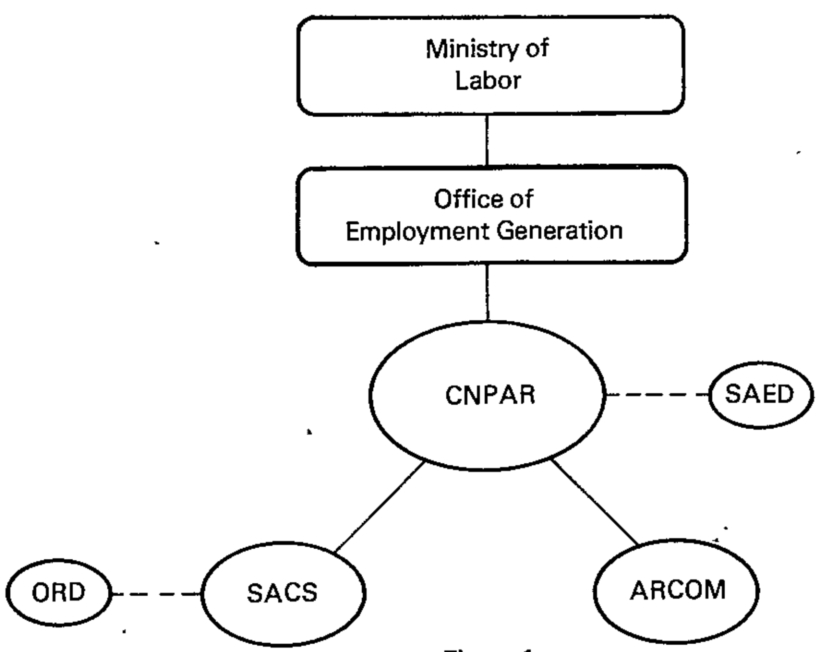


Figure 1

D. *Funding.* Although the UNDP and the Government of Upper Volta initiated the project, a number of other donors have also contributed funds. These include the European Common Market Fund, USAID, the European Ecumenical Council, AID Suisse, and the World Bank. Figures on the program's annual operating budget were not available; third-party sources estimated yearly expenditures of the program to be approximately $300,000 per year, a figure which could not be verified.

The relatively small size of the credit fund—about $36,000 lent out annually—prevents it from generating a surplus with which to cover training and extension costs. Hence, the program remains dependent upon outside contributions.

E. *Beneficiary Characteristics.* The people recruited for this program are male farmers, age 20-35, with families who live at a subsistence level and earn approximately $50 annually from their work. They are illiterate, but are usually established, part-time traditional craftsmen, working as masons, carpenters, well diggers, blacksmiths, or motorbike repairmen. These are basically one-man enterprises with limited or no access to credit, technical assistance, appropriate equipment, or management assistance.

F. *Project Activities.*

1. *Recruitment.* Every year the government's regional development organizations (ORDs) nominate artisans for the training program according to the specific needs they see within the region for skilled craftsmen. After the nominations have been made, SACS field staff interview and evaluate the nominees. Their criteria for selection are as follows:

—the individual must already be a traditional craftsman;
—he must be between the ages of 20 and 35;
—he must be married, with a family (although this criterion can be waived); and
—the village leader must agree to his going, since the village cares for the family during the training period.

Formerly, when the selection process was completely in the hands of the ORDs and the above criteria had not been set, only twenty percent of the trainees went back to their villages and towns, with most remaining in the primary cities. Now, with the addition of the above criteria, and the authority of SACS to reject ORD nominees and recruit trainees on their own, the number of graduating trainees who do not return to their villages is well below twenty percent.

2. *The Training Program.* The program offers training in carpentry, well digging, masonry, smithery, and engine and motorbike repair, and each year accepts a total of approximately 120 new trainees. The training program lasts seven months, beginning in October and ending in April. To date, 804 craftsmen have gone through the program. Of these, 532 are currently operating craftsmen in their towns and villages, eight have become instructors in the program, and the remaining 264 have completed the program but have not returned to their respective communities. The vast majority of the 264 who remained in Ouagadougou and Bobo Dioulasso graduated from the program prior to the adoption of stricter selection criteria.

During the training period the trainees receive scholarships of approximately $40 each per month from the government. Of this, they must pay $15 to the center, leaving the individual with a $25 monthly stipend on which to live. As this sum is not sufficient to cover all living expense in an urban area, the applicant is forced to live with some member of his extended family near the training center. This has presented a major problem for members of ethnic groups not highly represented in the primary cities. The opening of additional training centers in various regions is expected to alleviate this problem.

The training focuses upon the introduction of more efficient and productive technologies such as metal working under higher temperatures and more advanced techniques of brickmaking. The training makes use of simple tools and equipment, and trainees are taught to produce under conditions similar to those they face in their own localities. To further the self-reliant aspects of the training, the trainees are also taught how to construct and/or repair much of their own equipment. In seeking to ensure that the program remains relevant to local needs and conditions, a strong effort has been made to recruit Voltaic artisans out of the training program to become trainers. Currently eight out of the eighteen instructors at the two centers are graduates of the program.

3. *Technical Assistance.* Once they return to their local communities, the graduates are visited once every three months by an extension agent from the SACS regional team. In addition to coordinating credit activities (which are listed in the following section), the extension agent reviews the graduate's workmanship. If poor workmanship or technical problems are discovered, the agent will review some aspects of the training and give the graduate further on-site assistance. This on-site technical assistance is meant to both continue the skill-upgrading process of graduates and strengthen the reputation of the artisan program at the grassroots level.

4. *Marketing Assistance.* In coordination with the follow-up assistance from SACS, ARCOM (the marketing agency) contracts with graduates to fill government needs. It receives orders from all ministries and determines which orders can be filled by local artisans. It then offers contracts, in the form of purchase orders, to the artisans, often dividing up a larger order among a number of individuals in the same trade area.

This assistance is undertaken for three purposes: (i) to increase the volume of production of the artisans, most of whom have not pursued their craft on a full-time basis; (ii) to stimulate local demand for artisan goods and services through allowing the artisans to demonstrate their ability to produce useful products and to function as an established enterprise; and (iii) to provide clients an opportunity to use government purchase orders as a means of securing working-capital credits.

5. *Credit.* Trainees graduating from the CNPAR centers become eligible to apply for loans upon their return to local communities. As part of their follow-up efforts, SACS agents assess the credit needs of the clients on a case-by-case basis and assist them in applying for loans. Other than completion of the training, there are no strict criteria for the approval of loans, and thus the decision to extend credit is made mainly on the basis of field-staff recommendations, which are positive in the vast majority of cases. These field staff are also responsible for loan supervision and collection.

Loans are given only for the upgrading of tools, equipment, and workshops, and, as much as possible, are extended on an in-kind basis. Materials, for example, are made available for the construction or renovation of workshops. No cash credits for working capital are made, but once purchase orders are received from ARCOM, artisans can use these orders to secure in-kind raw material loans from the CNPAR centers. The centers purchase these raw materials tax free and in bulk, and make them available to artisans at wholesale prices. This credit program operates separately from the SACS tools- and equipment-loan program.

An interest rate of 8½ percent per annum is charged on the declining balance of all loans. Loans for workshop construction are repaid over ten years with a three-year grace period; tools- and equipment-loans carry an eighteen-month grace period and are repaid over four years. These relatively long amortization periods have been adopted to lower the monthly repayments of clients. The average loan size, by trade area, for both equipment and workshop construction, is as follows: blacksmiths, \$370-\$415; carpenters, \$115; masons, \$70; well diggers, \$70. Figures on motorbike repairmen were not available. The disproportionately large size of the loans made to blacksmiths is due to the program's intention to introduce more permanent workshop facilities and a relatively higher grade of tools and equipment in this trade area.

As clients have little physical or cash collateral to offer in securing loans—other than the limited tools and equipment they possess before entering training—and group guarantee mechanisms have not proven viable among the widely dispersed clients, the program relies mainly upon the force of traditional values to ensure repayment. Defaults, which result in the repossession of equipment by SACS, are reported to be infrequent, and this was attributed in large part to the threat of social disgrace to the client within his community upon the repossession of equipment by the government. It was reported that, in cases where repossession has occurred, the disgrace to the artisans has been such that they left the community. The only major problem with the credit program occurred in 1976 when loan repayment rates plummeted due to collection problems involving the field staff. A foreign expert who originally managed the credit was rehired to improve administration and it was reported that repayment rates have since returned to normal.

6. *Future Plans: Technological Assistance.* One of the highest priorities in the future development of the CNPAR program is to further the introduction of new technologies at local levels through utilizing the network of artisans who are trained and return to their communities. For this purpose, an appropriate technology (A.T.) workshop is now being organized to develop prototype A.T. implements such as animal-traction plows and more efficient well pumps. This center will fully coordinate its efforts with the CNPAR training centers, which will introduce these prototypes to trainees and teach them to either produce and/or repair them. It is hoped that in this way the graduates of the program will become change agents in their own local communities. They could introduce and maintain improved implements, especially in the areas of agricultural production and well digging, both of which are crucial to the survival of the majority of the population.

## IV. Assessment and Analysis

While hard figures on the results of the CNPAR program were not available, discussions on program performance were held with both CNPAR and other local professionals familiar with the program. All of the people queried felt that the program has experienced administrative problems, but that, in general, it is functioning quite well. Specifically, the CNPAR training centers are highly regarded, and both expatriate and indigenous trainers were thought to be competent and committed. Also, despite previous management problems with the credit program, SACS' administrative and field staff now seem to be working smoothly. The program has proved to be popular at local levels, as there do not seem to be any recruitment problems despite the fact that local communities must support the families of trainees during their absence.

Although the program is not specifically targeted for urban areas, certain aspects of its methodology appear to be relevant to any employment-generation effort among the very poor in Africa. First, its comprehensive approach to service delivery seems well thought out and quite appropriate to the program's major goal of creating viable, full-time, artisan enterprises in towns and villages. The focus on training to upgrade skills which the trainees already possess, followed by the extension of credit, technical assistance, and marketing assistance, appears to be both necessary to the creation of viable enterprises and highly suited to the clientele. In addition, the future link-up with Partnership for Productivity should significantly enhance the management-assistance capability of the program.

Second, although it is a government effort, the program seems to operate flexibly and with a minimum amount of bureaucratic detail. In comparison with most public-sector, SSE-assistance programs, the implementing agencies in the CNPAR structure operate with a significant degree of autonomy. This has allowed them the flexibility to decentralize their assistance efforts and to adapt or modify their approach over time. Although the assistance delivery system is flexible, it also seems to be well coordinated. The specific inputs are well-timed and well-ordered, and despite the fact that three distinct entities arc involved, the program appears to have achieved a high degree of integration in service delivery.

Third, the credit program seems to be well suited to client needs. The adoption of extended amortization and grace periods allows for affordable monthly payments by clients, despite the fact that the size of loans, in comparison to the current cash incomes of clients, is quite large. (For example, loans to blacksmiths average 800% of the annual incomes of clients.) At the same time, the extension of in-kind credits in the form of tools, equipment, and construction materials, ensures that, without immediate supervision, clients—most of whom are absorbing credit for the first time—will make appropriate use of the loans.

However, there do seem to be drawbacks to the methodology of the program in terms of its potential replicability in more densely populated urban areas. As the major goal of CNPAR is to create a network of technically viable production and service enterprises in secondary towns and rural villages, rather than generate employment and income *per se,* it is delivering intensive training and follow-up services on a broad, individual basis. Among more densely settled urban populations who are already engaged in income-generating activity of one form or another and are totally dependent on their cash incomes for survival, it would seem preferable to concentrate more upon on-site managerial and technical assistance than upon extended technical training. At the same time, most of the urban-based programs examined in the course of this study take advantage of the option of delivering services to groups of clients rather than to individuals in order to use staff time more efficiently.

An additional area of concern in the CNPAR program is in the area of marketing. While trainees are recruited on the basis of local production and service needs as determined by regional authorities, in the final analysis the success of the program depends upon the effective demand for such goods and services among the rural population. Ultimately, therefore, these artisan enterprises are dependent upon increases in the cash income of rural farmers and upon their self-perceived need for the products of CNPAR-trained artisans. While the program's current attempt to generate artisan production through government purchase orders to graduating trainees is reported to be working well, it is not known to what extent local demand has been generated for the goods and services produced. Hopefully, the reportedly high loan repayment rate of the program is a reflection of increased artisan incomes generated through local sales rather than through a continued dependence on government purchase orders.

In any case, however, the fact that the program's success ultimately depends on local populations calls into question the program's shortcomings in terms of eliciting the participation of local communities in planning and implementation. While the program has been promoted successfully among artisans, it is essentially a top-down effort. Local needs are determined by regional authorities, and there is little evidence to indicate that local populations are consulted in this process. At the same time, CNPAR depends almost totally upon the artisans to act as technological change agents at local levels and little seems to be done to directly promote a broader local understanding of the purposes and workings of the program. While the CNPAR effort has proved to be generally effective to this point, it would seem that a future expansion of its scope and aims to increasingly involve local communities will be necessary to assure that local technological and product needs are validly assessed, and that local residents clearly understand that the program is designed to benefit them as well as the artisans.

# CHAPTER 7

## I. Project Identification

Women in Development Project (WID-Swaziland)
Ntonjeni, Swaziland
Principals: Ms. Schmelzer
United Nations Development Program
Mbabane, Swaziland

Ms. L. Vilakhazi
Project Director
Ntonjeni, Swaziland

Researcher: Fred O'Regan, The Development GAP

## II. Setting

Swaziland is a small, southern-African kingdom with a population of approximately 600,000. The country is landlocked, being surrounded by the Republic of South Africa and Mozambique. Its economy is directly tied to that of South Africa due to longstanding customs and currency agreements which were retained by the Swazi government after the country became independent from Britain in 1968. The kingdom's relations with socialist Mozambique are not friendly, and little trade takes place between the two countries.

Swaziland is a very traditional nation in that it is governed by King Sobhuza II, his traditional advisors, and local Swazi chiefs who retain greater authority than do local administrative officials and are therefore crucial in the planning of development projects. Roughly 85 percent of the Swazi people are located in rural areas and most of this population lives on the fifty-five percent of the land that is nationally owned. The majority of the urban population is found in Manzini and Mbabane, the nation's two largest towns. The economy, like South Africa's, is highly dualistic, with an expatriate-dominated modern sector on the one hand, and a traditional farming and herding economy on the other. While the annual per capita income in Swaziland is $500 nationally, it is only $100 for the seventy percent of the population which occupies national land and survives through subsistence farming and migrant employment—largely in South African mines.

Given both the extreme economic dualism of Swaziland and its dependency on the South African economy, it is widely recognized that the need exists within the country to pursue self-reliant forms of development which increasingly involve the poor majority. As it is mainly the male population which constitutes the migrant labor force, increased attention is also being paid to the need to provide income-generating opportunities to local women who account for most of the local economic activity which currently takes place.

## III. Project Description

A. *Goals.* The major purpose of the Women in Development Project is to increase the cash incomes of very poor Swazi women and to increasingly involve them in the development process of the nation. The program has the additional purpose of improving general living conditions at local levels through the introduction of new technologies and through the establishment of day-care centers for pre-school-age children.

B. *Organizational Structure and Staffing.* The project was initiated by the United Nations Office of Technical Cooperation (U.N.O.T.C.), which continues to provide the major part of the financial and technical assistance needed to sustain current activities. However, as the program is meant to serve as a prototype in Swaziland, a strong effort has been made to recruit indigenous staff and to integrate the program with ongoing national development efforts. The women in development program currently operates independently, but coordinates its efforts with the Ministries of Agriculture, Health, and Education, with local district development officers and with local traditional chiefs in the area. It also receives technical advice on enterprise management and marketing from SEDCO (The Swaziland Small Enterprise Development Corporation), which usually assists larger and more established enterprises than those being developed in this program.

There are currently eleven full-time professionals working on the project. These include a project director, a project administrator, an income-generation expert, a marketing expert, an agricultural expert (volunteer), a carpenter, and five community development officers. Consultants are also used in the areas of marketing and clothes design. The project administrator and the income-generation, marketing, and agricultural experts are expatriates provided by U.N.O.T.C.; the rest of the staff are Swazis. The project director is Ms. Linda Vilakhazi, a Swazi who has had more than ten years of experience in community development.

In addition to the women's employment project itself, there has also been developed a Village Technology Unit (VTU) at the project site. This unit designs and produces simple tools and equipment for use by women in the production groups that have been promoted by the project. It also produces improved implements for local use that are introduced through the women's project; these include grain-grinding wheels, brickmaking machines, raised cooking platforms, solar cookers, and water filters.

C. *Funding.* The current operating budget for the program is approximately $200,000 per year. Most of this is currently provided by U.N.O.T.C. However, plans call for the government of Swaziland to contribute approximately $165,000 during the next two years of the program as the project moves toward complete nationalization.

D. *History and General Approach.* U.N.O.T.C., together with the U.N. Development Program (U.N.D.P.), initiated this project in Swaziland in 1976. At that time, discussions were held with the Swazi government on the possibility of implementing a prototype women in development project which could be replicated elsewhere in the country. Mutual agreement was reached, and it was decided to initiate the project at Ntonjeni, a community of 12,800 people located near Pigg's Peak, a district capital in the northern section of the country.

U.N.O.T.C. provided an expert to initiate the project and to train a Swazi counterpart to serve as the permanent director of the program. The project began with an outreach effort that was undertaken to establish contact with local communities and to assess the development needs of the area. This activity produced three major results. First, incomes in the area were found to be very low, averaging roughly $23 per month per family of five. Second, male absenteeism was very high, due to migrant employment in South African mines. Third, the involvement of local women in income-generating activity was minimal, consisting mainly of the intermittant selling of local herbal medicines and farm products. It was therefore concluded that an income-generating project should be initiated among local women to complement the low incomes derived from male migrant work and to increase the production capacities of the local communities.

The next step in the development of the project was to again initiate outreach, through the use of community development personnel, to elicit the participation of local women in the planning of training programs, and to begin to organize them into groups, by skill area, in order to facilitate the training. At the same time, day-care centers for children were organized in the area to allow local women to free up time from daily domestic responsibilities in order to become involved in production activities. Although this phase of the program was scheduled to take over one year, motivation among local women to participate in income-generating activities was found to be very high and the training and initial production phases of the project were initiated sooner than planned; training was initiated in February 1978.

As the participating women did not consider training helpful unless incomes were generated almost immediately, emphasis was placed on the initiation of local industries that could quickly produce cash incomes for participants. While cash-crop agricultural development was examined as one option—since it would complement existing skills and actitivies—the decision was made to initially pursue craft-type activities, such as patchwork and weaving, which would provide more immediate returns.

E. *Project Activities.*

1. *Training and Production.* Prior to the initiation of training activities, a study was undertaken by the project's employment-generation expert to identify specific products which (i) did not require extensive technical training for their manufacture, (ii) could be produced within homes using simple tools, and/or machinery and (iii) could be marketed readily. The initial product lines identified included crochet work, mohair spinning, sewing, patchwork, batik work, rag-toy production, and sisal weaving.

After these product lines were identified, local women were recruited on a self-selection basis to begin training and production. The different product ideas were discussed with local women, and the community development workers explained to them the varying degrees of technical proficiency and time commitment that the different product lines would require. The decision as to which production group to join was left up to the individual. At the same time, a small number of women were trained in pre-school education, and five day-care centers were opened to allow women the time to participate.

Once the groups were organized, training in manual production techniques and enterprise management was initiated. All training was undertaken in groups and emphasis was placed on producing marketable products as soon as possible. The women were introduced to the manual techniques in, for example, crochet work or mohair spinning and began producing products for sale within three months. With some product lines, such as sisal mats, production for sale began immediately. The training was initiated at the project center at Ntonjeni, and the groups were encouraged to work together on their own in order to assure continuity in production and group membership.

Each work group was organized as a pre-cooperative to be managed by the participating women. Eventually, all of the work groups are to form one cooperative society which will facilitate the bulk-purchasing of raw materials for all member groups and the collective marketing of products. This cooperative society is designed to develop over time as the production groups become stabilized and the participants become more skilled in management. At the present time the management and marketing functions of the project are coordinated by the staff.

After the first year of training and production activities (as of January 1979), the program had formed the following work groups: *crochet work* (employing fifteen and producing high quality, hand-crocheted products mostly for tourists and the South African market); *sewing* (employing six and producing school uniforms for local schools in the northern district); *patchwork* (employing six and producing aprons, quilts, and place mats for local sale); *knitting* (employing four and producing jerseys and socks for Swazi police); *tie and dye* (employing two and producing fashion wear); *rag toys* (employing two and producing stuffed toys for Swazi children); *sisal work* (employing fifty-seven and producing a variety of sisal place mats); *batik work* (employing three); and *mohair spinning* (employing eighty-five women in three spinning groups and producing finished mohair for use in rug making). When these groups were initially formed, salaries were paid by the project out of its training budget. After the first few months of production, however, salaries were covered completely by sales, and the borrowed funds used for initial salaries were repaid.

2. *Credit.* During the initial training, simple tools and machines, such as wooden spinning wheels produced by the VTU, and, when necessary, raw materials, such as mohair wool for spinning and finished cotton for crochet work, were made available to trainees on a credit basis. To initiate this in-kind credit scheme, $20,000 was set aside from the training budget as a revolving equipment and raw-material loan fund. The tools and equipment have been retained by the work groups who entered into group repayment agreements for the loans. Interest charged on the loans is seven percent per annum and amortization periods are quite lengthy. Figures on the size of credits for equipment and materials were not available, but loans were reported to be very small, as in all cases the equipment consists of simple tools and small, manually operated machinery. Repayments for raw materials are deducted regularly from the groups' income from sales.

3. *Marketing*. Various channels have been established by the project staff to market the products from the women's work groups. These include, a retail sales shop located in the Village Technology Unit's showroom in central Pigg's Peak; a sales booth in the main market in the capital of Mbabane; exhibitions at the annual Swaziland trade fair; and direct sales to two retail stores in Johannesburg, South Africa. In addition, contracts have been established with local primary schools for the purchase of school uniforms and with the Swazi police for knitted sweaters and socks. While sales volume has been generally good, it was reported that overall marketing growth has not kept pace with the expansion demands being placed on the program by the increasing number of local women who wish to participate.

Marketing problems have also caused a number of adjustments in the program. For example, the most popular production line at the outset was crochet work. This group grew immediately to over forty members organized into three groups, but sales volume could not support this number. The group had to be cut down to fifteen, with the remainder joining the sisal-work and spinning groups. To counter future problems in sales, a marketing expert has been added to the project staff to determine the potential market for different products, to identify future product lines, and to assist in establishing viable marketing channels.

## IV. Impact

As of January 1979, the project had directly created employment for 178 women, with 195 other women awaiting either training equipment or the development of new product lines. At the same time, five day-care centers had been developed to provide services for over 300 children.

Incomes to participants vary widely according to product lines. The highest incomes were reported in the areas of knitting ($52/month), sewing ($31/month), patchwork ($31/month), and tie and dye ($36/month). The lower incomes were reported in the areas of batiks ($19/month), crochet work ($9.75/month), toy making ($10/month), and sisal weaving ($5.75/month). No figures were available on the mohair-spinning group. The average monthly income per participant is approximately $12.50. This income complements the current incomes of the participating women's families, representing a new increase to families of approximately forty percent.

## V. Future Plans

Further production-group development in the program will focus upon more locally marketable products, such as bakery goods, soap, candles, and paper. Emphasis is also being placed on agricultural production, and for this purpose an agricultural expert has been added to the staff to identify potentially viable agricultural industries and to begin training and technical assistance. It was reported that beekeeping, pig raising, and silk-worm propagation are being examined as future possibilities, along with the cultivation of groundnuts and other cash crops. Food processing and preservation industries are also being considered. At the same time, the project's marketing expert will be attempting to expand marketing channels to all regions of the country.

As the project has spurred the interest of the Swaziland government, current plans call for the gradual expansion of the program to other secondary towns in Swaziland and for the appointment of a national commission on women. It was reported, however, that the project's staff wish to further solidify the project at Ntonjeni before embarking upon an expansion to other localities. Expansion, therefore, will be very gradual.

## VI. Assessment and Analysis

Although Ntonjeni is essentially a rural area, it borders a secondary town and its residents, in many ways, are representative of the burgeoning peri-urban populations located near secondary cities and towns in Africa. Although these populations are rural and traditional in nature, they are in a state of transition from subsistence economic life to a greater dependency on, and involvement in, the formal cash economy. In this sense, the beneficiary population of this program has much in common with, for example, the population being served by NCCK's urban program in the secondary cities in Kenya. Also, the program's major goal of assisting clients in the transition to more formal and organized production and trade activities is common to many of the programs identified in this study. The means of assistance utilized in the program would therefore seem relevant to an analysis of income-generation assistance among peri-urban and secondary-city populations in many parts of Africa.

For the most part, the program has succeeded in achieving its major goals. It has directly reached and assisted a client group which is isolated from the mainstream of economic activity and which lacks access to needed services, has introduced limited but necessary skills training, and has significantly increased client incomes. Furthermore, despite marketing problems, the enterprises created through the program's promotional efforts seem quite viable, and thus the benefits of the project should be sustained for some time to come. This is evidenced by the fact that participant incomes began to be generated directly from sales after three months of production and have continued to be generated on that basis.

There are a few major factors which seem to be related to the program's success. First, the entire WID program has been extremely well promoted. Direct contact with the target community was initiated early on, local development needs were carefully assessed, and local women were invited to participate in both the design and the implementation of the program. While the project staff, rather than the participants, has initiated most activities, nothing seems to have been "laid over" the beneficiaries; instead, the program has grown out of response to what local women have perceived to be their own needs. The pursuance of this responsive approach, together with the use of indigenous personnel in both administrative and promotional positions, has no doubt contributed to the local popularity of the program.

At the same time, the project has grown slowly and, for the most part, its inputs have been carefully planned. The establishment of day-care centers, for example, has certainly proven to be a necessary step in eliciting the participation of local women. Also, the product lines within which training and production were initiated were appropriately selected. They have proven to be either complementary to existing skills (for example, sewing and patchwork) or easy to adopt by the participants (for example, mohair spinning and crochet work).

It should also be noted that the careful pace of development of the project has allowed it both to "feel its way" into implementation—correcting mistakes and misdirections as it moved forward—and to establish contacts and relationships with appropriate governmental entities. In turn, this approach has allowed the program to enhance its popularity nationally and to elicit increased government support for, and participation in, its future efforts.

The only major problem with the project has occurred with marketing—an area of concern in many other programs. In part, this marketing problem seems to have stemmed from the participatory aspects of the project itself and its popularity within the community. That is, the effort to satisfy the immediate income needs of the relatively large number of women who were motivated to participate in the program led to an overcrowding in some production areas and, consequently, to a marketing bottleneck, in certain product lines. However, the program has managed to mitigate the problems inherent to this dilemma. This is evidenced by the fact that, despite the shifting of some clients from one production area to another, forty-percent increases in participant-family incomes have been maintained. Also, the strengthening of staff marketing capabilities through the addition of an expert in this area, together with the project's movement toward the production of more locally marketable goods and its extension of domestic sales channels, is a positive sign. This is particularly true in regard to the latter adjustment, as the incomes of production groups—such as sewing, knitting, and patchwork groups—which produce to meet local demand have been significantly higher than those which focus on tourist or export sales.

It is hoped that these adjustments will produce sales volumes sufficient to generate incomes for the increasing number of women who wish to participate in the production groups. The fact that marketing problems have occurred in a well-planned project in which at least some analysis of demand was undertaken prior to the selection of product lines, and in which various marketing channels were directly established, points to the difficulty faced in attempting to establish viable markets for relatively isolated peri-urban populations.

# CHAPTER 8

## I. Project Identification

Indigenous Business Advisory Service (IBAS)
Banjul, The Gambia

Principals: Momadau Gaye, Director (in training)
Frank H. Ford, Chief Technical Advisor (ILO)
Han van der Ven, Assistant Advisor (ILO)
Paul Sevier, Project Manager, Farafenni* (Peace Corps)

Researcher: Fred O'Regan, The Development GAP

## II. Setting

The Gambia is a small West African nation with a population of 500,000. The country virtually consists of two extensive banks of the Gambia River with Banjul, the capital, sitting at the mouth of the river. Farafenni and Basse, the next largest towns, are located upriver. Traditionally, the region which is now The Gambia has had an agricultural economy based on one cash crop (groundnuts), and little attention has been given to the development of an indigenous, non-agricultural enterprise sector. The nation is part of the Sahel and is extremely poor, with an annual per capita income of approximately $180. The country's traditional reliance on one cash crop renders it extremely vulnerable to pronounced climatic changes and fluctuating prices. Thus, the need exists to diversify both the economic base of the country and the employment opportunities available to Gambians in both the urban and rural sectors.

## III. Project Description

A. *Goals*. IBAS was created to alleviate overdependence on a precarious agricultural economy, to develop and upgrade a weak informal business sector, and to meet the nation's overall development needs as specified in the Five Year Development Plan, 1976-1980. Its specific goals are: (i) to establish itself as a permanent institution providing advisory services to local enterprises, especially those which produce goods or deliver productive services; and (ii) to create possiblities for further expansion of the private sector and increase employment opportunities in both rural and urban areas.

B. *Brief History and Description*. IBAS was initiated in 1976 with the assistance of the U.N. Development Program (UNDP) and the International Labor Office (ILO), which continue to provide a significant portion of the assistance needed to sustain operations. The program principally consists of a business advisory and extension service which offers on-site managerial assistance, short training courses, and the promotion of a credit scheme which is implemented largely through the Gambian banking system.

C. *Organizational Structure and Staffing*. IBAS is a program of the Gambian Ministry of Economic Planning and Industrial Development, although it operates autonomously as a parastatal organiza-

*Mr. Sevier, upon returning to the United States, assisted in the preparation of this report.

tion. Its major relationships are with (i) the ILO and UNDP, from which it receives technical assistance and vehicles; (ii) the Gambian Commercial and Development Bank, which provides credits to IBAS clients from a $400,000 line of credit from the World Bank; (iii) the U.N. Capital Development Fund (UNCDF), which has provided a loan guarantee scheme to cover IBAS-approved loans; and (iv) the Peace Corps, which currently provides three volunteers to the program.

The program is still in its developmental stages and receives heavy technical support from two resident ILO technical advisors who currently manage the project while training Gambian counterparts. The Peace Corps volunteers are in charge of delivering managerial assistance to clients until they complete the training of Gambian staff who will eventually take over this responsibility. Two of these volunteers are in charge of the program's operations in Basse and Farafenni, the two towns other than Banjul in which the program operates. Five out of the nine staff members are therefore expatriates.

The program's annual operating budget is approximately $50,000, excluding expatriate salaries, volunteer stipends, and vehicles, which are contributed by the participating agencies. In addition to providing the operating funds for the program, the Gambian government has also capitalized a revolving loan fund for IBAS of $29,000.

D. *Beneficiary Characteristics*. The beneficiaries of the program are relatively small-scale entrepreneurs in areas such as blacksmithing, welding, tailoring, auto mechanics, baking, and fishing. In terms of annual sales, the size of the assisted businesses ranges from $1000 to $75,000. The larger enterprises assisted are located mostly in Banjul, while the smallest client enterprises are mainly located in Farafenni and Basse. The majority of the clients outside of Banjul are illiterate, as is ninety percent of the population in The Gambia, and have had little or no formal education.

E. *Project Activities*.

1. *Promotion and Selection*. Clients are either contacted by the local IBAS advisor or come to the local IBAS office on the recommendation of a third party, often an existing IBAS client. Criteria for tentative selection are several, the most important being Gambian citizenship, an existing market for the enterprise's goods or services, and client cooperation with IBAS in setting project objectives. Clients are dealt with mostly on an individual basis, although attempts to organize businesses of similar types into loose associations for the receipt of credit have proven successful, particularly with fishermen and petty retailers.

2. *Management Assistance*. After an analysis of sales volume and marketing potential is undertaken, the IBAS field agent begins to extend elementary business advice to clients. This assistance is tailored to the needs of each client, but usually consists of help in bookkeeping, budgeting (including the separation of social and business funds), banking, costing and pricing, and advertising. It is delivered through thrice-weekly site visits, and is meant to prepare clients for the receipt of credit.

3. *Semi-Formal Business Training for Clients*. Initially, classroom-type business classes for IBAS clients were not thought possible. Attempts to start such a program proved unsuccessful in Banjul, primarily due to the logistical problem of grouping clients together at a selected time on a certain day. Such efforts, however, proved successful in Farafenni and Basse, growth centers considerably smaller in size and denser than Banjul. Over a seven-month period in 1978, twenty-two weekly business lectures were given to IBAS clients in Farafenni. The material for these lectures was abstracted from different sources and tailored to meet the educational levels and specific needs of the clients. The series covered such topics as bookkeeping, elementary concepts of banking, promotion, the role of credit, product costing/pricing, quality control, salesmanship, savings, and salary administration. Attendance during the series averaged 70 percent of total Farafenni clients. Although this lecture series was considered successful, the degree of assimilation by, and ultimate value to, the clients was difficult to measure. This series was due to be repeated in the fall of 1979.

4. *Technical Assistance*. The provision of technical assistance to clients by IBAS has been of a basic nature. This assistance has been limited to helping enterprises in the selection of tools and equipment, advising them on quality control in production, and arranging for occasional demonstrations on the proper usage of hand and power tools.

5. *Credit*. One of the IBAS' major roles has been in promoting and supervising credits. After the IBAS agent finds that the client has made sufficient progress in improving enterprise management, he

will assist the beneficiary in assessing his or her credit needs and in applying for a loan from either IBAS' revolving fund or from the Gambian Commercial and Development Bank. There are three basic criteria that the client must meet to qualify for credit:

(i) the business in question must be profitable and generally "healthy";
(ii) there must be clear evidence of a market for the client's products or services; and
(iii) the enterprise's pro-forma financial statements and its cash-flow analysis must be reasonably sound.

Once a determination of loan size is made, an application form is filled out. The client is also required to open a bank account, if he or she has not already done so, and to set aside a cash sum equal to ten percent of the total loan as his or her contribution toward enterprise improvement.

The loan application is first approved by the field person, who forwards it to Banjul. It is then reviewed, first by senior IBAS staff, and then, if the loan is to be made by a Gambian bank, by an eight-member board composed mostly of Gambian government and banking officials. This board represents the UNDP and the UNCDF. Upon approval by the board, UNCDF will guarantee 75 percent of the loan total, leaving bank exposure at 25 percent. After approval, the application is submitted to a bank with an agreement of guarantee.

As an alternative, IBAS can draw down on its own revolving loan fund with in-house approval. This loan fund was established because of problems encountered with the banking system, even when utilizing the UNCDF loan guarantee mechanism. The Gambian Commercial and Development Bank, which draws down on a World Bank loan for on-lending to SSEs, has become the only lender to this sector, and this bank often takes up to six months to process a loan. IBAS therefore wished to have its own fund to dispense small credits—especially for working capital—more rapidly.

Bank credits to IBAS clients carry an annual interest rate of 11½ percent (the standard commercial rate), which is charged on the declining balance of the loans. Amortization periods vary, but only in a few cases do they exceed three years. Grace periods, on average, are six months. As of May 1979, forty-nine bank loans, totalling $223,900, had been made to IBAS clients, the average loan size being $4600. The majority of these credits were for tools and equipment purchases and workshop upgrading, although in many cases the credits were used for combined hardware and working-capital purposes. In terms of loan capital usage, roughly 75 percent of the total credit disbursed to date had financed physical improvements, with the remainder being used as working capital.

Credits drawn from the IBAS loan fund, which was initiated in February 1979, carry an interest rate to clients of eight percent on the declining balance, grace periods of two-to-three months and amortization periods of up to two years. As of May of that year, six loans had been made from this fund, all for working-capital purposes and averaging $500 per loan.

Of all loans disbursed, two-thirds were in the $50 to $2500 range and one-third were above $2500. Seventeen of the loans made to date had been made in the Farafenni area. These loans ranged in size from $150 to $2500 and averaged roughly $1000 per loan. They had been made to much smaller enterprises than those being served in Banjul. For example, loan recipients in Banjul average roughly $25,000 per year in gross sales, with the volume of the smallest clients being $10,000 per year. Those in Farafenni average less than $8000 per year in gross sales and range as low as $500 per year in total volume.

The vast majority of loans are to individual entrepreneurs. The one exception to this is in Farafenni, where eight fishermen, with the help of the IBAS agent, formed an association and received a group credit of $12,000 for the purchase of outboard motors, nets, and other equipment.

6. *Handicraft Marketing*. In 1978, IBAS created a cooperative to promote the production and sale of indigenous handicrafts. This organization, The Gambian Artisans' Marketing Cooperative, Ltd. (GAMCO) now has approximately 400 member artisans; half of these members are individual artisans and the other half belong to member groups. The society is managed by a Peace Corps volunteer who is training a Gambian counterpart. Funds for staff salaries and vehicles are provided by the Gambian government, the UNDP, and the Peace Corps. The organization also receives funds from its members, who are required to become shareholders upon joining. The minimum investment per member is $5.00.

Using a core staff of five, GAMCO assists member artisans in production—through limited technical assistance and advice on quality control—and in marketing. To assist in this latter function, GAMCO operates a retail store in Banjul which sells to tourists and also exports craft goods to

Europe. GAMCO advises clients on the potential marketing volume of different craft lines, monitors production through site visits to ensure adequate quality, and buys craft products for retail and export sale. These functions require considerable staff travel, as most of the artisans are located upriver. GAMCO has also begun to make small loans to members from its central fund; so far, three short-term loans of $35 each have been made to members for the purchase of tools. These loans have been made at eight percent interest.

The craft products of members are retailed by GAMCO at 30 percent above production costs. Crafts sold for export, however, are sold at only five percent above cost, as GAMCO has only recently begun to export and is attempting to gain access to secure markets. GAMCO sales are currently about $7000 per month and its operating expenses are roughly 17 percent of total sales. Net profits are currently reported at 8.7 percent, the highest in the organization's brief history.

## IV. Future Plans

IBAS is now entering a phase of expansion and Gambianization. Over the next four years, plans call for the construction of two additional regional offices, the expansion and total nationalization of the staff to a total of thirty Gambians, and the creation of a raw-materials procurement facility. In support of these activities, the Gambian government will provide approximately $350,000 for capital development. This will be augmented by grants from the European Economic Community. At the same time, both the UNDP and the ILO plan to terminate most of their financial and technical assistance by 1982.

## V. Assessment and Analysis

As is obvious from the sales volumes and loan absorption capacities of IBAS' clients, the program is assisting mostly well-established entrepreneurs who are well above the income levels of very poor self-employed. Among this clientele, the program has had the effect of increasing production and sales, with clients reportedly increasing incomes as much as 50 percent. According to staff, however, the program has not produced significant increases in the number of jobs available within the ninety enterprises that are now being served. The largest increase in employment has occurred in Farafenni, where fifteen jobs, mostly apprenticeships, have been created over the last two years.

The program's success in raising client production and incomes is due, according to staff, to two major factors: its concentration on the upgrading of enterprise management capabilities (and use of improved equipment by clients); and its analysis of both the marketing potential of client products and the general health of the enterprise prior to the extension of credit. In general, the inputs of the program seem to be well planned and well coordinated, and the staff appears to be technically competent. At the present time, however, both this program and the apparently well-managed GAMCO handicrafts program are almost totally dependent on expatriate staff despite the fact the IBAS operations are over four years old. As nationalization has not yet occurred, it is difficult to judge the long-term prospects of the program.

While the program seems to be meeting its goals, it is somewhat questionable to what extent its general methodology is applicable among less established, poorer clients. This is a fairly conventional small-scale enterprise-assistance program which is delivering intensive one-on-one services and arranging relatively large loans at a cost of roughly $1000 per client. Most of the programs identified in this study which assist smaller clients concentrate less on delivering such intensive individual services and more on group-enterprise formation. In this regard, it is interesting to note that in Farafenni, IBAS has been successfully promoting group formation among poorer clients for the purpose of facilitating the extension of training and credit.

## CHAPTER 9

### I. Project Identification

Centre d'Education à la Promotion Collective (CEPEC)
Yaoundé, Cameroon

Principal: Fr. Paul Fuchs, Director

Researcher: Fred O'Regan, The Development GAP

### II. Setting

Cameroon is often referred to as a microcosm of all of Africa. It has both Anglophone and Francophone regions, exhibits great ethnic and religious diversity, and possesses climatic zones which range from the rain forests of the south to the arid Sahelian plains of the north. While the majority of Cameroonians live in rural areas, urban growth has become a burgeoning phenomenon. Yaoundé, the capital, has experienced an annual growth rate of twelve-to-fifteen percent in recent years. Douala, the nation's largest city, is growing at a slightly slower pace. Both cities contain large squatter settlements with thousands of small artisan industries and petty-retailing enterprises.

While little formal assistance, whether it be in the form of credit, technical assistance, or training, is currently reaching the lower end of the informal sector in either Yaoundé and Douala, some very promising assistance efforts have recently been initiated in both cities. The artisan-assistance projects of CEPEC in Yaoundé and the Institut Panafricain pour le Développement (IPD) in Douala, for example, are programs which are passing effectively through their developmental stages and hold great promise for getting sustained assistance down to the poorest level of society. CEPEC's activities will be described below, with IPD presented in the following report.

### III. Project Description

A. *Goals.* CEPEC's major purpose is to assist in community development efforts which are based upon authentic African socio-cultural and economic realities. Working on the basis of somewhat complex intellectual underpinnings, CEPEC is active at the local level in the areas of *animation*, community training, and organizational development. Its objective is to enable communities to identify, plan, execute, and evaluate their own development projects.

B. *Organizational Structure, Staffing, and Funding.* CEPEC was formed in 1970 as part of the Catholic Church's attempt to promote collective, self-defined development at the community level. It is an independent, self-administered organization, legally attached to the archdiocese of Yaoundé. It enjoys the active support of Archbishop Jean Zoa, who is noted as a dedicated supporter of development amongst the urban poor. Focusing on Yaoundé and the surrounding rural areas, the organization works in close conjunction with the local branches of the Ministry of Social Affairs, the Ministry of Youth and Sports, and the administrative offices of Yaoundé's city government. All of its activities are planned and coordinated with these governmental entities. Often, the government borrows CEPEC's training staff to work in its own community programs. Similarly, CEPEC enjoys working relationships with other non-governmental organizations, including BASE, another Catholic development organization, through which it receives part of its funding; FEMEC, a Protestant organization with which it has jointly outlined funding plans for local communities; and IPD, with which it has established training seminars for local community trainers and with which it will continue to work in the future.

CEPEC currently employs twelve people, including nine Cameroonians and three expatriates. Two are charged with administration and the remainder are trainers, or *animateurs*, working directly with communities. Rev. Paul Fuchs, a French development expert, has headed the organization for the past two years. CEPEC's operating budget for 1978 and 1979 is approximately $165,000. Funds are raised from private international sources (mainly Misereor), from the archdiocese of Yaoundé, and from the local communities, which contribute 45 percent of the resources necessary for CEPEC's direct support activities. CEPEC, however, is neither a funder nor an intermediary financial conduit.

C. *Project Activities*. CEPEC's community development approach consists of several phases. First, *animateurs* initiate contact with poor local communities and begin to organize group meetings within each one. At these meetings, which are held over a period of three to four months, the basis for ongoing support from CEPEC is discussed in the framework of a community's willingness and ability to invest time and resources in the collective pursuit of local-level development.

In the second phase, an intensive community training program is begun. This training stage, which lasts from nine months to one year, consists of two distinct elements: *animation* (or consciousness raising) and practical, community-development skills training. The *animation* training is aimed at the participants' acquisition of (i) a comprehensive understanding of the social, physical, and economic "milieu" of the community, and (ii) sufficient knowledge and will to work collectively—across ethnic and religious lines—to solve problems. The community development training focuses upon methods of collectively identifying and prioritizing development needs and planning effective strategies to meet these needs. Concurrent with the community training, CEPEC focuses upon the identification and training of potential community leaders. Emerging neighborhood and community representatives are given intensive preparation in community action and organizational development techniques. Leadership training, formerly held at CEPEC's training center in Yaoundé, is now held in the community as an extension of the normal community training program.

The beginning of the third, or operational, phase overlaps with the conclusion of the training phase. At this stage, the attempt is made to form both a permanent community training facility, staffed by locally trained trainers, and a community development organization with its basis in neighborhood representatives who are selected on a block-by-block or similar sub-unit basis. As the operational phase progresses, the community is expected to further elaborate development needs on a practical, sectoral basis and to begin to identify specific initiatives or projects to address them. CEPEC emphasizes the utilization of community financial, material, and human resources, although it does attempt to identify sources of outside support where necessary. CEPEC's final goal is "community self-autonomy" in development, a condition in which a community has attained both social cohesiveness and economic self-sufficiency. CEPEC's recognition of the time required for the achievement of this goal is reflected in the eight-year schedule of support (culminating in 1985) which it has detailed for urban communities.

As an outgrowth of its training, promotional, and facilitator roles, CEPEC is now either delivering or securing assistance in various sectors, including the artisan sector in Yaoundé. Utilizing one full-time staff person, who coordinates his efforts with four German and Dutch volunteers, CEPEC is currently involved in: (i) the formation of an artisan organization; (ii) the creation of a cooperative for primary goods and materials purchasing, in conjunction with the Yaoundé Union of Caisses Populaires (credit unions); and (iii) marketing research on the demand for artisan goods and services. To complement its promotional work, CEPEC is in the process of recruiting a technical production and marketing expert to conduct further market research and to deliver technical assistance for the upgrading and labor-intensification of production techniques, the diversification of product lines, and the introduction of additional artisan service trades which are deemed viable by marketing surveys.

Although it is involved in three *quartiers* in Yaoundé, most of CEPEC's artisan-promotion efforts have centered on La Briqueterie, a settlement with a population of over 50,000 which is widely known as a center of artisan enterprise activity. Together with its artisan assistance activity, the organization is pursuing more broad-based community organization and training in La Briqueterie, as this community has virtually no formal organizational structure. CEPEC is also working with the Yaoundé Union of Caisses Populaires to strengthen the community's only credit union, which is quite weak at the present time.

Given what it perceives to be a virtual vacuum in the delivery of promotional and technical support to Yaoundé's artisans, CEPEC plans to expand its role in this sector, integrating small business development within its community development projects, with planning controlled by representative community-action committees. CEPEC has had continuing discussions with IPD about that organization becoming more directly involved in artisan support activities and the training of community field workers in Yaoundé, as well as in Douala.

## IV. Assessment

As a promotional agency working in community organization and general group training, CEPEC, by initial assessment, appears to be effectively laying the basis for urban community development in those areas in which it is involved. Its programs for community training are planned with precision, its staff of Cameroonian trainers is appropriate for the task at hand, and its relations, both within the communities in which it operates and with local government, are said to be excellent. By all accounts, it is the most active organization directly engaged in community development in the *quartiers* of Yaoundé—and it is deeply committed to this task. Although it is not specifically an SSE-assistance organization, CEPEC's initial efforts in the artisan area seem to be very well thought out and potentially quite effective. Its focus on market analysis for the identification of viable product lines, for example, seems quite sound given the marketing problems encountered in many programs at this level, and its gradual approach to building up a general technical assistance capacity as part of its community development efforts is in keeping with its long-standing operational methodology. As it develops in the future, CEPEC's artisan-assistance project could prove to be an extremely effective one.

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## CHAPTER 10

### I. Project Identification

Institut Panafricain pour le Développement (IPD)
Douala, Cameroon

Principals: Mathieu Gracia, Director, Central African Division
Allain Laffitte, Economist

Researcher: Fred O'Regan, The Development GAP

### II. Setting

Unlike La Briqueterie, the community upon which CEPEC (see previous report) is focusing its assistance, Zone Nylon, the focus of IPD's involvement in artisan assistance, is an extremely poor but well organized settlement. With a population of over 100,000, this squatter community in Douala has organized a community action council through which local residents coordinate a wide range of self-help activities which include the construction of drainage ditches, footpaths, and access roads. The community is currently engaged in a self-initiated planning process which it hopes will lead to a comprehensive community-upgrading program. Although Zone Nylon is not noted as a commercial artisan center, it does, in fact, have an active, internally oriented artisan sector geared mainly to the provision of services, such as tailoring, shoe repair, and auto repair.

### III. Project Description

A. *Goals.* IPD is a well-known, private development institute established in 1964 to promote African-defined development through training, applied research, and project support and consultation activities. The institute's approach to development is based upon ". . . the understanding, mobilization and participation of the local populations concerned."

B. *Brief Description and History.* In its fourteen years of operations, IPD has concentrated its efforts on training (primarily of development facilitators, but also among organizations and communities) and action-oriented development research. In recent years, however, it has become increasingly interested and involved in direct consultation in the areas of managerial assistance, project planning, and evaluation. Given the impressive experience and capabilities of its professional staff, IPD's increasing interest in project work is of great potential benefit to Cameroon.

C. *General Structure*

1. *Organizational Structure.* IPD's policies and general operations are governed by a council of twenty prominent international members, the majority being African. A general secretary, appointed by the board, is headquartered in Geneva. There are four geographically and administratively distinct IPD components:

IPD Central Africa - Douala, Cameroon (French Speaking)
IPD West Africa - Buea, Cameroon (English Speaking)
IPD Sahel - Ouagadougou, Upper Volta (French Speaking)
IPD Program Support Service - Douala (Bilingual)

Plans are presently being considered for the establishment of an additional branch for East and Southern Africa, probably in Nairobi. With a combined staff of approximately forty full-time professionals and thirty part-time or affiliated consultants, the Central Africa Division and the Program Support Service make the Douala branch the largest single IPD unit. The core staff is diverse in terms of both nationality and specialization. The majority are African with expertise in such fields as economics, management, sociology, agronomy, family economics, and community organization and development.

D. *Project Activities*

1. *Training*. IPD training for development professionals is of both short- and long-term duration. The short courses are usually offered as two- to six-week seminars in specialized areas, either as refresher or introductory courses in distinct topical areas. These seminars, which are arranged and specifically adapted at the request of private and public development agencies, are held either at IPD, at the requesting institution, or in a particular community. The areas most often explored in these seminars include project conceptualization and planning, regional planning, management, "training of trainers," rural development methodology, and methods and practice in community *animation* and participation. Many of these IPD training seminars have been given in Cameroon. Some examples of this activity include:

a. four training seminars on credit management for the administrative staffs of *caisses populaires* (credit unions) in the Center-South region of Cameroon and in Yaoundé;

b. a series of seminars for the training of managers of the local marketing cooperative components of ZAPI, a World Bank-supported Cameroonian rural development program;

c. a series of project management seminars for staff members of the Ministry of Social Affairs and involved community leaders;

d. a development management seminar for the Catholic Bishops of Cameroon and their immediate staffs; and

e. a planned series of training programs for peasant associations, to be implemented with FEMEC (Cameroon's major Protestant-church development organization), BASE (a leading Catholic development organization), and ZAPI.

Formal, longer-term training is aimed at the creation of development cadres for the promotion, planning, execution, and evaluation of local-level development. Since the program's creation, IPD has graduated over 2,500 diploma-level students representing thirty countries. The program is organized around "training units," each of a distinct topical nature and requiring six months of intensive study and field work. The core training units include: development background research; project conceptualization, execution, and evaluation; participatory planning for regional development; management of enterprises and cooperatives; and "training of trainers" in development. Aside from academic studies, all IPD students acquire direct field experience by working at the community level in Cameroon under the guidance and leadership of IPD professionals. Their field-work duties vary from research to project planning, execution, and evaluation within sectors dictated by their area of concentration.

2. *Research and Consultation*. Upon request, IPD also serves as a research and consultation resource for local communities, making available its professional staff for assistance in the conceptualization, planning, promotion, and execution of local-level projects. IPD personnel will often act in an intermediary capacity as well, helping communities to identify external sources of financial and technical assistance. This support may evolve from student involvement in a certain community or project, from an IPD research effort in the area, or through a response to a direct request of a certain community or development organization. In Edéa, for example, Professor Cosmo Dikoumé, a former president of IPD, is currently involved in an exploratory, action-oriented study to integrate community development activities with the ongoing industrial development in that area. Following the completion of the research, IPD hopes to assist in the planning and initiation of an integrated community development project in Edéa.

In Zone Nylon, IPD has been actively involved for the past four years, primarily in small-scale enterprise and artisan activities. IPD's support activities in Zone Nylon are headed by M. Allain Laffitte, an economist specialized in enterprise management. Up to four professional staff are involved on a part-time basis in development support activities in the Zone.

IPD's relationship with the artisan sector in Zone Nylon began through a process of participatory action research (*"Enquête Participation"*) initiated by IPD staff and students. In this process local artisans and community residents were brought together to determine what was important to them to know about artisan activities and how such information could best facilitate the future development of the community. Out of this grew a research process based on interviews with a cross section of Zone Nylon's artisans and a general economic analysis of the sector.

Among the findings of this research are the following:

(i) many of the artisans interviewed are not entrepreneurs by choice; rather, they are rural people who have come to the city to seek secure employment and, failing to do so, have adopted self-employment in trades in which they can quickly begin to generate income;

(ii) there is severe overcompetition in certain trade areas, such as woodworking, tailoring, and minor construction, which require little capital investment to enter; and

(iii) growth, in terms of employment and income within the Zone's artisan sector, is dependent upon a lowering of costs in the purchasing of raw materials, increased efficiency in production among artisans, a greater diversification of artisan product lines, and the establishment of more marketing channels outside of the informal sector in Zone Nylon itself.

As an outgrowth of its initial research involvement, IPD began assisting the artisan sector in Zone Nylon. Working in collaboration with the local office of the Ministry of Social Services and with the Zone's Community Action Committee, IPD has (i) helped to organize an artisan association to represent local producers; (ii) promoted production groups for the purpose of forming credit guarantee mechanisms and buying raw materials in bulk; (iii) delivered management and accounting assistance to local artisans; and (iv) helped identify and introduce new product lines. To complement its direct assistance efforts, IPD is conducting an ongoing marketing analysis of the Douala area to determine viable artisan products, while, in collaboration with other organizations, engaging in a promotional campaign to influence middle-class Cameroonians to purchase indigenously produced goods. The organization is also assisting a local Dutch volunteer in upgrading the administrative and lending capacities of the Zone Nylon credit union. The union, which was formed through the efforts of the community action committee, has reportedly made great strides over the last year and has begun extending small loans to artisans. Details on this lending program, however, were not available.

## IV. Assessment

IPD's assistance has been delivered through the efforts of Allain Laffitte, a staff economist who lives in Zone Nylon, along with other interested staff members and a number of students who are specializing in employment and income-generation assistance. Although this assistance effort is not a formalized one, in that it does not have distinct operational and administrative units and a specific budget, it seems to be rendering important assistance to an artisan community which would otherwise not be served.

IPD brings to this effort a wealth of competence and experience which is greatly appreciated in Zone Nylon. It has sensitively established a sound working relationship with the community's representative council, and its assistance has therefore become an integral part of Zone Nylon's total upgrading effort. In addition, IPD's strategy of assisting in the build-up of local organizations, such as the Zone's artisan association and credit union, to implement future development activities within the artisan sector constitutes a sound approach to enhancing self-reliance within the community.

Although IPD has not sought funding to formalize and expand its assistance efforts in Zone Nylon, it has continued to provide services on an informal basis and to assist in locating additional sources of financial and technical assistance for Zone Nylon's artisan community. It is hoped that IPD will further develop and expand its direct artisan-assistance activities, as the informal assistance it is delivering seems to be quite effective. As previously stated, IPD and CEPEC, which have excellent relations, have held discussions on possible future collaboration. The development of a formal artisan-assistance program in Douala and Yaoundé involving these organizations would certainly present an excellent opportunity for international donors to participate in an effective effort in this sector.

# CHAPTER 11

*Summary of Findings and Conclusions*

## I. Central Problems Facing the Very Poor Self-Employed

The majority of the very poor in African cities are urban squatters, and most of this growing population is composed of essentially traditional people from rural areas. This is particularly true of those in the newer settlements in and around primary cities, as well as those in secondary cities. As the growth of the formal economic sector has not been sufficient to absorb this growing number of job seekers, most seek employment through some form of petty trade or artisan activity.

As such organizations as the National Christian Council of Kenya (NCCK) and the Institut Panafricain pour le Développement (IPD) in Cameroon have discovered, many of the poorer artisans and traders in squatter settlements engage in entrepreneurial activity as a matter of survival rather than choice and, in many instances, would prefer secure wage employment if it were available. In addition, the very poorest of those engaged in economic activity—that is, those who are the focus of this study—lack general familiarity with the workings of the cash economy, possess extremely low productive skills, and are therefore not truly competitive even within the informal sector. Furthermore, they lack access to secure premises, potentially profitable marketing sites and essential services, and have little or no collateral with which to leverage financial assistance.

Given the fact that the very poor in urban Africa are concerned primarily with the day-to-day survival of themselves and their dependents, are often not entrepreneurs by choice, and face severe economic limitations, most of the programs identified as actually reaching this level aim primarily at assisting clients to achieve some measure of economic security. Working with slum dwellers with less than $20/month incomes and an average of 6.5 dependents, such as the women in Nairobi's Mathare Valley, it is not suprising that these organizations are not primarily concerned with entrepreneurial development and enterprise growth *per se*, but rather with trying to guarantee some minimal level of immediate income to as many people as possible. It is felt in most cases that, once clients achieve a sustained, secure income, they will have some basis to collectively or individually improve their own economic well-being and make use of "harder," more formal types of enterprise assistance. Of the programs identified, most work to provide this first stepping stone in improving the living conditions of the poor.

As is well known, African government economic policies have not favored the informal sector. Most countries have traditionally favored export-led development together with formal-sector production activity, which has not had significant impact on urban unemployment. Only recently (in the past decade), have they begun to support informal-sector businesses. In general, however, national licensing, registration, tax, and credit policies continue to inhibit informal-sector activity, thus further isolating the very poor from meaningful economic opportunities. For example, in order to legally establish a dressmaking shop in Mombasa, Kenya, two clients of the NCCK program had to pay a total of $96 in registration fees and taxes and for mandatory disposal services. Such a sum is far above what can be afforded by the poorest artisans and traders, who, if they cannot borrow the money, are forced to operate illegally and become subject to police harassment. In the case of petty retailers, zoning regulations in most primary cities inhibit their access to central, potentially profitable sites, forcing them to compete amongst themselves in very low income areas.

While the research carried out in this exploratory study was not designed to yield conclusive results, there appears to be very little meaningful assistance of any type reaching the very poor in urban Africa. Many of the programs identified as reaching this population are relatively small and, being quite young, are still in their experimental or formative stages. Furthermore, the majority of these programs are either operated by, or were at least originally initiated by, private development organizations. In most countries, conventional public sector agencies were found to focus upon comparatively well-established, more stable enterprises which possess assets significantly higher than those of the very poor.

This absence of public support—both at the policy and program levels—in the areas of informal-sector employment generation, in particular, and community economic development, in general, renders extremely difficult the task of delivering services to the very poor self-employed. Institutions attempting to help generate self-employment at this level must provide comprehensive development assistance of a promotional, educational, and organizational nature prior to, or in conjunction with, enterprise-improvement services. As is demonstrated in the case of NCCK in Kenya, such comprehensive assistance can be delivered, and delivered well, but not without a considerable commitment of time and resources on the part of assisting entities.

On the other hand, in Tanzania, the Small Industries Development Organization (SIDO), a government agency, can attempt to deliver a wide variety of assistance to small industries which benefit both the urban and the rural poor. It is able to do so because of publicly supported promotional and organizing efforts at local levels which have been undertaken as a result of firm political support for development among the very poor. Specific measures have also been adopted within the industrial sector to support small, indigenous industries: national banks are mandated to lend to small artisan groups; regional marketing channels have been established for artisan goods; and artisan associations have been organized to give local producers a voice in local policy formulation.

As such broad public sector support does not exist in the majority of countries in Africa, agencies working among the very poor attempt to coordinate their work with government agencies in order to draw the public sector into assisting clients at this level. NCCK, for example, began the Village Polytechnic Movement and later sought increased public support and involvement. This resulted in the government incorporating the program within the Ministry of Housing and Social Services.* NCKK has also successfully elicited the involvement of the Nairobi City Council and the Kenyan Department of Cooperatives in its housing and employment programs. Similarly, the Centre d'Education à la Promotion Collective (CEPEC) in Cameroon works in close collaboration with the Ministry of Social Services in that country, even to the point of lending staff to the Ministry for certain projects.

The close collaboration which these organizations maintain with government agencies and officials allows them to play an important advocacy rôle with the public sector. Most of these organizations use their collaboration with public agencies to demonstrate both the need and the viability of working with the self-employed poor. This advocacy may prove to be a significant factor in stimulating more widespread public assistance to the urban poor.

## II. Assistance Methodology

The majority of the programs identified as reaching extremely poor urban populations exhibit strong social emphases. For the most part, they are not primarily small-scale enterprise programs in the conventional sense of the term. Many, such as NCCK's Urban Community Improvement Programme and the Institute for Cultural Affairs' (ICA) Kawangware upgrading scheme in Kenya and CEPEC's program in Cameroon, are essentially community development programs which have adopted enterprise assistance as a component of their total efforts. In general, these programs—including those which are engaged exclusively in delivering enterprise assistance—emphasize increasing of incomes and production among the poor as crucial to immediate survival and the attainment of individual and family security. These economic objectives, however, are viewed as means toward greater ends such as "increased self-reliance" (SIDO), "an enhanced feeling of self-worth" (NCCK), and "greater community awareness and control over development" (CEPEC).

In part, these goals reflect the social and political values and commitment of the people and organizations working with the very poorest sectors of society. More importantly, however, the adoption of more comprehensive assistance objectives appears to stem from the realization of these institutions that their clients at this extreme level of poverty in Africa face many problems in addition

*This program now operates under the Ministry of Labour.

to low-incomes and that they must be addressed simultaneously. It is for this reason that many of the programs identified deliver, in an integrated manner, a wide range of services in such areas as housing, health, nutrition, and literacy together with their employment-generation assistance. To ensure that priority needs are indeed addressed and that local resources are mobilized on a sustained basis to help meet these needs, most of the programs also elicit beneficiary and/or community participation in the planning and implementation of programs through the establishment of representative organizations in the areas in which they work. The NCCK and Village Polytechnic programs in Kenya, CEPEC and IPD activities in Cameroon, and the UN-supported Women in Development (WID) program in Swaziland are all illustrative of this point.

A. *Outreach and Promotion*

Perhaps the key element identified in the programs which are extending economic assistance at this level is a sound component of outreach and promotion in local urban slums. As the very poorest of urban artisans and traders are illiterate, isolated from mainstream programs and institutions, and lacking familiarity with credit extension or the cash economy in general, the indirect promotion of assistance programs through the media or the offering of services through central facilities does not seem practical at this level. Rather, most programs were found to rely upon professional outreach and promotional staffs which work directly with poor communities.

In the case of SIDO, for example, the agency dovetails its technical and managerial assistance with the ongoing, organizational work being undertaken by public officials in communities throughout Tanzania. In other countries, where such broad organizational efforts among the poor are not in evidence, virtually all of the programs reasearch have developed close, personal contact with clients through the establishment of outreach programs of their own, NCCK and CEPEC have incorporated particularly strong capabilities in this area.

There are a number of factors which necessitate the establishment of such promotional components by agencies dealing at this level. First, as stated, the potential clients of their programs are physically and socially isolated from the mainstream of society, do not normally seek outside assistance, and therefore must be reached directly within their own communities. Second, given their very low level of business knowledge and technical skills, a significant amount of personal assistance must be extended to help these clients become involved in self-supporting economic activity; the establishment of community-based programs makes possible intensive contact and follow-up with clients on the part of staff. Third, the highly localized focus of these programs allows institutions to gain a sound working knowledge of communities and to identify their immediate, priority needs—both economic and social.

This knowledge appears to be essential to the design of service programs which effectively address these needs; to the stimulation of community organization and action to carry out such programs; and to the identification of those local residents who are legitimately in need of income-generation assistance and who can be trusted to effectively utilize the assistance given. This approach builds a base for an agency's employment-generation efforts, while building up confidence and trust in the program among local residents.

The specific outreach and promotion techniques utilized were found to vary from program to program. The model adopted by NCCK in its urban-upgrading and employment-generation work presents, perhaps, the soundest approach, with highly qualified social workers and community educators, who are recruited from local communities and trained by NCCK, forming the basic outreach channels through which all services are promoted and, in part, delivered. One variation on this approach involves the use of students doing action-oriented research as the initial outreach mechanism (IPD). Another involves the initiation of a broad-based needs-elicitation process using a large group of outside volunteers and locally recruited residents (ICA).

In most cases, two factors seem to be shared. First, the programs are promoted within, and directly tied to, specific local communities. Second, a strong effort is made to incorporate indigenous people—either as staff or through their own organizations—as an essential element in the outreach, promotion, and service-delivery aspects of the program. The Village Polytechnic program, with its formation of local-level management committees, provides a good example of this approach. In most programs involving expatriates, such as CEPEC and WID-Swaziland, a decided effort is made to both nationalize the staff and decentralize the decision-making and policy-formulation processes to directly involve local residents. The Africanization and localization of programs appears to be essential to ensure that local needs are identified and addressed, that local residents of poor communities become actively involved in solving their own problems, and that the program is identified as an authentically indigenous endeavor. In the one program identified in which expatriate staff retained strong policy and program control—ICA in Kenya—little legitimate local mobilization was in evidence, and some distrust in the program had begun to surface in local Kenyan development circles.

An additional element in evidence in most of the programs examined is the promotion of group formation among clients. The types of groups formed varies from actual group enterprises, such as those promoted in the SIDO, NCCK, and WID-Swaziland projects, to artisan associations, such as those organized by IPD and SIDO. The most consistent, and perhaps most important, type of group formation, however, was found to take place at the enterprise-formation level. Based on the examination of the projects in this study, the promotion of group rather than individual enterprises seems to be of crucial importance among the poorest of the self-employed for a number of reasons. These include:

1) *increased efficiency in the use of staff time.* Given the intensive assistance required at this level, significant numbers of clients could not be reached on an individual basis by organizations with limited resources. Grouping has allowed for the extension of direct, specialized assistance to clients which otherwise would not have been possible without enormous increases in cost.

2) *the sharing of skills and management responsibility among clients.* Given the extremely low production and management skills exhibited by clients at this level, the formation of groups is viewed by most agencies as an effective means of facilitating the informal sharing of whatever skills exist among group members. This is clearly evident, for example, in the group training techniques of the Village Polytechnic program, in which second- and first-year trainees work together to facilitate the transfer of skills from the more advanced to the less advanced among them. At the same time, group enterprises allow for the specialization of production functions and thereby lower training needs among clients. Similarly, a sharing of management responsibilities by group members can be undertaken to take advantage of collective know-how and experience.

3) *the lowering of both fixed and variable enterprise costs.* The grouping of clients into collective enterprises lowers enterprise-formation and operating costs through the sharing of start-up expenses (including initial registration and tax payments), the bulk purchasing of either raw materials or retail stock, and the collective purchasing and sharing of tools and equipment.

4) *the formation of group guarantee mechanisms among clients.* As clients at this level possess virtually no physical or cash collateral, group formation is seen as the most viable alternative in securing credits. Thus, in the majority of cases, those programs which directly extend credit as part of their assistance (e.g., NCCK, WID-Swaziland and SIDO) utilize group guarantees as the normal means of loan securement, while those programs which do not extend credit (e.g., CEPEC and IPD) promote group formation to provide a guarantee mechanism with which to help leverage credit from formal financial institutions.

5) *the enhancement of client self-confidence and political leverage.* Most of the very poor self-employed are facing a difficult transition from traditional to more formal social and economic activities. Assistance organizations therefore pursue group formation as a means by which mutual reinforcement and a bolstering of self-confidence can take place during this transition period. In addition, grouping facilitates broader organizing efforts among the poor to enable them to establish a collective basis for leveraging increased public assistance.

In general, criteria for the selection of clients at this level are so relaxed as to be almost nonexistent, with clients usually selected on an informal basis by field staff. In the case of most clients, selection is made on the basis of staff knowledge of both the local residents and the community in general. Emphasis is placed on actually reaching this level of the population and identifying legitimately needy people. NCCK, for example, will identify individuals with great need of income, but with few actual skills or trade specialization, and encourage them to form groups while product ideas are introduced and assistance is delivered. At the same time, it will identify potential clients with experience in the same trade area, such as used-clothing retailing, and similarly encourage them to form group enterprises in order to receive managerial and financial assistance. A similar policy is followed by SIDO in Tanzania. On the other hand, in the case of training programs, such as the VP program in Kenya and the Training-cum-Production Centers (TPCs) in Tanzania, which are aimed primarily at youth, sufficient manual dexterity for the trade area in question and basic literacy must be demonstrated in addition to economic need before a potential client is selected.

B. *Training and Technical Assistance*

On the basis of the programs examined, it would seem apparent that intensive technical and managerial assistance, together with technical training, are necessary for effective enterprise formation and growth at this economic level in Africa. But in general the focus of most programs—with the exception of those aimed primarily at youth—is upon on-site managerial and technical assistance rather than on intensive technical training. This seems to be due in part to the lack of funding and technical capabilities within many organizations to provide intensive training courses. Of apparently greater significance, however, is the fact that adult clients, particularly women, can afford neither to take time away from their dependents to attend courses not given locally nor to engage in activities which do not generate some form of income.

Realizing these limitations, most programs attempt to complement and build upon whatever economic skills and talents clients may already possess, delivering technical assistance and, in some cases, limited training to help improve and stabilize local ventures. This is quite evident in the employment efforts of NCCK, SIDO, and WID-Swaziland among the adult poor. Similarly, where training courses are offered, as in NCCK's Tototo program, an emphasis is placed on skill areas familiar to clients in order to minimize the amount of time and financial costs involved in raising clients to a competitive skill level. Petty retailers aside, therefore, the majority of enterprises promoted or assisted by these programs operate in skill areas closely related to traditional African economic activities. These include, for example, sewing and patchwork (supported by NCCK), various types of handicraft production (NCCK, SIDO, and WID-Swaziland), and urban and peri-urban cash-crop agricultural schemes (ICA). On the other hand, the youth training programs examined encompass a broader range of skills, including metal work, carpentry, and auto mechanics, as the young have greater latitude to pursue intensive training in new trade areas.

As the technical assistance objectives of most programs emphasize enterprise formation, improvement, and stabilization, rather than rapid enterprise growth, managerial assistance delivered to client groups usually focuses on the attainment of "adequacy" in bookkeeping, inventory control, production management, and marketing. The first assistance delivered usually addresses the establishment of a simple accounting system which allows clients to understand the basics of financial management. Perhaps the most effective technique utilized in the establishment of a financial system within enterprises at this level is the physical division of cash income into different bags or boxes which represent separate accounts (NCCK). The use of such a system encourages the separation of personal and business income and encourages reinvestment in the business (overcoming one of the biggest problems encountered among clients) and the setting aside of funds for eventual loan repayment. Such a technique also surmounts the problem of illiteracy among the clients.

As most of the clients are assisted in groups, some programs, such as SIDO, focus management training and on-site assistance on a sub-group charged with specific management and bookkeeping responsibilities. Others, however, such as the NCCK and Village Polytechnic programs, focus their assistance—at least at the beginning—on the entire group and encourage a rotation of group leadership and management responsibilities. This promotes an awareness of the various enterprise functions and responsibilities among all clients.

Subsequent, ongoing, on-site assistance in these programs usually focuses upon (i) the formalization of a bookkeeping system (often with the assistance of a literate child or friend) to provide a basis for the receipt and management of credit; (ii) the systematization of production and sales functions; and (iii) the upgrading of client production skills. These ongoing assistance activities do not differ from those normally associated with formal, small-scale-enterprise programs. What is different about programs operating at this economic level, however, is the intensity of personal contact and follow-up that is apparently necessary to improve clients' economic progress. In most cases, program promoters and administrators stressed the need to patiently "stay with" clients until an adequate level of enterprise stability is achieved.

This approach is evident in most of the programs examined. The incidence and intensity of personal contact by field staff with clients in delivering assistance is quite high in most of the programs which seem to enjoy some measure of success, while problems seem to occur in cases where intensive follow-up is not in evidence. For example, in the case of NCCK, clients are basically "walked through" the entire assistance process by community workers—this includes personal accompaniment and assistance in the credit application and interview processes. This intensive assistance seems to be related to NCCK's success in improving client well-being and maintaining a low default rate on loans. On the other hand, the lack of intensive, follow-up, on-site assistance to graduating work groups in the Village Polytechnic program appears to be related to some of the problems which have occurred in the formation of viable enterprises among trainees, as well as to an unsuccessful pilot credit scheme.

C. *Marketing Assistance*

The extension of marketing assistance is an additional support activity which seems to be sorely needed at this level. As most of the enterprises run by the poor produce and/or market very basic and simple goods and do not enjoy access to potentially profitable markets and marketing sites, client are placed at a distinct competitive disadvantage. To counter this, programs either assist in the identification of stable marketing channels or establish central markets for the goods produced by client enterprises. NCCK and SIDO, for example, have established central handicrafts marketing corporations and local tourist stores which purchase and retail client craft goods. For non-handicraft products, the Tanzania Government has established regional trading centers to purchase and distribute small-enterprise goods, while ICA-Kenya has developed an export marketing channel for its urban cash crop products. Petty retailers, on the other hand, are usually assisted in locating and establishing secure, accessible premises and are advised on obtaining potentially profitable stock.

While such measures have established or improved marketing positions for assisted enterprises, persistent marketing problems were indicated in all programs. This poses the potential problem of future enterprise stagnation. Demand for handicraft items, for example, can be highly variable, producing instability among artisan enterprises. At the same time, simple consumer goods, such as basic clothing and footwear, are subject to significant market dislocations brought on by highly capitalized formal-sector industries which can produce such items at greatly reduced cost. To counteract these marketing problems, many programs attempt to identify potentially secure product lines and promote their production and/or sale by client enterprises. In addition, some organizations have initiated campaigns within the country to promote the purchase of indigenous products.

Perhaps the most feasible approach adopted by some programs is to identify carefully the demand for skills and products within local communities and then match the areas of training and enterprise promotion to these needs. In this way, at least some degree of marketing feasibility is established for the goods and services to be produced. In the Village Polytechnic programs, for example, local management committees are required to assess the local need for particular skills before selecting the training courses to be conducted in the community's VP. Similarly, SIDO undertakes demand surveys in communities before choosing trade areas to be developed locally through enterprise assistance and youth training. Most of the programs which have not adopted this strategy prior to initiating enterprise assistance have increasingly realized the need to do so.

In all probability, marketing problems will continue to form one of the greatest constraints to economic growth among very poor artisans and traders in Africa. As is well known among students of informal sector activities, the marketing of small enterprise goods within the sector's economy poses a problem of static final demand. This is an even larger problem for the very poor who are barely surviving against severe competition from more established enterprises. At the same time, while sound in theory, attempts to "export" the goods produced by the very poor out of local communities can be logistically complex, may not always provide stable incomes, and expose clients to the risk of becoming skilled in areas of production which are dependent on unforeseen formal sector and international market forces. The highly variable export prices being paid for the French beans produced in ICA's urban agriculture scheme is typical of this problem. If ICA subsidies were not buffering producers from price fluctuations, participant incomes would vary sharply from one month to the next and, in all probability, would be lower on average.

Based on the limited research conducted in this study, two elements of assistance appear to be present in programs which have enjoyed some degree of success in grappling with the very difficult problem of marketing. These are: 1) an emphasis on the identification of local needs and consumer demand, on the one hand, and the matching of local skills and areas of enterprise development among the poor to meet local needs, on the other; and 2) the direct intervention of the assisting entity in the identification or establishment of marketing channels for client enterprises.

### D. *Credit*

While financial assistance constitutes an essential element of most programs identified, in no case was it found to be a sufficient means of assistance *per se*. In most cases, credit is delivered as part of a comprehensive package of enterprise support, and is only delivered after such time as the clients are considered to have attained an adequate managerial and productive capacity. In short, while most clients (e.g., those surveyed in Nairobi) consider credit the most meaningful type of assistance, the support institutions seem to use financial aid quite conservatively and are very cautious in ensuring that clients are able to successfully utilize and manage loans before they are granted. SIDO, for example, extends credit only after a feasibility study of the enterprise has been completed, while NCCK brings clients into the credit application process after they are judged by field staff to be ready to absorb credit. As reported by most program administrators, the reason why this general approach has been adopted is to bolster the confidence of clients by ensuring that steady progress is made by them and that this progress is not jeopardized by pushing too much and too many forms of assistance too quickly.

Consistent with this cautious approach to credit extension, most of the programs identified exercise comparatively strict control over the use of credit by clients. One of the major mechanisms of control over credit utilization found in most programs is the granting of in-kind credits in the form of tools, equipment, and raw materials to production groups. SIDO, for example, employs this practice exclusively, while many Village Polytechnics follow a similar course in the use of their revolving loan funds. In programs which deal with petty retailers, cash credits are made, but close supervision is exercised over the expenditure of the loan monies. NCCK, for example, assists retailers with small cash credits for the purchase of stock, but insists on documentation of stock purchases for draw-downs on loans and also monitors the clients' respective bank accounts.

According to most program administrators interviewed, such close supervision over credit use is maintained to ensure that clients—most of whom are receiving credit for the first time—actually put the loans to use for enterprise improvement rather than toward meeting immediate family and personal needs, and that they do so according to the improvement plan worked out with field staff. In addition, it is felt that the assurance of proper credit utilization will result in lower default rates. The evidence of low rates of default in such programs as SIDO and NCCK seems to confirm the importance of this element of control. In cases where close supervision over credit utilization is not maintained, such as in the VP program, problems with enterprise improvement and loan repayment have occurred.

In most cases, however, loan repayment is not made through field staff. Rather, clients usually repay loans through a central administrative office, while field staff follow up in the case of repayment problems. Centralized repayment has been adopted by most programs to free up field staff time in order to provide assistance to greater numbers of beneficiaries, as well as to accustom clients to exercising independent responsibility for loan repayment.

Perhaps the most salient characteristic of the credit programs examined is the flexibility they display in credit terms and policies, which allows them to service extremely poor clients. Strict standards are avoided, which, if followed, would eliminate such individuals and groups from participation in the credit programs. This flexibility is exercised in two essential ways. First, collateral requirements in most programs are satisfied simply by personal, usually group, loan guarantees. Such policies allow virtually assetless clients to participate in a lending program. Similarly, the size and terms of the loans made are adjusted to ensure that clients can afford to make the scheduled monthly repayments. These adjustments take various forms. To begin with, the interest rates charged on loans made by most agencies working at this level are well below commercial rates and usually represent nominal charges to help defray administrative costs. SIDO, for example, charges five percent on loans, while NCCK charges three and one-half percent. Furthermore, SIDO makes only a flat, one-time charge based on the face value of a loan, while NCCK maintains the flexibility to make grants to the desperately poor to allow them to purchase initial retail stock and begin to generate some income.

At the same time, most programs carefully consider loan size and amortization periods together in order to determine affordable monthly repayments for clients. NCCK, for example, adjusts its loan terms on a case-by-case basis, determining the loan size and repayment period through a projection of expected client income. Even small cash loans to retailers ($70 to $100) usually carry a two-to-three-month grace period and a relatively long amortization period (three to six months) to allow the client a multiple turnover of the loan capital. Larger loans for tools and equipment carry amortization periods up to two and one-half years in order to lower monthly repayment requirements. Similarly, SIDO is able to extend relatively large equipment credits—averaging $5500—to poor clients because it grants credits only to groups of five or more, allows a one-year grace period in many cases, and amortizes loans over a five-to-seven-year period. Both the WID-Swaziland and the ICA-Kawangware projects demonstrate similar approaches to the provision of credit.

Generally, therefore, it would appear that no single element of a credit program, such as the loan size or interest rate, can be identified as the key factor in successfully lending to very poor clients. Both large as well as small loans can be made with low probability of default if appropriately long amortization periods and lowered interest rates are adopted, together with intensive follow-up and supervision. Similarly (although little evidence of this was found in the programs examined), it could be argued that higher interest rates could be charged with a further lengthening of repayment periods. What does seem to be critical, however, is the flexibility which these programs demonstrate in being able to adapt both the size and terms of loans to fit the specific income levels and repayment capabilities of clients at this level.

## III. Organizational Characteristics

Consistent with their community-based orientation, most of the programs examined maintain relatively decentralized organizational structures and decision-making processes. NCCK, for example, extends significant decision-making responsibility to its social workers and community educators. In determining both the type of assistance to be delivered to clients and the pace at which it is to be delivered, the field staff receive technical advice from program administrators but do not operate according to any strict methodology. Similarly, local artisans and craftsmen who serve as trainers in the Village Polytechnic program receive some technical guidelines, but are extended considerable latitude in structuring their informal courses. SIDO, although a government agency, also extends considerable responsibility to its regional promotional officers upon whom it depends for the planning and delivery of services in the critical area of enterprise formation.

In general, while final decisions regarding, for example, the approval of credit to clients, do not rest with field staff, these people exercise great responsibility in initially selecting clients to assist and in determining the most appropriate means of assistance. In most cases, no strict requirements regarding either client selection or specific assistance techniques are laid down. Staff are therefore free to select the most needy and reliable clients, as well as to decide, in each case, the best way of delivering assistance to them.

Such program decentralization seems to be necessary in the attempt being made by most of these agencies to reach directly the very poor and to respond flexibly to client needs. Equally important, however, seems to be the relatively high degree of autonomy possessed by most of these programs which allows them the flexibility to adopt whatever development strategy is deemed appropriate and to modify and improve such strategies over time. Many of the agencies found to be reaching the very poor are private and relatively small, and are therefore not subject to the bureaucratic entanglements which can often inhibit large public agencies. Those public agencies which at least in part reach this level, such as SIDO, are parastatal corporations and are directly answerable to their own boards rather than to large ministries. Most of the program administrators interviewed maintained that the adoption of a bureaucratic organizational structure, with prescribed selection criteria and heavy staff supervision, would decrease overall efficiency and severely limit their ability to reach and assist the very poor. This seems to be true.

Basic to the decentralized approach adopted by most organizations is the employment of competent and committed field staff who find work among the very poor to be professionally rewarding and who work well without intensive supervision. In the case of both NCCK and the Village Polytechnic program—which were the focus of in-depth studies—personnel working within local communities either as trainers, enterprise promoters, or social workers were generally found to be highly committed and seemingly very competent. The ability of such programs to recruit and maintain such dedicated staff is certainly a crucial factor in their success. No doubt the commitment of such agencies to assisting meaningfully the very poor, together with the operational latitude they extend to personnel, contributes greatly to their ability to attract such dedicated personnel, who in some cases are accepting lower salaries than they could earn elsewhere. Most of NCCK's urban upgrading personnel, for example, earn less than their public sector counterparts.

At the same time, most of these organizations take pains to recruit staff from within the communities in which they operate. This is done to maximize the possibility that staff will be both knowledgeable of, and committed to, the development of local communities. This is particularly noticeable in the Village Polytechnic program, within which local artisans, who are very knowledgeable of local materials, markets, etc., carry out training and follow-up activities. Similarly, SIDO's youth training and handicraft production programs follow a similar pattern of local trainer recruitment, while all local community educators in the NCCK, WID-Swaziland, and CEPEC programs are locally recruited. It is also interesting to note that participants in these programs sometimes end up as staff. This is certainly the case with NCCK, which recruits staff from the beneficiary population, while the VP program now employs many local trainers who started out as trainees.

Perhaps more importantly, most of the senior administrative personnel in these programs began as local-level workers within the same or similar programs, and have acquired greater technical and administrative experience during their ascendency to higher positions. The administrators of both NCCK's urban program and the WID-Swaziland program, for example, came out of community development backgrounds, while virtually all Village Polytechnic managers began as local trainers. This staff development process differs markedly from most civil service staffed programs within which program heads may or may not have had significant local-level experience. The internal, locally based recruitment and staff development systems adopted by many of these programs serve to maintain a responsive, community-level focus in the planning and implementation of service programs, which in most cases seem relevant to the immediate needs of the very poor. As these personnel systems reinforce this critical program focus, they seem to be crucial to success in designing and delivering appropriate services at this level.

## IV. Possibilities for International Assistance

The findings of this study indicate that a number of viable efforts are being made in Africa to assist the virtually assetless urban and peri-urban poor. These programs display some common characteristics which seem to constitute important elements of program structure and methodology. Among those key factors that international donors should take into consideration in their identification or design of appropriate programs are:

— a relatively autonomous, indigenously staffed development organization through which such assistance can be channeled;

— a sound program of direct outreach and promotion within poor communities;

— an active involvement of local communities in the design and implementation of the program;

— a flexible and responsive service-delivery system which can address both the economic and social needs of clients;

— an intensive delivery of technical and managerial assistance, together with a close supervision of clients during the enterprise-formation stages;

— a highly flexible credit program that can adapt both the size and terms of loans to the specific repayment capabilities of the very poor;

— a strong emphasis on the assessment of local demand in determining appropriate trade and skills areas to promote; and

— either the identification or establishment of marketing conduits for the goods and services by client enterprises.

In the short-term it would seem that international assistance aimed at this sector should focus on the appropriate expansion of existing programs and upon the continued technical upgrading of the assisting organizations. In most cases, it would seem that strategies calling for rapid implementation of large-scale assistance programs should be avoided. This recommendation is based on two considerations. First, such extensive efforts require considerable public policy and program support currently not found in most African countries. As demonstrated by the programs studied, such support might best be generated through successful demonstration and a continuous effort to pull in and involve public agencies on a program-by-program basis. Second, in most cases the institutional capacities, in both the private and public sectors, needed to deliver large-scale enterprise assistance among the very poor in Africa simply do not yet exist. In this light, it would appear clearly preferable to bolster the income-generating efforts of existing indigenous development institutions.

Where institutional capacities are lacking, outside organizations could be called in to assist in the establishment and development of new, indigenous institutions. The work of U.N.O.T.C. in the WID-Swaziland project, as well as some of the programs of such organizations as Partnership for Productivity, serve as examples of how institution-building assistance can be delivered.

Perhaps a better alternative to the creation of new institutions is the addition of income-generation components to existing programs, such as community development or housing schemes, which already possess sound outreach and promotional networks in squatter communities. For example, in Lusaka, Zambia, the program of squatter-settlement upgrading initiated by the American Friends Service Committee (AFSC) and now operated by a totally Zambian staff has strong capabilities in community outreach and credit supervision as a result of its experience in self-help housing. With some staff retraining and technical assistance, AFSC could incorporate income-generation assistance as part of its total effort, and it is currently making efforts to do so.

In rendering financial assistance to existing, indigenous programs, such as those examined in the course of this research, international donor agencies must maintain considerable flexibility. For the most part, as stated, programs operating at this level in Africa are essentially social and educational in nature. Their goal is to provide the first-level outreach, training, and enterprise-assistance services necessary to prepare clients for the eventual utilization of more formal means of assistance.

The programs are not designed to be self-financing, as their priority is to tailor the terms and conditions related to their delivery of credit and services to enable them to reach and assist the very poor. Even if these programs were to lend at commercial rates—which would be possible, for example, through a lengthening of amortization periods—their relatively small loan volumes, together with a slow turnover in loan funds, would not generate sufficient income to cover most operational costs. Thus, at least in the short-term, the expansion and/or upgrading of these programs will require assistance in the form of grants and/or soft loans. It is not surprising that these programs are not self-financing, given the expense of supplying the required preparatory services to the very low-skilled clients of these programs, many of whom are receiving and managing credit for the first time.

The specific upgrading needs of these programs vary. NCCK, for example, needs to provide more technical back-up to community-based staff engaged in enterprise formation, especially in the secondary cities. The Village Polytechnic program, on the other hand, needs to enhance its capacity to provide follow-up assistance to graduating work groups. The one area in which virtually all programs require upgrading, however, is marketing—particularly in demand analysis and in the establishment of marketing channels for client products.

Most of the technical inadequacies in the programs examined seem to result from a shortage of personnel in certain areas, rather than from a low skill level among existing staff. For example, the problems encountered in providing follow-up assistance to graduating work groups in the Village Polytechnic program seem due to the excessive training loads of local trainers rather than to any lack of ability on their part. It would therefore seem that this problem would best be ameliorated through either a reduction in the number of trainees per trainer or the addition of staff, perhaps on a regional or district basis, charged specifically with delivering follow-up assistance to graduating trainees. Similarly, NCCK field staff have been quite successful in delivering assistance to enterprises during their formative stages, but they are currently spread too thin to be able to deliver more intensive managerial and technical assistance to the groups once they pass the first stages of enterprise development. The addition of technical personnel to back-up the field staff would seem to offer the best solution to this problem.

It would appear, therefore, that the technical upgrading of support institutions would best be accomplished through the addition of appropriate indigenous personnel rather than through the delivery of technical assistance or additional staff training by outside agencies, which can be costly and would not contribute to program expansion. This recommendation is consistent with the conclusion that the most effective way to assist the self-employed poor in urban Africa is to assist, at their own determined pace, those indigenous African development organizations which have their roots in poor urban and peri-urban communities.

# Part III
# Case Studies: Latin America




by Peter H. Fraser and William R. Tucker
ACCION International/AITEC

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## CASE STUDIES: LATIN AMERICA

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# CHAPTER 1

## *Introduction*

Latin America, as other developing areas, is confronting a difficult period of economic and social development. High levels of population growth have put tremendous pressure on governments to respond to growing needs. Between 1960 and 1977 Latin America's population increased at an average rate of 2.8 percent per year—higher than the 2.4 percent average for the rest of the developing world. In 1960 the region had 200 million inhabitants. By 1977 there were 300 million, and at current rates of population growth there will be 400 million people by 1985 vying for the region's resources and services.[1]

In keeping with the increase in population trends, Latin America is experiencing a higher growth rate in its labor force than any other major geographic region of the world.[2] Between 1970 and 1975 the labor force grew by 12.1 million persons; between 1980 and 1985 there will be an increase of another 17.2 million. It is estimated that the labor force in Latin America will increase by 36 million workers in the eighties and 46 million in the nineties.[3] "In the next twenty-five years there will be a net increase of 100 million workers."[4]

Between 1960 and 1977, planners were encouraged by unsurpassed economic growth that was beginning to solve regional employment and development needs. Increases in gross domestic product for the region averaged 5.8 percent per year.[5]

By 1976, however, the situation had worsened. Economic growth rates declined dramatically (related to the 1973 recession in the developed countries). Between 1976 and 1977 the annual rate of growth of the gross national product for the region dropped from 5.4 percent to 3.7 percent.[6]

The cities were particularly hard hit as migration from the rural areas soared. By 1977 63 percent of the population lived in cities compared to 49 percent in 1960,[7] straining the ability of urban areas to provide the jobs, shelter and services need to maintain minimum standards of living for the poor.

Recognizing the need for development to create enough jobs, large-scale investments were made in projects that would create employment directly. To mobilize internal savings and investment within the region for this purpose, substantial emphasis was placed on strengthening financial institutions and creating specialized development financing organizations. At the same time, heavy investment in rural development took place, with the hope that migration to cities would be slowed. Despite these efforts, unemployment and migration to urban centers persist as serious problems.

Even though the growth of the Latin American economy is unprecedented, it is doubtful that current major development efforts will be able to sustain adequate growth rate, income, and employment levels. Alternative strategies for generating the necessary income, jobs, and services for the burgeoning ranks of the urban poor are therefore essential.

## *The Studies*

One approach to creating new jobs and increasing income is to assist small scale enterprises. To gain insights into how this could best be done we studied locally-initiated projects that created employment and income for the urban poor. Preliminary field work was completed in Peru,

[1] *Economic and Social Progress in Latin America,* Inter-American Development Bank, 1977 Report, p. 4.
[2] *Ibid.*, p. 117.
[3] *Ibid.*, p. 121.
[4] *Ibid.*, p. 121.
[5] *Ibid.*, p. 121.
[6] *Ibid.*, p. 3.
[7] *Ibid.*, p. 4.

Ecuador, Colombia, Panama, Barbados, Honduras, and El Salvador. Visits to many organizations were made to identify projects, including government and private community development agencies, private banks, savings and loan cooperatives, private development organizations, and state development finance institutions.

As a result of these initial visits, projects were selected to be studied in-depth. These projects represent different approaches to the problems of urban poverty through varying combinations of credit, management assistance, social assistance, and skills training. Since informal sector entrepreneurs overwhelmingly identified credit as being the major problem facing the growth and development of their economic activities, heavy emphasis was placed on mechanisms for providing credit. In particular, we have attempted to understand the elements of credit systems essential to effective programs. We also looked at technical assistance and social services in multi-faceted projects to understand how they contributed to overall impact.

In conclusion, our objective was not to elaborate an extensive inventory of projects. Instead, we selected five projects with elements which could provide insights into programming. The projects selected and described in this volume are:

1) FEDECCREDITO (Federación de Cajas de Crédito)
   PRIDECO (Programa Integral de Desarrollo Comunal)
   —San Salvador, El Salvador
   —Type of Organization: Government-sponsored finance and community development organizations.
   —Program Emphasis: Credit, management assistance, skills training, health, nutrition, community organization.

2) FNCS (Federación Nacional de Cruzada Social)
   CIDES (Cooperativa Multiactiva de Desarrollo Social)
   —Bogota, Colombia
   —Type of Organization: Savings and loan cooperative, Catholic lay affiliation.
   —Program Emphasis: Savings, credit, social development, human resource upgrading.

3) Banco del Pacífico
   —Guayaquil (main office), Quito, Ecuador
   —Type of Organization: Private development-oriented bank.
   —Program Emphasis: Credit.

4) ASEPADE (Asesores para el Desarrollo)
   —Tegucigalpa, Honduras
   —Type of Organization: Private non-profit organization.
   —Program Emphasis: Credit and social assistance to market vendors.

5) INEDES (Instituto Ecuatoriano de Desarrollo Social)
   —Quito (main office), Cuenca, Loja, Ecuador.
   —Type of Organization: Private, political party-affiliated housing agency. Also assist a few production cooperatives.
   —Program Emphasis: Housing, mutual assistance, employment linkage, production cooperatives.

## CHAPTER 2: PRIDECO/FEDECCREDITO

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## I. PROJECT IDENTIFICATION

PRIDECO/FEDECCREDITO (Programa Integral de Desarrollo Comunal/Federación de Cajas de Credito)

PRIDECO: Avenida Cuba y Calle Darió González #806
Barrio San Jacinto
San Salvador, El Salvador
Telephone: 22-59-08 or 22-59-64

FEDECCREDITO: 25ª Avenida Norte y 23ª Calle Poniente
San Salvador, El Salvador
Telephone: 25-49-22

Directors: Ignacio Artiñano A., Executive President, FEDECCREDITO
Lic. Carlos E. Morales, Manager, FEDECCREDITO
Colonel Julio Zepeda A., Director, PRIDECO

Dates of Study: Preliminary: March 30, 31 and April 2, 1979
In-depth: July 16 to August 11, 1979

Researched and written by: Peter H. Fraser

## II. THE SETTING[1]

*General Conditions*

El Salvador is a small country with an estimated population of 4,526,000. San Salvador is the capital with 700,000 inhabitants, or 15.4 percent of the total population.[2] The country's urban problems are rapidly increasing as a result of several factors:

1. a high rate of population growth;
2. lack of agricultural land to employ people in rural areas;
3. a high rate of rural to urban migration;
4. an unstable transition process for emigrants from the agricultural to the industrial and commercial economy; and
5. high levels of unemployment and underemployment.[3]

These factors are the basis for the serious poverty which exists in the city of San Salvador today.

In San Salvador, as in many other rapidly growing Latin American urban areas, drinking water and sewage systems, adequate housing, and jobs are in short supply. Despite these problems, migration into the cities continues unchecked. San Salvador has an annual population growth rate of 4.7 percent, well above the national average of 3.2 percent. The segment of the population of the city considered to be poor, that is, with family income of US $175 or less per month, is growing at an even greater pace (5.8 percent per year). In 1976, it was estimated that 75,000 families[4], or 51 percent of all the families in Metropolitan San Salvador, were poor.[5] By 1987, 131,000 families (800,000 people), or 57 percent of the total, will be in this category.

[1] Editor's note: It must be pointed out that this case study was undertaken prior to the upheavals in El Salvador of late 1980 and 1981. Information is available which indicates substantial changes in the environment and operation of the programs documented below. Nevertheless, the lessons learned and conclusions regarding the erstwhile FEDECCREDITO/PRIDECO projects remain instructive for our purposes.

[2] Based on El Salvador Ministry of Planning figures of 4.25 million inhabitants in 1977 and assuming an average population growth rate of 3.2% per year.

[3] *Estudio de Desarrollo Urbano y Regional, El Salvador*, Documento #25, Resumen Ejecutivo, p. 1.

[4] Averaging six people per family.

[5] *Estudio de Desarrollo Urbano y Regional, op. cit.*, p. 2.

Recent research indicates that of the urban poor:[6]

—ninety percent have family incomes of US $120 per month or less;

—thirty-five percent have family incomes of US $80 or less per month;

—ten percent are unemployed and 20-26 percent more are underemployed;

—the majority have no title to the property they live on and renters are in precarious situations with respect to tenure; and

—virtually all lack the requirements for gaining access to even the most lenient formal credit systems.

The division between prosperous and poor neighborhoods is striking, and invidious comparisons are unavoidable. The poor inhabit the urban slums (*mesones* and *tugurios*) and government housing projects, (*campamentos*), where in many cases there are no public services. The downtown slums (*tugurios*) consist of shacks perched on the sides of great gullies. Eroded narrow paths wind through the neighborhoods and are the only means of passage. Rundown houses in the city (*mesones*) have become tenements, each room housing an entire family. Following the 1965 earthquake, the government built *campamentos* for the homeless to provide somewhat better housing and services than formerly available in the *tugurios*. In these areas cement alleys separate the rows of one or two room wooden houses and have open drainage to central sewers. Electricity, communal water, sanitation facilities and washing tanks have also been installed.

*Urban Informal Sector Enterprises*

The poor neighborhoods in San Salvador are filled with economic activity. It is estimated that 85 percent of the households are engaged in tiny businesses which often provide 50 percent or more of a family unit's income. For example:

—carpenters and furniture makers using simple hand tools labor in their homes or in the alleys which separate houses;

—foodsellers set up small eating places consisting of a small table wedged into a tiny room, with gas or kerosene stove, and possibly a refrigerator;

—candy-makers work on wood-fired stoves using large metal kettles, wooden stirring ladles and cutting boards;

—street vendors are everywhere selling fruits, vegetables, clothing and lottery tickets;

—bottles are collected for resale to bottling companies by people carrying burlap bags or pushing small carts;

—shoemakers work out of their houses or have a booth on the street. They may have a treadle sewing machine;

—laundry women work at public washbasins or in the home;

—tailors and seamstresses use treadle sewing machines set up in any available space at home; and

—retailers (small food stores are most common) sell off of shelves in a corner of one room of the home.

These businesses are most often run by women at home assisted by their teenage daughters and children who are not in school. Men and teenage boys tend to seek more prestigious employment in factories, markets, or other commercial establishments.

Income from these informal sector enterprises is often equivalent to a single wage in a larger business, but it is generally the fruit of several family workers. Productivity is low; therefore, income is also low.

Despite low productivity and incomes, the more successful entrepreneurs believe there are benefits from working independently. Women who work in the formal sector find it very difficult to combine the shift schedules of modern factories with their major home-making and child-rearing responsibilities. Due to the additional costs of child care, transportation to and from work, laundry services, etc., which result from having to leave the home to work, many street vendors, regardless of the fact that they do not work at home, feel strongly about the advantages of having their own schedule and of being able to take their children along if necessary.

[6] *Ibid.*, p. 3. Note: Within the poorest segments of the self-employed labor force the underemployment figure may be much higher than stated here due to the overly long hours and low productivity of labor in the occupations of these people.

*The Problems of Informal Sector Entrepreneurs*

1. *Production discontinuity.* The major problem for the owners of informal sector businesses is lack of capital. Consequently, entrepreneurs have only enough cash to buy raw materials and stock for one or two days. When the inventory runs out, production or sales drop. In order to subsist, many businesses depend upon daily loans from money-lenders, and often several collection trips a day must be made just to cancel outstanding debts. Frequent collections and separate trips to purchase materials require time, and businesses are often forced to shut down, leading to inefficiency and low productivity.

2. *Inability to extend credit.* Due to lack of capital only a quarter of informal sector businesses are able to extend credit to consumers.[7] By extending credit, they can expand their businesses to service the needs of persons who are paid weekly or biweekly—an arrangement mutually beneficial to businesses and consumers.

3. *Inability to seek better prices.* In order to have enough money to continue producing and replenish their stock, owners must sell their products quickly in a highly competitive market.

4. *Inability to obtain quantity discounts.* Given the lack of working capital, informal sector entrepreneurs are seldom able to take advantage of quantity discounts, and costs are high for raw materials and stock.

5. *Need to obtain credit from money lenders.* Lacking access to banks, informal sector entrepreneurs must often use small short-term loans from money-lenders. Very small daily loans often command interest rates as high as 50 percent per day. Twenty percent per month is the common rate for larger loans.

In addition, there are other social and technical constraints which make the acquisition of loans very difficult for informal sector entrepreneurs:

—Informal sector businesses are located in the marginal communities; theft is often a problem.

—Materials are sometimes spoiled because of lack of storage facilities or exposure to rain.

—The lack of security of land tenure in squatter communities makes owners reluctant to make long term investments.

—Owners and employees often lack basic production skills (such as operation of sewing machines, carpentry or cooking).

—The lack of information on how and where to sell limits profits.

## III. PROJECT DESCRIPTION

The government of El Salvador recognizes the magnitude of the urban problem and has launched a comprehensive integrated urban development program with the objective of achieving improved conditions for the poor.

Through its urban community development program, Programa Integral de Desarrollo Comunal (PRIDECO) (Program for Integrated Community Development), and the Federación de Cajas de Crédito (FEDECCREDITO) (Federation of Credit Agencies), an autonomous organization with public and private funding, the government is making a strong effort to stimulate the growth of informal sector business, and to increase income and employment.

*Goals*

The goal of the PRIDECO/FEDECCREDITO project is to provide an institutionalized alternative to money lenders so that informal sector entrepreneurs can further increase their productivity. Project beneficiaries feel that their income would be higher if their businesses were given more opportunities for growth.

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[7] This figure is based on a sample of 483, or 17.7%, of the entrepreneurs using small enterprise credit services of PRIDECO/FEDECCREDITO during the period July 1978 to July 1979. All information was gathered from program files.

FEDECCREDITO's past Executive President, a former top bank executive in El Salvador, saw informal sector lending as having the potential to reach efficiently very large numbers of people. If the project had as its initial objective the refinancing of debts to money lenders, the impact would be seen immediately in the increased incomes of beneficiaries.

A second level goal of the project is to provide effective competition in the credit market, thereby forcing money lenders to lower their interest rates.

The crucial objective of the project, then, is to provide an effective alternative credit source to people who would otherwise compete for the relatively small supply of credit available through money lenders. It is reasoned that once poor people have access to low interest credit, enterprises will expand to the limits of their owners' abilities. With the worries of day-to-day survival eased, people will be more likely to take advantage of other services provided them through health and nutrition, education and other community development support activities that are part of the PRIDECO program.

## *PRIDECO*

### *Background*

PRIDECO is a multi-faceted urban community development organization founded in 1973 as a unit in the Office of the President.[8] Its primary goal is to begin the process of educational, cultural and economic integration into society of very poor urban slum dwellers in San Salvador. PRIDECO's staff believe that the "doors to opportunity" have been closed to the poor and that State assistance is needed to open them.

PRIDECO's primary activities include:

1. community organization;
2. promotion and organization of cultural and sports activities;
3. infant and maternal nutrition;
4. health services;
5. employment services;
6. administrative control of government-sponsored housing (*campamentos*);
7. skills training and up-grading; and
8. promotion of credit assistant to informal sector entrepreneurs.

Since PRIDECO is a multi-faceted community development organization, a short description of each of its divisions is necessary to give perspective to the credit project within the context of the overall program. PRIDECO does most of the field work in the project and has close ties with individuals and organizations in the community.

### *Organization*

There are 147 employees in PRIDECO, of whom 90 are field promoters who spend most of their time out of the office. The rest are upper level directors, division directors, department chiefs, secretaries, and planning, administrative, and general service staff. Many of the division directors and department chiefs get to the field, but not on a continuous basis.

There are no standard hiring policies nor are there specific job descriptions or requirements. Interestingly enough, the low wages have had the effect of attracting people who are suited for the work required of them. This is especially true of university students working their way through school who work as credit promoters with a real spirit of voluntarism. Their position is temporary, and they look forward to another career and higher salaries after graduation.

While salary levels could be somewhat higher, high salaries tend to attract overqualified people, such as highly trained social workers and other specialists. In other programs such overqualified promoters have been known to become easily bored with the day to day problems of the informal sector,

[8] In January 1979 the name was changed to PRIDECO from OMCOM (Oficina de las Comunidades Marginales) (Office for the Improvement of Marginal Communities).

causing substantial staff turnover and program discontinuity. Alternatively they may attempt to adjust their jobs and actions to fit their personal professional objectives and needs. The result is often a marked change in program objectives and in the level of the people served.

The Director of PRIDECO has overall responsibility for its operation and makes all major programmatic and administrative decisions. Immediately below the Director, a multi-purpose office handles personnel, supervisory and administrative functions and, generally, assists the Director in resolving problems.

PRIDECO has four divisions: Administration, Planning, Social, and Development.

1. *The Administrative Division.* The Administrative Division is responsible for accounting and general financial record keeping. The ten employees in this Division are responsible to the Executive Director.

2. *The Planning Division.* The Planning Division does the resource planning of PRIDECO to ensure that its goals and objectives are reached. The Division has a director, a secretary, and two departments: the Department of Research and Programming, and the Department of Engineering. To detect community needs the Planning Division meets with promoters from other divisions who express their views and concerns about the state of the marginal communities and suggest possible corrective measures.

3. *The Social Division.* This division includes PRIDECO's numerous social programs. It is the largest division and has a number of separate departments formed to organize different programs, including: Community Organization, Youth and Sports, and Maternal and Infant Nutrition. At the division level, it is staffed by a director, an assistant, and a secretary. Each department has its own staff and director.

4. *The Development Division.* The Development Division is composed of three departments: Crafts and Skills Training, Civic and Social Organization, and Cooperativism and Credit Assistance. It is within this last department that the credit program is housed, thereby deserving more detailed examination.

The Department of Cooperativism and Credit Assistance does the promotion and initial paperwork required for the extension of credit to informal sector entrepreneurs. It is a new department, formed at the start of the collaborative credit effort between PRIDECO and FEDECCREDITO. It is staffed by a chief, secretary, credit secretary, and six promoters (four for the FEDECCREDITO project and two for cooperative development). The chief of this department is also responsible for detecting non-credit assistance needs, and supervising training functions. He organizes low level administrative assistance courses for credit recipients, and skills training for all PRIDECO clients.

### *Funding*

PRIDECO is an office of the President of El Salvador. Despite this seemingly advantageous position, it is poorly funded. The total monthly budget amounts to 70,788 colones/month ($28,315.20). The government provides 91 percent of the total. General funds derived from its skills training programs, rent from government-built housing for which it is responsible, fund raising through bingos, games, etc., and sales of food rations through the Caritas program, account for the remaining 9 percent.

## *FEDECCREDITO*

### *Background*

FEDECCREDITO was founded in 1943. It is a financial intermediary and coordinating office for the 42 affiliated credit agencies (*cajas de crédito*) throughout the country that comprise the rural credit system. The *cajas* are run as autonomous businesses and are legally set up as cooperatives. They are the channels for FEDECCREDITO's credit activities outside San Salvador. FEDECCREDITO determines policy and directly administers credit within San Salvador.

Since its founding FEDECCREDITO has been dedicated primarily to rural lending for very small agricultural activities, but over the years it has gained experience in the area of group lending in markets throughout the country. In 1952, in the city of Cojutepeque, it developed the credit group guarantee mechanism to provide credit to people who lacked traditional guarantees and who were dependent on moneylenders. The system, which will be described in detail later, relies on the credit group and peer pressure as the guarantors of loans.

The FEDECCREDITO system currently reaches 70,000 beneficiaries through its credit services, with loans ranging from U.S. $20 to U.S. $25,000.

### *Funding*

FEDECCREDITO receives funds from several sources which provide it with assets of approximately $42 million. With the 1976 reform of the Rural Credit System, the Central Reserve Bank took over the role of major system funder and is now providing about 80 percent of the total portfolio for all credit lines.

The Inter-American Development Bank supports a rural community development effort with a 40-year loan of $5 million. The World Bank has lent $5 million at a 6 percent annual rate to support the urban community development effort and credit program described in these pages.

### *Organization*

FEDECCREDITO's Executive President is appointed by the President of the Republic of El Salvador. He is President of the Board of Governors which is comprised of representatives of two Ministries, two state banks, including the Central Reserve Bank, and two local credit agencies. The Executive President strongly influences FEDECCREDITO operations.

Next in the hierarchy is the General Manager, who oversees the various divisions and makes day to day administrative decisions.

There are four divisions: Planning, Affiliated Cooperatives, Finance, and Administration, with each division comprised of several departments. Lines of credit are assigned to the specific departments which provide administrative support, and in the case of agricultural credit, technical assistance.

Since our primary interest is FEDECCREDITO's role in providing credit to the urban informal sector and its linkage with PRIDECO, we will concentrate only on the department directly related to the credit project.

### *Urban Community Development Department*

Several years ago, the World Bank began working with FEDECCREDITO to implement an informal sector credit project in San Salvador's slums. This credit project was to be a part of FEDECCREDITO's popular credit program, based on a mechanism already in use in the market places.

To administer the project, FEDECCREDITO created its Department of Urban Community Development, and in December 1977, disbursed its first group loans in the project. There are 16 employees in the Department divided into two sections, the Credit Section and Accounting and Financial Operation.

The Credit Section is staffed by a section chief; two evaluators—who visit credit applicants in the communities; one "applications receiver"—who receives applications as they come in to FEDECCREDITO; one contract assistant; and one secretary—who manages applications and registers all loan recipients.

The Operations Section is staffed by a section chief; two accounting assistants; three loan collectors—two for groups and one for individual loans; and one office worker—who receives and accounts for daily cash receipts and assists in other office functions.

*The PRIDECO/FEDECCREDITO Linkage*

Initially, FEDECCREDITO's Urban Community Development Department was responsible for all aspects of its informal sector credit program. It handled promotion, supervision, technical assistance, and collection functions. However, it soon became evident that FEDECCREDITO was not accepted by the urban and marginal communities and that the program needed reorganizing.

FEDECCREDITO's Executive President felt it was necessary to use an organization already working in the communities for the Project's initial phase of promotion. PRIDECO had gained the confidence of the people through its multi-faceted programming including community organization, nutrition, health, and other well-accepted programs, and seemed like the ideal candidate.

PRIDECO was contacted in 1978 by FEDECCREDITO and agreed to set up the Department of Cooperatives and Credit Assistance. This new department was charged with promotion, supervision, and providing technical assistance to the project as well as collection in cases of late payment. FEDECCREDITO would account for World Bank funds, verify applications and collect loan payments. PRIDECO would subsidize the project by giving their services to FEDECCREDITO free of charge.

Since the beginning of the project in December 1977, 2,736 separate informal sector entrepreneurs have received credit. Because of the simple efficient mechanism used, a high percentage of beneficiaries have received up to four and five short term loans during this period. By August 1979, including subsequent loans, the project had disbursed 6,000 separate loans totalling over $1,500,000. Loans from the PRIDECO/FEDECCREDITO system had been spread out over 37 of the poorest neighborhoods in San Salvador.

The project has had no problem funding the credit line, and the World Bank is considering another loan to expand the project further and to re-design the technical assistance function.

*Project Beneficiaries*

The beneficiaries come from the poor communities described earlier: the *mesones, tugurios,* and *campamentos*. They tend to be long term community residents who have well-established businesses; 60 percent had lived in their communities six years or more and they average three years of working in the same economic activity. (The selection criteria require that all entrepreneurs be in business for at least one year.)

**Table 1**
**Years of Residence in Community**

| Years of Residence | Number | Percentage |
|---|---|---|
| 1–2 | 92 | 19.0 |
| 3–5 | 97 | 20.1 |
| 6–10 | 132 | 27.3 |
| 11–30 | 150 | 31.1 |
| No Response | 12 | 2.5 |
| TOTAL | 483 | 100.0 |

*Source:* PRIDECO Credit Project Files.[9]

Eighty-six percent of the beneficiaries are women, distributed nearly evenly between age categories. The implication is that these women are involved in informal sector businesses to provide

[9] Note: Tabular data in this section based on primary source cited in footnote #7.

supplemental income to their families while still doing the cooking, laundry and other domestic activities expected of them. A side business makes a lot of sense, especially when the children are old enough to help out in the business and at home.

**Table 2**
**Age of Beneficiaries**

| Age | Number | Percentage |
|---|---|---|
| 21–25 | 45 | 14.5 |
| 26–30 | 44 | 14.1 |
| 31–35 | 57 | 18.3 |
| 36–40 | 33 | 17.0 |
| 41–45 | 38 | 12.2 |
| 46+ | 73 | 23.5 |
| No response | 1 | .4 |
| TOTAL | 311 | 100.0 |

*Source:* Same as Table 1.

The size of households supported by credit beneficiaries varies greatly. Virtually none live alone, and the majority of the households have from four to six members.

**Table 3**
**Size of Household Supported by Beneficiaries**

| Size of Household | Number of Beneficiaries | Percentage |
|---|---|---|
| 1 | 14 | 2.9 |
| 2 | 36 | 7.5 |
| 3 | 61 | 12.6 |
| 4 | 86 | 17.8 |
| 5 | 81 | 16.8 |
| 6 | 83 | 17.2 |
| 7 | 61 | 12.6 |
| 8 | 42 | 8.7 |
| 9 | 11 | 2.3 |
| 10+ | 8 | 1.6 |
| TOTAL | 483 | 100.0 |

*Source:* PRIDECO Credit Project files.

Sixty-six percent of the households have income in addition to that derived from the family business. In most cases, there is a husband, son or daughter employed in the formal sector who provide their salaries for family needs.

Fifty-three percent of the businesses are located outside the owner's community, indicating that they are providing goods and services to the generally wealthier surrounding communities. Almost 41 percent of these businesses belong to street vendors.

Determining the income level of these families is difficult. Figures from interviews and data from project files tend to be unreliable. If we can believe the figures given us, the beneficiaries' income per household generally averages between $120 and $140 per month. Families are considered below the povery line if they had incomes of less than $175 per month. Thus, project beneficiaries tend to be in the upper part of the lowest income bracket. This is not surprising since the program is designed to select good credit risks through the solidarity group mechanism described below.

It was observed in the interviews that regardless of their economic constraints, project beneficiaries intended to continue and to improve upon their business activities, thereby increasing their incomes. With increased income, they hoped to upgrade their housing, food, and personal appearance, as well as reinvest in the business.

Informal sector entrepreneurs also were aware of the value of education for their children, either as a way to qualify for jobs in modern industry or to make business activities more profitable. Nearly all entrepreneurs intended to use a portion of their increased income for the education of their children.

*The Project Mechanism*

The PRIDECO/FEDECCREDITO project strongly supports the supposition that the major problem for leading institutions has been the lack of a good, efficient mechanism to provide credit to the poor. It has shown that administrative costs can be kept down while maintaining excellent rates of repayment (99 percent). Contrary to popular belief, the project has shown that the poor are more credit-worthy than the more advantaged classes.

*The Solidarity Group:*

The key to the credit system is the solidarity group *(grupo solidario)* guarantee mechanism, used by FEDECCREDITO since 1952. The idea behind the solidarity group is that the owner of the business with a need for credit will join other business owners and form a credit group to qualify for loans. The members of the group are collectively responsible for the loans of each group member. The underlying assumption is that peer pressure within the group will be strong enough to assure timely payments.

Each group appoints one person to be in charge of collecting from the other members on a mutually agreed upon (often daily) schedule. The group leader is responsible for paying the FEDECCREDITO collection agent who usually will collect at the home or business of the group leader each week.

Each group has between five and ten members. Groups of less than five members are considered less stable and prone to avoid payment. Three or four people can agree to avoid repayment and default by leaving the community. Having more people in the group also spreads the risk if one member of the group reneges, and improves FEDECCREDITO's chances of collecting the full amount of the loan. It also cuts the costs of loan collection. On the other hand, if there are more than ten members it is difficult for the group leader to maintain control of the group, and group leadership becomes too onerous and time-consuming a task.

Ideally FEDECCREDITO would like group members to have similar incomes and sizes of loans. This way, one person would not become the major risk factor nor could he jeopardize the other members of the group by defaulting to his benefit.

A major factor for reducing administrative costs and assuring the effectiveness of the project is that the groups are formed by the business owners themselves with little staff intervention. The credit promoters have found that it is more efficient and effective to allow people to select themselves into groups rather than to have the project staff do this for them. When project staff tried to form groups they found the one-to-one selection process was time-consuming and ineffective. Since the group takes responsibility for the payback of all its members, the members must know each other well, and have a sense of responsibility and commitment to each other for the system to be effective. It is unlikely that a poor credit risk will be invited to join the group. In some cases, however, business owners who want credit accept members who have no businesses. The PRIDECO promoter can nominally detect this during the selection process in their visits to group members' homes. In such cases, the group is denied credit and told to reorganize.

The rules for gaining access to credit are made known to potential beneficiaries by PRIDECO promoters in the course of their other community activities. Those persons interested in the credit are encouraged to seek out other interested persons to form a group. Often groups are promoted by one person who has heard about the program and who seeks out others. This system does work; late repayment and default rates are very low—3.4 percent and 1 percent respectively.

One important factor in the success of the solidarity groups is that all credit recipients recognize the benefits of credit and the need to maintain a good credit record if they are to receive additional loans.

On their own initiative group leaders often assume a broader role than simply ensuring that loans are paid back. For example, one group leader, a seamstress who increased the size of her business to where she employs a full-time worker and sells T-shirts on credit to a local store, advises people on the kinds of profitable businesses they should enter into. She also advises seamstresses on the advantages and drawbacks of various makes of sewing machines, and how to find the best prices for materials in the area. She also helps people find buyers through her network of contacts in larger stores. Her interest is an example of how a mechanism set up to administer credit efficiently can "spill over" into the social area as well.

*Credit:*

Based on the recommendations of PRIDECO credit promoters, the Community Development Department staff at FEDECCREDITO calculates appropriate loan size and frequency of payments. These are determined primarily by the type of business or economic activity involved. Loans are repaid on a daily, weekly, bi-weekly or monthly schedule.

Eighty-two percent of first loans are between $80 and $200 per person. The maximum loan to a group is $4800.

**Table 4**
**Size of First Loans**

| Amount of First Loans (in colones) | Number | Percentage | Amount of First Loans (in US $) |
|---|---|---|---|
| 100 | 1 | .2 | $ 40 or less |
| 200 | 49 | 10.1 | 80 |
| 300 | 166 | 34.4 | 120 |
| 400 | 57 | 11.8 | 160 |
| 500 | 126 | 26.1 | 200 |
| 600 | 8 | 1.7 | 240 |
| 700 | 6 | 1.2 | 280 |
| 800 | 28 | 5.8 | 320 |
| 900 | 3 | .6 | 360 |
| 1000 | 22 | 4.6 | 400 |
| 1500 | 8 | 1.7 | 600 |
| 2000 | 9 | 1.8 | 800 |
| TOTAL | 483 | 100.0 | |

*Source:* PRIDECO Credit File. See Footnote #7.

Credit recipients feel that the short payback periods and very frequent repayments help them to pay back their loans regularly and promptly. Most of these tiny businesses receive immediate payment for their goods and services. Given this, payment to the group leader is often daily. As one recipient pointed out, there is no telling what could happen to her business in the next month, so it is better to start with a small, short-term loan, repayable daily.

Someone who has never had access to credit before needs to be introduced to credit slowly. A large loan, lax payback schedule, and long grace period might do more harm than good if it leads to poor business planning, default, and a ruined credit record. A project would invite trouble if it insisted on lending too much money to a person who has seen, at most, $100 at one time.

As the business owners become familiar with credit and their own abilities, they receive larger loans for longer periods of time through the project. In this way, they learn to control their cash flow, and develop the capacity to save for the next payment.[10] Loans are made for working capital, tools, and workplace improvement. Overwhelmingly, however, people use their loans for expanding business inventories of raw materials and stock to increase production and sales. They are very aware of the possibility of increasing income and business expansion through the proper use of credit.

*Credit Requirements:*

To be eligible for a loan, a person must:

— be twenty-one years old or older;

— be a member of a credit or solidarity group. This eliminates the need for property or possessions as collateral;

— present a personal reference from someone in the community outside the credit group. The reference need not have a bank account.

There are no restrictions or requirements as to the type of business activities assisted. Nor are there business registration requirements or other legal roadblocks to eligibility. The project is interested mostly in finding individuals who are likely to make good use of credit. The solidarity group serves to identify those individuals considered by their friends and neighbors to be good credit risks.

*Interest Rates:*

Interest rates are 16.4 percent per year for first loans and 15 percent for subsequent loans. The additional 1.4 percent commission on first loans covers initial administrative costs.

FEDECCREDITO determines the interest charges on the basis of their costs. Charges are in line with commercial regulated rates in El Salvador. FEDECCREDITO hopes to reach a break-even portfolio by next year which will cover their costs, but the PRIDECO costs will remain subsidized. The interest rate, based on program cost of first loans is broken down as follows:

| | |
|---|---|
| World Bank loan (interest FEDECCREDITO pays) | 6.5% |
| Administrative Costs | 2.5% |
| Reserve Fund for Bad Debts | 1.5% |
| Follow-up and Technical Assistance (short courses) | 4.4% |
| Capital Accumulation and Profits | 1.5% |
| | 16.4% |

[10] Credit stimulates savings by the informal sector entrepreneur if the system is set up properly and indeed effectuates payback. Credit may be a lubricant for business transactions and may enhance production efficiency and make possible increments in income, savings, or investment.

Credit recipients feel the interest charged by the project is reasonable since the alternative is to pay up to 50 percent per day for small daily loans or 20 percent per month for larger, long-term loans from money lenders. It is clear, therefore, that the PRIDECO/FEDECCREDITO project has given the poor access to credit at the same interest rates paid by the wealthier classes.

*Promotiòn:*

PRIDECO has promoters in various programs who spend most of their time in the communities promoting PRIDECO's activities. Promoters from all of PRIDECO's divisions let people know about the possibility of forming solidarity groups to receive credit, although initially most of the promotion for the credit program was done by the four promoters assigned to the program. Now that the program has gained a good reputation in the community it is almost entirely self-promoting. Most of the promoters' time, therefore, is spent on the selection process.

The promoters say that if the program is good and responsive to the community's needs, there is little need for further promotion. After the initial months the program becomes self-promoting and word of mouth is the best form of advertising.

*Selection:*

Once a solidarity group forms itself, the group goes to the PRIDECO office to begin the procedure for receiving credit. At PRIDECO, the secretary of the Department of Cooperatives and Credit Assistance explains again how the program works and outlines the responsibilities of group membership. At this time, the secretary fills out a simple data sheet on each individual that includes name, home address, and the amount of loan requested. This form is filed with other pending applications.

Generally three or four days later, a credit promoter visits each group member individually to verify that they have a business and to further explain the nature of credit, its use, and repayment.

A loan application is filled out in triplicate for each applicant. The application contains questions on the business, sales, family size, the additional sources of income of family members, and general personal data.

The promoter gives the loan applications to the credit secretary. Then the credit secretary and the department chief decide if the amount of the loan requested by each individual is appropriate to the level of income and type of economic activity.[11] Most loans are approved; but occasionally the group is requested to drop one of its members or to rethink its request.

Once a decision is reached, the loan application is returned to the secretary. The group is notified and returns to the PRIDECO offices where they fill out a form applying for "*grupo solidario*" status, which, by this time, is a foregone conclusion. PRIDECO then sends a "letter of recommendation" to FEDECCREDITO, preferably hand-carried by the group leader, and PRIDECO's part in the loan process ends.

Three or four days later, a FEDECCREDITO evaluator visits each group member. The evaluator talks about credit, its importance to the future of the applicant's business and tries to make people keenly aware of their responsibilities to pay back the loan. He also explains the rewards of having a good credit record and continued access to equal or increasing quantities of credit.

While the FEDECCREDITO evaluator is slightly more insistent on obtaining accurate data regarding the applicant's business than are the PRIDECO staff, the interviews are short. At this level there is no doubt about the poverty of the people and their need for assistance.

There is duplication in PRIDECO's and FEDECCREDITO's separate visits but FEDECCREDITO wants to examine each applicant for itself.

Once the applications are complete, they are sent to a FEDECCREDITO qualification committee which routinely approves the applications and loans. This step seems to be more a means of maintaining communication within other FEDECCREDITO departments than an important decision-

[11] Although the credit secretary and department chief are said to have this function, the promoters' advice seems to be routinely accepted. According to the credit promoters, there are loan amounts which seem to be best for first, second and third loan, etc., regardless of the type of enterprise.

making step. The committee is made up of people from other departments and divisions within FEDECCREDITO.

After the qualification committee gives its final approval, the credit file is returned to the Department of Community Development, and sent to the contract assistant. Here, two sets of collection cards with each individual's name, payment amount, and payment frequency are made out; one for the collector, and one for each member of the group.

Once all the documents are assembled, a contract is drawn up stipulating the group's legal obligation to FEDECCREDITO. This forms the legal basis for any action to be taken in case of default.

At this point, the group is called in to the office. Once more, the contract assistant explains the payment system and payment amounts. He gives collection cards to the group leader who is then responsible for their safe keeping. The group proceeds to the department chief. After presenting some form of identification, each member receives his check and signs or places his thumb print on the contract. The checks can then be cashed at a bank.

The entire application process should take about three weeks, but groups interviewed said it took anywhere from two weeks to months for their loans to be approved. Generally, however, the process moves fairly quickly after the group's initial visit to PRIDECO.

After the first loan is repaid, approval comes swiftly for subsequent loans—usually in two days to a week after application. Once the group has established its credit record with FEDECCREDITO, the process is simplified.

*Collection:*

As with the other steps in the process, the collection system is well organized and simple. The FEDECCREDITO collector determines which group leaders he is to visit on a given day, and receives a collection form and the collection cards for each group member from the accounting staff. He then goes to each group leader to collect the amount for that week. Occasionally, the group leader does not have the entire amount because one or more members did not pay their full share. In this case, the collector divides the total delinquent payment among all group members and subtracts this sum from each person, thus lowering the payment credited to each group member that week. In effect, the rest of the group pays on the spot for the delinquent member. The group leader is then responsible for inducing the delinquent member to pay his share.

While at the house or business of the group leader, the collector punches the number of blocks in each member's card corresponding to the number of days' payments collected. Returning to FEDECCREDITO, the collection route form and punched collection cards are checked against the amount of money delivered. The collector is charged for any deficits, so he is extremely careful with his calculations, card punching and collections.

The collection system is quire efficient and the collectors' friendly relationships with most group leaders is an especially impressive aspect. Credit recipients were in no way intimidated nor did they seem to be resentful of the collector. The collector has good reasons for maintaining friendly relationships with his clients. Generally he is happy with this job, believes in the positive consequences of the credit program, and is encouraged to do a good job given the salary incentive (1 percent of total collections). He has the right skill level and expectations for the required task.

When groups fall too far behind, FEDECCREDITO supposedly notifies PRIDECO to begin collection action; according to PRIDECO, however, FEDECCREDITO has been lax in this respect. Normally PRIDECO finds out about a payment problem when members of the groups come to PRIDECO to complain about someone not paying his share.

In collection cases involving late payments, PRIDECO requires all members of the group to attend a meeting at PRIDECO with the Chief of the Credit and Cooperative Assistance Department. All members must be present or the meeting will be re-scheduled. The Department Chief listens to the group's problems and works out a solution with them.

PRIDECO's legal advisor then prepares a legal document stipulating that all money owed be paid by the end of the credit period, and each member is required to sign it. The Chief of the Department feels that it has been effective in getting people to pay. PRIDECO has no late payment charges or fines, but it warns group members that if the new conditions are not met, it has legal authority to suspend any services group members receive from PRIDECO, such as food rations, low cost housing, or health services.

*Supervision and Follow-up:*

PRIDECO was originally assigned the responsibility for loan supervision and follow-up. However, given the large demand for credit and the pressures on the credit promoters to interview applicants and fill out application forms, they are not able to do any supervision on a regularly scheduled basis. At best, if promoters happen to be in the neighborhood they spontaneously visit business owners to see how a loan has been used, or to see if any problem has arisen.

*Technical Assistance and Skills Training:*

There is no formal one-to-one technical or management assistance given to loan recipients. Program managers believe that this training is not needed. What little management assistance there is occurs through informal conversations about possible improvements in business between the PRIDECO credit promoters and individual credit recipients, but this process is not planned and is at best sporadic.

Previously, some short courses were given to credit recipients in strictly business-related subjects including mini-bookkeeping, sales, and very simple notions of cost analysis. The trainers were paid by FEDECCREDITO using the 4.4 percent interest charge (see breakdown above) for "technical assistance", and PRIDECO organized the courses.

Analysis of the program indicated that this assistance was ineffective and not well received. The material was too sophisticated, even though an attempt was made by the instructors to keep the subject matter very simple. Furthermore, the subjects taught were not perceived as immediate priorities for the businesses. Instructors have a difficult task. Understanding the need for simplifying their material is one thing. Actually communicating at this level is another.

Given the high cost of one-on-one technical assistance and many kinds of skills training efforts, it appears to be more effective to depart from the program planner's perception of the "ideal" technical assistance training and become very pragmatic about what people find useful by utilizing to the fullest extent the resources already existent in the communities.

It was interesting to note that a good deal of assistance is given by solidarity group members to other informal sector business owners. The most practical and immediate source of technical and management assistance may be the more skilled business owners in the community. Using these people more formally as instructors is an option which should be explored.

*Cost of Assistance:*

The PRIDECO Department of Cooperativism and Credit Assistance spends 3,500 colones per month ($1,420) on personnel. Therefore, running the credit program absorbs only 16 percent of the total Development Division budget of 22,481 colones per month ($8,992), and only 5 percent of PRIDECO's monthly budget. The program's cost is low, even if one includes the salaries of Social Division promoters who occasionally inform people in the communities of the credit program.

FEDECCREDITO's personnel costs for the project are 8,060 colones per month ($3,224), plus an additional 28 percent for fringe benefits; total cost—10,316 colones ($4,126). It is interesting to note, that since collectors receive 1 percent of the total they collect each month, they make as much or more than supervisory staff. This emphasizes the relative importance that FEDECCREDITO assigns to collection.

Assuming that 50 percent of the evaluators' time is spent reviewing new applications, 30 percent of the collectors' time is spent collecting first loans, and 30 percent of the office work is related to processing new loans, then we can estimate that personnel cost for first loans totals approximately 3,177 colones/month ($1,270). Since an average of 25 new solidarity groups receive credit each month, the personnel cost to FEDECCREDITO is roughly estimated at 127 colones per group ($50). If each group has an average of five members, the cost will be 25 colones per new loan ($10). Totalling the estimated PRIDECO and FEDECCREDITO personnel costs per first loan, we arrive at 73.40 colones per loan ($29.36). The cost for second and subsequent loans is approximately $10.

*Project Impact*

There are two types of impact. One category has to do with reducing costs and increasing efficiency and productivity (economic impact). The other is related to the entrepreneur's social and personel development.

1. *Economic Impact*
   - *To allow entrepreneurs to purchase more stock to provide more flexibility in production and marketing.* This allows them to increase their efficiency and income, and allows them to keep working without having to stop to purchase more stock or to collect on consignments.
   - *To allow entrepreneurs to extend small amounts of credit to increase the total number of sales and the size of transactions.* This in turn creates multipliers which increase the demand for the products of many other businesses both inside and outside the urban informal setting.
   - *To allow entrepreneurs to take advantage of quantity discounts.*
   - *To increase the number of jobs and the adequacy of employment in the informal sector.* As people become more productive, they will increase their incomes per hour worked.
   - *To increase family incomes through refinancing debt to money lenders.* The interest differential between FEDECCREDITO and the money lenders constitutes an immediate income transfer to the entrepreneurs.
2. *Social and Personal Development Impact*
   - *To increase the ability to save and invest in improved housing, nutrition, clothing, education or entertainment.* Entrepreneurs stated they often used their increased income (and at times a portion of their loans) for a new sheet of roofing or siding for their homes, clothes for their children, schoolbooks, or a good meal. Group members stated that they kept an eye on using loan money for non-productive expenditures, recognizing that if too much is spent on these kinds of purchases the ability to repay the loan would be reduced.
   - *To stimulate self-esteem and confidence in their own abilities through using credit and paying back loans.* Entrepreneurs often underestimate their capacity to use credit and are intimidated by it. This is often a consequence of programs extending too much credit for too long which makes payment difficult if not impossible. The entrepreneurs will be able to pay back their loans efficiently if the credit process is geared to their real, often extremely modest, needs.
   - *To foster the development of mutual assistance within the community through bringing people together in a common effort.* It was noted that after several groups in one neighborhood had received loans, they began to recognize the benefits of mutual assistance. For example, in one community the result was the construction of latrines with much of the labor provided by the neighbors themselves. Of more immediate relevance to enterprise development, bringing people together in groups has stimulated grass roots technical assistance where one business owner informally assists another to develop self-esteem.

The following examples are illustrative of the nature of these impacts:

1. *The candy-maker.* Before credit was made available to her, an elderly candy-maker's day began at 1 a.m. She made candy until 7 a.m. and then distributed the product on consignment to nearby stores. She was home by mid-morning and was then able to dedicate a few hours to home-related activities, before she began to collect for the candy sold that day. By the time she had finished collecting and had purchased materials for the next day's production it was 7 or 8 p.m.

Now that the candy-maker has access to credit the production process does not start until 6 a.m. By mid-afternoon she has distributed the candy to nearby stores on consignment for payment the next day, collected on the previous day's delivery and bought needed materials for the following day's production. The rest of the day is free for household activities, production activities, community involvement and leisure. The number of hours the candy-maker had to work each day was cut by 40 percent.

2. *The tortilla-maker*. Because of credit now available to her for working capital, a tortilla-maker is now able to purchase enough firewood and corn for several days' production. This not only saves time but also enables her to receive quantity discounts at ₡8.00 ($3.20) per sack of corn.

Her sales have also increased. Before her first loan she sold ₡18 ($7.80) of tortillas per day; now she sells ₡22 ($8.80 per day). She has expanded her market to a pediatric hospital which pays her weekly. In addition, she has recently opened a savings account in a commercial bank, something which is rarely done by informal sector entrepreneurs.[12]

3. *The seamstress.* A seamstress who began with a ₡400 (U.S. $160) loan has been able to increase her production through four loans to enable her to sell T-shirts by the dozen to a commercial retail establishment in downtown San Salvador. With increased sales and production she can take advantage of quantity discounts on materials.

Her last loan was for ₡1,000 (U.S. $400). She hired a full-time helper to sew the shirts, enabling her to spend more time on sales and cutting the patterns.

Before her first loan she stated that she really did not feel the business was a success or could improve since she barely made enough to make ends meet. She now feels that her business is a success. She emphasized that if she did not sell anything one day, she still had enough cash and/or raw materials in stock to keep on producing and has been able to save a small amount for family emergencies.

4. *Retail sales.* One small store owner reported that before receiving her loans she had to turn business away because of the lack of inventories. With a loan she doubled her sales of soft drinks and with part of another loan purchased an old refrigerator. Now she is able to make frozen fruit juice bars and keep small supplies of ice on hand for sale to neighbors, and her business has expanded considerably.

### *Future Plans and Project Replicability*

Both FEDECCREDITO and PRIDECO believe they can easily expand the credit project in San Salvador and would like to do so, given the success of the program to date. The World Bank is considering another loan to FEDECCREDITO to support the project.

Furthermore, since PRIDECO functions only in the city of San Salvador, an expansion of the program into secondary cities would imply that the program would have to find a way to duplicate PRIDECO's function, either through expanding PRIDECO's area of operation to include areas outside San Salvador, or to expand the role of FEDECCREDITO to include this component.

Given that FEDECCREDITO would experience the same kinds of legitimacy problems as it did in the initial phases of the current project if it tried to act alone, and given that it would take time for FEDECCREDITO to build up its credibility in secondary cities (it has credibility in rural areas), these factors imply costs and logistical considerations which would have to be resolved.

FEDECCREDITO's Chief of Planning, however, seemed enthusiastic about expansion possibilities. He felt that the PRIDECO/FEDECCREDITO project provides an important part of the solution to the mounting urban problems in El Salvador.

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[12] Most entrepreneurs reinvest income increases proportionately in larger inventories and consumption. It is impressive to see that possibly with increased emphasis in this area, savings mobilization as well as increased investments in productive activities can take place simultaneously, differing only from savings and loan programs in that credit is granted *before* accumulation of savings has taken place.
Savings and loan organizations and credit unions normally service people's credit needs after they have reached a minimum savings level. Many of the poorest entrepreneurs, therefore, will find it difficult to use credit unions or similar associations since they use the savings needed to build their balances for immediate investment in their businesses.

## IV. PROJECT ASSESSMENT SUMMARY

*Organization and Work Flow*

A great deal of activity is in evidence upon entering PRIDECO's unpretentious headquarters in a lower middle class area of San Salvador. PRIDECO's administrative and supervisory employees seemed to be very busy and it appeared not to be strictly "busy work". Most of the employees are promoters and as such were not at PRIDECO headquarters; rather they were in the neighborhoods.

PRIDECO beneficiaries were constantly coming and going either to apply for credit or to attend training programs. Most of the time allotted to the study of PRIDECO was spent with credit promoters because of their direct involvement with the income and employment project. These promoters have a high sense of social responsibility and believe that their work is very important to the well-being of people in the community.

However, two of the promoters, both engineering students, pointed out that their involvement in this program was not a career objective because the work did not directly relate to the kinds of skills they were acquiring in the university. Furthermore, as another promoter put it, the salary is so low (slightly above the minimum wage) that no university graduate could consider the job.

There seems to be a "volunteer" attitude among the credit promoters and a high degree of social awareness and commitment. The relations between PRIDECO and the beneficiaries seem to be good and there is a relaxed attitude about work in the communities.

FEDECCREDITO's role is primarily an administrative one, and like the PRIDECO personnel, the field staff (evaluators and collectors) are young. They are interested in their work and get along well with the clients.

FEDECCREDITO, in contrast with PRIDECO, has its headquarters in an upper class section of the city in their own seven story office building. This does not seem to have had a deterrent effect, however, on credit beneficiaries who must come to FEDECCREDITO for final loan processing.

The PRIDECO/FEDECCREDITO system is very efficient. Pay scales for employees (promoters and collectors) are average, and overhead is low.

Some further reductions in project costs may be possible, but it is difficult to see where they might occur. Probably the system will have to increase its portfolio and produce more revenues to break even rather than reduce its cost per beneficiary served.

The major way to increase overall socio-economic impact would be to implement the existing credit model on a massive scale with modification in the technical and managerial assistance delivery system.

## V. TOWARD A GENERAL ASSISTANCE MODEL

*Lessons Learned from FEDECCREDITO/PRIDECO System*

A. *Credit*
   1. Informal sector entrepreneurs can be reached in large numbers with very small amounts of credit at very low cost and high efficiency.
   2. Payback rates are very high if credit terms complement the income capacity of the business owners.
      a. Payments should reflect the frequency of cash receipts. If payments are too spread out, it is tempting for entrepreneurs to fall behind in their payments. Frequent payments on a daily or weekly basis continuously remind entrepreneurs of their obligation to pay. If payments dovetail with their cash receipts there is less chance that the clients will deviate from their savings/payment schedule.
      b. Loan amounts should reflect a sum which entrepreneurs can relate to. If the loans are too large the problem of payback is exacerbated and loans may be used ineffectively.
   3. Clients must be brought into the credit system gradually. Initial loans should be very small and easy to pay back as part of an educational process to develop further

awareness of business procedures and self-confidence in their abilities to use credit responsibly, and to deal with credit institutions.

4. The assistance system from promotion and selection through collection must foster trust and respect on the part of the clients. For this reason, the personnel structure of the agency is extremely important. The kinds of ancillary services and people involved in public relations and field work must be carefully chosen and have the right level of skills and commitment to the project.
5. Credit group guarantees by which participants assume responsibility for the loans of each individual member and do much of the selection of credit clients helps reduce staff time and involvement in the credit process tremendously. This reduces costs and increases the possibility of reaching many more clients per staff member.
6. Subsequent loans should increase in size, reflecting improving productivity and the positive effect of previous loans. Ideally, the most successful entrepreneurs would be encouraged to "graduate" into using bank credit, or to another source of finance which assists larger businesses. As the business increases in size owners may recognize the need for technical and/or management assistance and at this point these services can be provided in a cost-effective way.

B. *Group Selection Process*

A self-selection process should be used where groups form themselves by mutual consent. Project staff should provide information about the availability of the service and facilitate the contact between clients and the institution. By letting people form their own groups, a strong sense of "knowing what they are getting into," and personal responsibility for their own fate within the group develops. This makes it difficult for them to shirk responsibility in cases of late payment or default, or to blame project staff for selecting group members poorly.

C. *Promotion*

1. If the institution promoting the project does not have credibility in the poor community the project must link with another organization already working in poor neighborhoods which has the credibility.
2. Once the project is known, and is recognized as addressing important needs, interest in the project spreads by word of mouth and no further promotion is necessary.

D. *Personnel*

1. Promoters, credit evaluators, and collectors do not need to be highly trained professionals to carry out most tasks required in an assistance program which reaches this level.
   a. Skill levels, training, and professional expectations must be commensurate with the task to make field staff effective in their work. Otherwise frustrations build up and staff turnover may be high.
   b. Staff with lower level skills are less costly and are often more effective in accomplishing the goals of the project.
2. Non-career employees such as college students may be very effective credit promoters and evaluators. They do not have long term involvement with the project, but may provide the high degree of commitment and skills essential to the project.

E. *Collection*

1. The solidarity group mechanism provides an efficient way to cut the cost of collection. With only two persons collecting, the PRIDECO/FEDECCREDITO program serves over 500 groups.
2. A salary incentive system (one percent of the amount collected) gives the collectors a strong reason to be efficient in their collections.
3. A simple control system makes it virtually impossible for the collectors to not correctly credit clients for their own repayments.

4. Collection visits should be made to the groups rather than having the group leader come to the institution. The probability of a group leader missing a payment is much less. Collecting in the field also gives officials of the financial institution an opportunity to get out to the communities, thus increasing their credibility and visibility.
5. The collection system automatically makes those who pay on time absorb the debts of the delinquent member or members by reducing the number of daily payments credited to the group members. Each member, by way of the punched collection cards, knows exactly how far behind the group is at each payment interval. It becomes an internal problem for the group to determine who is not paying, how to induce payment, and how to square accounts.

F. *Technical and Managerial Assistance*

1. In most programs technical and managerial assistance projects are generally offered either before providing credit or immediately upon providing credit supposedly so clients can make more productive use of credit and diminish the risk of business failure and default. The result is that clients often accept managerial assistance to qualify for credit, but very seldom actually apply what is taught.
2. The timing of technical or managerial assistance must coincide with the client's stage of awareness of his need for extra training. Credit will be an overriding priority to clients at early stages.
3. Members of groups with more highly developed skills can provide informal technical and managerial assistance to their colleagues in such areas as production, purchasing and marketing. This kind of collaboration can happen because the group members are not required to be in the same business, which circumstance otherwise might make them cautious about giving information that would improve the competitive position of the others. To the extent that knowledge is shared among the group, the risk of default by members is diminished.

G. *General*

1. The grouping system is a process with inter-related parts. What makes the FEDECCREDITO/PRIDECO system unique is that it indicates a clear understanding of the economic capacities and priorities of informal sector entrepreneurs, the structuring of the credit groups themselves, the uses of peer pressure, and the collection procedure which, when tied together into a single mechanism, make a very effective model.
2. Furthermore, the solidarity groups can be used as an intermediary step to promote collaborative efforts among people. With good staff orientation, some groups could give rise to cooperatives, worker-managed enterprises, and general community improvement projects. The process gives people the opportunity to decide what the benefits of collaboration are, and then, what types of joint efforts, if any, are most important to them. Once again, the people make their own choices, based on their experiences, not on what someone else has decided is best for them.

## Annex #1

*Informal Money Markets, Competition and Demand*

Money lenders have costs, take risks and want to make a profit as do all financial institutions, but they charge interest rates which deprive the entrepreneur of virtually all the gains made from the loans. Having no alternative, small entrepreneurs use money lenders since their cash flow is so precarious.

Money lenders charge what the market will bear. Particularly where credit is scarce relative to the demand for it, the interest rate is high. Depending on the risk assumed by money lenders and their administrative costs, these factors too will be reflected in the interest rate.

It is not clear if the interest rates reflect contrived scarcity or scarcity arising from other sources. These sources are:

1. Imperfections in the capital markets induced by government policies, diversion of real saving and capital accumulation from sectors where rates of return are high into other sectors—modern showcase industry typically—where returns are lower and where subsidization increases the differential between the two rates and raises the real cost to the informal and other squeezed sectors.
2. Imperfections in the capital markets due to ignorance of available sources of capital supply and cost.
3. Imperfections in the capital markets because of defective institutions for enforcing claims on debtors.
4. Imperfections in the money lender system tending towards contrived scarcity to obtain high interest rates.

Imperfections in capital markets are in part brought about by artificially low interest rates set by governments and interest groups primarily within the formal sector to stimulate that sector's own growth. These low rates benefit those people who are relatively well off and who have the traditional guarantees which permit them the access to credit. Since at this artificially low rate, banks prefer to make large, relatively safe loans, the supply of credit to the informal sector remains low.

Since lending to the informal sector is perceived to be risky as well as costly, both public and private financial institutions will not lend at this level; therefore, availability of credit will be low to the informal sector. Those entrepreneurs who make credit available informally charge the "famous" high interest rates—this is the price of credit (reflecting scarcity relative to demand within the informal money market). This situation has made it difficult for small entrepreneurs to improve their businesses through the use of credit. They use credit just to keep going. Their periodic credit payments absorb almost all increments in income, negating growth.

It is often postulated that money lenders provide security to the poor in terms of making ready cash available for emergencies. The proponents of this view fear that providing an institutionalized alternative may cut people off from the source and have a net negative effect since formal credit systems will take longer to disburse funds and usually will not be able to deal with emergency situations. However, from interviews with credit recipients, the "Samaritan" image of the money lenders is not perceived. Some informal entrepreneurs recognize that borrowing money from money lenders could get them into serious financial problems through extreme difficulty of payback given the relatively high interest rate. So they prefer not to become involved in borrowing in this market if they can possibly avoid it. As a consequence, since they had insufficient funds to invest, they were unable to improve their businesses.

*Competition and Demand*

While competition is strong, interviews revealed that entrepreneurs do not consider their sector to be overcrowded. They are confident that demand is sufficient for their products and that they could increase sales if they had the capital necessary to alleviate their cash flow problems and increase production.

The lack of credit and its consequences (inefficiently short production runs) typifies small businesses. From interviews it was learned that entrepreneurs in the informal sector are convinced that with a little more leeway in their inventories, more production capability, increased working capital, and time to seek new markets, they will be able to increase substantially their productivity and income.[13]

By spending less time, effort, and money on transactions dictated by lack of cash, they realize that they would have more time to devote to the production process. Additional income translates into more demand for the goods of other informal sector entrepreneurs, further expanding market potential and employment opportunities in the production of food, clothing and services.

It should be emphasized that informal sector enterprises produce goods and services vital to their own communities. Increasing availability of credit to the sector thus generates growth and production of necessities for the mass of urban dwellers.

By increasing incomes of the poor absolutely and relatively to the rich, expansion of the informal sector secures both economic growth and greater income equality. In this respect, it has immediate and possible long term effects quite opposite to those of investment in modern sector "showcase" industries. Moreover, if the latter sector has been heavily subsidized, diversion of investment from the modern to the informal sector would raise the real rate of growth of the economy while reducing income inequality.

Arguments at variance with ours postulate static demand for goods and services of informal sector entrepreneurs. If the sector is treated as a completely closed economy without any forward or backward linkages and no price or income effect on demand within the sector, then this contention would be correct. But such an assumption cannot be sustained in practice.

Interviews with the beneficiaries of the PRIDECO/FEDECCREDITO credit project as well as general theoretical considerations indicate that increases in their productivity and sales, though small on an individual basis, have a large impact on their collective well-being. Net sales for a tortilla maker increased from 18 colones ($7.20) to 22 colones ($8.80) per day, a 22 percent increase, after receiving credit. By the same token, if the seamstress next door was able to increase her production through having increased inventories of materials (solving the production discontinuity problems typifying the informal sector) her time could be used in the business of producing clothes, where she is presumably most productive, and not diverted into other activities such as producing tortillas at home for family consumption. If a small degree of specialization increases her productivity through more efficient use of time and materials, then her income would rise. If her increase in income exceeds what she pays to the tortilla maker, plus interest payments, she can choose to consume more of the goods and services of other entrepreneurs, invest in her own business, or save in other ways for family emergencies. Part of the increased income is always used for consumption—a new blouse or food (often candy or soft drink)—which contributes to increased demand for goods and services from other businesses, both inside and outside the sector.

Some of the increased demand may stimulate agricultural production by increasing purchases of food or other farm products. Some may be used for other formal or informal sector products or services. (Arguments which state that some businesses are automatically hurt as others prosper, thus upsetting some delicate subsistance balance of competition and demand for informal sector goods and services, are based on a static demand argument which has not been shown to be the case.)

In any case income and demand may increase throughout the system. As long as the supply of raw materials for production and other needed inventory, such as supplies for stores, keeps pace with the additional demand for them, the process will not be inflationary.

If production increases in any one line of business to the point where demand is not sufficient, informal sector entrepreneurs often have the flexibility to shift quickly to other lines within a related

[13] Interviewees were all credit recipients, which may affect the attitudes expressed by the sample. It was not a general sample of all informal sector entrepreneurs.

field. For example, a shoemaker may shift to making wallets; the tortilla maker can add cheese to her tortillas to change the nature and quality of her product; and the small store owner can decrease stocking plantains and stock more watermelon when they are in season.

Informal sector entrepreneurs are able to respond quickly to market conditions, since they are not locked in by large investments in specific equipment and inventories and their work seldom requires additional formalized training. Not only are they capable of flexible responses to meet market demands, but they are also compelled to meet them by the threat of potential competition that low barriers to entry ensure.

On the whole, the major impediment to increasing the efficiency of the informal sector is the lack of working capital. This is evidenced by the high cost of borrowing.

### *Effects of Income Generation*

Expanding capital in the informal sector by increasing real incomes facilitates the absorption of other kinds of long term assistance in skills training, health, nutrition and basic community development. As incomes go up, family savings increase, giving rise to mini-development funds on the family level. These increases in income are often used to improve housing, nutrition, health and education, major areas of any development effort. This rise in real income increases the demand for all goods, even the goods provided through development assistance. Thus, by raising family income, development agencies can promote better use of their services by getting people to use their income increases for their own improvement. This is where the other facets of an integrated development scheme can have tremendous effect.

For example, income increases may be spent on more candy and soft drinks for the children, but with a nutrition education program to accompany increased consumption, better diets can be promoted. However, if people do not believe that they need or can afford to use the information they are receiving through a wide array of social programs, then the development efforts will fail.

Training, health, nutrition and other community development components are extremely important to the long term development of the informal sector, but the entry point for breaking the poverty cycle is through credit. Without credit, most pressing cash flow problems of informal sector households will persist, leading to time and production bottlenecks perpetuating sectoral inefficiency. Productivity available for the immediate good of society will be stifled and lost, and incomes will be held at subsistence levels.

## Annex #2

*Solidarity Groups for Technical and Managerial Assistance*

As solidarity groups evolve in the loan process, efficient promotion of very simple technical and managerial assistance could be done. As groups approach FEDECCREDITO/PRIDECO regarding subsequent loans, promotion could be initiated in the normal on-going credit process at the office. This would consist of informing people as to what assistance is available to them, followed by discussions of perceived needs for assistance within the solidarity group.

The next step would be to experiment with the continued use of self-selection for technical and managerial assistance through groups. Those groups interested in receiving further assistance could enroll on the condition that the whole group signs up.

Individual members could help their colleagues understand the need for additional skills. This could lead to large numbers of people asking for non-credit assistance because of their increased understanding of the importance of certain types of assistance to their specific needs. Simple notions about record keeping or production may in this way be used by more people, resulting in greater benefits of assistance to more people.

If groups could not agree completely on extra assistance, they could re-form themselves into those consisting of interested members ("technical assistance" groups) and those who are not ready for further assistance. With certain incentives to stimulate the process, such as higher interest to groups not using assistance to "pay" for those who do, this process could possibly increase the coverage as well as effectiveness of non-credit assistance.

What seems most important is that the center-periphery clientele relationship prevalent in most projects dealing with the poor would be diminished through continuance of the self-selection idea and the use of "technical" resources often readily available in the poor neighborhoods. The system would use community-identified "instructors" with well-oriented assistance "coordinators" from the agency primarily to guide efforts in a productive way.

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## CHAPTER 3: FNCS, CIDES

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## I. PROJECT IDENTIFICATION

FEDERACION NACIONAL DE CRUZADA SOCIAL (FNCS)
COOPERATIVA MULTIACTIVA DE DESARROLLO SOCIAL (CIDES)

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Jorge Barrera — Credit Assistant
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Nelly Largo de Perilla — Cashier and Receptionist
Lucrecia Castaño — Social Worker
Dates of Studies: Preliminary: March 14-16, 1979
In-depth: October 9-19 and October 25-29, 1979
PISCES Representatives: Preliminary: William R. Tucker
In-depth: Peter H. Fraser
Written by: Peter H. Fraser

## II. THE SETTING

Colombia is a large economically and culturally diverse country located on the northwestern tip of South America. With over 24 million inhabitants it is one of the most populous countries in the region.

Bogotá is the capital with an estimated 5.1 million inhabitants. The averge annual population growth rate of the city was 6.5 percent between 1975-1980. This outstrips even Saõ Paulo's exceptional rate of population growth of 5.7 percent between 1950 and 1960.[1]

According to the Urban II study, a major cause of Bogotá's population growth is heavy rural to urban migration, representing 46 percent of the increase. Another cause is the high birth rate due in part to the in-migration of large numbers of young people in their prime reproductive years. Thirty-nine percent of the population is under 15 years old and young adults 15 to 34 years represent another 37 percent of the population. With this demographic scenario it is clear that there will be tremendous pressure on planners to generate unprecedented numbers of jobs and levels of income in the coming decades.

Projects to lower the birth rate, reduce the rate of in-migration, stimulate emigration, and create employment in modern industry, are important components of an integrated urban development program. But it is also imperative to assist low income people who support themselves through their self-initiated economic activities.

The numbers of people who could be more productively employed in their own tiny businesses is large. In 1970, a survey of households done by the Colombian National Statistics Department (DANE) showed that 43 percent of the population belonged to the lower lower and lower classes. Of these people, 38 percent lower class and 12 percent of the lower lower stratum are independently employed as small artisans, salespeople, and providers of personal and domestic services.[2] Included in these categories are shoemakers, small store owners, street vendors, shoeshine boys, etc.

These businesses are not assisted becaue their economic importance is poorly understood and because the cost of assisting them through the most common means has proven to be too high and not very successful.

The Government of Colombia has attempted to increase employment opportunities through expanding modern industry while at the same time keeping inflation under control, but the task of keeping up with employment needs is very difficult. More formal sector jobs are available, but job

[1] All census data in this section of the paper taken from the "Projections" section of the Urban II study of Bogotá completed in 1972.

[2] Carlos Castillo, *Vida Urbana y Urbanismo,* Biblioteca Básica Colombiana, Instituto Colombiano de Cultura, 1977, table #2.2 p. 254.

creation is not keeping up with demand. Furthermore, current inflation has continually outstripped wage levels; the incomes of the lower and middle classes have decreased in real terms.

Under these conditions many people must find secondary employment, live in extended families where incomes are pooled, or set up informal economic activities to make ends meet.

Forecasts current at the time of this study predicted that in the early 1980s over three-fourths of Bogotá's families would have monthly incomes of less than US $120 in constant 1970 dollars.[3] Since rent or mortgage payments alone can easily run half this amount, the ability to provide adequate food, clothing, and education for an average family of six would be nearly impossible.

Given the inadequacy of formal sector employment coupled with wage erosion by inflation, a rapid increase in family-based income generating economic activities is inevitable. The alternative to either formal or informal sector work is unemployment, which requires financing through personal or family savings during the job search period.[4] Few people have this option, so the job search period must be financed somehow, possibly through informal sector business activities.

These informal sector businesses are often thought to be transitory and unstable, but while specific data are not available on Colombia, Bogotá in particular, it seems that informal businesses are more stable than is normally presumed. Observation indicates the businesses provide incomes to large numbers of poor people, representing a largely untapped productive resource if given the opportunity to develop.

*Credit to Informal Sector Entrepreneurs*

Despite the desperate need for programs which provide credit and other non-credit services to urban informal sector economic activities, there are none sponsored by the government on a national level. Colombian programming has been directed at comprehensive credit and management assistance, typically for small scale enterprises of 5 to 30 employees. The few partially effective projects dealing at the informal sector level are private non-profit social efforts, usually locally based, and working with only a few clients.

Credit is a primary need of informal sector businesses that want to increase their productivity and income. But at this level, access to credit is very difficult if not impossible. The government has made provisions for "popular credit" lines through commercial banks intending to deal with the problem of credit availability to very small, micro-businesses. The popular credit lines provide for maximum loans of Ps$50,000 (US$1200) at interest rates of 20 percent to 22 percent per year. However, the regulations imposed by the banks such as bank references, minimum fixed incomes of the clients, tax declarations, property ownership, and Chamber of Commerce registrations are major roadblocks in qualifying for credit.

With such restrictive requirements it is virtually impossible for poor people to obtain credit. It is not preferential interest rates (interest which is two to four percent lower than on other commerical lines) that will open credit to the poor. What is needed is to find an efficient approach to reducing the risks and administrative costs of small loans so that credit to the informal sector is viable.

Given the problems associated with obtaining bank credit, many businessmen use supplier credit which is available from the larger distributors. Through interviews with businessmen it is evident that not having to combat the barrage of regulations makes paying slightly higher prices for their working capital (essentially interest on the purchase) worth the price. Post-dated checks are the normal form of payment of supplier credit.

While guarantees such as property ownership may be required, distributors are eager to provide credit in order to sell more. In general, restrictions are lax. They make quick judgements of the business and deliver the supplies immediately. Once the client's reputation is established the amount of credit is increased. No other assistance is provided in marketing or production.

One fairly prosperous storeowner observed that another major service of the distributors, besides supplier credit, was the delivery of goods right to the store. This saved time since he was able to

[3] "Projections", Urban II study, Bogotá, 1972, p. 129.

[4] For information on the job search model, see Dipak Mazumdar, "Analysis of the Dual Labour Market in LDC's", in S. Kannappan, ed., *Studies of Labour Market Behavior in Developing Areas* (Geneva: International Institute for Labour Studies, 1977), pp. 18-23.

reduce the frequency of trips to town. Through the distributors he was able to buy larger quantities than he could have otherwise, and he could buy several lines in the same transaction, reducing the amount of redundant activities. These savings were, apparently, greater than the cost of credit to the entrepreneur.[5]

Despite the benefits of supplicr credit, onc very small storeowner was concerned with the price charged by suppliers (i.e., reflecting service and interest charges), and felt that alternative sources of credit allowing her maximum savings of the price of goods would be the most beneficial. Apparently her volume of sales was not sufficient to justify additional costs to her to buy through suppliers.[6]

An alternative to the distributors and banks is the money lender. Regardless of the size of the business, people stated that the going rate "*en la calle*" (street lending) is 3 percent per month or 36 percent per year (which is very low by Latin American standards).

Given that the inflation rate in Colombia is between 25 percent and 30 percent per year, the profit to the money lenders is reasonable. The official Colombian commercial interest rates fluctuate between 20 and 26 percent depending on the credit line and purpose of credit. Still credit from banks is more attractive than from money lenders, but precisely because the return is so low (if not negative), the supply of credit through banks is severely limited, and barriers to eligibility remain high.

Since the return to banks is so low, they continue to adhere to their stringent guarantee requirements. There is no incentive for banks to lend under these conditions, especially to the poor, who are considered to be high credit risks.

Recognizing the problems of credit availability, government and private programs have been implemented to institutionalize credit in ordcr to ease guarantee requirements and interest. However, government-sponsored programs are complex, with costly technical assistance schemes that in the final analysis assist small, but fairly well-established businesses compared to informal sector activities. The conclusion reached by experts is that very small businesses cannot use the services offered, since even at the larger small business level their technical assistance has been quite ineffective.

While there are no projects which we could detect in Colombia that contained all the elements of an effective project—that is, a project that assists in the improvement and upgrading of many informal sector businesses through credit, managerial assistance, and other social components—there are several small private projccts that have added savings and loan components that attempt to work with very poor people in community development, nutrition, and health. Foster Parents Plan and the Federacíon Nacional de Cruzada Social are two such programs that have set up savings and loan cooperatives as a way of mobilizing savings and providing credit services to people without resorting to the normal commercial channels.

Given that the savings and loan mechanism is essentially the same in both programs, it was decided to study the Cooperativa Multiactiva de Desarrollo Social (CIDES) of the Federacíon Nacional de Cruzada Social since its guarantees through solidarity groups and payroll plans provide information on the merits and problems of different guarantee mechanisms, as well as the appropriateness of the savings and loan system as a medium for assisting informal sector enterprises.

## III. PROJECT DESCRIPTION

### *Background*

The Federación Nacional de Cruzada Social (FNCS) was founded 31 years ago by a Catholic lay group (Laicos) which, after the "Bogotazo" of April 9, 1948 and the assassination of President Gaitán (a populist politician), decided there had to be more participation by private citizens' groups in the social development and welfare of the poor.

During the first twenty years, the program was primarily a small, social welfare organization. Its major functions were to distribute food, clothing, and medicine free of charge in the poor communities of Bogotá. The organization was staffed by volunteers,usually from the upper class.

Cruzada or FNCS (as the name is abbreviated) has grown and currently has 11 regional offices supervised by a National Director in Bogotá.

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[5] See Annex #1 for Case Study.

[6] Entrepreneurs cannot articulate exactly how high the cost is, but know that they can get supplies more cheaply from other sources. They know that the higher price to them is related to the credit they are receiving.

Over the past 8 years Cruzada has evolved into a program that focuses on providing services to as many people as possible, charging very low prices. It is no longer involved in welfare activities such as the distribution of clothes, food and medicine. Because of its limited size and resources, Cruzada realized that it was not possible to have any far-reaching impact on the poor. Those that it did reach did not receive any substantive assistance in terms of personalized long term educational, cultural, and social improvement. As a result, Cruzada decided to shift to a more developmental orientation on many areas of socio-economic concern.

The multi-faceted programming approach adopted by Cruzada is consistent with what are considered to be Colombia's most important development needs. The organization, therefore, has attempted to address the needs of its clientele by maintaining a comprehensive development effort on a small scale within its philosophical and economic constraints.

*Program Areas*

—*Education:* a) The Social Promotion Center was designed to provide short courses once a week for a month in areas requested by Cruzada's clients. The courses, which include handicrafts, sewing, simple business methods, sex education, and human relations, are a high priority for FNCS staff because of the focus on improving people as "complete beings." It is hoped that through these courses, people's interest in their own well-being will be stimulated, and will lead to their using the services offered more diligently.

b) The Centro de la Inmaculada is a school providing instruction through the 10th grade for 400 low income girls. Each student pays Ps$200 (US $4.75) per month.

c) Hogar Materno e Infantil is a home and day care center for unwed mothers and their children. Currently there are 30 mothers and 80 children.

—*Health:* The medical unit provides services in general medicine and dentistry, and has a bacteriology laboratory. It is staffed by several paid doctors, many with offices outside the center, but who work in the center part time out of a sense of social responsibility.

—*Housing:* In conjunction with SERVIVIENDA, a Jesuit-founded and -operated prefabricated housing foundation, FNCS, through its savings and loan cooperative, is providing access to low cost housing through a special savings and credit plan.

—*Recreation:* This is not an ongoing program, but FNCS has some experience in this area through periodic short term projects.

—*Economic:* Ten years ago, a savings and loan cooperative, not under Cruzada's auspices, was started called Cooperativa de Acción Social (CAS). Its objective was to provide access to credit through savings mobilization to people who could not qualify for credit in the normal system. However, due to internal philosophical problems with regard to the cooperative's responsibilities to its members, a new cooperative called Cooperativa Multiactiva de Desarrollo Social (CIDES) was set up in March 1977 under the auspices of SERVIVIENDA, FNCS, and forty individuals.

*The Savings and Loan System: Cooperative Multiactiva de Desarrollo Social*

The philosophical differences between CAS and FNCS arose because of CAS's policy to invest a large amount of its funds in more profitable outside investments rather than make low-interest loans available to members. CAS objectives over the years shifted more toward increasing income and providing larger, longer term credit. The current director of CIDES felt strongly that CAS was too eager to make the highest return on its money rather than providing services to the clients through loans, human development programs and education. Instead of attempting to change policies at CAS, it was decided that FNCS would start its own cooperative.

Given the experience with CAS, it was decided that CIDES would be structured to avoid the possibility of one person dominating the philosophical base of the organization. The founders and current Board of Directors, therefore, include two institutions, FNCS and SERVIVIENDA. It is hoped that by having these institutions as Board members, the social service orientation of the organization will have strong institutional backing and continuity.

*CIDES Goals and Social Emphasis*

Savings and loan cooperatives are based on mobilizing savings, creating a loan fund, and lending back to clients at favorable rates of interest and on reasonable terms. Often the systems make it possible for people who do not qualify for other credit programs to pool their resources for the benefit of the group. The cooperative is often the only institution which mobilizes the resources of low income people which, in turn, provides services to them.

CIDES is no exception to this, but in addition emphasizes its economic function is only valid to the extent that individuals remain the central focus of the cooperative. The goal for CIDES is for individuals to improve themselves personally and economically. Individuals are encouraged to come to FNCS meetings, short courses, and participate in savings contests and group activities designed to "promote" the whole self.

*CIDES Membership*

CIDES feels strongly that one of its functions is to bring people of different backgrounds and ways of life together to foster understanding and community. Co-op membership currently numbers nearly 1,000, and cuts across social barriers which normally separate lower and middle-class clients.

It was calculated by CIDES staff that 10 percent of the membership was self-employed and had their own businesses, which they attended full time, or were FNCS volunteers and staff. The major source of membership (±90 percent), however, is from the ranks of company employees, who are not independent entrepreneurs and who are generally lower class.

—*Formal Sector Employees.* When CIDES was founded, a survey was done to determine what types of people did not have access to credit, what they did for a living, and how to best reach them. The survey showed that a very large proportion of factory workers and other types of employees normally had no access to credit. In a few cases, company savings plans provided a means for workers to get consumer credit, but even so, the company plans did not provide any of the human development services CIDES feels are essential.

Therefore, a promotion plan was designed whereby companies were contacted and asked if they would permit CIDES to promote their cooperative among company employees. Due to this promotion technique, CIDES has a large membership of company workers. As this program has evolved, friends and relatives of members have also become aware of the cooperative by word of mouth or through FNCS affiliated services, and have joined the cooperative.

This has had negative repercussions, however, since factory workers and members promoted by word of mouth do not necessarily live in the same areas. Thus CIDES' membership is spread over much of metropolitan Bogota. This makes it impossible for staff to do field work with the members and has made a centralization of CIDES/FNCS functions at the offices imperative.

CIDES members are overwhelmingly from poorer classes, but by the same token are not destitute. By design, CIDES members must at least be employed and be able and willing to save which in itself defines the members as being primarily at the top of the poor income bracket.

—*Self Employed Entrepreneurs.* About 10 percent of CIDES members own small businesses which are full time income generating activities. This is the group this study focuses on. Clients who have specifically used CIDES loans for their business activities are well organized and managed. They are several notches higher than the typical informal sector businesses which are characterized by extremely little mechanization, very low productivity, difficulty in obtaining sufficient inventories, inefficient use of time through redundant activities, and lack of access to formal credit.

The businesses visited were run by fairly articulate people with medium levels of education. In only one case could the business be classified as belonging to the bottom part of the informal sector.

These entrepreneurs know their work well, normally having worked previously as employees for someone else in the same line of business. This was the case specifically with a locksmith (production/retail business), a baker (production/retail), a tailor (production subcontractor for a large garment company), and a small neighborhood store owner.

The smallest entrepreneurs, (a market lady, a seamstress, and a shoemaker) were impossible to locate. This was unfortunate, since these enterprises would have given more insight into informal economic activities and the impact of CIDES productive credit at this level.

Besides the above categories, a number of CIDES members had part-time businesses at home to assist the family income in addition to their factory employment.

Despite the fact that CIDES estimates a low percentage of loans to informal sector business activities, given the economic setting in which CIDES operates and the fact that many members are company employees, it may be that CIDES members have other income generating activities and actually use their loans or part of them, (classified as consumption credit) for part-time businesses, such as a weekend furniture repair shop, a corner stand beside a stadium to roast corn or meat, or a small neighborhood foodstore or kiosk selling beer and basic foodstuffs.[7] This offers, perhaps, a large area of high demand which is seldom tapped in productive credit projects.

According to the Director, the programs and directions of CIDES are primarily designed and developed by himself, the Cruzada advisor to CIDES, and another person on the Cruzada coordinating committee. Besides these three "prime movers" there are four full time staff at CIDES who work exclusively in the office: a receptionist/cashier, a credit assistant, an accounting assistant, and a messenger, who also has some accounting responsibility.[8]

*Project Activities*

CIDES is an integral part of the FNCS program of assistance to the poor in Bogotá, but does not actually run any of the social services directly. CIDES offers these previously described services to members as part of a package available through its affiliation with FNCS.

CIDES functions are:

1. to provide its members with a savings mechanism and access to credit on easier terms than with the formal banking system;
2. to encourage personal improvement through short courses at FNCS; and
3. to facilitate its members' access to other government or private services not provided by the cooperative.

*Promotion*

Promotion of the cooperative for the purpose of getting new members is primarily accomplished by word-of-mouth. More formalized promotion in companies is also done by Fanny García, the CIDES advisor who makes periodic company visits to explain CIDES and the advantages of their system to company management. Upon management's approval, Fanny then attempts to promote CIDES with the workers. With this type of promotion, CIDES has attracted an average of 20 new members per month.

Since CIDES must reach 1,500 members to become self-sufficient, it is taking several initiatives to bring more members into the cooperative. Through its management of a revolving fund for SERVIVIENDA, a low-cost housing scheme and one of its (CIDES') co-founders, not only does CIDES receive interest income, but also it has referred to it all SERVIVIENDA clients (most of whom are very poor). These clients must become members of CIDES if they wish to buy housing through the CIDES/SERVIVIENDA revolving fund plan. About 300 new members became affiliated through this arrangement in 1980.

These referrals, plus its company promotion and simple word-of-mouth promotion, will enable CIDES to reach its goal of self-sufficiency within a year.

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[7] This phenomenon was also found in El Salvador by the National Director of Savings and Loan Cooperatives. Loan classification is often not accurate. Many "consumption" loans are split with part of the credit being used for purchases of raw materials for part time businesses or stocking the small corner store. He felt that close examination would reveal a greater productive nature of cooperative lending activity.

[8] While CIDES provides a facilitator role to members to help them identify services which the cooperative cannot supply, it wishes to be as autonomous as possible with as few links, especially to government, as possible.

*Membership Requirements*

In order to belong to CIDES, members:

1. must be 18 years old;
2. must not be affiliated with another savings and loan cooperative;[9]
3. must not be an invalid—must be able to work;
4. must demonstrate interest in becoming a member; and
5. must pay an initial inscription fee of Ps$50 (US$1.20) and deposit Ps$70 (US$1.45) in a savings contribution account and at least Ps$60/month thereafter, the accumulation of which serves as the basis for his credit line later.

While interest is stated to be an important part of the selection process, the most important requisites are to have paid the inscription fees, meet the age level, and be employed. Once a person fulfills the above prerequisites, he then becomes a "beginning member" *(socio de inicia)*. This involves filling out a *tarjeta de ingreso*, a simple data sheet with personal information, the type of business or work, the amount of income, and the amount to be contributed monthly to the loan fund *(aportaciones)*. The receptionist/cashier fills out a control card which is used to record savings and contributions.

There are two types of accounts that can be opened. One is a regular 12 percent savings account *(depósito de termino fijo)* and the other is a contributions account *(aportaciones)* which does not accrue interest.

The member has free access to his savings account after a fixed time period, but not to his contribution account. This is because the cooperative depends on the contribution accounts for the development and growth of its loan fund and this cannot be depleted through withdrawals. The loan fund constitutes the resources available to members for credit purposes. This account can only be drawn upon at the time a member decides to leave the cooperative.

The amount of a member's contribution to this account eventually determines the limit of that member's credit, usually three times the amount of his contributions. This system makes it possible for the cooperative to secure at least 33 percent of any loan.

To be eligible for credit, a member must have in his contribution account Ps$1,200 (US$28). The person must also have been a member for at least two months in order to qualify for credit.

*Credit*

Most people join CIDES to get loans on better terms than are normally available from banks, stores, distributors and money lenders. Interest charged on the unpaid balance of the loan calculated monthly is much lower than that charged by other sources. There is no doubt as to the advantage of this credit, which is subsidized by all cooperative members to those who borrow.

During the first nine months of 1979, 205 loans were disbursed in the amounts, and for the purposes, described in Table 1 below.

[9] This is in part due to competition, but primarily to avoid members having too many obligations to different sources, thereby increasing the risk to CIDES in terms of the credit function.

## TABLE 1

### CIDES Loan Disbursements, 1979

| Category | Number | Total Amount | Average Amount/Loan |
|---|---|---|---|
| Consumption | 65 | $Ps 637,900 ($15,010) | $Ps 9,813.85 ($231) |
| Health | 27 | $Ps 167,700 ($ 3,945) | $Ps 6,211.11 ($146) |
| Housing (not SERVIVIENDA project) | 66 | $Ps 1,404,500 ($33,047) | $Ps 21,280.30 ($500) |
| Education | 21 | $Ps 133,000 ($ 3,130) | $Ps 6,333.33 ($150) |
| Production | 26 | $Ps 578,500 ($13,612) | $Ps 22,250.00 ($524) |

*Source:* CIDES Records.

As can be seen, overall loan amounts are very small. While the average loan to small businesses was US$524, some loans were as as small as Ps$9,000 (US$212), in one case to a *"tarjetaria"*—a woman who ran a small card stand on a seasonal basis—Christmas, Easter, and Mother's Day.[10]

CIDES uses a very simple loan approval process, making it possible for people to receive their loans quickly. CIDES staff does not visit loan recipients nor does it make direct verification of loan use. This is partly because it does not have the staff for this kind of activity, but also because CIDES has no problems concerning risk and payback. There have been some late payments, but never any defaults. Furthermore, the guarantee mechanisms which CIDES uses not only cover a large part of the risk of lending, but also gives members access to credit where they would normally be ineligible.

*Guarantee Plans*

There are three types of loan guarantees used by CIDES. One guarantee uses the traditional personal co-signer, but the other two are interesting in that they eliminate the bulk of the elements of other plans, which normally rely on property, fixed income, or personal co-signers for proof of solvency, etc. These traditional guarantees are replaced by elements that members of CIDES can most readily provide.

The first of these non-traditional guarantee mechanisms is based on payroll deductions *(libranza)* for *"empleados de planilla"* (payroll employees). Companies often agree that the provision of credit services is important and necessary, yet there may be no plan for employees. CIDES, through its company promotion, then tries to market the "payroll deductions" plan to the company managers. If the company agrees to the scheme it assumes the responsibility of guaranteeing the loan and of administering the payroll deductions. There is no risk involved to either the company or CIDES in this case since the loans are covered by the employees' income (payroll) and by severance pay which can be held by the company should an employee quit or be fired.

Those CIDES members who are company employees not under the payroll deductions plan and those who are independent businessmen or informal sector entrepreneurs are grouped into the *"empleado suelto"* or "unattached employee" category. These members may choose between two guarantee formats: (1) a *personal* guarantee whereby cosigners who can guarantee solvency assume liability for the unsecured portion of the loan (the traditional system); and (2) the *"fianza solidaria"*, a group guarantee system under which groups collectively assume liability for the unsecured portion of the members' loans without any traditionally required proof of solvency.

The *fianza solidaria* (solidarity guarantee), which is the second non-traditional mechanism referred to above, is of primary interest in this report since its organization in the CIDES context will be useful in the analysis of this type of guarantee system in general.

[10] For more complete descriptions of other businesses assisted see Annexes #1 and #2.

As used by CIDES, this mechanism was designed nine years ago by Fanny García, Alvaro Perilla of the FNCS staff, and two lawyers. They recognized that the people they were most intent on reaching through the cooperative (CAS at that time) were not able to put up the normal property or financial guarantees required and for this reason they set out to develop a program relevant to the needs of this group. The basis for the *fianza solidaria* is that, given a clear understanding of the collective nature of the group guarantee, people will form into groups for the mutual benefit of the members. Peer pressure within the group as well as its legal status ensures that all members will pay off their loans. Otherwise group members are collectively held responsible for loan payment. Furthermore, until the delinquent member pays, the other members will not be eligible for credit, further creating pressure to pay.

Groups may be formed by:

1. people who know each other from their work (possibly in the same factory) and who have specifically joined CIDES with the idea of forming a credit group;
2. people who know each other from the same neighborhood or a group of friends from dispersed neighborhoods; and
3. families.

The members of the groups select themselves on the basis of who they feel are trustworthy and will be good risks.

Thus peer pressures will be stronger than in the case where groups are "formed" by project staff. According to a project staff member, clients recognize the implications of the fact that they have developed the group themselves and will be less inclined to renege on that responsibility by blaming project staff for internal group problems resulting from someone not paying his debt.

Groups normally are composed of five people.[11] All members must come to CIDES to sign a legal document which is then registered with the Colombian National Tax Office. (CIDES deals with the tax office directly and group members are required to deal only with CIDES.) This document states the names of the members of the group, the conditions under which the group is legally bound, and the maximum limit of credit available to the group as a whole as determined by their collective contributions to the loan fund. Each time a member changes or drops out of the group or requests a change in the limit of credit to the group, a new document must be drawn up and registered. Slight costs are incurred in this process which are defrayed collectively by the entire group.

Once each group is formed, there is no required further contact between all the group members. This seems to be primarily because the *fianza solidaria* is only perceived by CIDES as a guarantee mechanism and not as a possible forum through which to provide additional services of FNCS such as human relations, community development, business management, nutrition, and health programs, among many others. Because of this oversight, CIDES and FNCS may be losing a powerful development tool.

### *Application for Credit*

Regardless of the type of guarantee program, all loan applications are submitted individually to CIDES. The forms used are identical and include all pertinent data, including co-signers. The only difference is that when a member of a *fianza solidaria* applies for credit, his co-signer, another member of the same group, instead of providing personal solvency, commits the group to backing the loan as agreed when the group was legally constituted.

Once applications have been submitted with the co-signers' signatures, the credit assistant reviews the application and makes recommendations for changes. The application will be checked for any discrepancy between the amount of the loan and the applicant's accumulated savings, in case of which, the necessary changes will be made. The credit assistant then submits the application to the Credit Committee for final approval. Depending on the amount, loans are usually made for one year with monthly payments.

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[11] CIDES has tried many group sizes. According to Fanny García this is the group size which has proved easiest to work with. It is small enough to be able to constitute easily, yet large enough to cover CIDES' risk through the collective savings of the members.

The Credit Committee, which is composed of co-operative members, meets once a week to review and approve or reject loans on the basis of the financial condition of the cooperative.

After Credit Committee approval, the applicant alone is asked to sign a *"pagaré"* (loan contract) with CIDES which states the amount, interest rate and other terms of the loan and constitutes a legal obligation for the applicant and his guarantors. This document is registered with the Colombian National Tax office.

### *Collection*

Loans are normally paid once a month depending on the size and purpose of the loan. CIDES does not have field collectors since they believe that the members must assume the responsibility to take the time and effort to live up to their obligations as part of the process of developing individual character.

At the cooperative, the receptionist/cashier fills in a credit control card to record loan payment and gives the member a receipt.

This system of collection necessitates periodic trips to CIDES by members, possibly inducing them to take advantage of courses and health services offered.

Late payments have not been a problem, representing only about 5 percent of the number of loans outstanding.[12] Since interest is calculated on the basis of the unpaid balance, there is an important incentive for people to pay off their loans as quickly as possible.

CIDES appears to take the attitude that late payments cases should be treated leniently, since there may be very good reasons for delinquency. In these cases, the credit assistant contacts the member to find out the causes of his lateness, following which these reasons are passed on to the Credit Committee which makes a decision on whether or not to approve an extension. Where extentions are not warranted, after a week a penalty of 12 percent of the missed payment is charged.

To date there have been no unrecoverable loans. There is the provision, however, that in such an eventuality the case would be turned over for legal processing and specific collection procedures would begin. Also a fine of 10 percent of the initial loan balance would be charged.

In sum, CIDES is indeed providing a credit service to people who would otherwise have difficulty qualifying. The cooperative is also in a very enviable position in that it has largely covered its risk by designing into its credit plans a number of simple protective procedures:

In the first place, a third of any loan it makes is automatically secured by the regulation that only three times the amount of savings be granted to any individual loan applicant. And second, depending on the guarantee format, the total unsecured portion of the loan is covered 1) by payroll deductions or, by extension, severance pay if the person leaves work; 2) by a co-signer; or 3) by the collective savings of the group in the case of the *fianza solidaria*.

The cooperative collects members' money into a savings pool, restricts the number of people who can use the pool by minimum savings requirements as a prerequisite to receiving credit, and lends back to the owners of the money (the borrowers) at an advantageous rate of interest compared to banks, stores, suppliers, or money lenders. It also may invest other fixed time deposits of the members in high yield accounts, gaining an interest differential, which can be used to increase loan or guarantee funds at its discretion. The major challenge for the cooperative is to continue to increase not only membership and the loan fund, but also to continue to provide the social services essential for fulfilling CIDES' social goals.

### *Funding*

CIDES' income obtains from interest generated by loans to the members, interest from loans to large corporations, and deposits in banks. Recently CIDES has agreed to collaborate in SERVIVIENDA's effort to increase the sales of low cost homes in poor neighborhoods. CIDES receives income for their referral services, management of a revolving fund for SERVIVIENDA, and as a commission for houses sold.

[12] I do not know what percentage of the portfolio this figure represents.

Net income through all these sources reached Ps$358,000 (US$8,420) from January to September 1979. Expenditures for salaries, fringe benefits, payroll deductions for social welfare tax, maintenance, utilities, training courses, transportation, etc., totaled $348,400.

This apparent surplus income was quickly dissipated, however, since part of net income was interest from a bank to CIDES. This money by law had to be put into a reserve fund to cover co-op losses and as such was not available to CIDES. So, income at the disposal of the co-op was Ps$26,000 less (corresponding to that type of interest income) or Ps$332,000 (US$7,810).

Even though balancing the budget was a major reason for CIDES linking up with SERVIVIENDA on the housing program, there is still a deficit. CIDES management recognized that they must break-even by the end of 1980, and at the time of our interviews they were making strides toward that end. The Director was confident that if they can continue to attract 30 new members per month, CIDES should have sufficient membership and ample loan and term deposit funds to break even during 1981.

### *Project Impact of CIDES on Members*

Economic: general

1. Lowers the cost of credit to members by:
   a) replacing higher cost "street loans" or supplier credit;
   b) providing loans at interest with negative rates of return (internal cross-subsidization of interest by cooperative members) below other commercial and informal sources; and
   c) calculating interest monthly on the unpaid balance.
2. Mobilizes savings of the members by requiring people to save on a pre-determined schedule small fixed minimum amounts. Credit is then granted in multiples of their savings levels.

Economic: entrepreneurial

1. Loans for productive purposes allow entrepreneurs to increase their productivity by enabling them to stock sufficient inventories of raw materials to:
   a) increase the length of production runs; and
   b) reduce frequent redundant business activities necessitated by lack of cash.
2. Credit helps reduce the costs of production through making it possible to obtain quantity discounts.

Social: through FNCS, CIDES

1. lowers the cost of health care to members;
2. increases members' skills through very basic skills training at very low cost; and
3. builds a sense of community and a deeper understanding of the members' socio-economic problems through various training activities.

## IV. PROJECT ASSESSMENT

There is no doubt that the lay Catholics (Laicos) who run FNCS and CIDES are highly committed to addressing social needs as they see them. Both volunteers and staff are highly motivated and are drawn from a unique body of talent—usually middle and upper class professionals—who have made a very special personal commitment to improving the economic and social welfare of poor people through the FNCS/CIDES program.

Relations between CIDES staff and cooperative members are cordial. More importantly, there seems to be a genuine interest in the members on the part of the staff. This could be the case because:

1. all personnel at FNCS/CIDES are also members of the cooperative and are personally interested in its functioning; and
2. there is often a strong similarity between the backgrounds of the staff and newer CIDES members, possibly fostering a sense of identity and empathy.

CIDES and FNCS are not providing training and social services in a vacuum. The Colombian Family Welfare and Social Security Institutes both offer free health and social services. The National Vocational Training Institute provides excellent skills training opportunities. Even so, the difficulty of obtaining these public services is tremendous. Long lines, hours of waiting, and impersonal nature typify health clinics.

CIDES and FNCS fill a small part of the void between the limited supply of public services and the demand for them, with the fundamental difference that FNCS and CIDES are capable, because of their size and orientation, of personalizing to a large extent all their services and continually monitoring the needs and desires of members. This is the great advantage of being small. But CIDES will have to be innovative in adapting its present design if it wishes to have any significant socio-economic impact in Bogotá.

At CIDES the routine work is done diligently. The accounting tasks are well defined and the work flow is smooth. The atmosphere is relaxed. There appears to be a great deal of mutual respect between employees. There is an obvious respect for the hierarchy, but not in the sense of "bosses" and "subservients." To a large degree the respect shown, for example, to the director and advisor has its roots in the kind of people they are rather than the positions they hold.

*Future Plans*

CIDES will continue to solidify its economic base in Bogotá during the next year as its subsidies wind down. This will mean increasing membership by 500, which the director says will not be a problem, since the housing program (SERVIVIENDA) alone will provide at least 320 new members. In addition the "company" promotion, which the director feels is fairly easy, will provide at least 20 members per successful promotion. If nine companies are promoted in addition to the housing program, then CIDES will reach its goal. When the Bogotá branch reaches 4,000 members, it will probably open another branch in the southern part of the city. The director is certain that the cooperative could administer the needs of fully 10,000 members, if the objectives were strictly economic.

He reiterated, however, that while growth of the organization is necessary, CIDES will always consider that objective in terms of both the economic and personal services for members. CIDES members are proud that they are not strictly numbers on an account or loan balance. CIDES is very wary of the possibility of depersonalization of the cooperative through unlimited growth. They will not permit the cooperative to become a financial "octopus" and lose sight of its predominantly social objective. For this reason, the by-laws of CIDES were written to allow CIDES to set up many branches throughout Colombia, under CIDES' name. Each cooperative would maintain a size which was large enough to be viable economically, yet small enough to continue to give the kind of personal services to its members it feels are imperative.

There are fourteen branches of the FNCS throughout Colombia, eight of which could set up CIDES branches. To do this, CIDES Bogotá would have to rely on continued subsidies in the short run to fortify its accounting and other back-up services. They are very clear, however, in their refusal to receive government funding. They insist on independence and will not risk government interference.

*Project Replicability*

FNCS is running a socially oriented program which has recognized the economic needs of the beneficiaries. CIDES was formed out of the pragmatic recognition within the social context that savings mobilization and credit were two ingredients desperately needed by workers and their families. These options were not accessible to the great number of people in need, thus CIDES came into being.

The cooperative is predicated on a savings and loan format and in this context the project is replicable. But CIDES, being part of a broader context within FNCS, utilizes training and health services which are not directly related to the cooperative. CIDES does not pay for the extra services—either FNCS or the individual participants do—but the services are offered as part of a CIDES package. This kind of package would be difficult to replicate in other savings and loan cooperatives unless they were also linked to another organization which could help defray the costs of the social programming.

A major reason why FNCS can implement its social programming is that it utilizes a large amount of volunteer assistance in program management and support. Voluntarism can be replicated, but it is such an unsure part of the project design that to design volunteer management and support into a project as a necessary component would be risky. In general, for the purpose of project design, the use of volunteers should be contemplated but not assumed.

Furthermore, since the persons most responsible for the program are committed to social programs as members of a Catholic lay organization (Laicos), they bring a social attitude and dedication to these goals, similar to those upon which FNCS and CIDES are predicated. This element is not generally replicable except in instances in which similar organizations are identified as the implementing agencies. This is surely an extremely valuable component of any program, but replicable programs should be designed around the *most* common programatic attributes and not those which are *least* assured, such as relying on volunteer staffing levels to cut personnel costs.

*Lessons Learned*

1. Credit:
   —Credit attracts people to other services of FNCS.
   —Credit saves people time through reduced frequency of redundant activities. (See Annex 1 for a short discussion of supplier credit.)
   —Consumer loans for appliances are most often subject to late payments.
   —Housing loans are the best since rents usually convert to house payments and people know their investment is appreciating.They will rarely put that into jeopardy by defaulting.
2. Promotion:
   —Promotion through companies is an interesting and successful way to recruit credit union members. In lieu of other community organizations or grouping mechanisms, this form of "group promotion" has the potential not only to reach the consumer market, but also many company employees who may have part-time businesses in order to make ends meet. From a cost standpoint, it is an efficient system of promoting potential cooperative members despite their geographically dispersed locations. The system is based on initial demand studies for CIDES' services.
3. Social services and loan supervision:
   —The dispersed geographical location of members makes field work of any kind impossible for the cooperative. Some use of the *fianza solidaria* grouping mechanism stipulating that members of a particular group must live within a given area (two or three contiguous neighborhoods, for instance) would encourage more intra-group relationships and make possible more CIDES/FNCS field work with more clients. Most of the kinds of social services which FNCS provides could easily be done in the neighborhoods, thus enabling FNCS to reach more of its current members directly as well as to promote more members.
   —Where social services are provided through groups, it also seems possible to do at least minimum loan supervision at the same time with several members with no appreciable increase in costs.
   —Because of overhead and personnel costs, health services should be provided at a central location. Good promotion of the services possibly through neighborhood meetings based on the *fianza solidaria* would stimulate increased usage of the services.
   —Given its promotion techniques, primarily through word-of-mouth and companies, membership tends to be dispersed. Consequently it is very difficult for CIDES to maintain contact with members, except through the mail. To deal with this problem as it affects social and credit services, one suggestion would be to stimulate sectional associations of members throughout Bogota, which would organize themselves into service groups again based possibly on the *fianza solidaria*. They could draw on CIDES personnel to come to the meetings to provide the short courses, skills training and credit supervision which have been requested. This kind of system could be promoted by using Laico or FNCS members at the community level.

4. Guaranties:
   —Arrangements with employees to make payroll deductions from members' paychecks provides a very safe guarantee. Severance pay as well as individual savings may be used as back up collateral.
   —The *fianza solidaria* group mechanism as organized and used in CIDES points out several facts. In the first place, groups should be self-forming in order to maximize the sense of responsibility among peers. The CIDES advisor pointed out that when CIDES staff "forms" the groups, the risk of default increases. This is because there is not a strong sense of responsibility in the group for its own formation and its own decisions on the reliability of the members. Thus, it is easier for group members to blame project staff for poor decisions on who is or is not a reliable candidate for inclusion in a *fianza solidaria*.
   —Further peer commitment for the loan and interest in the credit process could be fostered by more involvement of all members in the application and approval process. Currently, only one group member in addition to the applicant need know of the loan applied for. No one else has a chance to question the size or purpose of the credit. In order to encourage fuller use of the *fianza solidaria* tool, it would be useful to require all group members to be present for the final approval of the loans, or if this is cumbersome, possibly a signature from each member would suffice. Currently, it is perfectly conceivable that three of the five members know nothing of the loan they are "guaranteeing."
   —Under the current system there is no attempt to use the *fianza solidaria* for expanded social purposes. This would provide a good opportunity to bring people together for any number of purposes.
5. Collection:
   —CIDES boasts 100 percent payback with no supervision, technical or managerial assistance, or collection mechanisms. Three loans are late in paying back out of over 250 loans outstanding.
   —Interest calculated monthly on the unpaid balance encourages borrowers to be punctual, and even ahead of schedule on their payments.
6. Financing:
   —Negative real interest charged plus interest payments on the unpaid balance calculated on a monthly basis are very advantageous credit terms for the members—especially those who are well established. But this will eventually require that the cooperative seek outside sources of income through fees for management of another organization's revolving fund or through earning income from high yield investments.
   —Without outside sources of income small savings and loan cooperatives which aim to work at the very bottom of the socio-economic scale will have to be extremely conscious of costs. Since providing small amounts of credit for poor people is substantially more expensive than making larger loans to the middle class, savings and loan cooperatives, which have started for the very poor, tend to allow their membership to drift upward on the social scale. This phenomenon has been seen at CIDES to some degree and in other credit unions in Peru, Ecuador and El Salvador.

*Concluding Comment*

Perhaps the most notable lesson learned from CIDES—and this point may be particularly relevant to other organizations with strong social motivations—is the importance of assuring the continuity of goals and objectives by creating impersonal institutional ties with other similar organizations through their inclusion (as organizations—not individuals who happen to work in these organizations) on the board of directors. Undoubtedly, organizations reflect the personalities and objectives of the people running them. It is expected, however, that these will be consistent with the purposes and goals of the organizations themselves.

The lesson from CIDES is that it is good to create institutional checks on individuals, which do not cramp their creativity, but which do ensure that fundamental changes in the goals, objectives and methods of organizations are implemented knowingly with balanced perspective from outside. Otherwise, the fundamental nature of organizations can purposefully or inadvertantly be changed by a particular individual's, or group's, whim.

## Annex #1
## Case Study—Neighborhood Store

Don Campo Ardilo, with two other members of his family, bought a row house eleven years ago in a low-cost, highly subsidized housing project in south Bogota. Upon leaving a salaried position as administrator of a Bogota pawn shop, he decided in March 1978 to start a small grocery store in his home to serve neighborhood needs. He sells a wide variety of products such as vegetables, potatoes, yuca, grains (rice, beans), eggs, soap, paper products, candy and liquors.

The household is made up of Campo's mother, sister, brother-in-law, and two small children. Both the sister and brother-in-law are factory employees, one child studies in primary school; the other child is taken care of at home by Campo's mother who alternately does the housework and minds the store when Campo is on an errand.

The business is Campo's and as such the incomes from the store and his relatives are kept separate. Instead of paying "rent" for the store space, Campo helps support the household by providing some foods such as tomatoes, potatoes, and other vegetables as well as an equal share of the mortgage (reflecting no rent for the store) and utilities. The sister and brother-in-law buy eggs, bread, rice and beans (high cost items) from Campo who is apparently careful not to decapitalize his business through home consumption of inventories and working capital.

He began the business with Ps$20,000 (US$470) borrowed from a "friend" at 5 percent interest per month and some small accumulated savings. Since Campo and his family jointly own the place of business, he had no additional expenses, such as rent, beyond an equal share of the mortgage payment. The loan, then, was used entirely for initial inventory.

Campo decided to start his store because: 1) he owned the premises; and 2) because of the high turnover of basic foodstuffs and household consumer products. Even if the business proved not to be profitable, he would not lose anything on rents or improvements to the premises and in most cases would recoup the full cost of inventory. His loss at worst would be several months interest payment on the "street loan" and foregone income from his previous job. So the risk to Campo was relatively small and the barriers to entry were minimal.

As it turned out, the business was a success. The major concern at the outset was to be able to supply the store with sufficient inventories. The Ps$20,000 and initial capital partly took care of the problem. But more was needed to increase inventories and ease the inevitable cash flow problem of young small businesses. Since he owned the place of business, Campo was immediately able to get supplier credit from distributors for those non-perishable products with lower turnover such as paper products and soaps. These suppliers deliver orders directly to the store, the charge being included in their list prices, which are slightly higher than in other outlets. Cash payments were made for soft drinks, milk, eggs, beer, vegetables, beans, cheese, and sausages.

Campo estimates that he spends approximately 5 percent, or Ps$500 (US$12), more on the Ps$10,000 (US$235) worth of supplies he purchases monthly from the distributor[1] than by shopping around in the central markets or other stores in the city center where list prices may be lower. But he believes that between the time he would have to spend away from the store doing errands, transportation costs, and meals in town, he would easily spend Ps$500. It was well worth it to him to pay Ps$500 to the distributor in return for his services and not have to leave the store and cope with the problems of deliveries and credit. The additional Ps$500 over list prices which Campo pays on credit is interest. However, at 5 percent, the cost of this credit is equal to or even higher than that for street loans.

[1] Payments are made on the whole balance by 30 day post-dated check.

When asked about the possibility of quantity discounts, Campo's reply was unexpected. He recognized that in large quantities commodity prices normally fall. But in some cases, such as for rice, sugar and beans, to get quantity discounts one also has to buy in bulk. Given the choice he prefers to buy these commodities at higher prices. His point was that packaging individual portions at the store was a time consuming pain in the neck and purchasing packaging materials was a cost to be taken into consideration when assessing the benefits of quantity purchases. On the other hand, there are some products, such as soup rice, which only come in bulk and must be packaged at the store.

Furthermore, government price and standards inspectors frequently check store pricing and weights.[2] Mistakes can spell serious problems such as the revocation of licenses. Store owners are not liable for pre-packaged products if weights are not accurate, although any problems ultimately find their way back to the individual stores in the form of negative consumer reaction if such problems are detected, no matter who is to blame.

Finally, Campo did not buy some expensive items such as beans in large quantities despite the discounts, since turnover was only medium and he was wary of tying too much capital up in slow moving inventory.

### *Impact of Credit*

Campo was not a CIDES member at the time he began his business. His sister, through her company, had joined and with four company colleagues had formed a *fianza solidaria*. Campo learned of CIDES through her and joined.

He integrated with a *fianza solidaria* and took out his first loan from CIDES for Ps$20,000 (US$470). Upon fully paying this loan he immediately took out a second for Ps$30,000 (US$706). Both loans were used for increasing inventories of fast moving items.

Campo is now contemplating taking out a third loan which he will use for increasing stocks of slower moving products such as cookies, canned goods, and liquor.

Before his first CIDES loan, Campo's gross sales were between Ps$60,000 (US$1,412) and Ps$80,000 (US$1,882) per month. He now grosses Ps$120,000 (US$2,824))/month. His profit rate has remained at approximately 20% of sales.

Credit has enabled Campo to increase his inventories and sales. Furthermore, it has made it possible for him to pay cash for inventories thus avoiding the higher interest charges of supplier credit relative to the very low cost interest (1%/month on the unpaid balance) which CIDES charges.

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[2] Other government regulations which Campo Ardilo had to comply with:

1. Pay yearly industry and commerce tax of Ps$800 (US$19) to Chamber of Commerce for license.
2. Meet minimum fire standards.
3. Meet minimum health standards.
4. Pay trash collection fee. (Trash collection is a big problem for small businesses, especially neighborhood stores which produce a large amount of trash which, if uncollected, becomes a big problem between the store owner and the neighborhood.)

## Annex #2
## Case Study—Garment Factory

Carmenza Olarte was a school teacher who decided that she could not afford to continue in her profession. Timoleón Trujillo, her neighbor, had a small tailoring shop with two sewing machines for home use. Business was mediocre.

Carmenza and Timoleón decided to pool their resources and begin a more industrialized garment factory. Timoleón supplied "knowhow," equipment, and work tables. Carmenza supplied Ps$50,000 (US$1,176) capital. The business opened in a rented location.

Carmenza is a CIDES member and through the cooperative received a Ps$28,000 (US$659) loan. The first step for the new company was to buy two high speed industrial sewing machines. The cost of the machines was Ps$80,000 (US$1,882); Ps$40,000 (US$941) was required as a down payment. Carmenza's capital was used in large part for this purpose.

The business functions on a piecework contract with one wholesale garment manufacturer to produce dresses. This large firm consumes COSMOJEAN's entire production and supplies all raw materials which are pre-cut. COSMOJEAN simply sews the pieces together.

With the four sewing machines (two old domestic and two new industrial models), 3 seamstresses, and Timoleón as supervisor, COSMOJEAN produces a maximum of 450 dresses every 20 days.[1] They receive PS$50 (US$1.18) for each dress, giving them gross revenue of Ps$22,500 (US$529) per month.

Each worker receives a salary of Ps$3,500 (US$82) plus Ps$280 (US$6.60) apiece for transportation. This leaves Ps$11,160 (US$263) to make payments on debt, pay rent, and pay both Carmenza and Timoleón. While they were hesitant to give figures, they specifically said that the business is just paying its expenses with a little left over to Carmenza and Timoleón.

With the equipment and personnel they have, COSMOJEAN is currently producing at maximum capacity. Timoleón believes that there would be no marketing problems with increased production since apparently the wholesaler will be able to consume any increases by COSMOJEAN in the near future. Thus, according to Timoleón, the major constraint is the lack of production capacity.

Timoleón believes that with more industrial sewing machines and more highly skilled operators the company could greatly increase production, productivity, and income. COSMOJEAN would like to become more independent and not rely exclusively on one market. To do this, they will need to buy a cutting machine, but they are simply not in a financial position to do so yet.

While Carmenza is learning the profession, her contribution has been primarily capital. She plans to take over responsibility for administration and sales.

Carmenza is a member of a *fianza solidaria,* the group guarantee mechanism used by CIDES. She has a constant relationship with only one of the four members. The others she sees occasionally at social gatherings with friends. Despite the sparse contact among group members, Carmenza said that in addition to obtaining credit, groups have assisted the businesses of the other members by referring clients to them. They are also capable of providing informal technical and managerial assistance utilizing the expertise existing among the group. Given their collective experience as a *fianza solidaria,* Carmenza's group has also assisted, albeit passively, in the formation of other credit groups.

[1] While I am not positive, it appears that COSMOJEAN works a five day work week; thus 20 (work) days is what is meant here; i.e., they produced 450 dresses a month.

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## CHAPTER 4: BANCO DEL PACIFICO

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## I. PROJECT IDENTIFICATION

A. Name and Address of Project:
   1) Banco del Pacífico/Guayaquil
      Pichincha 332, Casilla 988
      Guayaquil, Ecuador
      Telephone: 528-176
   2) Banco del Pacífico/Quito
      Amazonas 720
      Quito, Ecuador
      Telephone: 542-566

B. Name of Director of the Department of Community Development
   1) Guayaquil - Econ. Antonio Moreno Dillon
   2) Quito - Lic. Pedro Emilio Perez

C. Dates Interviews Held:
   May 3, 7 and 11, 1979
   August 5 - 18, 1979

D. PISCES Representatives:
   Preliminary visits: Peter H. Fraser
   In-depth study: William R. Tucker

E. Report Written by: William R. Tucker

## II. THE SETTING

Ecuador is a country of 7,715,000 people, 56 percent of whom live and work in the rural areas. Annual population growth is 3.3 percent (1962-1974), and inflation is in the low teens.

"The explosive growth of the cities and the growing poverty of the agricultural sector characterize the pattern of Ecuadorian development in the past decade." So states a study prepared by the Industrial Chamber of Pichincha (Ecuador) which analyzed the socio-economic situation of Ecuador. Agricultural production grew at a 3 percent rate from 1972 to 1977, slowing to 1.4 percent and 2.8 percent in 1977 and 1978. This compares unfavorably with the high population growth experienced during the same period of time. In contrast, the manufacturing sector grew at a 12 percent annual rate during these years. It is clear that this imbalance helped to cause a massive demographic shift as people left the farm in search of higher paying jobs in the city.

The same study detected five primary causes for the deterioration of the rural sector:

1) "political prices" on certain agricultural products which have not taken into consideration rising costs of production. The declining profits represent a subsidy from the rural to the urban sector;
2) deficient channels of distribution, causing low prices for the producer and high prices for the consumer;
3) the lack of a development program to increase the productivity of the country's farms;
4) the lack of basic services and social infrastructure in the rural sector. (In 1977, 82 percent of the urban population in Ecuador had access to drinking water and 63 percent had sewerage facilities. In the rural areas during the same year, the corresponding figures were 13 percent and 11 percent; and
5) the eratic application of the agrarian reform, part of which had resulted in a serious problem of subsistence *minifundios.*

Ecuador's development has focused on rapid industralization. The oil revenues stemming from the country's geographical good fortune and its participation in OPEC hastened this development to the detriment of the traditional sector. After a decade of these activities, the country suffers from a stagnant agricultural base and swollen cities.

Guayaquil and Quito are the two major Ecuadorian cities and as such attract large numbers of migrants from the outlying rural areas. However, the social problems created by this migration are quite different in each city: Guayaquil is located on the delta of the Guayas River, a hot, low-lying area in Southwestern Ecuador. Migrants have established marginal neighborhoods on the periphery of the city along the rivers and backwaters, constructing makeshift homes on stilts over the water. In Quito, however, located high in the Andes mountains, people often find living quarters in large communal houses. Fourteen families averaging five members each are often forced by their economic situation to live in one room per family. Living conditions are poor and the use of water and sanitation facilities is communal. One of the results of this housing problem is that the poverty of marginal people is somewhat more visible in Guayaquil than in Quito.

The migration mentioned above is clearly detectable in the small productive shops that abound in Quito and in Guayaquil. During a recent study in Quito, it was found that 45 percent of these "micro-business-people" came from rural areas surrounding the city. The entrepreneurs who migrate initially tend to secure jobs as laborers, become specialized in a skill and then decide to set up their own shops, motivated either by a desire to earn more or simply to work independently. The importance of these shops insofar as the economic health of the country is concerned is clear: in 1977, small and micro-businesses contributed an estimated 30 percent to the Gross National Product of Ecuador and, more significantly, generated in the same year 253,000 new jobs, representing 76 percent of the total number of jobs created in the manufacturing sector.

The following study describes the Banco del Pacífico—a private bank which lends money to very small productive shops so that the owners may produce more, earn more and generate new jobs.

## III. PROJECT DESCRIPTION

### *A. The Organization*

The Banco del Pacífico is a private bank with an operational philosophy geared towards development. Breaking with the traditional banking structure in Ecuador, in which owners direct the banks' funds to relatively riskless borrowers—primarily very large national and international enterprises—the Banco del Pacífico has a broad-based ownership and seeks less traditional clients for its banking services. An example of this philosophy is the willingness to open very small savings accounts, an action which increases operational costs but which attracts new savers into the commercial banking community. Since its founding seven years ago, the Banco del Pacífico has grown to become the second largest private bank in Ecuador and expects to head the list in another three years.

A more dramatic example of the Bank's operational philosophy—and the focal point of the current study—involves the Bank's response to the government's requirement that 20 percent of the value of available loan funds held by the private commercial banks be earmarked for developmental purposes. The banks have the choice of buying government bonds at 6 percent interest for the corresponding value or managing the same amount themselves, enabling them to charge 9 percent interest for the development loans.[1] Most banks have decided to buy the government bonds so that they may concentrate on their regular business; the few banks which manage the funds themselves find fairly large "small businesses" which qualify for these funds. The Banco del Pacífico, in contrast, has aggressively responded by setting up a Department of Community Development which locates micro-businesses and offers them loans. Since the initiation of the Department's activities, the Banco del Pacífico has constantly maintained its development loan portfolio over and above the 20 percent required by the government.

The Banco del Pacífico became involved in popular credit several years ago after learning of the UNO project in Recife, Brazil (União Nordestina de Ajuda às Pequenas Organizações), a project set up by ACCION International/AITEC in 1971. The Brazilian methodology was greatly simplified and implemented by the Bank, initially in Guayaquil and later in Quito. The Bank's primary objec-

[1] At the time of the study, interest rates paid on savings accounts were 6% per year, and commercial bank loans were 12% per year. Since that time, commercial bank loans have jumped to 16%.

tive is to make credit available to people with extremely small businesses in order to increase the entrepreneur's personal income and create new jobs.

In Guayaquil, the Department of Community Development is headed by an economist and has five university students who work part-time with individual businesses. In Quito, the Department of Community Development is headed by a sociologist and consists of four part-time university students who are the promoters. Also, bank personnel assist in the paperwork.

*B. The Beneficiaries*

1. Description of Micro-businesses

Since the micro-business program operates within the official guidelines of the Financial Funds Mechanism of the government, only those businesses involved with the transformation of raw materials into final products can be considered as possible beneficiaries. As far as the size parameters are concerned, the owner must work either alone or with a maximum of five assistants. The fixed capital of these shops may reach US $2,000, with monthly sales as high as US $1,200 for the larger businesses. The most common types of shops work in carpentry, shoe production and clothing. According to a recent survey of 40 micro-businesses carried out in Quito, these producers average 18 years of work experience, work an average of 11 hours a day and have begun their own businesses because of a desire to work independently and increase earnings.

Micro-businesses tend to integrate themselves into the economic life of their neighborhood, selling their products locally as much as possible and hiring from the immediate vicinity. The primary economic benefits of these shops is their capacity to expand quickly after an influx of capital, resulting in higher earning for the owner and the creation of new jobs. (Several years of experience working with micro-businesses in Brazil, Ecuador and Colombia demonstrate that one job can be created for every US $1,000 lent to these shops. This is a small fraction of the fixed investment needed to create a job in large businesses.)

The following are examples of the types of micro-businesses assisted in Ecuador:

a) a shoemaker, living in a large, old multi-family building, who has only a bench, some raw materials and some tools;
b) an upholsterer, working with his wife, who has a little shop with one sewing machine in their two room apartment;
c) an older lady, making decorations for homes and gifts such as cloth flowers, who lives with her daughter in a relatively nice home;
d) another shoemaker with a very small rented shop opening onto the street, who has one older man as an assistant. He is knowledgeable of his weekly expenditures for materials and is preparing to expand his business with a newly bought second-hand sewing machine, paid for with a Bank loan. His clients are his neighbors;
e) a woodworker operating by himself, who had received a loan from the Bank at the encouragement of his wife. He has purchased wood and tools with the money and has subsequently increased his income. He hopes to get a second loan and eventually take on an apprentice;
f) a family of tailors, who divided their living quarters with a cloth in order to create a tiny work area. They have two sewing machines and eventually want to buy a third one since they are not able to handle all the work that their neighbors give them; and
g) a shoemaker who is working with his son in a relatively large but thoroughly disorganized shop.

2. Problems of Micro-businesses

The most pressing problem is the lack of capital to start a business. A makeshift shop must be built, machinery must be bought and, probably most difficult of all, electricity must be installed. If an individual is able to overcome these barriers and establish his or her business, there still exist many obstacles to growth:

a) poor working conditions which reduce efficiency. In addition to the lack of adequate work space, light and organization, the shop must also share its area with the living area of the family;
b) high rotation of personnel, probably due in part to the poor working conditions. Also, once the laborers become proficient in their task, they tend to migrate, seek out higher paying jobs, or set up their own shops;

c) dependency relationships for marketing the finished goods. The use of marketing intermediaries, in many cases street vendors, is often the only practical alternative that these businesses have for selling their goods. Furthermore, if the micro-producer deals directly with a buyer, it is frequently the case that he or she also receives the needed raw materials from the same buyer. This dependency reduces profits: while it is possible to cover costs and maintain equipment, it is difficult to save or to reinvest, which is essential for growth;
d) as a result of the inability to reinvest, the producer finds him- or herself with old and inefficient machinery which often breaks down. While increasing production costs, these machines decrease production capacity and affect quality, thereby reducing income from sales;
e) due to a lack of necessary machinery, the micro-businessperson must often contract third parties to complete the production process, causing an increase in costs and a disruption in the work flow;
f) the lack of reasonably priced credit, which is considered by the Bank to be the biggest problem of the micro-entrepreneurs;
g) the time consuming search for raw materials, which must be purchased in cash and in small quantities at no discount;
h) the wait for buyers to pay their bills once a sale has been made, causing a continual cash-flow problem;
i) the fact that the owner is responsible for accomplishing everything alone. Although most often trained as manual laborers, micro-entrepreneurs must plan production levels, contract workers, purchase raw materials, constantly secure working capital, etc. Although a 10-hour workday is common among these businessmen and women, they often lack basic understanding of how to organize themselves and their businesses;
j) limited exposure to basic education and broadening cultural experiences. Since the majority of the micro-entrepreneurs have but a grade-school education and live in marginal neighborhoods, a degree of timidity tends to develop. This puts them at a disadvantage when dealing with better educated and more sophisticated businessmen; and
k) inflation. Due to the poor bargaining position of the micro-producers, raw material and labor costs tend to rise faster than an acceptable increase in the sales price of the finished product. If a solution is not found, the producer will earn less and less for the time invested in the business until it is no longer feasible to continue.

3. Credit Availability

Due to the difficulties mentioned above, most micro-businesses fail in the first two years of existence. Nevertheless, some do succeed. For example, the micro-businessmen and women in Ecuador do have access to some lines of credit, such as:

a) commercial stores selling household goods, e.g., refrigerators, stoves, etc. These stores have an aggressive sales strategy providing liberal credit although at high interest rates. The importance of this is that the owner of a shop can get a good credit reference if debts are responsibly retired;
b) sellers of machinery also sell on credit, but debts must be cancelled in 12 months. The monthly payments are often too high for the micro-producer;
c) businesses can sometimes sell their receivables for a discount of 5 percent or more;
d) sellers of raw materials will sometimes offer a line of credit to a producer they have known for a long time. There are no interest charges but payment must be made in 30 days. A problem here is that the seller decides what materials are to be purchased, generally choosing inferior quality materials that have been selling poorly;
e) money lenders are readily available who charge 10 percent a month or more for their money; and
f) the Development Bank of Ecuador has a line of credit, but the paperwork often requires hiring an expediter who will handle the red-tape for a steep price. Because of this the Development Bank is often not considered as a viable alternative.

*C. The Banco del Pacífico Program*

Directors of micro-business programs agree that loans play a vital role in the expansion of these enterprises. Most of these directors also feel that one or more complementary services are called for, enabling the entrepreneur to learn how best to handle the loan. There are four general areas of business-related assistance that are often incorporated into micro-business programs:

1) Management assistance: consultants give advice to businessmen and women on a one-to-one basis. Since micro-business problems are not as complex as those of larger corporations, university students, and even high school graduates, can be trained to provide this service.
2) Managerial education: groups of micro-businesspeople meet to discuss topics in business administration in a classroom situation and with an instructor.
3) Technical assistance: an expert is called in to provide a specific service, such as designing a better way of making a chair or utilizing raw materials.
4) Technical training: the employer and/or employee participate in a workshop which will teach them a certain skill, such as making a mold on a lathe.

An interesting aspect of the Banco del Pacífico program is that none of these types of assistance have been incorporated into the program methodology. The entire emphasis is on quickly assisting the micro-entrepreneur with credit. A micro-businessman or woman can obtain a 2-year loan for the purchase of raw materials, a 3-year loan for the purchase of machinery, or a 5-year loan for the construction of installations. Construction loans have a grace period equal to the time that the construction takes. Annual interest rates are 9 percent, and payments come due every six months.

This is how the project works in Guayaquil:

1) *Detection:* the city is divided into sectors and the promoters speak with each micro-business. There is no mass promotion since the Bank does not have the capacity to process all of the applications which would result.
2) *Initial visit:* once a business has been detected a questionnaire is completed to find out basic information about the business.
3) *Loan proposal:* if there is interest in receiving credit, a loan proposal is completed, enabling the bank to approximate cash flows and loan limits.
4) *Inspection:* a promoter, with more experience, visits the business to check on information (such as machinery owned, etc.) that was included in the credit proposal.
5) *Loan approval:* a savings account in the Bank is opened with the funds from the loan.
6) *Supervision:* the business is visited by the promoters once every three or four months.
7) *Collections:* businessmen with late payments outstanding are visited on a regular basis.

In Quito, a somewhat different system is used:

1) *Initial visit:* the entrepreneur visits the Bank, having heard of the program usually through acquaintances. There is no census.
2) *Visit to the business:* a promoter meets with the entrepreneur at the shop to explain the Bank's requirements for approving a loan and to get to know the person better in his or her work environment.
3) *Investment plan:* following the on-site visit by the promoter, the businessman or woman takes the necessary papers to the Bank and completes a questionnaire.
4) *Economic analysis:* the promoter calculates the maximum amount that the person should receive using the figures obtained during the last visit to the shop. Estimates are made for future sales and profits.
5) *Verification:* once the economic analysis has been prepared and the references checked, the Director of the program visits the business to verify the information and to discuss the investment plan.
6) *Loan approval:* a memorandum is passed to the Bank's general manager recommending that the loan be approved, the necessary papers are prepared, the check is written, and a savings account is opened.
7) *Supervision:* as in Guayaquil, irregular visits are made to the shops once the loan has been approved. There is no strict schedule for visits.
8) *Collection:* businessmen with late payments outstanding are visited on a regular basis.

In both cases, the process takes an average of only 10 days when Bank operations are running smoothly. There are times, however, when the Bank suffers from a generalized short-term liquidity problem, forcing all new loans to be temporarily delayed and an added emphasis placed on collecting late payments. This affects the small credit program as well.

As a result of this simple methodology, the cost per business assisted is very low. A small part-time staff can rapidly process each loan request, leaving the recipient with the responsibility to pay off the debt on his own, without much supervision—this at the risk, however, of a higher probability of loan failures due to the lack of the supervision and the management assistance. The Bank has experimented with several mechanisms to reduce these risks:

1) *Selection:* The Bank has developed general guidelines for the selection of micro-businesses that will receive loans. In addition to the limits on size previously mentioned, the individual cannot have an existing checking account in any bank, since it is assumed that people with such accounts are already in a position to secure loans; the shop must be organized and have a "working environment"; the products must be of acceptable quality; and the needs, frustrations and hopes of the individual must be discussed with the promoter in the shop itself in order to form an idea of the micro-entrepreneur as a responsible individual. In addition to these general guidelines, the following three steps represent specific requirements of the Bank:
   a) *documentation:* the potential loan recipient is given a list of the minimal requirements for receiving a loan during the initial visits of the promoter to the shop. These requirements are (i) an invoice showing the value of the goods which are to be purchased; (ii) two written personal references; and (iii) two written commercial references. If the businessman or woman cannot obtain these documents, he or she is ineligible for the loan;
   b) *a positive credit history:* the Bank determines the degree to which the businessperson accepts financial obligations by calling the potential client's landlord, stores where he or she has purchased goods on credit and other businesses with which he or she operates; and
   c) *a solvent co-signer:* this requirement is met by obtaining a written statement from the co-signer's bank informing the Banco del Pacífico of the management of the co-signer's account. The Bank recognizes this last requirement as being the most difficult to fulfill, but insists that loans should only be given to businesses with good references.
2) *Controls over loan use:* in similar programs micro-entrepreneurs have spent loan money on housing, schooling and consumer items rather than on the expansion of their businesses as planned. Since such use of the loan increases the bad-debt risk, the Bank rarely gives unrestricted credit to micro-businesses, at least for the first loan. The Bank has implemented the following safeguards:
   a) the first loan is small. US$1,500 is the maximum, with the limit being removed or made less rigid as the recipient pays back the loan on time or ahead of schedule;
   b) in Guayaquil, part of the loan is deposited in the client's newly opened savings account. When the client returns with cancelled invoices proving the correct investment of the money deposited, the balance of the loan is signed over; and
   c) in Quito, checks are often made out to the suppliers of the goods that the client intends to buy. If the loan is to be used for paying workers, the money is deposited in the savings account.

   In both cities, the new savings accounts play an important role in educating the clients in banking practices. Since the opening of checking accounts is deliberately postponed, the entrepreneur must enter the Bank to deposit or withdraw funds, causing him or her to become gradually accustomed to the environment. A person who does not feel uncomfortable about entering the Bank is probably less likely to default. An added advantage of the savings accounts is that under normal conditions it cannot be overdrawn, nor can a bad check be passed against it.
3) *Strict collection procedures:* once the client receives a loan, it is treated as any other loan of the Bank; there is a clear understanding that the Bank is serious about collecting late payments.

   The following represents a list of the most important changes that have occurred in the methodology of the program in Quito. All changes reflect an attempt to improve and accelerate the loan process:
   a) the explanation of the program during the initial visit to the shop has been modified. The promoter discusses with the businessperson a series of consecutive loans instead of one loan. This is (a) to encourage the businessperson to extend his or her time horizon far beyond what he or she has become accustomed to; and (b) to increase the probability of successful repayment of the loan. If the individual knows that he or she will continue to

receive loans if care is taken with his or her obligations, chances are the percentage of late payments will decrease;

b) at first, only the "*Entrevista*" side of the questionnaire was completed during the initial visit with the entrepreneur, the idea being that the "*Solicitud*" side would be completed when the solicitor went to the Bank. The problem was that the businessmen did not go to the Bank. Therefore, both sides of the questionnaire are now filled out at the same time. Once the businessperson talks about what he or she would do with a loan, he is more liable to follow through with the idea;

c) the questionnaire is no longer completed during the initial visit to the shop. The businessperson is told that two written personal references and two written commercial references must be taken to the Bank. The questionnaire is completed only when these papers are secured. This modification ensures that the program works only with those individuals who are truly interested in the loans; and

d) the promoters do an economic analysis of the business and discuss the investment plan with the owner. This reflects an interest on the part of the promoters to become more involved in providing some form of management assistance to the loan recipients.

*D. Results*

Late payments on outstanding loans are approximately 7 percent of the total loan portfolio for micro-businesses; control over this line of credit has been successful. Over US$1,000,000 have been lent to over 900 business owners during the more than three years that the programs in Guayaquil and Quito have been functioning. Many have already received a second loan.

A study was carried out to determine the effect that the loans have had on the micro-businesses. The conclusions are especially interesting due to the nature of the Bank's programs, *i.e.* lack of any complementary services.

A primary reason for the growing international interest in micro-businesses is their supposed capacity to generate jobs and increase family incomes at low cost as they change from informal shops to small, organized businesses. Therefore, it is useful to compare the results of the Banco del Pacífico's program in terms of employment generation and income gains with those of another micro-business program that does offer two complementary services to the businesspeople: management assistance and appropriate education in business administration. Such a program exists in Cali Colombia.[2]

Providing extra services will inevitably increase operational expenses, but additional costs are justified if the benefits are proportionately greater. A sample of 73 businesss in Guayaquil and 40 in Quito, all of which had received loans from the Bank, was taken to determine the number of jobs that had been created and the increase in personal income. The data from Ecuador were compared with 68 micro-businesses that had received loans through the program in Cali.

**Table 1**
**Comparative Results***

| | Quito | Guayaquil | Cali |
|---|---|---|---|
| No. of Businesses | 40** | 73** | 68*** |
| Average No. of Workers before Loan | 2.0 | 2.3 | 3.1 |
| Average No. of Workers after Loan | 2.35 | 2.7 | 4.4 |
| % Increase in No. of Workers | 17.5% | 20% | 42% |
| Real Net Increase in No. of Workers | 14.0 | 31 | 93 |
| Average Loan Value | US$1,087 | US$1,200 | US$1,450 |

* It is not the purpose of this analysis to determine which of the two systems mentioned is better; such a determination is hampered by several important variables: cultural idiosyncracies, the availability of credit (DESAP, for example, did not have access to a ready line of credit in its second year of operation), favorable or unfavorable macro-economic conditions, past experience on the part of the recipients with other lending programs, etc. It is the opinion of the author that both systems are valid and effective.

** Random sample taken from a total universe of 900 businesses assisted by the Bank in Quito and in Guayaquil.

***Total number of businesses assisted by DESAP.

[2] DESAP of the Carvajal Foundation (Program for the Development of Small Businesses).

The data in Table 1 suggest that the DESAP program in Cali generated more employment per business assisted than the Banco del Pacífico's programs in Quito and Guayaquil. However, the Bank's programs have assisted considerably more microbusinesses than the DESAP program, generating in the process an estimated 375 new jobs, four times more than the DESAP program. As far as raising incomes is concerned, the data from Quito indicate that family incomes have increased from US$50 to US$139. In Cali, the corresponding figures can be estimated from sales figures: average sales have increased from US$1,078 to US$2,076. Assuming conservatively that 10 percent of this increase translates into income gains for the owner, there is a gain of US$100 per business assisted, which differs little from the Quito results.

The Banco del Pacífico has spent a total of approximately US$125,000 on operational expenses for its two programs in Quito and Guayaquil. Since an estimated 375 new jobs have been created, it is calculated that the investment per new job is about US$330. The corresponding figure from the DESAP program should incorporate projections for the coming year (1980), since an Inter-American Development Bank loan will provide needed funds (US$500,000) so that the program can process loans. Operational costs of DESAP will be about US$80,000 per year. It is expected that 200 micro-businesses will receive loans, management assistance and appropriate education per year, generating employment at the same rate as in the past. Therefore, it is projected that 275 new jobs will be created each year at an investment of US$293 per job.[3] The virtual equality of these investment figures indicates that micro-businesses do, in fact, accomplish social gains in terms of employment generation and increased personal incomes at a low cost.

*E. Funding*

The operational expenses of the Department of Community Development are covered internally with Bank funds. Although the university students are not considered as Bank employees, they receive a monthly stipend of about US$150. Monthly costs are approximately US$2,500.

The Bank has lent approximately US$1,000,000 to micro-businessmen. At the 9 percent yearly interest on the loans, income is US$90,000, US$30,000 more than what the Bank would be receiving had it invested the same amount of money in the government bonds at 6 percent. This income covers the yearly operational costs of the Department of Community Development. The cost to the Bank is the real loss of purchasing power of the lent money due to the 12 percent inflation rate. However, this loss would have occurred with the government bonds as well. In effect, the program has reached a breakeven point as far as costs are concerned.

*F. Future Plans*

The Banco del Pacífico is one of the few private sector financial organizations engaged in a popular lending project and it is in the only private commercial bank with such a project that was visited in Latin America. It is satisfied with its involvement and is committed to continuing with the program.

Given the Bank's interest in the project, CENAPIA (Centro Nacional de Promoción de la Pequeña Industria y Artesanía), the World Bank and the Banco del Pacífico are going to channel US$15 million into the program with the objective of increasing project coverage.

CENAPIA will provide needed courses to the micro-entrepreneurs. Such education would represent an important complement to the Bank's line of credit; whereas a rapid line of credit may solve the short-term needs of micro-businesses in general, courses in business administration are necessary to encourage long-term growth and efficiency. The micro-entrepreneurs already know how to produce, since many have learned their trades as workers in other businesses, but rarely does one find a micro-business owner who has already implemeted administrative controls. As a result, available resources are not maximized: inventories are larger than necessary, the turnover on receivables is too slow, machinery is allowed to lie idle, etc. The sum of these separate administrative inefficiencies causes a shortage of readily available working capital, consequently promoting the belief that a loan is needed. Furthermore, when a loan is actually requested, micro-businesspeople tend to concentrate more on securing a specific sum of money (generally more than is really needed) instead of defining a specific project first and then calculating how much money should be requested to finance that

[3] This result is based on projections assuming an aggressive expansion of the DESAP program and, therefore, it should not be considered to be conclusive at this point in time.

specific growth project. It is for these reasons that effective and appropriate courses in business administration should be offered to the owners of these businesses to complement their skills in production.

Finally, the Banco del Pacífico will coordinate the construction of a micro-industrial park and commercial center. This is the major thrust of the loan and represents an interesting experiment in micro-business development. Since a serious problem of these entrepreneurs is insufficient space for their shops, the results of this effort will be meaningful in terms of effective strategies for promoting long-term micro-business development.

## IV. PROJECT ASSESSMENT

The Bank has implemented a flexible and inexpensive line of credit for micro-businesses. It has decided to forego evaluations of results and other internal control mechanisms to reduce costs. The fact that the businesspeople make their repayments in two large tranches per year translates into a direct saving for the Bank in terms of paperwork and manpower. As is natural for a bank, their primary control mechanism is the list of late payments.

The people involved in the project are highly motivated, a characteristic of all the good projects that were observed. Yet a highly qualified expert in small businesses is not required to direct the program; it is simple enough to be staffed with non-experts and part-time university students. This is important in considering the replicability of this project.

An important consideration for loan programs is that there is a certain "seriousness" when involved with a private bank. In this sense, programs involved with lending money to micro-businesses should strive to develop an image of a bank, treating the loan recipients as responsible individuals with certain binding and contractual obligations. The relationship with the micro-entrepreneurs is both businesslike and courteous in the Banco del Pacífico programs. Control over late payments is strict and insistent, removing any paternalism from project implementation. This is vital if psychological growth is to occur within the individual, which should be one of the offshoots of a successful loan program. The individual eventually becomes less timid and more self-confident.

An interesting lesson that can be learned from the Bank's program is that micro-entrepreneurs can successfully handle loans with payments due every six months. Traditional thought has held that since micro-producers at this level of business activity are not accustomed to saving or planning beyond the coming weeks, a liquidity problem would result every six months as they were forced to halt production to secure funds to fulfill their obligations with the Bank. The Banco del Pacífico has apparently proven that these individuals are capable of a sufficient degree of financial planning and that monthly or quarterly payback schedules are not necessary. This differs from the poorer PISCES population, with which more regular payments are recommended.

As far as this poorer population is concerned, it is apparent that the financial needs of micro-businesses are greater than the more general PISCES target group: average loan values for these shops are US$1,000 instead of US$100. Therefore, it could be argued that micro-business owners are "too wealthy" and should not be considered as potential beneficiaries of a PISCES project. If future beneficiaries are to be defined in terms of loan values, there can be no counter-argument to the above criticism. If, however, the focus of the PISCES experiment is defined in broader terms, for example the economic and social development of the urban poor, micro-businesses may not only be included but could eventually come to play an important role in the global effort.

Employment generation and increasing family incomes must have a high priority in urban development programs. Community progress will never occur without a sufficient amount of work and money for the individuals within that community.

Programs which provide very small loans with little management training and which concentrate complementary efforts on community development tasks may set the stage for more successful entrepreneurs to "graduate" into programs such as the Banco del Pacífico and DESAP projects once their level of business and awareness of specific business needs are more developed.

In conclusion, it may be advisable to think of the PISCES population as those urban workers who are too small, poor and powerless to be reached by the great majority of existing government and private programs. The type and amount of assistance may vary according to the level of PISCES population considered. Micro-businesses, representing one level along this spectrum, clearly fit into this broader category.

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**CHAPTER 5: ASEPADE**

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## I. PROJECT IDENTIFICATION

A. Name and Address of Project:
Asesores para el Desarrollo (ASEPADE)
Edificio La Armeria, 2nd floor; Barrio Abajo
Tegucigalpa, Honduras
Telephone: 22-7120

B. Name of ASEPADE Director: Juan Ramon Martinez

C. Other key people interviewed at ASEPADE:
—Celina Kawas Castillo
—Nora Midence de Martinez (Director of the market project)
—Belinda Galvaz de Midence (formerly in charge of market loans)
—Enrique Midence (currently in charge of market loans)
—Narda Melendez F. (in charge of education)

D. Other key people interviewed:
—at Catholic Relief Services:
—Thomas Mulhearn—Director
—Carole Antoricich—Assistant
—at the Honduran Federation of Savings and Loan Cooperatives:
—Analdo Castillo Guiza—General Manager
—at the Savings and Loan Cooperative of the San Isidro market:
—Solomon Taues—Manager

E. Dates interviews held: April 4-6 and Sept. 5-14, 1979

F. Researched and written by: William R. Tucker

## II. THE SETTING

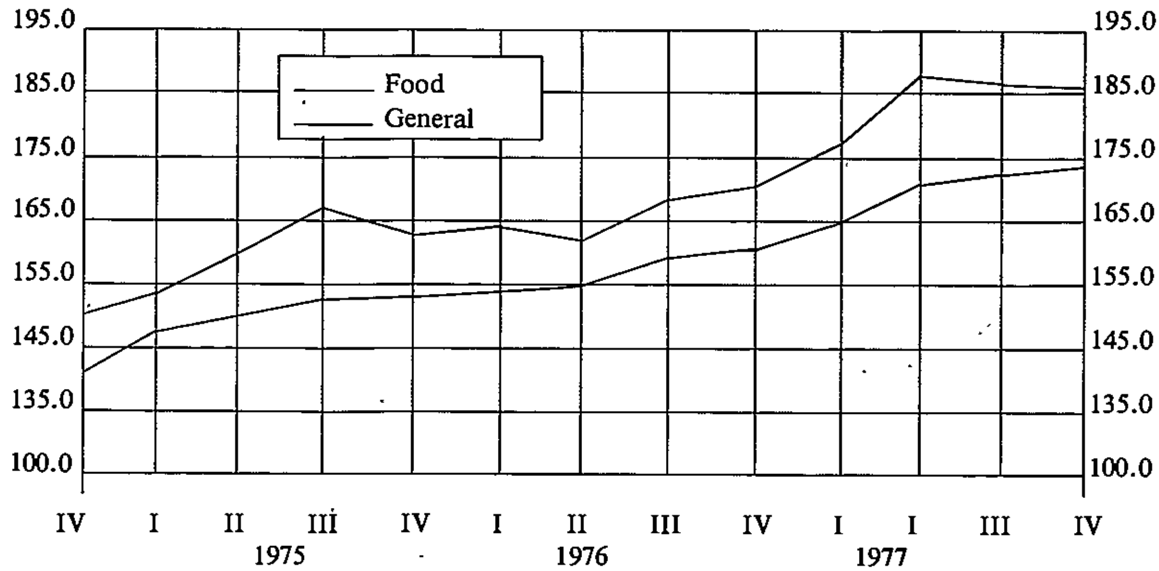
Honduras, with approximately 70 percent of its 3,000,000 inhabitants living in rural areas, depends to a great extent on its agricultural production. Although this sector constitutes only 32 percent of GNP, it provides jobs to 60 percent of the economically active population and generates 65 percent of the country's exports, of which coffee, bananas and meat are the primary products.

Although the current government has had a certain degree of success with agrarian reform, there is still a high level of rural-to-urban migration: the two principal cities of Honduras, Tegucigalpa and San Pedro Sula, have experienced increases in population of 73 percent and 86 percent respectively, between 1950 and 1974. In addition to the inevitable unemployment (for the country as a whole it is estimated at 9 percent, but is calculated at 37.5 percent if under-employed farm workers are included), prices have been rising, especially for foodstuffs. (See Chart 1, below.)

The economic situation may deteriorate further, since it is estimated that in 1983, a full 38 percent of the country's projected 4,000,000 inhabitants will be city dwellers. Yet with the cities growing so rapidly, why do the women who sell fruits and vegetables in their market stalls unanimously agree that sales are less than a year ago?

The answer is complex. While the price elasticity of foodstuffs is low, many Hondurans feel they have less purchasing power than before, the general opinion being that even though Honduras is a

**Chart 1. Consumer Price Index, Honduras, 1975-77**




*Source: Honduras en Cifras, 1975-1977,* Banco Central de Honduras

wealthier country than it was five years ago, there is a problem of income distribution that concentrates most of the money in too few hands.

As real incomes decrease, many Hondurans may suffer a lowering in the nutritional quality of their meals as they opt for less costly items. Any decrease in the purchase of fruits and vegetables detrimentally affects the market women, who already find themselves on the fringes of subsistence living.

ASEPADE (Asesores para el Desarrollo—Consultants for Development) is an organization currently working with fruit and vegetable vendors in three of Tegucigalpa's seven markets. The rest of this document will explore program goals, methodologies, and results, and will attempt to portray the socioeconomic situation of the market women themselves.

## III. PROJECT DESCRIPTION

### A. *The Organization*

ASEPADE, a private non-profit organization, initiated activities in May of 1977 with the following five objectives:

1) to contribute to the national development process by gaining an understanding of problems that may interfere with the application of public or private sector developmental initiatives;
2) to contribute to the development of Honduran professionals within the field of development in an attempt to lessen the dependency on international human resources;
3) to offer services of advising, investigation and education to governmental and private agencies which may require them;
4) to support the growth of grass-roots organizations through technical assistance; and
5) to serve as an information bank of social works being carried out in the country through the use of publications.

Although the organization has received several small contracts for specific studies and special educational courses, the primary effort to date has been expended on the market women's program. The global objective of this project is to improve the socio-economic situation of the market vendors. This objective will be achieved through three programs:

1) a loan fund that will liberate the vendors from exploitative money lenders;
2) courses to educate the vendors in social as well as economic matters; and

3) establishing a cooperative of market vendors so that they may eventually control the loan fund and organize the courses themselves.

To initiate the project, ASEPADE carried out a preliminary study of the market vendors in November of 1977 to determine their needs. On the basis of this study, a donation of US$7,575 was requested from Catholic Relief Services, which was subsequently approved. This donation provided funds for (1) a loan fund—US$1,250; (2) initial installation expenses—US$25; and (3) salaries for one year—US$6,300. The project began in September of 1978 with one social worker responsible for the educational aspects of the program, one loan administrator, one accountant working one quarter-time and one project promotor half-time.

B. *The Markets*

Tegucigalpa, the capital of Honduras, currently has eight markets, seven of which are for retailers (San Isidro, Las Americas, Colon, San Pablo, El Kennedy, Mamechepa and San Miguel) and one for wholesalers (El Mayorero). The Municipality of Tegucigalpa is constructing two new markets (El Belen and El Alvarez) and planning the expansion of the wholesalers' market. The privately owned market (Las Americas) is currently increasing its capacity. There are approximately 2,500 stalls of all types in these markets and the current construction will create an additional 3,000 stalls. Most of these are planned to be occupied by the 690 vendors who illegally occupy Colon park and the estimated 1,100 vendors who currently sell on the streets.

Although it is clear that the importance of these markets is growing, there may be some doubt as to the efficacy of expanding the wholesalers' market. Some trucks carrying produce from the countryside bypass the wholesalers' market and drive directly to the retailers' market. This benefits some vendors since they are able to purchase the fruits and vegetables directly from the drivers at lower prices than from the wholesalers, but in larger quantities than before and on a cash basis. However, the disadvantage is that the reduced number of trucks arriving at the wholesalers' market provides an opportunity for the monopolization of a product by one or a small group of wholesalers allowing higher sales prices to be charged to the market women who must continue to shop at the wholesale market, since they do not have sufficient working capital to buy directly from the trucks. This activity is apparently much more pronounced in San Pedro Sula than in Tegucigalpa. The expansion of the wholesalers' market would include prohibiting trucks from driving directly to the retailers' markets. All produce would be directed to El Mayorero, thereby theoretically providing a sufficient amount of competition among the truckers to eliminate profiteering. At least in the case of Tegucigalpa, it is possible that the good intention behind the plan would actually cause higher costs for the vendors since there would no longer be a way to eliminate one link in the long distributional chain and possibilities of price collusion among the wholesalers would be more pronounced.

The following are normal components of the distribution chain for fruits and vegetables:

1) a buyer in the country purchases the produce from many small farmers;
2) a truck owner buys the produce from this person and drives it to the Mayorero market;
3) a wholesaler buys from the truck owner and delivers the produce to the Las Americas market;
4) the fruit and vegetable vendors with stalls buy from the wholesalers; and
5) the street vendors buy from the vendors at the fixed stalls.

Consumers buy from either the vendors with fixed stalls or from those in the streets.

There are, however, several alternatives to the above flow of goods:

1) Vendors with money, time and contacts have purchased directly from the small farmers. This, however, is rare.
2) As mentioned earlier, some trucks by-pass the Mayorero market. To take advantage of lower prices, a vendor must have enough money to buy in larger quantities and must be willing to arrive at the market at 3:00 a.m. and wait for the trucks to arrive. The surplus produce they buy is re-sold to other vendors, meaning that the vendor herself becomes a wholesaler as well as a retailer.

A final point about the channels of distribution is that the wholesalers who sell to the vendors in the morning are willing to finance—at a cost—the purchase of vegetables until that afternoon to give the vendors a chance to sell them. There is no real risk involved for the wholesaler since the women who buy on credit have been buying every day for several years.

Within the entire market environment, there exists a clear economic hierarchy, the wealthiest being those selling clothing and shoes. Following these come the vendors of meat, then poultry and eggs, then grains, and finally the vendors of fruits and vegetables. This final category can be divided into three sub-categories: those who have fixed and legal stalls, those with fixed but illegal stalls (the Colon market), and those who illegally sell on the streets. This last group represents the poorest of all.

Money lenders operate throughout the markets. They supposedly have official cards authorizing their activities, however they apparently do not maintain the stated maximum interest rates and therefore have no legal recourse if a loan recipient does not pay. The relationships between the money lenders and the vendors are complex. The vendors cannot do business without sufficient working capital but many realize that the money lenders' interest rates are too high. Nevertheless, in the case of an emergency, or simply to buy school supplies, the money lender is available with ready cash.

The lenders walk through the markets, some every afternoon and others less regularly, collecting from the vendors and looking for new customers. The loans are generally for 20 to 30 days, with interest rates as high as 20 percent per loan. The loan is paid back on a daily basis and a new loan is received once the previous one has been fully repaid. If for any reason a vendor cannot make the full daily payment, no fine is collected immediately. Although ASEPADE believes that the money lenders collect late interest payments at the end of each lending period if there have been delays, the vendors who were asked did not agree. However, since the money lenders maintain all records, it is possible that the vendors do not realize that they pay late-payment fines. What is important is that no fine is charged on the day that a vendor cannot fulfill his or her financial obligation. Finally, no collateral is demanded by the lenders when dealing with people requiring greater amounts of money.

A further source of funds, at least for the vendors at the San Isidro market, is the savings and loan cooperative. At present, there are approximately 390 active members, mostly owners of larger stalls selling shoes and clothing. The loan limit is US$6,000 for six months at a 2 percent per month interest rate. (Commercial interest rates are 1.3 percent per month.) Loans to members are a function of the savings deposited in the cooperative.

Although at least one participant in the ASEPADE program also receives loans from the cooperative, which must be repaid on a daily basis, most loans have monthly payments due to the larger amounts of money. The recuperation rate on the loans has been very low in the past and there is a certain degree of mistrust of the cooperative, especially after a fire in the market supposedly burned all of the money of the members.

There is yet another source of funds for the members of the San Isidro market, the Association of Vendors. (Similar organizations in the other markets are called *"Patronatos"*.) All but 40 vendors are active members of the Association, which has an elected president, vice-president, treasurer and a collector. US$0.50 is charged each month for the treasury, of which 10 percent goes to the collector. The objective of the Association is simply to work for the good of the affiliates. If the market needs repairing, for example, the president talks to the corresponding authorities. Financial assistance is provided for emergencies such as the death of a vendor—e.g., money may be provided for the funeral. There are three assemblies each year, during which the market is closed. The vitality of the Association is a good indicator of the possibility of success in achieving the goal of a cooperative within the ASEPADE program, since it is clear that the vendors can organize themselves if they understand the benefits of doing so.

## C. *The Beneficiaries*

The ASEPADE program initiated activities in the Colon, Las Americas and San Isidro markets. In these three markets there is a total of 1,524 vendors of all types, 455 of which are vendors of fruits and vegetables. The program selected 50 from these 455 and the first loan was approved in September of 1978. A socio-economic study was done, which sheds some light on these initial beneficiaries:

1) *Age*. Sixty-five percent of the women are between 36 and 55 years old, which demonstrates that there are few young vendors (5 percent less than 25 years old). This is probably due to the fact that a) it is a hereditary occupation since in the majority of cases the mothers were also vendors, and b) the market environment tends to be hostile towards younger vendors.

2) *Schooling*. Thirty-nine percent of the vendors never went to school and as such are illiterate. This is significant in that it affects the design of appropriate educational materials.

3) *Family situation*. Nineteen percent of the women are legally married and another 50 percent are involved in what might be considered common law marriage; 29 percent are single mothers and 2 percent are widows. Although there appears to be a low incidence of women completely on their own, the reality is that in the majority of cases the man leaves the woman with the responsibility of maintaining the household. Sixty-eight percent of the women have more than three children. Twenty-nine percent have more than six.

4) *Housing*. Sixty-six percent of the vendors do not pay rent, which means that they either live with relatives or in a house that has been temporarily lent to them. Few own houses. Sixty-eight percent of the houses in which they live have electricity, 53 percent have drinking water and only 29 percent of the houses have sanitary services. There is an average of seven people in each house, which is high given the size of the houses.

5) *Work*. Seventy-four percent have worked as vendors for more than five years; 50 percent for more than ten. The following brief examples outline an average day, every day of the week, of two market women:

> Francisca starts preparing food at 3:00 in the morning for a group of people who pay her US$85 a month for the service. She finishes at 5:00 and quickly cleans the house before leaving for the market, arriving there at 6:00. She buys the produce she plans to sell that day and arrives at her stall by 6:30, paying the person who carried the fruits and vegetables for her. She will leave the market between 3:00 and 4:00 that afternoon. Once she arrives at home, she spends two more hours cooking for the group, finishing at 6:00. Between 6:00 and 9:00, she handwashes and irons clothes for the family. Sometimes, to bring in a little more money, she will make clothes.

> Rosa Candida gets up at 2:00 a.m. and organizes the meals for her family. She arrives at the market by 3:30 to take advantage of the lower prices available from the trucks bypassing the wholesalers' market. By 6:30 every morning, she delivers a large order of fruits and vegetables to the Social Security Institute, where they will pay her the same afternoon. She returns to the market by 7:00 to buy produce for her stall, where she will stay until 6:00 p.m.

Other women will arrive at the market by 7:00 and stay till 5:00, but it is clear that in most cases their responsibilities make harsh demands on their time and energy.

### D. *The Economic Characteristics of the Stalls*

It is difficult to grasp fully the daily flow of cash through the market stalls because vendors maintain no written records, there is a confusing blend of cash and credit purchases, and vendors may be reluctant to share their knowledge of financial dealings with outsiders. Nevertheless, an attempt was made to understand in better detail the nature of the business of selling fruits and vegetables in the market places.

A simple questionnaire was prepared which was implemented over a period of 15 days to a group of 9 market vendors selected at random from the ASEPADE list of beneficiaries. The objective was to ascertain daily sales and expenditures so that the true financial situation of the participants could be determined.[1]

Problems of accuracy naturally arose given that all of the information collected, albeit on a daily basis, was from the memories of the vendors. Daily sales, for example, were calculated by counting the cash-on-hand at the end of every interview, adding up all expenses for the day, including purchases, and subtracting the cash-on-hand from the previous day.[2] Therefore an omission in expenditures would deflate the sales figure. Nevertheless, the study was useful not so much for providing precise data concerning the flows of the vendors, but for the insight that was gained and certain trends that were uncovered.

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[1] Refer to Annex 1 for a summary of these data.

[2] Daily Sales = Cash-on-hand + Total Expenditures − Yesterday's Cash-On-Hand

Approximately 85 percent of all outflow is for business-related expenses, the remainder being utilized for consumption, medical charges, clothing, school items, etc. Of the total business-related expenses for the 9 vendors (US$5,123 for 15 days), only US$25 (0.5%) relates to interest payments for loans received. Consequently, it is apparent that lowering the interest rates charged to the vendors by the moneylenders will not significantly increase available working capital. In fact, according to the study, it would be surprising if the women actually noticed the change since the moneylender rates would still only represent 2 percent of their total expenditures if they were to continue borrowing money from them. It also seems possible that statements regarding the excessive exploitation by the moneylenders may be exaggerated as far as these market vendors are concerned.[3] However, the point should be made that given the total estimated living expenses of the vendors (US$148/month, including US$62 for housing), a decrease in interest costs from 20 percent to 5 percent per loan translates directly into a 10 percent increase in disposable income. Although it is clear that benefits do result from lower interest rates, it should not be concluded that a credit program whose sole purpose is to give an interest break will significantly financially benefit the market vendors of Tegucigalpa.

Since 66 percent of the working capital needs of the vendors is used for the purchase of foodstuffs, substantial economic benefits can accrue if the purchase prices can be lowered: i.e., a 2 percent decrease in the prices that the vendors must pay for the fruits and vegetables would cause a slightly better improvement in disposable incomes, on the average, than the reduction of interest rates; a 10 percent decrease in the purchase price would cause incomes to rise 59 percent![4] It is for this reason that ASEPADE's efforts toward creating a cooperative are so important: if the vendors were to purchase the foodstuffs together in larger quantities, some discounts should result. A certain amount of education would also be required here since vendors with loans occasionally continue to buy produce on credit, which raises their costs.

A final point concerning the economic characteristics of the stalls pertains to the non-productive time of the vendors, which is abundant during the day as they wait for buyers. An effort should be made to teach the vendors secondary activities that they could do during the day. For example, many vendors mentioned sewing as an alternative. Since selling fruits and vegetables is a passive activity, the women could actively use their time making clothes for eventual sale or personal use. Once again, this could be an important function of the cooperative. Reducing costs is often a good strategy for increasing profits. Branching into other remunerated activities and markets is another, and, in this case, probably more effective strategy for bringing about an improvement in the economic conditions of the beneficiaries.

## E. *Project Activities*

1) *Program Development*

ASEPADE started the project in the following manner:

a) Initial inventory—the three markets of San Isidro, Colon and Las Americas were visited and an inventory of existing stalls was made.
b) Initial explanation of project—each fruit and vegetable vendor was approached and given an explanation of the future program. Although there was a certain degree of suspicion at first, this was overcome as project goals were detailed.
c) Motivation—further individual interviews were held and a preliminary questionnaire was completed which collected basic data (name, address, number of children, literacy, etc.). A general meeting took place during which the future program was described in greater detail to the group.

These first three stages took one person one month to complete.

d) Selection—it was projected that available funds would be adequate for 50 women who would each receive a loan of US$25. Therefore, a selection of final beneficiaries was made using the following criteria:

[3] This point is made cautiously. A major part of the damage done by the moneylenders may be in the area of collection of guarantees (which are often the deeds to houses) in the case of default. Interest rates would be less important. More study is needed on their activities before removal of censure is contemplated.

[4] Current disposable incomes average US$148/month. Current expenditures for foodstuffs average US$875/month. A 10% decrease in expenditures ($87.50) raises income to US$235.50/month.

i) low income;
ii) have a fixed stall (the government is trying to remove the street vendors);
iii) be a seller of fruits and vegetables (which represents the poorest of the market);
iv) live in the capital;
v) have an identification card;
vi) preferably be an unwed mother;
vii) have worked in the market for at least one year; and
viii) at least 50 percent should be literate (due to the objective of developing a self-run organization).

Once the 50 beneficiaries were selected, a loan document was signed by each one and the revolving credit fund was put into operation.

Since ASEPADE now has more than a year's experience with the vendors, the following process is used to select new beneficiaries:

i) Initial contact—very little effort needs to be spent on promotion since ASEPADE is known in the markets and the vendors make the first contact.
ii) Recommendations—current beneficiaries are asked whether or not they feel the new candidate should be allowed to enter into the program.
iii) Investigation—if the recommendations are positive, the new candidate is asked to complete a questionnaire, the data on which will be studied during the selection.
iv) Selection—the selection is less rigid than it was at the start of the program. Vendors of grains may now be included, an address within Tegucigalpa is no longer a requirement, a vendor need not occupy a stall for a full year before being admitted, and the 50 percent literacy requirement has been waived since too many women would be rejected. ASEPADE feels that there are already enough literate women in the program who would be capable of running a cooperative. Finally, priority is given to those vendors working with money lenders.

The above selection process takes approximately three days, after which the applicant receives her first loan.

2) *Program Mechanisms*

a) The loan fund—loans of US$25 were provided to the initial 50 beneficiaries. The payback period was ten days at 2 percent (as compared to 20 percent charged by the moneylenders for 20 to 30 days). Collections are made on a daily basis (including Saturdays and Sundays), with payments being noted on a card that the vendor keeps and the corresponding card that

**Table 1**

**ASEPADE Lending, October 1978—August 1979**

| Month | Approved Loans | Beneficiaries | Amount Lent | Amount Collected |
|---|---|---|---|---|
| October 1978 | 92 | 50 | US$2,950 | US$2,041 |
| November | 72 | 50 | 2,962 | 2,886 |
| December | 60 | 41 | 3,480 | 2,674 |
| January 1979 | 58 | 39 | 2,817 | 2,809 |
| February | 46 | 37 | 2,615 | 2,744 |
| March | 55 | 38 | 3,137 | 2,937 |
| April | 40 | 35 | 2,350 | 2,538 |
| May | 41 | 39 | 2,850 | 2,874 |
| June | 73 | 51 | 4,537 | 4,384 |
| July | 83 | 54 | 5,789 | 5,859 |
| August | 68 | 55 | 5,450 | 5,318 |

*Source:* ASEPADE records.

the ASEPADE collector maintains. Once a loan is repaid, the vendor automatically receives a new loan the following day. Table 1 presents the flow of funds since the start of the program.

The declining number of approved loans and beneficiaries is due to a problem of liquidity of the loan fund: it was quickly found that $25 did not satisfy the needs of the vendors, forcing them to request additional funds from the moneylenders. Loans were made to the better-paying vendors, further tightening the liquidity of the project. Exacerbating the problem is the fact that December is a time of high sales, since Christmas shoppers buy more expensive fruit (pears, grapes and apples). The women need larger loans in order to purchase these fruits. To partially alleviate this problem, ASEPADE (1) lent US$1,000 to the loan fund (of which $500 has been repaid); (2) eliminated all women who were not as prompt in their payments (taking, for example, 25 days instead of 20), thus allowing higher, more effective loans to be approved for the remaining women; and (3) raised, following the approval of the beneficiaries, the interest rate from 2 percent to 5 percent per loan in order to increase the loan fund at a faster rate. As of August 31, 1979, US$1,650.07 had been collected in interest, more than doubling the initial loan fund. As a result, there is greater flexibility in the approval of loans.

The current loan guidelines are as follows: the first three loans to a new beneficiary are for US$25 for ten days each. If the recipient repays the loans without excessive delay, she receives three loans of US$50 for 15 days, followed by three loans of US$75 for 15 or 20 days until she reaches the loan ceiling (currently US$150 for 20 days). Again, these are guidelines since the need for flexibility is recognized. Nevertheless, the payback period is set at 20 days to ensure that loan recipients utilize the money as working capital instead of for some purpose outside of their business activity.

A second source of loans based on savings is being initiated through the ASEPADE program. The program beneficiaries are being encouraged to save a nominal sum on a daily basis in two savings plans: one plan disburses the savings at Christmas, a time when the women need extra money not only for their stalls but also for their families, and another allowing loans to be granted with a maximum value of twice the total amount saved by the individual in that plan. These loans need not be used as working capital for the stalls. The savings program began in September, 1979 and no loans have been granted so far under this system.

Finally, ASEPADE has begun to experiment with different types of working capital loans: to provide a sufficient amount of funds to one vendor who wished to expand her stall, a 30-day loan of US$100 was granted which would be paid back in one installment at the end of the loan period. The experiment was successful.

b) Educational courses—ASEPADE believes that an effective strategy for improving the quality of life of the vendors must include appropriate educational courses with the dual objective of (1) teaching them how to increase their income from the stalls, and (2) informing them of the advantages of cooperation, thus preparing them for the future cooperative. The initial mechanism for giving the courses involved group meetings with all 50 beneficiaries. Six-hour courses dealing with project information, human relations, sales, proper handling of fruits and vegetables, etc. were given. Technical assistance was provided by the Family Welfare Institute of Honduras whenever needed.

Given the difficulties of educating large groups of people with little previous schooling experience, it was decided to work with smaller groups of vendors for each course, thus increasing effectiveness as well as costs.

A further educational mechanism is a bulletin printed each month by ASEPADE for the market women. Interest has been so high that ASEPADE must print extra bulletins for those people who do not yet participate in the program. Illiterate beneficiaries ask their neighbors to read their copy out loud. It is through this bulletin that ASEPADE hopes to further educate the vendors in such areas as nutrition, health and cooperativism.

ASEPADE is aware of the difficulties in providing courses to the market women. Attention span, interest, ability to be away from their stalls and simply being tired are important factors affecting success. Appropriate materials also represent a problem since outside experts who teach certain areas often do not fully comprehend the economic situation of the listeners and therefore suggest inappropriate solutions to their problems. Nevertheless, ASEPADE is confident that relevant educational materials can be combined with an effective presentation to produce courses that will benefit the market women.

c) The formation of a cooperative—Since creating an autonomous organization is an important goal of ASEPADE, they involve the women in the decision making process to a great extent. A committee of four beneficiaries is responsible for suggesting improvements in the program and informing the remaining vendors of new efforts to be discussed with the entire group. The idea of the savings plans, for example, came from one of the vendors during a committee meeting. Since a seat on the committee is a temporary one, all the women may have an opportunity to serve.

Some of the educational courses emphasize the practical benefits of cooperation: the course on family budgeting, for example, will encourage the vendors to prepare their own lunches instead of buying them made at the markets. A group of four or five women would share a small stove. Savings would result, thereby providing an effective demonstration of the benefits of working together. Other possibilities include pooling funds each morning, enabling produce to be purchased in larger quantities at discount prices. It is through such practical demonstrations, in conjunction with more generalized lessons each month in the bulletin and during courses, that ASEPADE plans to promote and eventually develop a cooperative.

F. *Future Plans*

ASEPADE plans to increase the number of beneficiaries in Tegucigalpa from 50 to 100, simultaneously expanding into the Kennedy and San Pablo markets. A two-year grant of approximately US$50,000 is being solicited from the Inter-American Foundation (IAF), which, if approved, will provide the necessary funds to finance the expansion. In addition to implementing the same loan procedures as are currently used. the following educational areas will be taught:

1) the work of the vendors: analysis of how their work is structured and how to improve its management;
2) human and social development: human dignity, motivation, self-evaluation, search for alternatives;
3) home economics: family budgeting, distribution, nutrition, health, hygiene, preparation and conservation of foodstuffs; and
4) organizations: cooperatives, unions, other forms of associations.

Since (1) the levels of illiteracy limit the effectiveness of working in large groups, (2) periodic and systematic meetings are difficult to organize given the type of work involved, and (3) the type of education considered by ASEPADE to be most needed (i.e. cost control, sales, investment strategies) calls for individual assistance, educational methodologies will be modified. Additional social promoters will be hired who will be responsible for working with 20 to 25 vendors, both in groups during courses as well as individually.

Finally, the number of beneficiaries receiving loans will increase to 150 during the second year of the possible IAF-funded expansion, and a pre-cooperative of the vendors will be formed. It is projected that in three years the program will be self-sustaining with a legally recognized and fully functioning cooperative.

With respect to replicating the program in other areas of Honduras, ASEPADE eventually hopes to set up a program in San Pedro Sula and perhaps other cities. As a prerequisite of replication, however, a study of local conditions must be carried out to determine those special characteristics of a region that would have an effect on the project. For example, it was mentioned earlier in this chapter that intermediaries in San Pedro Sula played a much more prominent role in setting excessively high prices for produce; a program in that city might conceivably concentrate more on searching for alternatives within the distribution channels as a mechanism for improving the economic situation of the vendors.

## IV. ORGANIZATIONAL ASSESSMENT

*Workflow*

The staff of two are busy, but efficiency could be improved. The accounting system, for example, has a substantial degree of double work: one suggestion made will save the person in charge of loans 40 percent of his time per week without affecting system reliability. Such duplication can be expensive.

*Sense of Commitment*

Very high. Pay is low and the hours are very long, including Saturdays and three hours on Sunday for the loan collector. Also, commitment must be present in order to enter the markets every day. Incidentally, a change in staff was made after management decided a loan collector was too paternalistic towards the vendors. This has been the only turnover.

*Degree of Autonomy*

The most important decision that is made is whether a new woman should be admitted into the program. Although the director looks at the questionnaire, the social promoter makes the decision.

*Staff*

The promoter and loan coordinator have the equivalent of a high school education with a specialized field of study. The promoter is a black un-wed mother and the loan coordinator is a white 28-year old semi-accountant. Given the simplicity of the tasks to be carried out on a daily basis it is clear that such a program does not require high skill levels for staff or very great competency in a technical field.

*Empathy*

There is good rapport between the promoter and the vendors. The loan collector is new and has not developed much of a rapport with the beneficiaries.

*Weakness*

The main weakness of the ASEPADE program lies in its educational initiatives. They apparently do not take their own advice about listening to the vendors since the ideas that come from them do not mesh with the pre-conceived notions of what should be taught. Although health, personal hygiene, nutrition, etc., are important and necessary topics to be taught, after talking with the vendors I came to the conclusion that those topics dealing with the economics of the stalls are both inappropriate and unwanted. First, the business aspects of the stalls do not really lend themselves to scientific management procedures: any semi-structured accounting system, for example, is pointless because the women will never do it; furthermore, they already control their accounts with their apron pockets, as explained in the text above. But the main argument against such courses is the fact that the vendors never mention them when asked what they would like to learn: cooking, sewing, flower arranging. They want to learn these things in order to have an additional source of income.[5] Improving the management of the stalls will increase their incomes only marginally unless they start selling to restaurants (an ASEPADE idea). The vendors are looking for secondary activities as alternatives and ASEPADE appears not to be responding. Given the amount of non-productive time the vendors have available as they wait for customers, stimulating secondary activities appears to be a viable way to generate additional incomes, possibly having substantial impact on their earnings.

*Project Results*

The training courses which are so important to ASEPADE have not actually changed anything. After 12 months, one would expect that the stalls of the beneficiaries would be better organized and have a nicer presentation than the others, but this is not the case. Money has, however, been saved due to the lower interest rates on the loans. Some of the women must be participating in the program precisely because of the lower rates, rather than for other more "social" motivation, and ASEPADE accepts this. Finally, the formation of cooperatives will most likely present serious organizational difficulties since the idea was initially raised by ASEPADE. If anything has been learned about cooperatives, it is that cooperatives created and managed by outside individuals have already taken the first step toward eventual failure. While ASEPADE is attempting to provide practical demonstrations of the benefits of cooperation in order to stimulate interest in the cooperative, this may not be enough. Most of the women are happy with the program and put up with the occasional meetings (17 out of 55 participated in the last one). But when I asked one women who had been with the project since the beginning if she was wealthier than a year ago, she said, quite simply, "No". She may have remained at the same level due to ASEPADE's original policy of providing loans of equal amounts of $25. Now, however, new guidelines periodically increase the loan amounts and payback period giving more possibilities for business expansion.

*Lessons Learned*

Lessons can be learned from the ASEPADE experience about effective strategies for initiating this type of program, as well as mistakes which should be avoided: They are:

A. *Credit*

1. Supplier credit is made available to the vendors through wholesalers on the basis of trust developed over years of dealing together. Repayment is not a problem. "Appraisal-based" credit mechanisms are in evidence in varying forms in several different programs described in the Latin American case studies as well as several of the Asia cases in this volume. Personal relationships and basic trust between clients and creditors can be utilized successfully by credit programs dealing with very poor people who lack normally accepted collateral.
2. Working capital loans are important in order for vendors to reduce their costs by decreasing interest payments. However, greater cost reductions can be obtained through pooling capital by the vendors in some form of group—possibly a buyers cooperative—allowing vendors to get quantity discounts or bypassing wholesalers and other expensive supplier credit sources.
3. Credit which is providing sufficient benefits to the entrepreneur will become self-promoting, eventually having the effect of reducing agency costs for this service or enabling the agency to expand its coverage.
4. Very rapid analysis of loans to the very poor can be done quickly and processing need not be a lengthy task or expensive to administer.
5. Repayment of loans to vendors (and by extension to informal sector entrepreneurs in general) initially should be calculated on a daily (or other short term) basis reflecting the flow of income to the vendors so that they will know exactly how much must be saved in the short term in order to pay off the loans punctually.

[5] This finding coincides with those of the training survey done in San Salvador by PRIDECO/FEDECCREDITO. See report in this volume, Part III, Chapter 2.

B. *Savings Mobilization for Low-Income People*

Through credit programs, once people have cash flexibility and are not strapped just to make daily purchases for their businesses or food, they seem to be prone to entering savings and loan programs. Once they can see their way clear to saving a small portion of their earnings they will be more willing to listen to ideas such as formalized savings-based credit.

C. *Training*

1. Market vendors may prefer other types of education rather than management or administrative training since often their principal desires are to learn other skills as complements to their vending activities which will generate additional income.
2. Training for largely illiterate people should be done in small groups. If large groups are used many people will not assimilate the materials.

D. *Personnel*

Staff does not have to be made up of highly trained people to carry out the daily functions of the organization. What is needed most is a basic level of competency compiled with a good level of committment and interest in the task to be done.

E. *Mistakes*

Mistakes which can be made in this type of program according to project staff include:

1) a paternalistic attitude;
2) too much confidence in the vendors;
3) a feeling of superiority on the part of the program staff; and
4) the creation of overly high expectations, since the project is not going to solve all of their problems.

F. *Strategies*

Key strategies for working with the vendors, outside of the all-important preliminary study, can all be focused into one: the necessity to include the beneficiaries in the decision-making process from day one so that they may develop the idea that the project belongs to them. If this is achieved, the same beneficiaries will dictate those operational strategies which will have the most success. From the organization's point of view, it is a philosophy of actively responding to needs as constantly defined by the beneficiaries.

A comprehensive program would also include strategies to help the vendors branch off into other economic activities. A doubt must be entertained concerning the global efficacy of providing assistance to a *select group of vendors* in a relatively small market: benefits for some may cause damage to others. An example is a special loan given to a beneficiary enabling her to buy a certain vegetable in larger quantities, later reselling it to other vendors and, finally, to the public. In effect, she has eliminated, for herself, one link in the distributional chain since she has become an intermediary. This should increase her income, but if we assume that the total level of sales of that vegetable in that market is relatively constant over time, her increased purchases could cause decreased purchases of another vendor who had previously placed herself in the position of an intermediary. The global benefit would be zero.

Although such negative impacts have not been detected, they represent a potential problem for the design of future programs. It is for this reason that secondary economic activities should be emphasized in such programs for market vendors. Time is plentiful, and any substantial increase in income of one group in the marketplace due to favorable lending programs could conceivably cause detrimental results to other groups within the same marketplace. The fact that sales are stagnant in Tegucigalpa is a further argument for branching into other activities.

Excessive concentration on the business of buying and selling foodstuffs may be inappropriate if increasing disposable incomes is a project objective. No matter how efficiently the vendors learn to run their business, they will still have plenty of usable time on their hands.

In conclusion, the project is a good one which could be replicated. Major adaptation would involve gearing the education program more directly towards the well-thought-out desires of the beneficiaries and a rethinking of the cooperative idea, an idea with positive motives and potential, but which deserves a great deal of care to implement effectively.

## DAILY CASH FLOW SUMMARY OF VENDORS OVER 15-DAY PERIODS FOR EACH VENDOR*

| Line Item \ Vendor | A | B | C | D | E | F | G | H | I | % | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|
| I. Beginning Balance | 3.00 | 8.40 | 53.50 | 14.15 | 5.10 | 10.00 | 80.00 | 15.40 | 51.70 | | 241.25 |
| II. Income | 1,384.71 | 1,501.17 | 1,399.11 | 978.81 | 685.68 | 3,748.25 | 668.62 | 849.50 | 1,904.07 | | 12,119.92 |
| Sales | 1,169.71 | 1,281.17 | 1,199.11 | 758.81 | 485.68 | 2,491.25 | 668.62 | 649.50 | 1,553.41 | | 10,257.26 |
| Loans ASEPADE | 100.00 | 200.00 | 200.00 | 200.00 | 200.00 | 200.00 | 200.00 | 200.00 | 200.00 | | 1,500.00 |
| Other Income | 115.00 | 20.00 | — | 20.00 | — | 57.00 | — | — | 150.66 | | 362.66 |
| III. Cash on hand | 1,387.71 | 1,509.57 | 1,452.61 | 992.96 | 690.78 | 2,758.25 | 748.62 | 864.90 | 1,955.77 | | 12,361.17 |
| IV. Expenditures | 1,369.63 | 1,501.90 | 1,437.33 | 973.45 | 673.25 | 2,722.25 | 710.49 | 808.40 | 1,804.37 | | 12,000.07 |
| Raw Materials | 1,083.66 | 731.00 | 961.55 | 590.00 | 259.40 | 2,073.00 | 411.00 | 502.85 | 1,284.73 | 65.8 | 7,846.19 |
| Rent of Stall | 9.60 | 9.60 | 28.00 | 10.80 | 7.65 | 41.40 | 7.20 | 8.10 | 41.00 | 1.3 | 163.35 |
| Transportation | 31.00 | 25.00 | 30.95 | 15.65 | 12.90 | 35.65 | 12.40 | 7.10 | 41.10 | 1.7 | 211.75 |
| Packaging | 6.50 | 15.20 | 16.32 | 11.70 | 18.20 | 13.75 | 7.50 | 10.40 | 20.59 | 0.1 | 1,120.16 |
| Payments to ASEPADE | 85.32 | 158.00 | 222.00 | 178.50 | 178.50 | 158.00 | 158.00 | 169.00 | 242.00 | 12.9 | 517.00 |
| Other loan payments | — | 264.00 | 98.00 | 10.00 | 60.00 | 64.00 | — | 21.00 | — | 4.3 | 922.46 |
| Food | 96.30 | 139.64 | 37.72 | 101.20 | 106.00 | 183.05 | 65.50 | 55.40 | 137.65 | 7.7 | 36.60 |
| Medical Expenses | 3.10 | .90 | 1.90 | .70 | 1.00 | 7.00 | — | 12.00 | 10.00 | .003 | 36.60 |
| Clothes | 43.00 | 112.00 | 1.00 | 7.00 | — | 56.00 | 14.00 | — | — | 1.9 | 233.00 |
| School Materials | 3.80 | .60 | .27 | 5.00 | — | — | — | — | — | .001 | 9.67 |
| Other expenditures | 3.35 | 24.46 | 37.62 | 32.90 | 16.60 | 81.90 | 34.89 | 12.55 | 24.30 | 2.2 | 268.57 |
| Savings | 5.00 | 21.50 | 2.00 | 10.00 | 13.00 | 8.50 | — | 10.00 | 2.00 | .005 | 72.00 |

*Figures in Lempiras—Lps. 2.00 = $US 1.00

## CHAPTER 6: INEDES

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## I. PROJECT IDENTIFICATION

A. Name and Address of Project:
   1) Instituto Ecuatoriano de Desarrollo Social (INEDES)
      (Ecuadorian Social Development Institute)
      Calle Andalucia 424 and Cordero
      Quito, Ecuador
      Telephone: 528-457

B. Name of INEDES Director: Dra. Isabel Robalina

C. Other People Interviewed:
   Teodoro Peña - Director of the Department of Urban Promotion
   Alejandro Corral - Area Head for Cuenca
   José Castillo - Area Head for Loja
   Frederico Muñoz - Promoter in Cuenca
   Máximo Castro - Promoter in Loja
   Fernando Verdesoto - Promoter in Quito and Ibarra

D. Dates Interviews Held: October 1-11, 1979

E. Report Researched and Written by: William R. Tucker

## II. PROJECT DESCRIPTION

### A. *The Organization*

INEDES was founded in 1964 as a service to help "popular groups" and worker movements integrate themselves more fully into the socio-economic mainstream of Ecuador. It is a private and partially political foundation which proposes to:

1) promote systematic studies that apply Christian principles to the process of development, and organize, with the same objective, work groups and educational courses;
2) train professionals in the formulation of demonstrative, integral models which will have a multiplier effect in social as well as economic terms; and
3) offer solutions to national problems through the execution and assistance of specific development projects.

The Department of Urban Promotion (DPU) of INEDES is responsible for promoting the specific development projects, and as such, was the focus of the present study. The DPU concentrates on the promotion of popular organizations, the most common form of which is the cooperative. INEDES concludes that there are two primary reasons for choosing this type of organization:

1) socially, the members are involved in the decision-making process and are therefore responsible for their own success or failure, as well as the fact that non-economic problems can be solved by people working together; and
2) economically, people pooling their resources can accomplish more than if they choose to continue independently, especially in the case of housing cooperatives. Furthermore, in the case of production cooperatives, the workers own the capital stock of the enterprise: ownership sharing models benefit the worker since his capital grows if the business develops successfully.

The DPU views participation, mutual help and self-run management as being the key elements in the achievement of efficiency and stability in a community organization. Participation is vital since it involves the beneficiaries in the definition of their problems and true necessities, as well as the determination of objectives, methodologies, etc. The mechanism of mutual help incorporates each member in the formation of the organization and in collective actions, be they land preparation for the construction of houses or the participation in a course. Finally, self-management implies the ability of the organization to choose, manage, organize and evaluate those projects which will benefit the community.

The history of the DPU, however, demonstrates that problems with methodologies may arise even if the above three elements are incorporated into the over-all strategy. In 1971, the Department was created under the name of the Secretariat of Urban Services (SSU). At that time, INEDES decided not to concentrate on housing cooperatives since they tended to dissolve once their objective had been accomplished. Since INEDES preferred programs with a higher degree of continuity, the SSU focused its efforts on production groups. Eight existing groups were selected—2 lottery sellers' groups, 3 brick production groups, 1 craft group, and 1 food cooperative. The number of members in these groups varied between 6 and 15. The principal mechanism for assisting the organizations was in the form of soft loans, disbursed in advance of any concrete investment plans and in the spirit of "good faith." Contractual relationships were not formed.

It is necessary to emphasize the approach used by the SSU with the beneficiaries: the image created was one of an institution with certain political objectives that wanted to "help." The loan recipients gradually disappeared, and US$50,000 was lost.

INEDES realized that a more businesslike image was preferable when operating with credit mechanisms, and that it was necessary to develop among the clients the awareness that repayment is expected and will be enforced. Also, when working with money, contractual relationships are better than acting under good faith.

The second stage of the DPU's development started in 1974, during which time the SSU was terminated and the Ecuadorian Center for Urban Services (CESU) was created. Although CESU was initiated by INEDES, it operated independently. Several key elements in the methodology of the SSU were changed in an attempt to improve results:

1) larger production groups were selected:
2) a more formal relationship with the beneficiaries was established; and
3) business mechanisms were utilized to determine project feasibility before loans were provided.

During this period, offices in Loja, Cuenca and Riobamba were set up. Viable production groups were located through the Ecuadorian Center for Classist Organizations (CEDOC), a political entity which promotes cooperative development. Courses on cooperativism and start-up loans were provided by CESU to seven cooperatives initially. A total of US$80,000 was lent to these organizations, the majority of which was subsequently repaid.

Although a higher degree of success was achieved with CESU than with the SSU, problems still developed. CEDOC was still actively involved with the groups it had formed, and an ideological dispute with CEDOC seriously affected the cooperatives, consequently disrupting CESU's programs. Furthermore, CESU was apparently unable to locate additional viable production groups willing to accept technical assistance and education along with the loans as a requirement of CESU support. Since CESU would not provide funds without the complementary services, an impasse was reached. It was at this point in 1976 that the Department of Urban Promotion (DPU) was established.

Given the paucity of appropriate production groups to work with, the DPU decided to form its own groups. Due to the difficulties of motivating people to produce communally, it decided to form housing cooperatives as a first step, since the lack of adequate housing was the deepest felt need of the projected beneficiaries. Cooperatives would be formed, individuals' savings would be channeled into one fund, land would eventually be bought, the members would work together preparing the land—thereby experiencing the practical benefits of cooperation—and shops would be created to provide cement blocks, pipes, doors, etc., for the construction. These shops would serve the triple purpose of (1) reducing construction costs, since the members themselves would work there; (2) providing stable employment for the underemployed; and (3) developing the basis for more formal production groups once the construction of the houses was completed.

Although the DPU still works with three production groups from the CESU era, primary emphasis is placed on the housing programs as mechanisms for generating employment through the development of new production groups. Area offices are currently operating in Loja and Cuenca/Azogues in the south, and Quito, which also covers Ibarra, in the north.

A general description of the steps in the DPU metholology follows, as well as a review of the current situation in each area, involving in some cases both housing cooperatives and older production groups.

## B. *The Programs*

1) The Housing Cooperatives

To initiate a cooperative, a specific sector (e.g., people who work in the markets, municipality workers, etc.) or a particular geographic area is selected and a study is carried out using a questionnaire. In addition to collecting base data about the target group, the objective of the study is to personally explain the idea of creating a housing cooperative and to invite the interested people to a general meeting.

The general meeting is used to explain in greater detail the purpose of forming the cooperative, describe the steps through which the members will pass before receiving a house, and list the advantages that participation in the cooperative can offer, the primary one being housing at reduced cost due to buying large blocks of land instead of small parcels, and member participation in land preparation and construction in production groups.

If interest is generated, a pre-cooperative is formed during which provisional directors are elected and the specific steps through which a housing cooperative must pass are explained. The first action involves the initial capitalization of the cooperative: the amount to be provided by each member is decided by the Assembly itself. Appropriate monthly payments are also decided on to complete the savings plan. It is explained to the members that a high level of savings will enable them to purchase the necessary land for the construction in a shorter period of time.

The following step involves the legalization of the cooperative with the corresponding public institutions. Official directors are elected as are the necessary committees. Monthly meetings are held to inform the members about the level of savings, as well as to maintain motivation and cohesion within the group.

After a number of years of saving (depending on the level of monthly deposits—i.e., on the relative poverty of the members) a tract of land is purchased. If the land has not been developed, the cooperative organizes the work, with technical assistance from INEDES, that can be done by the members working together on weekends. The land must first be leveled, streets marked and the area divided into individual lots. Sewage systems, electricity and water are then brought in. At this stage, shops for producing the cement pipes and blocks are started, thus providing work for underemployed members as well as reducing material costs for the construction. (Cement blocks produced by the production groups will be 40 percent cheaper.) Woodworking shops are added to provide doors, window-frames, staircases, etc., for the houses. Finally, the construction begins.

Once the houses are completed, a raffle is held to determine who will occupy which house. From the beginning, no one knows which lot will eventually belong to him.

Finally a community center is built to hold cooperative meetings so that other problems that can be solved best by working together can be discussed. As was previously mentioned, the DPU's strategy for creating the housing cooperative is to form cohesive groups so that other problems, specifically under- and unemployment, can be solved. The fact that the members have houses is secondary, so the community center is vital to maintain continuity. It is at this point also that the shops are initially set up to bolster the construction and begin to operate as independent economic entities within a cooperative framework.

It is obvious that the longest period of time occurs during the savings stage. Approximately two months elapse between the initial contact with the projected beneficiaries and the naming of the directors. From that point on, years pass before the cooperative has enough money to purchase land.

2) Area Situations

The city of Loja, in the south of Ecuador, with its 35,000 inhabitants, has an estimated 300 jobs in the industrial sector. The city lives off of commercial activities. INEDES has operated in Loja since 1975 and has had the following experiences with five housing cooperatives, all initiated in 1975:

a) The "Clodoveo Jaramillo of Loja" Cooperative, run by a priest, was formed with the help of INEDES and eventually included a total of 800 members, varying in profession from high school instructors to doormen. INEDES organized occasional courses on cooperativism and provided contacts and assistance for the legalization processes. In 1978, the cooperative decided to buy land. INEDES objected to the purchase since there was insufficient land for all the members. The purchase was made anyway and 200 of the poorest members, along with the DPU in Loja, broke contact with the cooperative.

b) The "La Inmaculada" Cooperative, run by a nun, was formed with the help of INEDES and eventually included a total of 400 members, primarily market vendors. At the nun's suggestion, the cooperative decided in 1977 to buy land. The DPU opposed the idea since the land was far from the city in a hilly area, making construction more difficult. The cooperative persisted, the DPU broke contacts, and the purchase was executed in 1978. The cooperative currently wants to work with INEDES once more, primarily for the contacts the DPU has with the new regional director of the Ecuadorian Housing Bank. INEDES is willing to help.

The following three cooperatives will combine resources to buy a large tract of land currently being developed by the Municipality:

c) The "La Zarza" Cooperative started when the DPU in Loja heard of the local government's plans to develop a large tract of land. The approximately 15 families that lived on the land at that point in time were contacted by INEDES and encouraged to form the cooperative. In about three months' time, a total of 180 members were participating in the savings program, mostly street vendors. Monthly savings started at US$6 were later increased to US$8. Current savings amount to US$44,000.

d) The "Yaguarzongo" Cooperative was formed by market vendors with DPU assistance. The savings rate is the same as that for the above cooperative, with the total balance currently US$35,000.

e) The final cooperative formed with DPU assistance is called the "United Front of Municipal Workers and Employees". There are 70 members and the savings rate is the same as the above two cooperatives. To date, they have saved a total of US$28,000.

It is the DPU's plan to increase total savings at the three cooperatives so that they will be in a position to buy the entire tract of land once the municipality has finished developing it. Unfortunately, although the old municipal government was in favor of the INEDES plan, nothing was made official. The new administration wants to sell the land in parcels to the highest bidder once the infrastructure is in place, effectively removing the cooperatives as potential buyers. INEDES plans to oppose this strategy and even mentions the possibility of seizure. It is unlikely, however, that events will reach this stage since INEDES has a key contact with the newly elected government: the current Vice-President has worked in the Department of Investigations of INEDES for the past several years. It is reasonable to assume that a more pacific solution to the problem in Loja will be found.

The city of Cuenca is larger than Loja, with a greater concentration of industry and also a university. The DPU works with the following community organizations:

a) FUNVIPIC (Program of Popular Housing of the Church of Cuenca) is involved in the program of the San Vicente de Paul Conference. Its objective is to promote popular housing. INEDES is currently organizing the construction of 39 houses for an equal number of families that live in a single, dilapidated house in the center of the city. Entire families live in small rooms. Money from the church has been used to purchase land and build new houses for those people.

   The houses are being built by outside labor and it is estimated that the final purchase price will be around US$5,600. Half of the people will not be able to affort the US$56 monthly payment, so subsidies will have to be found. It is hoped that wealthy individuals can be located who will finance the difference between what the occupant can pay and the real monthly payment. A further difficulty with this program is that the people do not want to move from their present locations. They generally pay no rent and they are close to their work places, i.e. the streets of the center of the city. They have not actually participated in the program to any great extent, the drive coming from INEDES and the members of the San Vicente de Paul Conference, who own the run-down house in the center of the city.

b) The Cooperative Ribera de Tomebamba was formed in 1975 with the help of INEDES. There are currently 158 members, with a maximum capacity of 200. There used to be a greater number of members, but in June of 1979, the cooperative decided to capitalize at a faster rate and called for a lump-sum payment of US$200 from each member. Thirty percent of the members were unable to make the payment and dropped out of the cooperative. In September of 1979, land at a favorable price became available and the cooperative decided to buy. Unfortunately, a second "extraordinary" payment of US$200 was required, forcing still more of the poorest members out of the cooperative. Individuals who wished to join the cooperative at that time were asked to deposit the two extraordinary payments as an entrance fee. The purchased land cost

US$160,000—US$48,000 was the initial deposit, with US$32,000 coming due in December 1979. A further US$80,000 was due in December 1980. Construction should begin in 1981. FUNVIPIC will finance, at favorable interest rates (7 percent vs. the commercial 12 percent), the difference between what the cooperative needs to pay its obligations and what can be saved by its members. INEDES has provided assistance in organizing the cooperatives, gave an 8-hour course to 50 members on cooperativism in March of 1979, and is also in charge of collecting the monthly payments from the members.

c) The Housing Cooperative of Chacabamba is located in Azogues, a town thirty minutes outside of Cuenca. There are currently 60 members, of which 40 are active and are expected to be the immediate beneficiaries of houses. Each member deposits US$8.00/month in the cooperative, which is little more than a symbolic gesture given the outside help the cooperative has received: e.g., Promoción Humana has provided machinery to make cement blocks and a soft loan of approximately US$14,000 for building workshops at the construction site; MISERIOR of Germany will donate about US$16,000 for buying tools; the Church will donate the land for the shops and will sell its land to the cooperative for building the houses. (Although work on the land has already begun, no price has been set.) Also, a tractor was borrowed from the local government to level the land for the houses. The members of this cooperative are poorer than those of other cooperatives assisted by INEDES in Cuenca—several are micro-businessmen, many weave hats for a living, some are widows with children. The president and manager of the cooperative are both businessmen (shoemaker and carpenter) and see the possibility of using their houses as guarantees to secure working capital loans. Work is currently underway to build the workshops that will provide cement pipes and blocks, doors, windowframes, staircases, etc., for the construction. Once the houses are completed, it is expected that the Church will purchase all of the production from the workshops for future construction projects.

The final housing cooperative having contacts with INEDES is located in Ibarra in the north of Ecuador and is called the "July 12" Cooperative. It has been in existence for two and a half years, has approximately 300 members, has recently purchased land for US$100,000 at a very favorable price, and is preparing to set up a cement-block workshop as a prelude to the construction.

The contractual relationship that INEDES maintains with these cooperatives typically stipulates payments to be made by the Cooperatives to the DPU for services performed. In the case of the Cooperative "July 12", INEDES is charging US$12,000 for negotiating the purchase of the land, planning the construction and organizing its completion.

3) The Production Cooperatives

As mentioned earlier, the Department of Urban Promotion also works with three production cooperatives, two in Loja and one in Cuenca. Although these organizations were not formed by INEDES, the DPU entered into contracts with them to provide certain technical assistance and courses to strengthen the cooperative spirit.

The largest and most successful cooperative is called CIACO (Industrial Complex of Cooperative Association—Complejo Industrial de Asociación Cooperativa), which produces high quality furniture for offices and homes. The work of INEDES with CIACO can be broken down into the following categories:

a) promotional activities, consisting of courses about cooperativism and human relations[1];
b) technical education, coordinated through the Ecuadorian Service of Professional Education (SECAP), which involved the use of wood-working experts to improve the quality of the furniture;
c) direct technical assistance by INEDES personnel in the areas of accounting and financial planning; and
d) financial assistance. US$40,000 was secured through the Cooperative Bank in 1978, US$120,000 was donated by the Inter-American Foundation three years ago, and INEDES itself lent US$12,000 to the members of the cooperative to help capitalize the organization.[2]

[1] The History and Origins of Cooperativism; The Principles and Goals of Cooperativism; Ways of Organizing and Running Cooperatives; Information about the Legal Aspects of Cooperatives; Information Concerning the Rights and Duties of the Members of Cooperatives.

[2] The loan was made directly to the members so that the balance sheet of the cooperative would show only the increase in capital, thereby improving the debt to equity ratio, enabling the cooperative to secure larger loans for working capital.

It should be mentioned that CIACO was about to fold before receiving these funds: product quality was poor, members were leaving the cooperative to work in the competing, privately owned furniture factory, there was no working capital and few markets. One of the principal problems was that the cooperative was being managed as a social entity as opposed to an economic enterprise with social ends. The organizational structure was strengthened with the influx of capital, and the cooperative started to grow. At the start of the process there were 30 members and 70 non-member workers; there are currently 67 members and 97 non-member workers, and markets are expanding..

The production cooperatives in Loja are much smaller than CIACO. The Industrial Tailor Cooperative of Loja (CICOL) has been in existence for fourteen years. The current manager has been with the cooperative for five years, which is the longest of any of the present members. INEDES started working with the cooperative in 1975 when it had 18 members. INEDES gave courses on cooperativism, organized and became responsible for the accounting, and helped secure loans for the cooperative through the Ecuadorian Development Bank. (US$38,000 was obtained in 1977. The bank is currently trying to get a second loan for almost $10,000 for two years at 10 percent). A major problem of the cooperative was that people would become members, learn the job, and then leave, either to work independently or as employees of others. INEDES has contracted a specialist for the cooperative to improve quality and increase sales throughout Ecuador. There are currently 16 members of the cooperative.

The second production cooperative is called the San Jose Cooperative and is made up of 16 carpenters. When INEDES began working with the organization, there were problems with the quality of the furniture, so INEDES contracted on a short-term basis a specialist to train the members. Also, courses on cooperativism were given. INEDES plans on using this cooperative for providing some of the doors, windowframes and staircases for the housing program in Loja. According to the manager of the cooperative, the main problem of the enterprise now is the lack of working capital for buying wood and additional machinery. INEDES, to date, has no plans to provide financial assistance to the cooperative.

While INEDES is not a financial intermediary *per se*, it does occasionally lend funds under the title of start-up loans (*creditos de arranque*). These funds can be used for either initiating new businesses, such as the workshops for the housing programs, or for initiating expansion programs. Since none of the housing cooperatives has yet reached the stage where the workshops are functioning, all funds under this activity have been channeled into existing organizations. These funds were previously mentioned in the case of CIACO; the two production cooperatives in Loja have also recieved loans from INEDES (US$12,000 each). The DPU hopes to obtain funds for the start-up loan facility not only for the workshops which should be coming on stream during the next 12-18 months in several areas, but also for financing the start-up costs of Popular Supply Centers (CAPS), which will be discussed under "Future Plans", below.

### C. *The Beneficiaries*

Two socio-economic studies, both carried out by the regional office in Cuenca, provide an overall view of the beneficiaries of the INEDES programs. The subject of the first study, the FUNVIPIC program, will benefit 39 out of a group of 54 families. Although 15 families have removed themselves from the program (some purchased other houses), all data referring to the beneficiaries are based on a population total of 54. The average family size of this particular group is six people, ranging from month-old babies to people over 73 year old. Of the total sample (314 people), 124 (39 percent) are students and 38 (12 percent) are young children. The remaining people are employed as follows:

| | | |
|---|---|---|
| Domestic Help | 40 | 12.7% |
| Private Employees | 37 | 11.8% |
| Small Business and Handicrafts | 52 | 16.6%. |
| Public Employees | 9 | 2.9% |
| Teachers | 8 | 2.5% |
| Day Wage Earners | 6 | 1.9% |
| TOTAL | 152 | 48.4% |

Average income is approximately US$116 per month (minimum wage = US$120/month). No rent is paid other than US$2.00 per month for electricity; the use of water, bathrooms, electricity and washstands is collective; the house they share is falling down.

The cooperative CIACO—the second program surveyed—has promoted the creation of a housing pre-cooperative for 21 of its members, and a socio-economic analysis of these beneficiaries sheds some light on the overall situation of the other workers. There is a total of 95 people affected by this project, 55 of whom have some economic activity (18 are students):

| | |
|---|---|
| Members of CIACO | 21 |
| Domestic Helpers | 14 |
| Private Employees | 7 |
| Manual Laborers | 4 |
| Miscellaneous | 9 |

Average family income is US$224/month, of which 80 percent is earned by the CIACO members. Sixteen of the 21 families live in rented rooms with collective use of bathrooms, water and electricity. The beneficiaries would be able to pay an average of US$30.00 per month for their own housing.

D. *Funding*

The Department of Urban Promotion maintains regional offices in Cuenca and Loja, with the head office located in Quito. Each regional office spends US$1,600 per month, including salaries, rent and miscellaneous expenses. Payments to outside consultants approximate US$28,000 per year. Expenses increase 20 percent per year, with the latest total expenses reaching US$90,000. INEDES eventually wants to have a total of six regional offices throughout Ecuador and projects an annual budget of US$175,000, once all are functioning. This is expected by the end of 1980.

Income for the DPU has come primarily from the beneficiaries (25 percent) and from MISERIOR of Germany (75 percent), donations from which commenced in 1974. There are no fixed rates as far as charges for services to the beneficiaries are concerned: a study is carried out to determine local rates charged by the professionals of the area and a discount is given due to the social nature of the project. In addition to yearly donations by MISERIOR, the organization "Bread for the World" has donated US$95,000.

Future financing plans include the creation of a financial institution whose profits will be utilized for funding development programs of the DPU. Start-up capital will be raised locally and a positive return will be expected by the investors. The bank will operate in a competitive manner, and the profits that are expected to be earned will be sufficient (it is hoped) to liberate INEDES from the necessity of requesting donations from international organizations on a yearly basis.

E. *Future Plans*

In addition to expanding its offices into other regions of the country, the Department of Urban Promotion of INEDES has plans to develop Popular Supply Centers (*Centros de Abastecimiento Popular*—CAPS) in six cities which will lessen the costs of such necessities as foodstuffs, clothes, school materials, as well as certain industrial raw materials by purchasing the goods directly from the producers and selling them to the final consumer. Start-up loans will be required to finance the initial inventories, but it is expected that the CAPS will be self-financing once established.

Secondly, INEDES has a certain degree of interest in promoting individual businesspeople who have not integrated themselves into cooperative ventures. Since INEDES readily recognizes the difficulties of organizing effective community enterprises, it is open to the possibility of either incorporating into the DPU or promoting a new and separate foundation (which is more likely), which will work with these independent entrepreneurs.

F. *Lessons Learned*

1) Cooperative housing projects may not have the intended long term effect of generating sustained collaboration or cooperative effort in other business or socially related areas. INEDES hous-

ing cooperatives in the early 1970's tended to dissolve once the houses were delivered to the clients despite efforts to develop strong client participation through mutual assistance and self-run management schemes. The attempt to use the housing cooperatives for other social and economic ends is a worthwhile objective, but often very difficult to manage and a very slow process.

2) Employment generation goals are difficult to reach through the housing cooperative vehicle. Production groups capable of providing needed construction materials—window and door frames, for instance—take a great deal of time to bring into operation, since they are initially totally dependent on the beginning of housing construction for their markets. They also seem to require substantial outside subsidies for start-up. This type of project does not affect incomes or employment for many people, especially in the short run. Other projects show that when production units are set up to supply an assured market they often simply cannot compete on the outside as is often planned when that market dries up.

3) Since participant-financed housing projects take so long to get off the ground, many of the poorest people may find it necessary to leave the cooperative. This is usually because the costs of land and construction during the initial savings period of two or three years escalate to a degree that is seldom anticipated and compensated for in the cooperatives' saving schedules. At worst, a cooperative may not be able to buy the land (much less construct the housing units) without requiring additional large payments from the members to complete the fund.

4) Housing projects have a tendency to try to relocate the poor from center city to more peripheral locations. (This is often politically motivated.) But great care must be taken before relocation plans are implemented. While real concern may exist for improving the housing conditions of the poor, relocation is often not a popular idea with the informal sector entrepreneurs or center city employees, who may suffer substantial additional transportation, food, and time costs due to their remoteness from markets and commercial centers, and/or workplaces.

As seen in other cases, cooperative housing projects often incorporate plans for small enterprise development in their overall objectives. Housing designs may even include workspace for small businesses. Still, relocation may change the whole business ecology of these small economic activities, as indicated in the preceding paragraph.

5) The production cooperatives mentioned in this study tend to be ideologically oriented toward a specific political group. Projects which rely on political alliances may be in danger of collapse due to shifting political currents and changes in political leadership, especially with regard to educational assistance, support for cooperativism, and so forth. In the case where one organization forms cooperatives and another gives credit and technical assistance, it is important to be sure that there are no serious under-the-surface philosophical or ideological points of contention with regard to the non-credit assistance. Otherwise the project is in danger of folding due to ideological disputes. Those most hurt in the process are usually the cooperative members.

6) Any organization, whether socially or economically oriented, must enforce a strict discipline with regard to repayment if it is to run a successful credit project and if it wishes to ensure that clients understand that the money lent is a loan and not a grant. Soft loans provided to production, service cooperatives, and in general to any individual or organization, strictly on "good faith" and with no investment criteria or contractual arrangements between the parties, are likely to fail. INEDES created an image in the early 1970's of an organization with good intentions which wanted to "help". But along with that image it apparently gave the impression that it was not going to insist on loan repayment. The result, as could be expected, was that a large sum of money was lost.

7) Finally, as money from international donors gets tighter, small private organizations will have to begin to think more about ways of financing their project operations through self-sustaining activities. Heavy subsidies simply cannot be relied on to support economic development activities of the magnitude needed to have any substantial impact.

## III. CONCLUSIONS

INEDES is first and foremost an organization dedicated to the promotion of popular organizations. Since much of the new government's political platform was based on the futher development of these production groups, and since the new Vice-President of the country, and his economic advisor, were both INEDES employees before assuming political office, it can be assumed that the current direction of INEDES will continue even more aggressively than before.

The primary objective of the Department of Urban Promotion within INEDES is employment generation. The principal mechanism it has chosen to utilize in order to achieve its objective is the formation of housing cooperatives, the solidification of the members through a lengthy savings program and through courses on cooperativism, and finally the creation of production groups which will supply building materials during the construction of the houses and then sell these materials in the open marketplace once the construction is completed. The housing cooperatives with which INEDES currently works were all formed in 1975 and have yet to reach the stage where new jobs have been created in the production groups. More importantly, it has yet to be proven that the production groups will be competitive, viable enterprises once the construction for the housing cooperative ceases. It should not be forgotten that INEDES stopped working with housing cooperatives in 1971 due to the fact that the groups dissolved once their objective—i.e., housing—was achieved.

Nevertheless, INEDES is committed to improving the conditions of the vast marginal populations of Ecuador through the use of cooperative associations. It believes that the integration of individuals in community efforts is the only effective means for people to obtain the necessary economic and political leverage to improve their standard of living. Although the housing cooperatives imply long delays in the achievement of objectives, once they are finally reached, the beneficiaries have the ability to make real advances. The DPU is aware of the pitfalls in this type of effort. Modifications of strategies will be made until the most effective methods of achieving project goals are found.

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# Part IV
# Case Studies: The Philippines

by Jason Brown
Partnership for Productivity

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## CASE STUDIES: THE PHILIPPINES

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## DEDICATION

This volume is dedicated to my sometimes-mentor Edgar (Ted) Owens, without whose vision and support it would not have been possible. Ted is one of those few people in development who can both think broadly about development issues, and at the same time identify how such broad-based thoughts can be translated into practice.


## ACKNOWLEDGEMENTS

Whatever practical utility this study has must be credited most directly to Mrs. Lilia Oblepias-Ramos, Executive Director of Manila Community Services, Inc. (MCSI) and Ms. Jovita Culaton, Program Co-ordinator of Metro-Manila Barangay Industries Development Group (MMBIDG) of the Ministry of Industry. Their unstinting and creative support, which is continuing into the next phase of project development and monitoring have, more than any other factor, made this study possible.

In addition, Mr. Noel Astillero did much of the initial research for Chapter I and contributed many ideas for Chapter IV. He also helped to co-ordinate the information collection effort. His assistance was exceedingly helpful.

Mr. Jeff Ashe spent two weeks with me in the field during the initial data-gathering phase, and is principally responsible for the research design and preparation of the questionnaires. Jeff was, in addition, a staunch support throughout the project with both research issues and more general project questions. His steady hand kept us all on track. Ms. Susan Sawyer played a key role in editing this material. In the process, she added substantively to the project.

Principal credit for conceptualizing the PISCES project, of which this study is a part, and for fighting the many battles necessary both with us and with the bureaucracy of AID to keep it on track, must be given to Dr. Michael Farbman. He was always willing to listen to our numerous problems, and, we fear, gave us more time than he could well spare. Without his flexibility and common sense, we would have been unable to complete our work.

I also would like to express my appreciation to the staff, volunteers, and friends of MCSI and MMBIDP, whose remarkable dedication and spirit made and continues to make my association with them so rewarding.

Finally, the views and interpretations in this publication are those of the author and should not be attributed to the Agency for International Development or to any individual acting in their behalf.

J.B.

## INTRODUCTION

The purpose of this study is to examine various methodologies designed to assist informal sector entrepreneurs in urban or semi-urban areas, and to identify those elements which make some programs more effective than others. Here, the informal sector is defined as non-farm self-employment where investment in facility, equipment, and stock is less than ₱4,000 ($500). All of the programs reported in this volume attempt to assist such very small-scale enterprises.

The research was conducted in 1979. The case studies focused on Manila because of the wide range of programs available for study. However, the findings have broad applicability throughout the Philippines.

To make this work as useful as possible, the case studies were carried out by the staff of the organizations studied to the extent possible. The principal authors of each case study are indicated in the individual studies.

Each case study involved a team of interviewers who carried out in-depth interviews with selected program beneficiaries. Due to time and resource constraints, interviews were conducted with those beneficiaries who were most easily accessible and who were probably somewhat more successful. Therefore, the income of the beneficiaries interviewed is probably higher than the average.

In addition to conducting interviews with beneficiaries, in-depth interviews were conducted with project staff, community volunteers and others outside the program who know of its operation.

A draft report was prepared which was circulated to the groups studied for comments. Their comments were included in the final report. It was hoped that in this way significant omissions or distortions in the data could be avoided.

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# CHAPTER I

## BACKGROUND: PHILIPPINE POVERTY AND UNDERDEVELOPMENT

Poverty is a "pervasive phenomenon" in the Philippines. A comprehensive review of studies of poverty in the Philippines[1] suggests that while techniques on the measurement of poverty differ, the majority of Filipinos are poor, and poverty is likely to become more widespread as the population of the Philippines grows.[2] In the last national census (1975), the population was estimated to be 42 million. With an annual growth rate of 2.8 percent, population will nearly double in the next twenty years. Although there has been a slight decline in the rate of population growth since 1960, the Census Office estimates that the population will reach 83 million by the year 2000. Such an enormous increase in population will put greater pressure on the sources and amounts of income available to the poor.[3]

### *Income and Income Distribution*

Both absolute levels of income and relative size of income compared to a distribution of income among the population interact as indices of poverty. Absolute levels of income become measures of poverty when compared to *some threshold*—i.e., the minimum income needed to purchase basic, required goods and services. Relative income becomes a measure of poverty as it becomes a *standard* for describing the degree of access which a person has to increasingly scarce and expensive goods and services. It is best described by figures on *income distribution,* which show the relative position of an income within the whole range of possible incomes within a country.

In the Philippines, income distribution has not improved since 1961. The inequality measured by the Gini coefficient has remained near the value of .50 (a departure from the ideal equality curve).[4] By international standards, this is higher than Taiwan (.32), India (.46), South Korea (.40), or Pakistan (.33), and of Sweden (.39), and the U.S. (.34).[5] The income growth rate of the lowest 40 percent in the Philippines has been slower than Sri Lanka, Taiwan or Colombia.[6] This means that the poor in the Philippines remain relatively more poor than in any of the countries mentioned; that a greater gap exists between the poor and the rich. Thus, the extent of poverty in the Philippines is a phenomenon which is linked as much to great inequalities in the distribution of income as to low absolute levels of income.

[1] Aba, Ricardo G. *et al, Philippine Poverty Studies in the 70's,* Institute of Philippine Culture, Ateneo de Manila University, Quezon City, 1978.

[2] Social Research Associates, "An Analytical Description of the Poor Majority" (second draft, mimeo), USAID Mission in Manila, May 1977.

[3] Aba, Ricardo G. *et al, op. cit.,* p. iii.

[4] M. Mangahas, "Income Inequality in the Phillippines: A Decomposition Analysis," Joint JERC-CAMS Seminar on Income Distribution, Employment and Economic Development in South-east and East Asia (Tokyo: JERC, 1974). The Gini coefficient varies between 0.0 and 1.0, with 0.0 connoting identical incomes for all units in the distribution, and 1.0 implying *all* income received by just one member of the distribution.

[5] Tan, Editha A., "Income Distribution in the Philippines," Chapter 7 of J. Encarnacion and others, *Philippine Economic Problems in Perspective,* U.P. Institute of Economic Development and Research, Quezon City, 1976, p. 221.

[6] Ahluwalia, M.S., "Income Inequality: Some Dimensions of the Problem," in H. Chenery and others, *Redistribution With Growth,* Oxford University Press, London, 1974, p. 11.

Table 1 shows the pattern of income distribution of the Philippines from 1961 to 1975.

**Table 1.**
**Percent of Family Income Received by Each Quintile**

| | 1961 | 1965 | 1971 | 1975P |
|---|---|---|---|---|
| Lowest 20 percent | 4.2 | 3.5 | 3.6 | 5.5 |
| Second 20 percent | 7.9 | 8.1 | 8.1 | 9.2 |
| Third 20 percent | 12.1 | 12.8 | 13.3 | 12.9 |
| Fourth 20 percent | 19.3 | 20.1 | 21.0 | 19.1 |
| Fifth 20 percent | 56.5 | 55.5 | 54.0 | 53.3 |

*Source:* National Census and Statistics Office, Survey of Households Family Income and Expenditure, 1961, 1965, 1971 and 1975

P — Preliminary

While the preliminary results of the 1975 census would seem to indicate an improvement in the distribution of income, an independent survey of Philippine households in 1974 conducted by the Philippine Social Science Council suggests that the highest 20 percent of households received 61 percent of all household incomes, a rise from its previous share in 1971, while the lowest 60 percent of families that received 25 percent of income in 1971 received only 22 percent in 1974 (see Table 2).

**Table 2.**
**Percent of Household Income Received by**
**Ranked Households, 1974**

| Households (Ranked from lowest income to highest income) | Percent of Total Households |
|---|---|
| Lowest 52 percent | 14.64 |
| Next 28 percent | 24.15 |
| Highest 20 percent | 61.21 |

*Source:* C. P. Parel and G. C. Caldito, "A Survey of Filipino Family Households: Distribution of Income and Consumption Expenditure Patterns, 1974," (Manila, PSSC, 1976) p. 72

In absolute amounts, average per capita family income declined from 1965 to 1975, at constant 1965 prices, as indicated below in Table 3. However, while inequality remained, the lowest 20 percent experienced a significant increase in real average income.

**Table 3.**
**Average Yearly Income Within Group**
**(constant 1965 prices)**

| | 1965 | 1971 | 1975 |
|---|---|---|---|
| Lowest 20 percent | 447 | 429 | 645 |
| Second 20 percent | 1,020 | 952 | 1,102 |
| Third 20 percent | 1,631 | 1,544 | 1,529 |
| Fourth 20 percent | 2,652 | 2,452 | 2,259 |
| Fifth 20 percent | 7,044 | 6,299 | 6,318 |

*Source:* NCSO, Survey of Households Family Income and Expenditures, 1965, 1971 (preliminary)

*Defining Poverty in the Philippines*

What is the "poverty threshold"? To judge whether income levels in the Philippines are sufficient to meet the basic needs of a household, two studies attempted to set a "poverty threshold" below which families are classified as "poor". In a 1974 article, Alcestis Abrera[7] set the food threshold at P14 a day for a family of six—or about P5,000 annually—and the total threshold (including other needs such as medicines, education, clothing, travel, etc.) at an additional 40 percent, or P7,000 annually for a family of six. Using the same principle, but not using the recommended diet as a point of departure for the food threshold, Editha Tan[8] estimated the food threshold at only P7.85 daily, providing a measure for the food threshold of less than P3,000 annually per family and less than P5,000 for the total threshold.

Using Abrera's yardstick, those below the food threshold would constitute 57 percent of all families in 1971, and 78 percent for those below the total threshold. Using Tan's yardstick, the figures are lower. Poverty is the greatest for both young and old in each category. Clearly more than 8 out of 10 Filipinos are poor.

*Education*

In the Philippines wealth correlates with education.[9] This might explain why vendors and hawkers, however humble and uninformed, believe that their children should be educated.[10] Ironically, as Guerrero's case studies show (*op. cit.*, footnote 10), the educated poor seldom use the academic education so painfully sought, most of it being irrelevant to the poor or too academic to be of use in addressing the day-to-day realities of poverty.

The incidence of poverty is greatest for households where the head has not completed first grade, and lowest for college graduates. In terms of numbers, nearly 8 out of 10 of the poor households have heads who have not completed first grade or have only elementary education.

*Housing*

The quality of housing also indicates the level of poverty. In 1973, only 28 percent of Philippine households were served by electricity, less than 40 percent had connections to piped water supply and

[7] Abrera, M., A., "Philippine Poverty Thresholds," in M. Mangahas (ed.), *Measuring Philippine Development,* Development Academy of the Philippines, Manila 1976, pp. 223-274. Note that for simplicity, the implicit exchange rate used throughout this paper is one U.S. dollar equals eight Philippines pesos (P).

[8] Tan, Editha A., *op. cit.*

[9] Encarnacion, Jose, *et al,* "Income Distribution in the Philippines: The Employed and the Self-Employed," Institute of Economic Development and Research, Discussion Paper No. 74-11 (August 1974), Quezon City.

[10] Guerrero, Sylvia H., *Hawkers and Vendors in Manila and Baguio,* University of the Philippines, Institute of Social Work and Community Development, Quezon City, 1975, pp. 159-247.

only 17 percent had flush toilets. Only 62 percent of dwellings could be considered of strong construction (those using concrete or wood). The rest used light materials of bamboo, thatch, or other types of scrap materials.[11]

In many cases, the quality of housing to which poor people have access directly affects their possibilities of managing a tiny business and generating or increasing their incomes.

### *Health and Nutrition*

The data from nutrition surveys reveal that where poverty is high, the malnutrition levels are also high. Of the 20 to 24 percent of Filipinos less than 6 years old, about a third suffer from second- or third-degree malnutrition.[12]

These statistics reflect other factors of health as well. The infant mortality rate is almost 5 times the rate in developed countries, and life expectancy is 10 years less.[13] Malnutrition and reduced longevity may be treated as additional indicators of poverty. Since nutritional indices relate to levels of income, the basic well-being of the poor depends on sources of employment available.

### *Employment Profile in the Philippines*

The pervasiveness of extreme poverty in the Philippines is an aspect of unbalanced economic growth with scarce and uneven employment possibilities.

Total employment in the Philippines was estimated at 15 million in August 1976, or 34 percent of the total population of 42 million. Each employed person, therefore, supports two other persons.

Nearly 70 percent of those employed in 1976 worked in rural areas. However, over the last 19-year period, farming as an occupational category for both sexes has declined by 5.5 percent, to 53.3 percent of the labor force. Employment in manufacturing, in both rural and urban areas, has also declined during the period between 1956 and 1979. For males, employment in manufacturing was only 12.1 percent in 1975, and for females it was 12.5 percent in the same year (dropping by nearly half, from 22 percent in 1956).

Commerce is the only sector of the economy to show significant growth, increasing 15 percent per year since 1975. Commerce includes professional and technical workers, clerical, office, sales, transport, and service occupations, as well as small-scale entrepreneurial activities.

This growth in commerce as a source of employment is fundamental to the basic change in the economic growth and employment profile of the Philippines which reflects a loosening of ties to agriculture by those in rural areas, increased migration to the urban centers, and the growth of small scale entrepreneurial activity.

More women are entering the work force, (both in absolute and relative terms), which accounts for much of the growth of the economy in the commercial sector. There has been a concomitant transformation of women's economic roles. Turn-of-the-century data show that most occupations were at that time filled predominantly by men, whereas more recently women have come to share or dominate in many occupational categories, particularly the service sector and in self-employment.[14] For those women with limited education, (most of those flowing into urban areas seeking employment) the predominant activity is peddling, hawking and vending.

The hawkers' and vendors' incomes are quite low. Two thirds net less than $1.40 per day (slightly more than the minimum wage). Almost 50 percent of the families of hawkers and vendors have 7 family members or more; in 70 percent of these families there are only one or two income earners.

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[11] Yeh, S.K. and Laquian, A.,*Housing Asia's Millions.* International Development Research Center, Toronto, December 1978.

[12] National Economic Development Authority, *Options for National Development: Regional Strategies,* Manila, April 1977, unpublished.

[13] Social Research Associates, *op. cit.*

[14] Eviota, Elizabeth and Smith, Peter C., "The Migration of Women in the Philippines." Paper prepared for the Working Group on Women in Cities, East-West Population Institute, East-West Center, Honolulu, Hawaii, March 5-23, 1979.

*Unemployment and Underemployment*

While unemployment dipped to 5 percent in 1976 (compared to 8 percent in 1968), the incidence of part-time work is high, especially among unpaid family workers (48 percent) and among industrial workers (11 percent). Partial employment was more prevalent in agriculture (31 percent) and among women (35 percent). The national rate of underemployment is estimated at 23 percent, indicating that the effective unemployment rate is closer to 6 percent. Unemployment is concentrated in the urban areas where the jobless constitute 8 percent of the labor force compared to only 3.6 percent in rural areas. Clearly an important objective of development is to create jobs at higher real wages.

*The Urbanization of the Philippines*

The increasing deprivation of the rural poor, transplanted to big cities, is a function of the rapid urbanization of Asia. In developing countries the population is growing faster than it did in the developed countries prior to the industrial revolution, and population growth in urban centers often exceeds 6 percent per year, and in some cases reaches 10 percent or more.

Manila is typical of the pattern of other Asian cities. It is by far the largest urban center in the Philippines. Manila proper is, however, only part of what is generally termed the "Greater Metropolitan Manila Area", composed of Manila, Calocan City, Quezon City, Pasay City, and the nearby Rizal municipalities of Paranaque, San Juan, Mandaluyong and Makati. This complex is eight times larger than the second largest Philippine urban area, Davao City. The population of Metro-Manila was 2.1 million in 1960 and will be 5.9 million by 1980. It is expected to reach 11.7 million by the year 2000. Population is growing at the rate of 4 percent annually. By 1970 population density was 35,000 per square kilometer.

In Metro-Manila, the stark reality of urban poverty is manifest. It has been brought about by the steady rural-to-urban migration which saw Metro-Manila growing at almost double the national annual growth rate for the past decade. Table 4 below shows the extent of slum and squatter populations of Metro-Manila, as compared to other Southeast Asian cities.

**Table 4.**
**Extent of Squatting/Slum Dwelling in Selected Asian Cities**

| City/Metro Area | Year | City/Metro Pop. (000's) | Pop. in Slum/Squatter Areas (000's) | Percent |
|---|---|---|---|---|
| Bangkok-Thonburi | 1970 | 3041 | 600 | 20 |
| Colombo | 1973 | 611 | 348 | 57 |
| Jakarta | 1971 | 4576 | 1144 | 25 |
| Hong Kong | 1971 | 3936 | 326 | 8 |
| Kuala Lumpur | 1970 | 456 | 150 | 33 |
| Manila | 1973 | 3687 | 1216 | 33 |
| Singapore | 1970 | 2300 | 345 | 15 |

*Source: Housing Asia's Millions,* International Research and Development Centre, Toronto, 1978, p. 53

In Manila, according to the Minister of Economic Planning, the slum and squatter colonies of Manila are growing at an annual rate of 12 percent, indicating the extreme deprivation of rural migrants to the city in the Philippines.

In the Philippines, although the population is increasing 3.01 percent per year, the urban population is growing at a much faster rate. Metropolitan Manila has almost doubled its population in ten years.

The phenomenal growth of population in Asian cities is an expression of rural poverty, as rural migrants, finding no opportunities in small villages and towns, flock to the cities in increasing numbers in search of better opportunities. They live in slum areas, as their first "reception center", until they find better job opportunities.

*The Informal Sector*

The poor, unlettered, and often unskilled rural migrant to the city moves to the slum area where most of those from his town have gone.[15] First employment would be in the informal sector of the Philippine economy: the world of hawkers and vendors, and of small family-based enterprises, that either retail, recycle garbage, or turn out handicrafted items. This sector is a significant part of the national economy. As Table 5 shows, unorganized manufacturing constituted 70 percent of all manufacturing establishments in the Philippines in 1971.

Despite their large share of establishments, the "unorganized manufacturing sector" accounted for only 10 percent of the total manufacturing value added in 1971.[16] Average labor productivity is accordingly low, about 5 percent of that of organized manufacturing establishments. This is due to very limited use of capital equipment and machinery, the probable shortage of operating funds due to the lack of formal credit and the low productivity of workers due to limited hours of work, and underemployment.

**Table 5.**
**Manufacturing Employment By Size of Establishment and by Type of Worker (Thousands)**

| | 1965 | 1968 | 1971 |
|---|---|---|---|
| All manufacturing establishments | 1,100 | 1,233 | 1,432 |
| Wage and salary workers | 593 | 686 | 860 |
| Self-employed and unpaid family workers | 507 | 547 | 572 |
| Establishments with 20 or more workers | 273.5 | 325.1 | 353.9 |
| Wage and salary workers | 272.1 | 323.7 | 353.2 |
| Self-employed and unpaid family workers | 1.4 | 1.4 | 0.7 |
| Establishments with 5-19 workers | 50.3 | 69.2 | 58.2 |
| Wage and salary workers | 41.1 | 56.4 | 54.5 |
| Self-employed and unpaid family workers | 9.2 | 12.8 | 13.7 |
| Unorganized manufacturing | 776 | 839 | 1,007 |
| Wage and salary workers | 280 | 306 | 452 |
| Self-employed and unpaid family workers | 496 | 533 | 555 |

*Source:* Computed from labor force surveys (October 1965 and 1968; August and November 1971) of the Bureau of the Census and Statistics, and from the annual surveys of manufacturers (1965, 1968 and 1971)

In a related study[17] of the informal sector, investigators found that 47 percent of the enterprises (mostly in Metro-Manila) had a value added of less than P200 a week, and the median value added was P100, only slightly higher than the output of a person receiving the legal minimum wage of P10 a

[15] Hollinsteiner, Mary Racelis, "Metamorphosis: From Tondo Squatter to Tondo Settler," *Ekistics* 40, (238), 211-215, Athens, 1975.

[16] ILO, *Sharing in Development*, National Economic Development Authority, Manila, 1974, p. 562-563.

[17] Jurado, Gonzalo M. and Castro, Judy S., "The Informal Sector in the Greater Manila Area, 1976: An Overview," Urbanization and Employment Programme, ILO, Geneva, August, 1978.

day. "To the extent that this income is shared by the enterprise owner with another person, it constitutes base subsistence living." A third of the enterprises studied had value added ranging from ₱200 to ₱999 weekly, a moderate output for a two-person enterprise. Finally, only about one fifth generated value added of ₱1000 and above per week.

In a study of hawkers and vendors in Manila and Baguio,[18] two Philippine cities characterized by high immigration from the rural areas, investigators have documented the marginal existence of these small retail enterprises. Two thirds of these hawkers occupy about a square meter of city sidewalk, concentrated in city districts with the busiest commercial activities and the heaviest pedestrian traffic. Half of the hawkers sell food items such as fresh and processed foods, while the other half sell newspapers, shoes, slippers, fancy jewelry, clothing, flowers, amulets, herbs, birds, animals, etc. Some are service vendors, such as bootblacks, key duplicators, fortune tellers, etc. A daily earning of ₱10 (the minimum wage) or less is reported by the majority, from sales of about ₱30 to ₱50 a day. In the case studies following the statistical findings, the study describes the modest but clean residences of these hawkers, usually located in the slum areas of the city. Most of them are migrants and almost all would like to see their children "go up in the future" by sending them to school and hoping they will not be hawkers like their parents.

On the whole, the poor in the Philippines either remain in the impoverished rural areas with marginal economic opportunities or move into the brightly-lit urban areas with only slightly improved economic opportunities.

*Programs to Assist the Urban Poor*

The key problem of development is to create jobs at higher real wages. In 1976, to employ fully those who were able and willing to work, 400,000 jobs were needed in the Philippines. It is estimated that 500,000 new jobs yearly must be created simply to keep the unemployment rate at the 1976 level.

Increasing the incomes of poor people has been increasingly recognized as the key to making them productive members of the community. However, most Philippine resources have been invested in rural development efforts on the theory that if life could be made better in rural areas, fewer people would migrate to the cities. Government policy has, therefore, focused on mostly large scale agricultural development and agro-industries.

Despite this rural focus, over the past few years, the urban problems of Metro-Manila have pressured government and non-government agencies to create or expand programs that deal with the employment problems of the city. There has been an increasing amount of experimentation and an attempt to transfer the lessons learned in rural or less urban settings to urban programs.

New programs seek to provide self-employment opportunities for the very poorest urban dwellers which will allow them to increase their incomes to above the poverty line. These efforts are modestly supported by the government. The Ministry of Social Service and Development (MSSD) has a program which has been operating countrywide since 1970, but has only recently gained momentum in Manila. The Ministry of Industry (MOI) has a small, experimental program. Case studies on both these efforts are included in this volume.

The major support for experimentation in this field comes from the private voluntary organizations and private business. Two case studies were drawn from a wide array of programs: Manila Community Services, Inc. (MCSI), and the Tahanan Foundation (TFI). Two bank programs were also reviewed, although not in depth: the Social Credit Center and the Money Shops, both run by the Philippine Commercial and Industrial Bank (PCIB). These programs are also described in the Case Studies later in this volume. A brief overview of those studies is given in Chapter II.

[18] Guerrero, Sylvia H., *op. cit.*, pp. 47-63

# CHAPTER II

## OVERVIEW OF THE CASE STUDIES

The case studies which were conducted describe efforts made to respond to these problems. In reading them, striking similarities and differences will be noted. With regard to similarities, the core of *every* program studied is credit, responding to the problem defined as most critical by interviewees. Because of this similarity, critical issues for all the programs are how to identify loan recipients, how to monitor loans once made, and how to assure "adequate" repayment. Increasing available capital is identified as the most important benefit gained by participating in these programs by the largest number of those interviewed (49 percent).

The programs studied are also similar in showing concern for the managerial and technical aspects of business operations. But they differ in the degree to which they provide assistance in this area. The Ministry of Industry (MOI) program provides the greatest amount of support in the form of field-trained technicians to guide each group through the various problems of business development, in addition to training programs in management. The Money Shops of the PCIB provide no management assistance. Those interviewed find this aspect is of relatively modest help to their businesses. Only 25 percent mentioned it as "important". When business assistance is attached to management training, however, the percentage that thought it "important" increased. Of those in the MOI program who were interviewed, 45 percent said business assistance is important.

One way in which programs differ markedly is the degree to which they emphasize "social development". Some of the programs, such as the Money Shops of PCIB, exist only to extend credit. Others see credit as a relatively minor component of a broader program of social assistance. The Ministry of Social Services and Development (MSSD), programs are designed to lift dependent families into a situation of complete self-sufficiency. Services provided include hospitalization, day-care, family counseling, and vocational training. Small business loans are simply one of an array of services that can be provided should the situation seem to warrant it, as diagnosed by the social worker. In the case of Tahanan Foundation, recently the main goal has been community organization. Small business development was merely one of the efforts organized groups could pursue.

Surprisingly, when interviewees were asked how the program benefitted them, almost all (95 percent) said that the program allowed businesses to be established and that their incomes were increased. *Not one* person in *any* program indicated broader social development, whether in the form of community development or some specific service, as a benefit, although a more sensitive questionnaire or more skillful probing might have discovered this.

### *Beneficiaries*

As part of the case studies, a total of 80 beneficiaries from the four programs were interviewed in depth. Although the programs themselves were in many ways quite different, the beneficiaries of these programs were remarkably similar. Of those interviewed, 46 percent had total family incomes of below P200 ($25) weekly, or P10,400 ($1,300) per year. Only 13 percent fell below the "poverty threshold" of between $625 and $875 a year. Only in the MSSD program was a significant proportion (31 percent) of the interviewees below the poverty level.

Since interviewees were selected by the programs themselves rather than at random, there was a tendency for them to select their most successful beneficiaries so that these income figures are probably on the high side. Also, incomes had probably increased significantly as a result of participating in the programs. Still, it is safe to say that the people included in these programs are poor.

Income from the business assisted constitutes the major source of income for families of interviewees in three out of the four programs studied (66-75 percent). (Only for MCSI was it a small proportion (39 percent)). Most of the remaining income comes from wages from another family member.

Businesses in which these interviewees were involved represent a wide array of selling, servicing, and manufacturing activities, including:

1. *Manufacturing:* toy making, box making, welding cement molds, candy making, crafts, dress manufacturing, baking and shoe making.
2. *Service:* shoe repair, upholstering, food selling, food delivering.
3. *Selling:* native bags, fish, paper bags, used bottles, cans, newspapers, used metal, chicken, candy, bread, used aluminum, rice, cigarettes, magazines, dresses, cooked snacks, used plastic, lampshades, salt, soap, fruit, vegetables, eggs, canned goods.

Of those interviewed, the largest proportion are engaged in manufacturing (48 percent), followed by selling (40 percent). For most, selling was their first business activity, since it requires less in the way of capital to start, and no training. Selling can begin with as little as P10 ($1.25), for selling peanuts, while starting a service business may require P50 ($6.25) for a shoeshine box, and manufacturing may require P100 ($12.50) for the materials to make stuffed toys.

Profits vary in proportion to investment. The average initial investment in selling was about P300 ($37.50) and the profits averaged P67 ($8.38) per week, or 22 percent. Average investment in service businesses was P1,150 ($143.75), and the average profits were P120 ($15.00) or 10 percent a week. Average investment in manufacturing was P2,006 ($258.25), and the average profit was P286 ($35.75) or 13 percent a week. Thus, on the average, investment in services is four times as large as selling, and the profits are two times as high.

Over 70 percent of those interviewed seem to operate within the closed economic system of their neighborhood—they both purchase the raw materials they need and sell their product to their immediate neighbors. Their view is that competition in larger markets requires more capital than they possess. Merely transporting the finished product to a distant market may prove to be an unsupportable cost. Those few who marketed outside the community, were in all cases entrepreneurs who were identified as manufacturers. Those few who hawked outside the neighborhood had three times the investment of those selling in the neighborhood.

These activities seem to be carried out for the most part by women, and over three-fourths of those interviewed were women. Most are in their 30's and 40's and have either been born in Manila and its surroundings or are long-time residents.

Men seem not to be drawn to these small businesses. They prefer wage employment, which is understandable, given their large families and the greater security such employment provides. Wage employment also has more prestige. Men find it easier than women to obtain wage employment and employers continue to prefer men to women in many fields.

Despite the traditional distaste for business, a surprising percentage of those interviewed (65 percent) said they would prefer that their children be businesspersons to wage earners. Reasons given include greater earnings likely in business (36 percent), and the ability to be one's own boss (46 percent). A significant number feel working conditions are better in self-employment than in wage employment (25 percent). Another significant percentage (31 percent) indicated setting up a business was easier than finding wage employment which has, for them, severe barriers to entry such as education requirements or the need for good connections.

*Problems of the Entrepreneur*

The problem universally identified by interviewees (83 percent) is the lack of capital. Most had to rely on their own savings to set up their business, which at this income level is difficult. Only 16 percent had received financial assistance from family or friends. Only 6 percent had a bank loan and only 6 percent were helped by money lenders. The percentage who say they *now* receive financial assistance from family or friends dropped to 10 percent, while those utilizing a money lender is 9 percent. Utilization of bank credit other than through the program assisting them rose to 25 percent. Credit from suppliers is now a significant factor, with 23 percent indicating utilization of this source.

The lack of working capital is a severe constraint. Inventories are often only sufficient for one day in selling, or a week in manufacturing. Businesspersons are dependent on rapid turnover not only to free up working capital but to cover their daily living expenses. If turnover is slow, if bills are not paid, or if raw materials are not available or are too expensive, even for a few days, businesses often must close down. Also, if family needs such as sickness, or even school tuition, arise, the inventory may be the only resource the family has.

All the other problems identified by those interviewed are related to lack of capital: without capital, the entrepreneur cannot buy raw materials, travel to market, or purchase equipment. In other words, lack of capital is viewed by the entrepreneur as the critical factor limiting increased profits and, therefore, increased income.

The second most critical problem (identified by 59 percent of interviewees) is the procurement of raw materials. Either what they need is not available or is only available at a price much higher than that paid by larger competitors. Interviewees indicated that most suppliers filled the orders of large buyers first, usually at a lower price. The remaining stock then had to be fought over by large numbers of tiny buyers. Suppliers used this competition to bid the price up. Also, to eliminate the competition, large buyers would often buy all the available supply and then resell only small amounts at extravagant black market prices. The small buyer is at the mercy of the bigger companies. Entrepreneurs have problems purchasing leather, straw, cloth, rubber, glue, sugar, yeast, flour, oil, canned goods, cigarettes, soap, powdered milk, cellophane, thread, peanuts, dried fish, and paper bags.

The third most serious problem (identified by 41 percent of those interviewed) was marketing. Many asserted that they could increase their profits if they could find a market for their products outside their neighborhood. Yet the most often-indicated restriction on marketing is lack of capital. They do not have the resources to explore new markets, to assure a steady production for a larger market, or to move the product to that market.

Another cause of marketing problems is stiff competition. Because of ease of entry, many are engaged in activities which are redundant. It is difficult in such a situation to find a comparative advantage. This is particularly true in selling. Unless the owners of these businesses can move into more specialized selling functions or into service or manufacturing, they have difficulty increasing their share of the market and therefore their profits. But going into another business brings them back to the principal problem of lack of capital. Although lack of training or management skills may also be a constraint, neither of these were indicated by a single interviewee as being an impediment. Management is not perceived as a problem at this tiny scale. Even bookkeeping, which has been given attention by all agencies, is recognized as a problem by only 5 percent of those interviewed.

The fourth greatest problem (identified by 26 percent of interviewees) is lack of equipment, most commonly a problem for manufacturing and service businesses. Equipment that is most often lacking includes sewing machines, leather splitters, edgers and shoe lasts, bakery equipment such as pans, flour, mixers, glass jars and cooking utensils, carts and wood drills. It is often difficult to maintain the equipment they do have. Although these businesspeople are remarkably resourceful in developing substitutes, critical spare parts are sometimes totally unavailable. Also, related to equipment, lack of electricity is a constraint and was identified as a problem by 11 percent of those interviewed.

Other problems identified as significant include lack of space (16 percent), theft (11 percent), poor location (10 percent), police and official harrassment (5 percent), and lack of water (5 percent).

The programs described in each of the case studies do not pretend to help the very small informal sector entrepreneur solve all of these problems. Yet, in at least a small way, each of the programs described represents an innovative effort toward improving the income-generating possibilities of very small-scale entrepreneurial activities of the poor in Metro-Manila. The degree to which the specific mechanisms of the programs respond effectively to the kinds of difficulties encountered by such entrepreneurs varies considerably, and an attempt is made for each case to at least roughly evaluate the program effort. A further, more general, comparative evaluation of the programs is made in Chapter IV (Summary & Conclusions). That chapter also presents the broad outline of a wider and more integrated set of similar programs for assisting activities of this kind throughout the Philippines.

# CHAPTER III
# THE CASE STUDIES

*CASE I*

METRO-MANILA BARANGAY INDUSTRIES DEVELOPMENT PROGRAM (MMBIDP)
Ministry of Industry
Industry and Investment Building
385 Buendia Avenue Extension
Makati, Metro-Manila

Program Coordinator: Miss Jovita D. Culaton

Phone: 85-82-33

Case Study Prepared by: Bernadette Sarabia 9/30/79

*Goals and History*

*The goals of the program:*
The Metro-Manila Barangay Industries Development Program (MMBIDP) was created to:

a. identify and develop potential small business activities for the residents of depressed areas of Metro-Manila;
b. increase the income level of the urban poor by developing economic and technical skills and providing marketing support for socially viable beneficiaries; and
c. establish and activate a permanent and standardized organizational framework or legal entity for the beneficiary groups.

The program director and other staff see the program as a mechanism to ratchet these small group efforts up to the level of small industries.

Beneficiaries perceive the Ministry's goal as helping them increase their family income through self-employment and the group project that is to be set up. With the management coaching given, they learn the basic principles of planning, setting-up, and managing a business.

*History of the Program:*
For the past five years, the Ministry of Industry has recognized that to absorb the rapidly growing labor force of the Philippines, industry must be developed in all sectors. The establishment of large-scale industries and the dispersal of small and medium industries in the rural areas through its Medium and Small-Scale Industries Coordinated Action Program (MASICAP), is meant to prevent the deluge of migrant labor into the national capital region. The Ministry, however, recognizes that the urban population cannot and should not be neglected. There are many urban communities where conditions are just as bad, if not worse, than in the poor rural areas. This is especially so in Metro-Manila, where in spite of continuing growth in industry and commerce, there is a high degree of unemployment and underemployment.

In February 1978, the Ministry of Industry initiated a pilot program to develop industry in marginal areas in Metro-Manila called the Metro-Manila Barangay Industries Development Program (MMBIDP). The Program aims to decrease the degree of unemployment and underemployment in the areas by setting up economic projects and providing technical and management support. The essential goal is to increase incomes of the poor.

The program was initially managed by the Ministry's Executive Director with a MASICAP Assistant National Coordinator and his assistant, as well as nine senior MASICAP field staff with business administration backgrounds. It soon became evident that the entire experience of the staff was with the larger industries of middle and upper class entrepreneurs.

In July of 1978, the Assistant took over as head of the Program, a deputy was recruited from the Small Business Advisory Center (SBAC) of the Ministry of Industry and the field staff was increased to seventeen. After two months of work, the first concept for the barangay industries was crystalized, as follows:

1. The target for this program was to be Metro-Manila residents who have limited access to the regular labor market either because they are unskilled, or because their skills are not marketable. They are, therefore, unemployed or underemployed.
2. They are also non-bankable in the regular credit market and will have a difficult time qualifying for social credit because they have no physical assets or would be unable to find anybody willing to stand as their guarantor. Therefore, they could be eligible for social credit only as members of a group that could demonstrate a certain level of social viability. Each group member would stand as co-guarantor for other group members.
3. Since the groups consist of people who are unskilled or semi-skilled, initial projects must be simple in management and technology requirements. Also, the projects should not require a high degree of marketing skills. Therefore, initial projects must address themselves to institutional markets using the "clout" of the Ministry of Industry, Board of Investments, Development Bank of the Philippines, and others. All projects must be oriented to manufacturing rather than to service or trade activities.
4. Since bankability for these groups is re-defined as social viability, significant social development inputs prior to project development efforts are required to ensure that groups demonstrate such social values as cooperation, honesty, and group cohesiveness.

The MMBIDP has since reviewed its goals, objectives, concepts, and methodology, making the following revisions:

1. Institutional markets, in spite of the "clout" of government agencies, are difficult to penetrate. Products produced by the client groups do not meet high quality requirements. However, subcontracting the manufacture of handicraft items to these groups is feasible.
2. Organizing groups and developing their social viability takes 60% of the staff's time, which proves to be very expensive and time-consuming. While the program initially sought to assist group enterprises, it is recognized that to reach a greater number of people, individual enterprises must also be assisted. However, until the program has found an appropriate financing and guarantee scheme for them, it cannot service individuals except as part of a group.

The value of this program lies in its pioneering status in the field of assistance to economically marginal areas in the urban community. If this experiment proves successful, the experience will be replicated in various urban centers in the Philippines. The results will be shared with various domestic and international institutions.

*The initial responses of beneficiaries:*

The beneficiaries were enthusiastic about the program, yet were doubtful about the group concept. They would prefer to engage in the project as individuals, and felt it was very difficult to work with others. This feeling has been diminished by more clearly defining the group productive enterprise.

*Organization and Staffing*

The project consists of a Program Coordinator, her assistant, and 16 Project Coordinators. The Program Coordinator receives a salary of ₱22,728 per year ($2,841); the Assistant Program Coordinator receives ₱17,364 per year ($2,170); Project Coordinators II receive ₱11,712 ($1,464) and Project Coordinators I receive ₱10,800 ($1,350). The Secretary receives ₱3,696 per year ($462). Only the Program Coordinator and the Assistant Coordinator are permanent employees. The other staff are employed on a contractual basis. All, however, are members of the Government Service Insurance System.

*Educational levels and experience of staff:*

The Program Coordinator has a B.S. in Commerce, majoring in accounting, and is presently pursuing a Masters in Business Administration at Ateneo de Manila University. She has two years of experience in project study preparation with MASICAP.

The Project Coordinators have Bachelor of Science degrees in Commerce with majors in accounting, management, economics, and finance. Eighty percent of the staff have had two years' experience in project study preparation with MASICAP. However, applicants are assessed on their commitment to this particular type of job, tolerance, independence, quick-mindedness, creativity and drive.

*Program Funding*

Salaries and transportation allowances for MMBIDP personnel come from the National Government Budget. This allocation is estimated at P500,000 ($62,500) per year.

The Ministry has no allocation for the funding of the projects which MMBIDP assists. All sources of funding are from outside institutions and agencies. Current sources of funding (as of August, 1979) for MMBIDP come from Manila Community Services, Inc., Philippine Business for Social Progress, and the Ministry of Social Services and Development.

The Development Bank of the Philippines (DBP) has agreed to finance the projects without collateral since all the group members are mutually responsible for paying back the loan. A major bottleneck has occured, however. The regular loan processing channels of the bank have been used, which have subjected the project loans to various delays. The bank now feels that a special financing scheme for these types of projects is necessary and that a guarantee is needed. New project proposals submitted to the bank have been stopped.

Proposed sources of funding are the National Development Company (P5M) and the Philippine Center for Appropriate Technology and Training, through a grant from foreign sources (P105,000).

*Other costs of running the program:*

The costs of space, office equipment, supplies, operating expenses and other overhead items cannot be clearly segregated because MMBIDP is allotted a portion of the Ministry's office, and all supplies and equipment being used are provided by the Ministry.

Transportation allowances are given to each staff member:

| | | |
|---|---|---|
| Program Coordinator: | P4,800 per year | ($600) |
| Assistant Program Coordinator: | 3,600 | ($450) |
| Project Coordinators II | 3,600 | ($450) |
| Project Coordinators I | 3,000 | ($375) |
| Secretary | 2,100 | ($263) |

*Cost of services on a per-beneficiary basis:*

The total yearly salary costs of the program are approximately P500,000 ($62,500). A total of 57 groups were contacted through July 1979, of which 24 were dropped and 33 received continuing assistance. These groups average 7 to 8 people per group. The total number reached is therefore approximately 428. There were 241 people in the 33 groups receiving continuing assistance.

If salaries are divided by the total number of groups contacted, the cost is P8,772 ($1,097) per group and P1,170 ($146) per beneficiary. If only the 33 groups receiving intensive assistance are considered, the overhead is P15,152 ($1,894) per group and P2,074 ($259) per beneficiary.

These figures are only suggestive and are probably understated. Rent is subsidized and the costs of administering bank lending are unknown. Also, MMBIDP works extensively with other agencies and the costs to these agencies are not included in the overhead rate.

Of these 33 groups only 10 have received loans, averaging P11,700 ($1,462.50).

*Beneficiaries*

The program is directed toward assisting the poorest groups in the most depressed areas of Metro-Manila which do not benefit from full employment. These are people who have little or no potential for competing in the regular labor market either because they are unskilled, semi-skilled, or are surplus labor. They are, therefore, unemployed or underemployed. In addition, although many of these people have the capability of becoming self-employed through some business undertaking, they have neither the capital nor the access to borrowed capital which is necessary.

Even this program, however, has been unable to reach the totally destitute. The program coordinator and staff have learned that as a minimum, the beneficiaries must be able to provide themselves with the basic necessities of life to prevent the diversion of project funds for meeting these needs. They must also have the basic skills that the enterprise requires (such as sewing) since the Ministry does not have vocational courses for them. Additionally, beneficiaries must have the motivation required to create a group enterprise so as to prevent misunderstandings and clashes when the project is operational.

The twenty interviews held with project beneficiaries revealed these characteristics: of those interviewed, 60 percent were female and 75 percent were in their 30's and 40's; only 45 percent had gone beyond grade school. Eighty percent were residents of Metro-Manila for 15 years or more.

Sixty percent of those interviewed had incomes under P350 ($43.75) per week to support a family averaging between 7 and 8 people. Average income was P336 ($42.00) per week. This is well above the Philippine poverty level of P7,000 per year, which may indicate the effect of assistance, or may only indicate beneficiaries have higher incomes to begin with. This income is composed of earnings from the business assisted by the program, which range from P60 to P600 ($7.50 to $75.00) per week but average P252.50 ($31.50). This suggests that their businesses are the major source of income for many of these households.

It is impossible to know definitely whether these income levels reflect the assistance offered by the program without more longitudinal and comparative data. Sixty-five percent of those interviewed said they had been involved in business activity before assistance. Half of these had been in business only a year. This suggests that there may be very significant effects of this program on improving or generating incomes of the poor.

Businesses assisted must include manufacturing activities to qualify for the MMBIDP program. Groups assisted include shoe-makers, slipper-makers, letter-holder manufacturers, stuffed-toy manufacturers and seamstresses who produce pillowcases, simple dresses, and tablecloths. Almost all sell their products either to individuals, usually neighbors, or to small local stores. Only three indicated that they sell to big stores or for export.

As seen by the beneficiaries, the most serious problem of their group is lack of working capital (80 percent of those interviewed). Lack of capital is seen by them as the critical constraint which makes it impossible to sell the amount necessary to have a decent profit.

A related problem is lack of raw materials. Sixty percent of those interviewed consider this problem critical. Because they must buy in small quantities, they cannot compete with bigger buyers. Either the raw materials are not available when needed, or they can only be purchased at a much higher price than that available to large buyers.

The third most critical problem is equipment. The businesses either need new machines or the machines they have are not functioning. Leather splitters, shoe lasts, sewing machines and edging machines were mentioned. Other problems were lack of space, water, electricity and strict government regulations (20 percent).

*MMBIDP response to these problems:*

MMBIDP can provide financial servicing and management and technical assistance. Capital is the most critical of perceived needs. However, it is interesting to note that when asked how MMBIDP had helped, only 30 percent of the respondents answered capital, even though this is a major focus of the program. Far more (45 percent) indicated that some aspect of their business operations had been improved through the program. They perceived increases in production, improved quality of finished products, improved management, or "learning to be a real businessman", as the important benefits of participation in the program. This may suggest that financial assistance, although essential, is increasingly recognized by businessmen as only *one* of their needs.

*Program Activities*

*Outreach:*

Due to limited staff, project coordinators approach MSSD, MCSI, PBSP and other civic and religious organizations to find groups formed by these organizations or residents in their areas of operation presently engaged in a certain project who might be willing to form groups for production purposes. The project coordinators also coordinate with different barangay (neighborhood) captains and hold community assemblies and group meetings to orient these residents about the MMBIDP program.

Of the ten groups presently assisted, seven were referred by other agencies, two were identified by MMBIDP, and one group heard about the program on television.

Some of the groups assisted by MMBIDP also receive financial help from other sources. Of the four groups receiving financing from another financial source, one had been referred by another agency, and three had been identified by MMBIDP.

Each project coordinator is expected to identify at least one new group a week. Project identification takes about 20% of staff time.

*Selection:*

Beneficiaries are selected according to the following criteria:

1. they should have an average monthly family income of at least P300 ($37.50);
2. they should have at least a permanent residence and not expect to be relocated within the next 3 to 5 years;
3. they should be willing to work with the group and abide by all group policies and decisions;
4. they should have interest, skills, or experience, in the economic project; and
5. they should be willing to be supervised by the MMBIDP staff.

If the group is referred by another agency or organization, the staff conducts an inspection of the environment of the people and their economic and social conditions. Then the orientation of the program and the role of the staff are explained. If the beneficiaries are willing to adhere to the program rules, successive visits are made at least once a week to gauge the social viability of the group.

The pre-project planning stage (Phase I) involves:

- identification of a potential beneficiary group through any private or government agency (e.g. MSSD, PBSP, MCSI, or through barangay captains);
- orientation of group on the objectives and scheme of the MMBIDP and the staff's role in the program;
- assessment of the social viability of group members, group relationships, cohesiveness;
- orientation and matching of projects in which the group could possibly engage; and
- group decision on what project to undertake.

During the planning stage (Phase II) there is training in business management in order to widen the group's perspective on setting up a business and preparing a project feasibility study. The group is assessed on:

- whether the group is really interested or willing to devote time and effort to the project;
- how much input the MMBIDP staff has to give to the group; and
- whether it is worth pursuing the assistance based on behavioral attitudes of groups being assisted.

If the Phase II assessment is favorable, the pre-investment study is amplified into a Project Feasibility Study by the MMBIDP staff, periodically discussing developments with the group to ensure involvement of group members. The Project Study would include suggested organizational structure and definition of policies and procedures which will be subjected to the approval of the group members. The Project Study is then thoroughly discussed with the group. A plan of action/timetable is prepared, and officers of the project are chosen by the group members. A final decision is made on whether or not to pursue the project and to finalize arrangements such as financing, project location, raw materials, and marketing strategies.

The operationalizing stage (Phase III) involves setting up the project, procurement of machinery and raw materials, and a trial run. The program provides on-the-job business management coaching to:

- ensure compliance with the provisions of the plan of operation;
- assist the group in identifying and anticipating difficulties that are likely to occur; and
- transfer basic implementation skills (organization and management, marketing, production, and financing).

During the phasing-out stage (Phase IV), upon assessment of the capability and readiness of the group to manage the project on their own, MMBIDP staff withdraws direct assistance from the group. The project continues to be monitored by the MMBIDP staff after project turnover. The amount of time spent on a particular area of training depends upon the specific needs of each group.

*Role of Beneficiaries*

Since MMBIDP's goal is to encourage entrepreneurship, the program director and staff have made it a point to involve the beneficiaries from the initial stage of project planning up to project implementation.

During the Project Study preparation, they are involved in canvassing of price quotations for machinery to be purchased, scouting of prices of raw materials, etc. Once the group is organized, the group members choose among themselves officers or leaders who would speak or represent them in bank transactions, legalities of the project, or in dealing with the supplier or market.

During the implementation of the project, the chosen officers collect and set aside a portion of the group's earnings or sales for amortization of the bank loan. For the first amortization, group members are accompanied by the staff to the bank, but subsequent payments are made by them alone.

For the preparation of simple bookkeeping systems, they are initially trained by the project coordinator with the hope that they can then prepare their own records when program staff are no longer on their own, even though they are available to help them.

Thus far, there has not been any case of client referrals made by present beneficiaries. This may be achieved when more projects have been assisted.

*Impact*

How does MMBIDP measure impact? Generally, MMBIDP staff would consider MMBIDP a success if:

1. MMBIDP clients have attained self-sufficiency in business—in terms of steady market outlets, continuous production, increased business income, etc.;
2. clients have learned the basic principles of management—pricing techniques, proper production scheduling, proper cash management, etc.;
3. clients have improved their standard of living—better general living conditions including housing, nutrition, and better educational opportunities for their children;
4. clients have improved their social functioning and dealings with group members in pursuit of the economic project; and
5. the program has been able to reach a larger number of clients effectively at a lower per unit cost.

*Increase in income:*

At the time of the survey, increases in income could not be determined because these groups had been in operation an average of 2.6 months.

*Knowledge of proper business procedures:*

Almost all interviewees had been given management training and cash management seminars. One had been given skills training. Of those taking seminars, 45 percent said they had learned how to manage a business properly, and 25 percent answered that they had learned how to do costing or pricing of their products. They also learned record-keeping, marketing techniques, and improved scheduling of production.

*Ability to reach large numbers at low costs:*

By July 1979, there were a total of 10 groups in operation, three which had their projects filed with the banks, and two which were in the process of project study preparation. Eighteen groups were in the process of group assessment and organization. The total number of beneficiaries given assistance was 241, in just over one year of operation. There were 24 groups which were identified and assessed, but eventually dropped or deferred because of the waning interest of group members. These projects were considered not viable.

### *Assessment*

*Suggestions for improvement identified by staff:*

Better technical assistance and contact with the business community is necessary. MMBIDP needs a businessman as consultant to the staff on practical business matters. Also, they need to visit already existing businesses to get ideas on project implementation.

It is also necessary that MMBIDP have its own sources of funding for projects..At the time of the study, there were clients identified who were trying to utilize other sources of funding (MSSD, PBSP, MCSI or DBP). These requirements entailed so much time that the project beneficiaries lost interest.

Since the program was newly formed and in operation for only one and one half years, it was still groping its way to proper methodology. Therefore, an attitude of experimentation should continue to be part of the program.

*Suggestions for improvement identified by clients:*

One of the basic requests of clients is for help in looking for marketing channels. The market is the key factor in keeping the business going. A steady market outlet would mean continuous production which would in turn yield more income. Clients also thought the program should facilitate the provision of more capital. Finally, clients complained about the length of time it took for loan approval. Because the program does not have its own sources of funding, project beneficiaries have to wait for the financing institution to approve their loan applications. An institutional guarantee scheme is in the process of being set up.

### *General Observations*

The MMBIDP staff and senior Ministry of Industry officials view the program as an experiment. Since no previous program has offered assistance at this level of industrial activity, there are few guidelines.

The program was modeled on the Ministry of Industry's Medium and Small-Scale Industries Coordinated Action Program (MASICAP) which works with small and medium industry. MASICAP, in turn, utilized the one-on-one extension approach, utilized almost universally throughout the third world. MASICAP can justify the expense associated with the extension approach because it generally focuses on rather large industries. Extension services represent a modest proportion of capitalization and return on investment.

In the case of MMBIDP, however, the costs associated with extension are greater than the total average capitalization and far greater than any return on investment in the foreseeable future. Staff are clearly aware of this problem and are struggling with a variety of options. The first way to lower costs is to identify viable groups from other agencies. Initially, most groups were found this way. Yet there are not many other agencies working in this field and most of these have found group formation for economic projects is simply not feasible in the Philippines.

Even the MMBIDP staff themselves are not convinced of the utility of the group approach which was required of them by the bank. The bank wanted a cross-guarantee as a soft form of collateral. Because viable groups are not readily identifiable, staff often spend 60 percent or more of their time on group formation. Although the staff are young and seem to enjoy grass roots organizing, they are not doing what they are trained for. They are very expensive community organizers.

The staff hopes that any future loan financing will not be tied to group formation so that they can work with individuals. This might allow them to reduce the proportion of time staff devotes to non-business functions.

Even with this more restricted role, MMBIDP consulting services are very expensive for these tiny industries, averaging about P12 ($1.50) per hour. Since the average loan size per beneficiary is only P1,508 ($188.50), the number of consulting hours should be kept reasonably low. Currently, it is taking approximately one-half man-year of effort per group or approximately 880 hours per group.

With 17 field staff, MMBIDP currently has about 29,920 field hours available per year. Unless they are able to drastically reduce the number of hours spent on a per person basis, it will be impossible to increase significantly the number assisted above the current level of 240 per year, or 14 beneficiaries per field staff member. To reach 1,000 people the second year, for instance, it would be necessary to limit their consultancy services to 30 hours per year on an individual basis or 224 hours on a group basis. This is a very modest outreach for a model government program which hoped to have broad impact and significance. Even at this rate, each staff person would reach only 59 people a year.

To justify the expansion of the program, MMBIDP will probably have to increase the number reached to over 100 per year per staff person or less than 18 hours per beneficiary. This suggests the need to pinpoint the most critical needs of the entrepreneur. It also means using other organizations and resources much more fully than at present.

*CASE II*

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Phone: 48-66-75

Case Studies Prepared by: Miss Mely Bersalona

*Goals and History*

SELP, or the "Self Employment Program" was designed to assist graduates of the Job Skills Development Program of Manila Community Services, Inc. (MCSI) to be self-sufficient and self-supporting in cases where wage employment would be difficult to find. More specifically, the SELP objective is to provide "starter loan funds" and support to enterprising MCSI graduates and others who wish to start their own businesses.

The goals of the program are stated as follows:

a. to provide an integrated developmental assistance program to a group of selected MCSI graduates; and
b. to develop a group of motivated trainees who will manage their own businesses.

Since starter loans are given without collateral and with no written guarantee of a third party, SELP also seeks to develop in the recipients a deeper sense of honor and responsibility (*pagkatao*). Thus, a social purpose supplements the economic goals of the program.

The follow-up and supervision of the loan recipient during the life of the loan seeks to inculcate positive work attitudes and habits, small business management skills, and increased capacity to plan and discern proper priorities in disbursing money. In effect, an attempt is made to infuse increased capability in the management of his or her economic affairs.

Interviews with the MCSI Executive Director and her staff confirm their written goals. The Executive Director feels that the organization is trying to make beneficiaries self-reliant by training them to become entrepreneurs. SELP helps these poor people own their businesses. In the process, the SELP participants sometimes become leaders in their communities.

MCSI tries to select its leaders from among its early beneficiaries. The SELP participants themselves assist in the propagation and administration of SELP to other communities, "since MCSI is small and cannot reach all needy communities." The Executive Director believes that this process will enable them to identify new entrepreneur assistance activities with minimum assistance from MCSI. Thus, aside from self-sufficiency and leadership development, SELP intends to develop assistance technology "which could be transferred and utilized by other organizations and groups in other places in the Philippines."

MCSI is a non-profit institution imbued with the goals of social development. MCSI has adapted the techniques of economic assistance to the socio-cultural background of the beneficiaries and is flexible about refinancing loans in case of family crisis.

Beneficiaries perceive SELP mainly as an economic assistance program which helps them increase their income (40 percent saw the program as making their business ventures more viable). Some stated that SELP also developed their leadership in the community; early participants were later used as leaders who screen loan applications from their areas. Participants also mentioned that the program increased their capability to plan, solve problems, and establish linkages with other community persons and resources.

*History of the program:*

As early as 1966, the pastors and lay leaders of protestant churches in Metro-Manila realized that many of the problems brought to them by their congregations were related to the need for people to find employment. They felt that many people were unemployed because of lack of skills. This was particularly true in Metro-Manila where industries and services demanded specific skills which were different from those skills developed in rural agricultural settings from which many of the urban migrants came.

The pastors gathered concerned lay leaders for a series of meetings. These included labor leaders, a management expert, and other leaders from the larger community. The progam scope was limited by an awareness of the enormity of the problems and by limited funds.

In March 1968, MCSI was formally registered as a non-stock, non-profit organization. The initial program focused solely on skills training. Since MCSI funds and staff were small, MCSI established contacts and working relationships with agencies and organizations such as private industrial firms, government ministries (National Manpower and Youth Development, Ministry of Industry) and civic groups (such as Philippine Business for Social Progress). The skills taught included driving, automotive repair, footwear-shoemaking, electronics, handicrafts, sewing, shirt manufacturing, cosmetology, printing, upholstery, toy production, embroidery, candymaking, silkscreen printing, bookbinding, and mimeographing.

The first year was one of experimentation. As a young organization, MCSI had to build a network of associations with individuals, groups and institutions which could help MCSI fulfill its skills training objectives.

In the latter part of 1968, MCSI was invited to participate in the economic productivity program of the Punta Community Center, operated by what was then the Department of Social Welfare. An MCSI-initiated survey was done in the Punta Tenement Housing Project for the relocated squatters, and revealed that a number of youths were interested in learning driving and welding skills. MCSI's first training program for driving was set up in that area with 29 out-of-school youths participating. This pattern of localized skills training was repeated in subsequent years.

In 1969, MCSI expanded its skills development program and the JSTAP or Job Skills Training Assistance Program was launched. Under this program, mature members of the community were encouraged to act as sponsors to specific idle youths who wished to learn job skills. The sponsor would then arrange an apprenticeship in a shop or a factory. The sponsor could apply for financial and technical assistance from the MCSI-JSTAP Committee. Under the JSTAP, the welder training was conducted from July to December 1969 with the participation of 17 youths, half of whom were employed in welding shops. The rest did job orders with the Department of Social Welfare's self-help scheme.

In its third year (1970), MCSI evaluated its activities and decided to change its methodology. MCSI decided to pursue an integrated approach in its employment scheme, taking into consideration the interplay between job availability in industry and manpower development. It enriched its training programs with the addition of job motivation, industry participation, inter-agency cooperation, encouragement of local leadership and follow-through evaluation of its graduates.

In 1971, MCSI started discussions with shoe manufacturers in Marikina, Rizal for a training program in footwear making. The export potential of shoe-making was tremendous. Almost every shoe manufacturer in the Philippines was receiving orders from traders in the U.S. and Europe. By May, a training program was set up in cooperation with Rempson and Garios Shoe Factories. At the Valley Shoe Company, 120 youths were trained with the assurance of employment. Negotiations with other shoe manufacturers were carried out simultaneously for an expanded training program. This program, in 1971, marked a shift in approach from training without assured job placement to arranging for placement even before the start of training.

With the Development Services Program started in 1972, a community organization component was added to that of skills training. This program was launched to create self-directing communities and to develop among the people themselves the ability to initiate, manage and carry on local development. The initiative was supported by a foundation of private business firms, the Philippine Business for Social Progress, and a government skills training agency, the National Manpower and Youth Council. Also in this year, the concept of industry participation was made part of existing programs. To assure job placement of its graduates, MCSI worked closely with the Personnel Management Association of the Philippines and a number of manufacturing firms. The collaboration focused on determining which skills had the highest employment possibilities. Skills training reached its peak in 1973 when new skills were added to the program, including toy making, embroidery, handicrafts, bag making, advanced electricity and electronics.

In 1974, population education was incorporated into the skills training in support of the World Population Year. This program was implemented with the technical support and funding of the Planned Parenthood Program, Church World Service, and National Council of Churches, USA. MCSI provided personnel services and other operating expenses. The concept of creating a training consortium was also inaugurated and was called the "Cooperative Approach to Skills Training (CAST)." It pooled the resources of MCSI with two other foundations (Pasay Development Foundation and Paranaque Manpower Development Foundation) and the National Master Plumber Association of the Philippines to train youths as plumbers.

*MCSI's SELP Program*

The entire program was thoroughly evaluated in 1975. The evaluation was undertaken by the Institute of Human Interaction (IHI), a reputable and independent social science research and evaluation group which MCSI engaged to re-examine its activities, policies, programs and approaches. This study found that, despite enormous effort, only about 10 percent of graduates found employment. One of the main problems was that, although they had the skills, they did not have the educational qualifications required by the private firm hiring them. Thus, it was soon realized that skills training *per se* did not solve the unemployment problem. Something more was needed to contribute positively to self-sufficiency and the development of self-reliance.

Beyond its attempt to mitigate unemployment, MCSI sought to cultivate self-sufficiency among its graduates. This pointed to the logic of encouraging small business rather than training for wage employment. Since participants had been trained, the program had to go one step further and provide support such as loans, so that graduates could set up small businesses. Later, as these small businesses developed, they would not need MCSI support.

SELP was set up initially as a social credit scheme, meant to supply much-needed capital to start a small enterprise. Initial funding for the loan program was meagre, P5,000 ($625.00) and half of it was not paid back. It was a period of trial and error, with MCSI lending money to graduates whom staff members "felt" had entrepreneurial ability. One thing that MCSI established was the large demand for such social credit.

The early beneficiaries of the social credit scheme (numbering 93) were mostly women. All were graduates of the MCSI skills training program. SELP provided an average loan of P500.00 (62.50 per beneficiary, ranging from P200 ($25) to P2,000 ($250). The interest rate was 4 percent.

In 1976 MCSI received funding from Bread for the World (Bröt für die Welt), a German church development agency, in the amount of P264,000 ($33,000). The grant was deposited with the Philippine Commercial and Industrial Bank (PCIB) to guarantee small loans extended by MCSI. In effect PCIB administered the lending activities of the SELP with the Ministry of Industry and the Commission on Small and Medium Industries (CSMI) providing technical assistance. Despite these increases in funding, the program expanded very slowly and cautiously. There were only 78 new beneficiaries in 1977 and only 66 new ones in 1978.

*Relationship to Other Institutions*

The MCSI skills training program has ties with several government agencies, private voluntary organizations and private firms. In job skills development, MCSI is linked with the National Manpower and Youth Council, and private voluntary programs, such as Philippine Business for Social Progress, Personnel Management Association of the Philippines, Paranaque Manpower Development Foundation, and Pasay Development Foundation, and with private firms such as the Valley Shoe Company, Rempson Shoes, etc.

SELP tries to arrange for technical assistance from the Ministry of Industry, but the MOI's programs—such as the MASICAP and the MMBIDP—are short of technical personnel. However, a good relationship has been developed between these programs. MCSI turns either to them or to its own volunteers for help on technical issues or on matters relating to raw material procurement or marketing.

*Organization and Staffing*

MCSI is governed by a Board of Directors composed of eleven members, representing different business, university and religious backgrounds, selected for their influence in their respective communities and their commitment to social development. The Board meets yearly. A three-person Program Development Committee meets four times a year. This Committee is consulted on all policy issues. The day-to-day direction of the program and program development is left to the staff.

The MCSI has only two full time staff members. About 50 percent of available staff time is involved in SELP. SELP takes a high proportion of staff time because it is a new and innovative part of MCSI programming, but it is purposely kept small to allow the model to mature. Despite the small staff, over 2,500 people have been provided vocational training since MCSI began its program. Current SELP participants now number over 100.

Relationships among the staff, including the community leader volunteers (who now number 19), are informal. Since salaries are low, and volunteers receive no income from MCSI, SELP must count on the motivation of individuals, particularly the volunteers. With a small staff, SELP can expand no faster than the numbers and capabilities of the community leaders, for they now carry the main responsibility of identifying and evaluating clients, plus that of providing them with continuing support once the loan is made. In addition to keeping the overhead extremely low, this system allows the program to remain responsive to community needs.

It has not been easy for MCSI to find the staff and volunteers it needs. Because it cannot pay high salaries, it must seek highly motivated people who are attracted by the excitement of being involved in an experimental program. MCSI normally hires people who are involved in human services such as vocational guidance or social work. Only the Executive Director has had any business training or experience.

Volunteers emerge only very slowly as community leaders for the program. Most of those presently involved have been known to MCSI for five years. Others came to it on referral from other voluntary agencies, which have known these people longer.

Normally, a community leader will have little or no previous experience in community activities. They will enter the program as participants and as a result of this involvement, their businesses will grow and they will faithfully repay their loans. Over a period of time, modest opportunities will be provided for training and for carrying out responsibilities. If they prove to be dedicated and competent, they will be encouraged to undertake small leadership responsibilities in their community, such as helping another volunteer. If this works out well, they will eventually become community leaders. Increasingly, community leaders are recruiting their own assistants, who will, in time, be community leaders on their own. This seems to be an excellent system.

*Responsibilities and Contacts*

Loan recipients have direct contact either with community leaders, the MCSI SELP coordinator (who is, at times, also a community leader) or the executive director herself. Project proposals are hammered out during a 5-day seminar in the MCSI offices where 15 to 30 people attend. The proposals are evaluated by MCSI staff and community leaders who recommend them. The amount actually lent is based on the availability of funds coming in from collections. The bank processes and releases the loans and recipients sign a promissory note with the bank, but real responsibility for repayment rests with group leaders or community leaders who follow up with loan recipients. In most cases, loan recipients pay daily to community leaders. The bank actually functions only as a depository of funds. The administration of loans and collections rests with MCSI staff and the network of community leaders.

*Other Overhead Costs*

MCSI maintains a small staff to keep its overhead costs down to a minimum, thereby keeping a maximum of funds available for direct loan assistance and entrepreneurship development. It is also able to stretch the small funding given to SELP by soliciting assistance in cash and in kind (e.g. training cost, space rental, transportation, food, materials, etc.) from cooperating voluntary agencies in the Philippines such as World Vision/Philippines, the Personnel Management Association of the Philippines, the National Council of Churches in the Philippines, the Ministry of Industry, the University of the Philippines Institute for Small-Scale Industry, etc. These organizations and many others work with MCSI on programs which are relevant to their own activities. Small, privately-owned shops and factories also cooperate in a similar fashion..

*Costs of SELP on a Per-Client Basis*

Sufficient financial information was not available to pinpoint the exact cost of services on a per-client basis. However, it is estimated to be approximately P800 ($100) not including the loan, and P1,300 ($162.50) including the loan. These costs remain relatively high because SELP is still experimental. An expanded use of volunteers could take place with relatively modest increases in costs, which would result in a significant reduction in costs on a per-client basis.

*Description of Beneficiaries*

Of the 26 beneficiaries interviewed in July 1979, almost 90 percent are women and most are in their middle forties, with 90 percent having only elementary education. Almost all were born and have lived in Manila since birth. Significantly, half indicated that their parents were entrepreneurs, and only one indicated that her father was a farmer. The number of persons in the families of the respondents is large, ranging from 4 to 18, with 90 percent stating that they have seven or more members in the family.

Almost all those interviewed (24) have 2 or more workers earning an income in the family, indicating that the beneficiary's SELP activity is not the only source of income for the household.

Total household income ranged from P70 to P700 ($8.75 to $87.50) per week. Over 60 percent have less than P300 ($37.50) per week to support a family averaging between 8 and 9 people. There is a slight tendency for larger families to have larger incomes, but this is not universal. This income is composed of earnings from the business ranging from P20 to P250 ($2.50 to $31.25) per week, but averaging just over P100 ($12.50) per week, suggesting that income from the business was used to supplement family income rather than as one of its main sources.

Less than a third reported having businesses other than those SELP was assisting. Two-thirds of respondents stated they had at least five-years of business experience. One third reported they had been in business for an average of ten years.

The businesses themselves seem to represent a cross-section of those typically found in a poor, urban Philippine community. They included 7 in manufacturing: (toy making, box making, welding cement molds, candy making, fancy crafts, and tailoring); 1 in service (shoe repair) and 18 in selling (including buying and selling bottles, fruit, vegetables, cooked food, comic books, magazines, ready-made dresses, peanuts, used clothes, cooked corn, sweepstakes tickets, costume jewelry, bread, toys, candy, and the running of sari-sari stories, which usually involved selling of kerosene, soft drinks, cigarettes and rice, plus other necessities). Almost all (over 80 percent) did both their purchasing and their marketing in their own neighborhoods.

According to those interviewed, the most serious problem is lack of capital. Over 80 percent cited this as their critical constraint. Most of them must rely on family or friends for initial capitalization. Money lenders also supply emergency and working capital needs, typically at 20 percent interest or more a day. None of those interviewed had ever obtained a bank loan prior to involvement with MCSI. The majority (65 percent) felt that this access to inexpensive credit was the most important benefit of SELP. The same number felt that the best way to improve the program would be to provide more capital.

The second most important problem faced by these businesses was the supply of raw materials. Either raw materials were not available when needed (almost 60 percent of the respondents claimed this), or such materials could only be obtained at an extremely high price (over 40 percent). The small business is at a great disadvantage in this regard since suppliers will provide for their large customers first. Often, suppliers limit the remaining supply to force the market price higher, and force small businesses out of the market. Less than 10 percent have received help from SELP on this problem.

The third most important problem is marketing (50 percent). A wide range of other problems was identified, including poor location, fierce competition, bad weather, sickness in the family, exhaustion, and poor customer relations.

Despite these problems, a surprising 33 percent say they feel that incomes from their businesses are higher than they could obtain from wages (P10 per day as an unskilled wage-earner compared to a possible P20 ($2.50) and more per day for vending and hawking.) Prospects were even better for small manufacturing ventures. Even more surprising, almost 70 percent said they would prefer that their children be businesspersons rather than wage-earners. Reasons included better income, better opportunity, and that their children are business-minded. They saw little possibility that they would be able to educate their children enough to qualify for high wage positions.

*Program Activities*

*Outreach:*

SELP beneficiaries are recruited by community leaders who are early beneficiaries themselves. Of the 26 beneficiaries interviewed for this study, nine learned about the project through a community leader, three were approached by MCSI staff, one was referred by another agency, one by a neighbor, and two learned about the program during a skills training program conducted by MCSI.

*Selection: Criteria for Evaluating Loan Applicants:*

1. *Is the project viable?*
   The critical issue is to determine if the project is viable. Project viability, from the economic point of view, is judged on the basis of the following factors:
   a. its ability to generate payback within a reasonable period of time;
   b. its capacity to absorb interest charges on borrowed capital;
   c. its ability to generate enough income to meet the daily needs of its owners (i.e., can it pay its owners/workers a salary commensurate to their labor?); and
   d. its ability to generate an incremental profit which can be used for future reinvestment in the project or savings for its owners/workers.
2. *Is the loan otherwise bankable?*
   Can the project be financed through normal credit channels? The SELP program reaches out to those who have nothing with which to start their businesses. If the applicants are capable of securing normal financing, they should be encouraged to do so.
3. *Is the loan aimed at the basic livelihood of the applicant?*
   The SELP Fund derives its meaning from the slogan, "if you give a man a fish, he will eat only once, but if you teach him how to fish, he will eat for the rest of his life." This is a "starter fund" that seeks to enable the loan applicant to maximize the income-generating capacity of his or her enterprise. It is not meant to finance a project that will augment the income of an already prospering individual loan applicant.
4. *Does the project utilize the skills learned by the applicants from MCSI?*
   Since the clientele of the SELP program are normally MCSI graduates who wish to set up their businesses, any project they undertake must utilize skills they learned from MCSI. Moreover, MCSI graduates must be certified by their instructors as being proficient.
5. *How reliable is the loan applicant?*
   The pilot operations of the SELP program provide credit to three types of applicants: individuals; formal or informal groups organized to pursue their business on a cooperative basis; and community-based civic groups that set up businesses utilizing the MCSI-learned skills of

the trainees for their communities. These applicants must have developed the idea of the project themselves. The project cannot be the product of someone else's thinking. An effort is made to judge the applicant on his sense of honor and responsibility or "*pagkatao*", as this is considered an important element in a self-propelled development program.

*Steps in the Extension of SELP Loans:*

1. Every SELP loan applicant seeking funding from the SELP program submits a written request for funding to the SELP program.
2. The applicants that are recommended are organized into groups of 15 to 30 people to undergo a training seminar on small business management and to learn simple accounting, sales, and production management skills.
3. The request for SELP funding is turned over to the SELP coordinator or volunteer who discusses the request with the applicants. This discussion culminates in a written project proposal which incorporates the following:
   a. purpose of the loan;
   b. users of the loan;
   c. the needs met and benefits derived from the project;
   d. the amount of loan needed and schedule of releases;
   e. the system of loan repayment;
   f. the financial plan; and
   g. the management plan of operations.
4. If the SELP staff feels that more experience is needed in evaluating a particular project, the written project proposal is passed on to the credit investigation staff or PCIBank for evaluation of its economic feasibility.
5. Upon evaluation by the PCIBank credit investigation staff, the project proposal is turned over to the SELP Executive Director who passes final judgement on the project.
6. If the loan is approved, the borrower is accompanied by the SELP coordinator or volunteer to the PCIBank where he/she signs the promissory note and withdraws the loan according to prearranged releases. Details about repayment are also arranged at this time. If the loan is disapproved, efforts are made to enable the applicant to identify other, more viable projects that can be undertaken.
7. The project is then monitored by the SELP coordinator-volunteer. Every project must be monitored by the SELP coordinator at least twice monthly.
8. The loan is repaid according to the repayment schedules and mechanisms agreed upon earlier.

*Services*

*Managerial Assistance:*

To understand better how the project functions at the community level, the following case study of a MCSI community leader is illustrative.

After graduating from an MCSI dressmaking course, Carmencita Gaming became a community leader for all the Sampaloc area. Working under her are four area community leaders. Area community leaders find loan applicants and make recommendations to Carmencita. Carmencita visits the applicants to decide if they are good prospects, and makes a report to the Executive Director. If the Executive Director approves, Carmencita brings the MCSI social workers and SELP coordinator to visit the applicants. A case study is done by the social worker, while the SELP coordinator prepares a project study and application.

If the project study is approved and the loan is about to be released, Carmencita and the area community leader sign as guarantors of the loan. After release of the loan, the area community leader visits the beneficiary to gather the money collected. The SELP coordinator or social worker visit when and if any problems arise which Carmencita cannot handle alone. When there are meetings called by MCSI or there are visitors from MCSI, Carmencita informs the area community leader and beneficiaries.

There are more than 100 loan recipients in the Sampaloc area. The area community leaders may supervise as few as 10 or as many as 60 loans. Approximately half of the loan recipients come to the leaders to pay; about half have to be visited. In April 1979, leaders were trained in business and family counseling and these new areas are also included in their duties.

Most recipients pay their loans as promised. If there were delinquencies, these were seldom for more than one payment. If the delinquency is longer than one payment, Carmencita makes a visit, and if the delinquency is due to sickness, the loan is refinanced such that only a token payment of ₱1.00 a week is made. The default rate is low because they know their community leaders are standing as guarantors.

*Changes in SELP services:*

SELP started out with a working concept of granting loans just like any credit institution. Applications were filled out and evaluated by MCSI staff for viability, and loans were given out. Repayment was expected either monthly, quarterly or semi-annually, directly to the bank. It was soon realized that this procedure, while inviting to the beneficiaries, does not work. Half of the loan recipients defaulted. The approach was changed to suit local conditions and culture.

First, loan evaluation is done informally and delegated to community leaders who reside in the neighborhood where the applicant lives. The community leaders are very carefully selected and now number 12. Second, the first loan is purposely made small, to be expanded as the business develops. Third, repayment is better when groups break up and collections are made from individuals. Groups which are still intact plan to disband once the group credit with SELP is repaid. An interesting compromise seems to have been worked out in SELP, where the group exists, but the group does not guarantee the loan. The group leader is responsible for the loan, and therefore, must impose discipline over the members. While the group meets and members help each other solve problems, the group leader is looked to as the final arbiter and is the one held responsible for the loan repayment.

*Other Support Services:*

In the "Inter-Self Employment Program" (INTERSELP), which was introduced in 1977, the following services were added to that of loan assistance: media support (e.g., publications on how to run businesses and common answers to problems); production and marketing assistance from experts drawn by MCSI from cooperating agencies; supportive services (guidance and counseling); staff development (e.g., continuing training and seminars in MCSI); and research and evaluation. The INTERSELP is new and is still being tried out.

Other innovations have also been introduced: there is a Junior SELP, which allows teenagers to begin to develop entrepreneurial skill by receiving tiny loans, and the Pre-SELP, which provides initial loans of less than ₱500 ($62.50) to allow a potential beneficiary to test his/her capacity to undertake a business before receiving more substantial assistance. Loans are increasingly made to people recommended by their community leaders.

The most recent focus of SELP is on the family as the entrepreneurial unit. A new training program has been evolved to complement SELP, using this family-based approach. The head of the family, the spouse and the children are encouraged to work together in one business enterprise, and a loan is given, with the head of the family responsible for repayment. Usually, the wife runs this small business, since most often the husband thinks in terms of some bigger business, or of wage employment.

This new approach was needed because many businesses had trouble due to opposition in the family or misuse of capital by other family members. This was especially true if the business was run by the wife. The husband might view the business simply as a source of additional resources to be used when and as he chose. Family SELP tries to deal with this problem by involving the whole family. As a result of these innovations, loan defaults fell from a dismal 50 percent in 1976 to zero in 1979.

*Beneficiary Participation:*

One of the appealing features of SELP is that it has emerged as a response to the needs of poor people, and these people participate in and influence its continuing direction. The informal nature of

MCSI operations makes it easy for beneficiaries to talk to the Executive Director, other staff, or to community leaders. There is a steady flow of clients into and out of the MCSI offices every day. In addition, community leaders and their assistants see beneficiaries on a daily basis. Regular meetings are also convened by community leaders with their "group" of beneficiaries living within their area. At these meetings, problems are aired and solutions are sought. If problems cannot be solved locally, community leaders carry them to their regular meetings at MCSI. Here, the needs of beneficiaries are identified and solutions are sought in terms of improving programs. MCSI has shown remarkable flexibility in changing to meet newly identified needs.

Beneficiary participation is continually increasing. As beneficiaries demonstrate interest and motivation, they takc on new responsibilities, and the past three years have witnessed the gradual transfer of responsibility to increasing numbers of community leaders.

Why do community leaders get involved with this program when it requires a heavy time commitment and considerable responsibility? They say there are three basic reasons: 1) gratitude and loyalty to MCSI, which had a dramatic influence on their own incomes; 2) the prestige associated with community leadership; and 3) the fact that daily contacts allow the leaders to develop their own business activities.

In many cases, community leaders are suppliers of critical business inputs, like rice. This serves the purpose not only of making a nice profit for them, but also allows the community leaders, through bulk-buying, to offer the commodity to the beneficiaries at a lower price. There is, of course, room for exploitation in such a system, but no evidence of it was found.

*SELP Impact*

As indicated earlier, almost all of those interviewed indicated they had been in business before receiving SELP assistance, 66 percent for more than five years. In addition, of those interviewed, over 70 percent had received assistance from SELP for a year or less. Therefore, it is difficult to isolate the impact of SELP on the basis of interviews.

A second problem in assessing impact is that interviewees were asked to reconstruct financial histories from their memory, since less than 20 percent report using any form of record-keeping. For these reasons, non-financial measures of impact are probably more valid than financial measures. These results are highly impressionistic.

Twenty-six interviewees received at least one loan from SELP, ranging in size from a P100 ($12.50) individual loan, to a P4,636 ($579.50) loan for a group of five. The average loan size was P509 ($64), and if the one large group loan is removed, the average would be P344 ($43). Six had received a second loan averaging P750 ($93.75).

In addition, 21 of those interviewed had received basic management training (a 5-day course) from SELP, one had received community leader training, and six had received skills training from MCSI. Over 40 percent said they learned from these courses how to budget and how to manage a business. Over 20 percent said they learned how to improve customer relations.

There seems to have been a significant increase in community involvement as a result of SELP. There was a 23 percent increase in those who said they were involved in community projects since joining SELP. There was almost a 20 percent increase in those who gave advice to other individuals on business matters.

Asked if SELP helped them and their family, 23 percent said they could now afford education for their children, 11 percent said it had improved their relations within the family. Asked if it had benefitted the community, 23 percent said people can now buy goods closer to home on better terms, and 10 percent said that the program gives a livelihood to the needy.

The following case suggests the kind of impact SELP has had. Sheila Ubalso (29 years old) is a housewife in a rural town 90 kilometers east of Metro-Manila. She is married to a carpenter who is sickly and whose earnings could not support four children. Often, the couple had to skip meals just so the children could have what they needed (clothes, school expenses, etc.). In 1973, MCSI conducted a dressmaking class in Siniloan, Laguna, where Sheila lives. Sheila enrolled in, and successfully completed, the class. With her new skill, she teamed up with another housewife and sewed pillowcases. Their first sale netted P200 ($25), which encouraged them to go on. With a P5,000 ($625) loan from SELP in 1974, the partners expanded their business into other lines, such as children's dresses, ladies' underwear, and other items. By 1979, Sheila's business had provided her with enough additional capital so she was able to build a house of stronger mateial, buy clothes, start a small piggery and open a small *sari-sari* store in her house.

*Assessment*

*How SELP sees its role:*

In assessing SELP and its mother organization, MCSI, it is important to understand how the program sees itself. Basically, the program's purpose is to experiment in new areas, and to develop models which others can then implement on a larger scale, if they deem appropriate. From MCSI's perspective, imitation is the sincerest form of flattery.

MCSI feels that its early training programs had a significant influence on the direction of the entire sector of vocational training in the Philippines. The organization began its work in this field when there were relatively few programs reaching the very poor. Others quickly followed in MCSI's footsteps. This gradually reduced the need for MCSI services in anything but more specialized and carefully targeted areas where conventional vocational training was not available.

MCSI then carefully evaluated itself and moved in the direction of self-employment. Again in this area, it views its role as experimental, as model-building, and it hopes that it will be quickly emulated.

The model it has developed consists of using community-based volunteers to deliver the most critical services to the very poorest informal sector entrepreneurs. These services are packaged in a way, however, in which there is a significant effort to have an impact not only on income, but on broader social and community development. Promotion is intensive and time consuming, but done primarily by volunteers, which keeps costs low.

Costs are also reduced by the collaborative style of MCSI. This style is difficult to record because of its informal nature, but it can best be summarized as working closely (and when possible, jointly) with as many other institutions and people as is feasible, A) to deal with broader policy matters, and B) to respond to the needs of individual beneficiaries.

MCSI has excellent relations with many individuals and institutions. This makes it possible for them to learn from each other and to work together. At MCSI it is not unusual to see in a single day a social worker from the Ministry of Social Services and Development and a staff person of the Ministry of Industry, asking assistance and advice on how to work with individual clients in their respective programs. There is a good deal of complementary support of beneficiaries through this interaction, making it possible to tailor services to the particular needs of individuals and families.

This exchange of ideas means that staff from the various agencies are always learning from each other and that progress is being made continually toward achieving MCSI's goal of transferring its model. There is no doubt that MCSI continues to influence similar programs in the ministries and private agencies as well.

This collaboration is, however, not only central to the MCSI approach, but it is also essential to the successful replication of SELP. This program demonstrates that it is possible to reach and assist the very poor informal sector entrepreneur. It also demonstrates that it is possible to use volunteers to deliver services and that the most relevant form of assistance is credit.

However, MCSI did not find it easy to identify and develop community volunteers. This could only have been accomplished by a high order of astute and charismatic leadership, willing to listen and respond to needs defined by the beneficiaries, and by developing an organizational structure of great flexibility. These combined features are not always present in any one organization. Also, one organization will not always have all of the resources needed to respond adequately to the needs of beneficiaries.

These factors make the need for collaboration critical in replicating this model. Organizations with good ties to the community will need to team up with other organizations or governmental agencies with access to resources of various kinds. Community-based agencies will be able to assess needs and develop a volunteer cadre, while larger agencies can design assistance formats and coordinate resources.

*General Observations*

SELP would be improved by intensive staff and leadership development. This could be accomplished by an exchange of ideas, locally and internationally, among voluntary organizations engaged in the development of small entrepreneurs. While the MCSI approach to small business is in itself innovative, the Executive Director expressed an interest in further exploring new approaches in similar programs.

With the initial experimentation of SELP smoothly implemented and the MCSI model proven effective, the program should be expanded into other areas. This would require the infusion of more professionals into the organization, especially in small business development in such areas as marketing, finance, production management, and record-keeping.

When the beneficiaries were asked how SELP might be improved, the largest percentage (65 percent) suggested providing more and bigger loans. Just under 20 percent recommended more management seminars and 11 percent recommended helping more people.

## *CASE III*

SELF-EMPLOYMENT ASSISTANCE PROGRAM (SEAP)
Ministry of Social Services and Development
Regional Office No. IV
715 Gastambide Street
Sampaloc, Metro-Manila

Regional Director: Miss Corazón Alma G. de León

Phone: 27-35-28

Case Study Prepared by: Aida Pareja 8/1/79

### *Goals and History*

*Goals of the program as stated in written program material:*
Self-Employment Assistance Program (SEAP) is inspired by the philosophy that the family is the basic unit of society. Thus, the family is developed, strengthened, and supported to become economically self-sustaining and self-reliant, and, even in crisis, must be able to rally its members for economic self-maintenance.

SEAP aims to help the client attain the following for himself and his family:

1. positive work attitude and habits;
2. added occupational and small-business management skills;
3. increased income and a step-up on the economic ladder;
4. capacity to plan and determine priorities in spending money;
5. increased level of aspirations for economic advancement;
6. improved lifestyles through changes in standard and mode of living, higher levels of social responsibility and participation; and
7. improved capacity to utilize community resources (especially financing and credit facilities) and other social services needed to upgrade his functioning in his role as a breadwinner or as contributor to the family income.

*Goals expressed by program director and other staff:*
The goals expressed by the program director and staff generally coincided with those articulated in the written material. Emphasis is placed on the fact that SEAP is seen as a means to an end and not an end in itself. The end is family self-sufficiency. SEAP is meant to be only one element contributing to this goal.

*Goals as perceived by beneficiaries:*
Beneficiaries perceive SEAP's purpose as helping them become financially independent by helping them start their own business. Through the small capital assistance they receive, they perceive themselves as able to increase their income levels. Clients believe that parallel services enable them to develop the capacity to plan, work on their problems, and make use of community resources.

*History of the Program*

The initial problem identified by the program was how to lift the "poorest of the poor" in the Philippines. This is the part of the population which cannot normally take advantage of opportunities for income generating activities. In the Philippines, this socially and economically disadvantaged group belongs to the lowest income brackets, the bottom 30 percent of the population. They include the following:

1. those who are faced with crisis situations such as natural or man-made disasters, social displacement (as in the case of ejected squatters), death, abandonment, evacuation, imprisonment or illness of the family head resulting in sudden loss of income, against all of which no social security or insurance measures are available, and therefore there is lack of income;
2. those who had no schooling or training at all, or who have dropped out of school at elementary and secondary levels and therefore have no skills for wage-earning employment, or who cannot compete with those who have better education and training for the job;
3. those who may have the skills for self-employment but who lack property for collateral or guarantors and would not be able to borrow from banks or use credit facilities for their capital in starting an income-producing project;
4. those who have skills but cannot compete in the labor market because of certain physical and social disabilities (the blind, rehabilitated or recovered drug addicts, etc.), or because they are not of employable age—either they are too young or are aged; and
5. those who have no confidence in themselves, but are not emotionally or mentally ill.

These people may not be able to provide themselves with the basic requirements for food, clothing and shelter without assistance.

The concept of self-employment assistance started after World War II. The War Relief Office helped widows and orphans of the war by providing them with materials for piecework. Clients were also taught handicrafts under the supervision of a worker and thus earned while they were still learning. This was the beginning of "sheltered workshops" for the disabled and individuals with special requirements and needy family heads.

Republic Act No. 1179, passed in 1954, provided the promotion of vocational rehabilitation services including vocational training for the blind and other persons disabled by natural and/or accidental causes resulting in job handicaps. The goal was to prepare such disabled persons for jobs suitable to their abilities and talents.

In the early 60's the Office of Field Services started "self-help" projects for disaster victims. Cash grants were given to eligible clients to enable them to undertake an income-producing activity. Under the Animal Dispersal Scheme, animals were given to clients who had lost their source of income due to disasters. Eventually, the recipient was expected to return the same number of animals to the program so that they could go to another client. This was the beginning of the "roll-on" scheme.

With UNICEF assistance in 1964, the Ministry of Social Services and Development's Social Welfare Agency began providing skills training equipment to pilot community centers to improve the skills of workers and the quality of their products. Vocational instructors were hired. Those who finished the training were referred for employment or given capital assistance to help them start their own small businesses using the skills they had learned from the pre-vocational training. The concept of "feasibility of project" was based on the idea that with the appropriate skills, a trainee might be eligible for capital assistance to his own small business.

The Bureau of Vocational Rehabilitation implemented the Settlement Fund in 1968, which was incorporated in the Social Welfare Act, (R.A. 5416). Those physically handicapped who had skills were enabled to engage in income-producing activities by receiving loans from the Settlement Fund which they paid back in installments without interest.

In 1969, the Economic Advancement Program (EAP), under what was then the Bureau of Family Welfare, was launched. The components of cash assistance, project feasibility analysis, on-the-job counseling, and roll-on funding were all incorporated in this service for able-bodied family heads and out-of-school youths. "Economic advancement" was the goal of the program.

EAP was further developed in 1971 to become what is now referred to as Self-Employment Assistance. Since economists considered economic advancement a misleading term and too broad a goal, the more descriptive title was selected. The objectives of Self-Employment Assistance are more specific, and within the capabilities of the social welfare agency. Funding through a grant has been provided so that social workers and other social welfare workers may teach clients the skills necessary for self-employment.

All Ministry of Social Services and Development (MSSD) programs use the "roll-on" funding scheme, in which new loans are funded from the repayments of old ones. In this way, the program inculcates a sense of social responsibility (*Tulong Kapwa*), since the clients are essentially transferring their capital from one to the other.

The current program began as a modest component of the larger Ministry activities. There was initially no distinct staffing for SEAP. In its first year, only a few loans were made. Funding levels increased very slowly in the early years. Between 1972 and 1976, SEAP served 103,657 clients, less than 10 percent of the total Ministry clientele of 1,223,748 for that period.*

Since the Ministry recognized that there was a critical need for capital among beneficiaries, it expected the response of the clients to be enthusiastic. In fact, once people became aware of SEAP, potential clients flocked to the offices to fill out applications.

### *Initial Problems*

*Funding:*

The initial funding for SEAP was modest. The result was that demand far outstripped supply.

*Staffing:*

Tied to this limitation was the fact that there were no staff assigned exclusively to SEAP. Nor were there any training programs to prepare existing staff to undertake this new activity. Staff were principally trained in social work as multi-purpose workers and did not have the skill, orientation or inclination to be involved in self-employment projects. Staff, as always, had heavy case loads. There was a natural tendency for them to devote their scarce time to activities with which they felt competent and familiar. The result was that most staff devoted little time to SEAP in its early years.

For those who did venture into the area, there were a number of frustrations. Staff found that assisting self-employment was a wholly new kind of activity. They found that many of the projects they assisted failed because they did not have the diagnostic skills to undertake adequate appraisals.

*Expertise:*

Part of the frustrations experienced by the MSSD workers was occasioned by the fact that establishing a business requires certain managerial and technical skills. Since the MSSD staff did not have these skills, they could not evaluate the presence or lack of them in a project proposal. Nor, at this point, did MSSD know where to turn to find such expertise. There was a critical need either to have staff with this expertise or for linkages with other organizations which could provide technical and managerial inputs.

*Repayment:*

A major problem with beneficiaries of the program arose because the poor have come to view all assistance from the government as a grant, even if given as a loan. The recipients assume the government will not enforce loan repayments and, therefore, do not repay. This attitude resulted in default rates during the early years of 50-70 percent.

This situation was further complicated by the fact that MSSD itself did not view loan repayment as critical. MSSD clientele are among the poorest of all Filipinos and therefore more subject to the crises of sickness, natural disaster, etc., making loan repayment highly problematic. The Ministry position was and is that if the problem causing non-payment is legitimate, the loan can be refinanced and even written off, if necessary.

In many cases, loans were written off. When this happens and word spreads, it is difficult to get others to repay.

*Region III (Central Luzon)—total SEAP beneficiaries: FY 1972-73 28,672; FY 1973-74 28,606.

*Growth and Change in SEAP Since 1972*

SEAP has grown steadily. It now represents one of the major thrusts of MSSD. The reason for this increasing level of attention is the labor market situation. The agricultural sector and large industry and service components of the formal sector have not been able to absorb the increasing numbers of people seeking jobs. As a result, the informal sector seems to hold the only immediate prospect for absorbing a large number of people.

MSSD hopes that SEAP will shrink in importance in three to five years as job opportunities expand, particularly in the service sector. For the immediate future, however, the budget will continue to expand. Region IV, which is the area immediately surrounding Manila, has a current budget of 5.9 million Pesos ($737,500), of which approximately ₱1 million ($125,000) is in SEAP loans. The region expects an increase of at least ₱2 million ($250,000) for the coming year, of which as much as ₱1 million may go to SEAP loans. If approximately 50 percent of current loans are repayed, total lending would go up next year by at least 50 percent. During the 1977-78 year, 38,040 people were assisted by SEAP. If we assume a 50 percent increase in beneficiaries to match the increasing funding levels, we might expect Region IV (Metro-Manila) SEAP to reach between 55,000 and 60,000 people during the coming year. During the first quarter of 1979 (Jan.-March) 7,528 people were assisted.

*Organization and Staffing*

*Organization:*
MSSD has a professional staff of over two hundred in Region IV (Metro-Manila), plus additional support staff to implement a wide range of programs, of which SEAP is only one. Majority working responsibility for SEAP lies with the social workers, who identify clients and develop proposals, and with the Project Evaluation Officer (PEO), who reviews these proposals. The workers who have direct contact with clients (social workers, youth development workers and welfare aides) have the key responsibilities in SEAP. They identify the potential beneficiaries and make the critical decisions about assistance. The social worker develops the feasibility study with the client, identifying and utilizing whatever technical guidance may be needed. Next, the social worker refers the case to the Project Evaluation Officer, who reviews it for technical feasibility and can, ultimately, veto it, although this seldom happens. A social worker would typically consult with her unit leader or with Provincial Social Welfare Officers, if the case is particularly complicated. The case goes from the PEO to thc Provincial Social Welfare Officer, where it is given final approval. Assuming it is a well-developed project and funding is available, proposals submitted by the social workers are usually approved.

*Relationship with government or other projects:*
Due to the limited technical ability and reach of its staff, MSSD has established linkages with other groups for technical and financial support: Ministry of Industry, Philippine Business for Social Progress, Manila Community Services, Inc., Development Bank of the Philippines, Philippine National Bank and many other urban and rural community-based programs. The Development Bank of the Philippines, for instance, provides SEAP with technical assistance. Once a small income-producing activity is developed and a client in a group wants to expand it, referral is made to this program and the bank tackles the more complicated technical questions related to a larger enterprise. However, follow-up and supervision are still left to social workers. For instance, one food processing project referred to DBP by MSSD involved a group of 40 people and a ₱140,000 ($17,500) loan. This business started as a very small MSSD project six years ago and still receives supporting assistance from MSSD. Such cooperative relationships are now quite common in MSSD.

*Staffing* (Region IV):

1 Regional Director,
8 Provincial Social Welfare Officers,
4 Community Welfare Supervisors,

11 Project Evaluation Officers,
10 Supervising Social Workers,
24 Senior Social Workers,
44 Social Workers,
47 Youth Development Workers,
51 Welfare Aides.

*Staff time devoted to SEAP:*

SEAP is only a part of MSSD's package of programs and services. Direct workers (social workers, welfare aides and youth development workers) spend 30 to 50 percent of their time on SEAP. Project Evaluation Officers work full time for SEAP. Each worker averages 50 to 70 hours of work per week.

*Salary levels:*

| | | |
|---|---|---|
| Provincial Social Welfare Officer | P14,532 | ($1,816) per year |
| Community Welfare Supervisor | 12,516 | ($1,564) |
| Project Evaluation Officer | 11,904 | ($1,488) |
| Supervising Social Worker | 12,516 | ($1,564) |
| Senior Social Worker | 10,260 | ($1,282) |
| Social Worker | 7,992 | ($999) |
| Youth Development Worker | 5,640 | ($705) |
| Welfare Aide | 5,376 | ($562) |

Each of these regular employees is a member of the Government Service Insurance System, entitled to sick leave and vacation leave, medical care benefits, life and retirement insurance, and reimbursement of actual travelling expenses incurred.

*Other overhead costs:*

The Region IV SEAP Program does not have separate funding. What follows is the total maintenance and other operating budget expenses of the Regional and provincial offices for all programs for 1978.

| | | |
|---|---|---|
| Travelling expenses | P267,090 | ($33,386.25) |
| Communication | 15,692 | ($1,961.50) |
| Transportation | 4,046 | ($505.75) |
| Other services (repairs & maintenance) | 102,949 | ($12,868.25) |
| Supplies | 235,510 | ($31,688.75) |
| Equipment | 6,800 | ($850.00) |
| TOTAL | 650,087 | ($81,260.88) |
| WAGES | 1,189,872 | ($148,734.00) |
| TOTAL OPERATING EXPENSES | P1,839,959 | ($229,994.88) |

Since about 40 percent of direct staff time is spent on SEAP, 40 percent of MSSD operating expenses may be allocated to the program, or P735,983 ($91,997.95).

*Program funding:*

Current sources of funding available for immediate use for MSSD are as follows:

| | | |
|---|---|---|
| Alay-Lakad | P150,000 | ($18,750) |
| Roll-back funds (Tulong-Kapwa funds) | P191,248 | ($23,906) |
| External resources (e.g., non-governmental organizations like Lions Club, Jaycees, Kiwanis, Inner Wheel, etc.) | (amount unknown, but significant) | |

*Program costs per beneficiary:*

| | | |
|---|---|---|
| Amount for loan program | P1,087,610.00 | ($13,595.25) |
| Amount for overhead | P735,983.00 | ($91,947,95) |
| Total program costs | P1,523,593.00 | ($227,949.13) |
| Total beneficiaries (1978)—16,516 | | |
| Cost per beneficiary (of total program costs) | P110.40 | ($13.80) |
| Overhead costs alone | P735,983.00 | ($91,947.95) |
| Cost per beneficiary (of overhead costs) | P44.56 | ($5.57) |

*Educational and experience qualifications of staff:*
Provincial Social Welfare Officers, city welfare officers supervising social workers, and social workers are normally graduates with a Bachelor of Science in Social Work degree and must have passed the Board Exams. Of the staff interviewed, the minimum time working with SEAP was 2 years, the maximum was five years, and the average, three years. In-service training related to SEAP is limited to training in preparation of feasibility studies and general guidance on social work practice.

Project Evaluation Officers (PEO) have a BS in Economics, Commerce, Accounting or Administration and have passed Civil Service Commission examinations. These officers, of whom there are only a few, are very new, most having been hired in the last year, directly from school. There are no specialized courses in MSSD for Project Evaluation Officers, but they are being planned. It will take some time to get them properly trained.

Welfare Aides and Youth Development Workers who are called para-professionals in social work, are expected to have finished any four-year course and be civil-service eligibles. Most of these people are young and have limited experience. Their in-service training is the same as that of social workers. They are encouraged and supported to go back to school for formal social work training.

*Client load:*
The typical social worker has a total client load averaging 1,000. Out of these, an average of 47 are SEAP clients. Social workers attempt to see the clients at least once a month, and since many of them are members of a single family, the burden may be somewhat reduced.

### *Description of Beneficiaries*

The following examples are representative of persons who may be faced with an inadequate source of income and for whom Self-Employment Assistance may be extended:

1. the heads of families or spouses who are physically or mentally unable to work;
2. the rehabilitated physically and mentally handicapped heads of families;
3. the disadvantaged youth, from 10 to 24, who are not yet heads of families but could already engage in income-producing activities;
4. the rehabilitated physically and mentally handicapped members of the family, aged 21 to 64 (or, if above 64, who are physically and mentally able to work);
5. socially disadvantaged adult member of families, 24 years old and above; and
6. distressed individuals who may be heads of families, needy youth or those who belong to special groups.

Those qualifying for the program must not be younger than ten years of age, must have a maximum monthly income of not more than P200 ($25) for a family of six members or a per capita monthly income of P35 ($4.38) in the rural areas and not more than P300 ($37.50) or P50 ($6.25) per capita in the urban areas, and must have resided at a given address for at least one year without plans of transferring residence. They must be physically and mentally fit to engage in the income-producing activity of choice, should possess a working knowledge of the proposed income-producing activity and must have positive relationships with family members. In addition, they must be willing to accept guidance from MSSD workers, to submit a monthly financial report on their projects, and to open a savings account in which over a period of 6 months to 2 years they should deposit at least 10 percent of their net income.

These clients by and large belong to economically vulnerable groups insofar as they are already faced with the need to meet the basic requirements for food, clothing and shelter and may not be able to provide for themselves without assistance. According to senior Ministry officials, however, the SEAP beneficiaries are not the very bottom group. They feel from experience that in order for a business to succeed, the client must possess basic business skills and attitudes. If the project is with a group, the group must be cohesive, and have continuity. These essential requirements are normally not met by the very poorest people. Instead, SEAP focuses on people who do have these capacities and are one or two steps up the economic ladder.

The 18 recipients of SEAP assistance interviewed have been residents of Laguna, Batangas, and Cavite for more than five years, and range in age from 27-74, with the largest group between 41-50. Over 65 percent are women. Only seven of those interviewed have gone beyond grade school. Only 16 percent of the fathers of interviewees had been entrepreneurs. One third were service employees (drivers, warehousemen), and 38 percent were farmers or fishermen. Half of the mothers of interviewees were housewives.

In 38 percent of the families, the person interviewed was the only family member with regular employment. Another 50 percent had one other income earner.

Income level goes from P50 to P605 per week for a household ranging from 3 to 11 members. Average is about P175 a week for a family of 6. The income is composed of earnings from the business, which ranged from P15 to P1,060 ($1.88 to $132.50) a week (the latter for a group project). The average was P115 ($14.14) per week. Only 45 percent of the families had any income from wages. Income from this source ranged from below P100 ($12.50) to over P400 ($50), but only three interviewees reported more than P100 ($12.50). Only two persons reported income from any other source—one P5 ($9.38), the other P209 ($26.13) per week.

Sixty-six percent of those interviewed said they had owned a business prior to involvement in SEAP and 44 percent had been in business seven or more years prior to SEAP help. Four reported businesses other than that assisted by MSSD, including piggery, fish vending, white cheese making and house rental.

The businesses in which interviewees were involved and which received MSSD assistance included manufacturing (*balut* and red egg making, a bakery, fruit candy making, footwear making, baby dress making); service sector businesses (upholstering and *cavinderia* (cafe)); and selling (*sari-sari* store, selling cigarettes, soft drinks, kerosene, candy, rice, ready made dresses, fish-vending and snack-vending).

When asked why they were involved in their respective businesses, 44 percent said it was the only thing in which they were experienced or skilled. Another 27 percent answered because they can do it at home, while caring for their children. Twenty-seven percent favored business over work for wages because they could be their own boss. Sixteen percent cited health reasons, while 11 percent said they gained more income, had insufficient education or no inclination for wage employment.

For most of those interviewed (83 percent) the most serious problem was lack of capital. Only 28 percent said they had financial assistance from family, friends, money lenders, banks, or any other source. Four had access to bank credit when they started and one had access to a money lender. But most start-up funds come from the family. Those interviewed see lack of capital as a critical constraint that keeps them from expanding the business or improving efficiency.

The second most serious problem is lack of raw materials (cited by 50 percent of those interviewed). Because they must buy in small quantities, they cannot compete with bigger buyers. Either the raw materials are not available when needed or must be purchased at a much higher price than that available to the large purchasers.

The third most critical problem is lack of equipment (44 percent), followed closely by marketing (38 percent). Equipment needed included glass jars, coolers, cooking utensils, bread pans, bread machines, and chairs. Either machinery was needed or what they had was not functioning. Marketing is difficult for them because they cannot afford transportation to go to large markets to sell their product. Market information is spotty. Often, they do not keep in step with changing tastes. Competition is fierce for many of their products.

Minor irritants include lack of space, lack of electricity, police harassment, theft, and lack of business records.

*SEAP Solutions*

Most of the people interviewed had been in business before receiving MSSD assistance, and for most, business income was a major source of family income. SEAP was created and expanded in recognition that self-employment and increased income are critical needs. And when asked what would be the changes needed in SEAP, most replied, "provide more capital".

But beyond this immediate aid, SEAP's goal is one of self-sufficiency. Capital enables the development of a viable business and improvement in social functioning. The major costs of SEAP are involved in their continuing experimentation toward increasing MSSD success in achieving this larger goal.

*Program Activities*

*Outreach:*

A team composed of a social worker, welfare aides, and a youth development worker conducts a community survey in the depressed barangays in coordination with the barangay captains and holds community assemblies and group meetings for determination/identification of problems. Through these meetings, information is shared, with the intention being to explain to the potential SEAP clients the goals of the program. Possible income-generating activities are identified. From there, clients begin to apply for SEAP assistance.

Workers also receive referrals from volunteers, community leaders and other agency personnel. Of those interviewed, 33 percent said they heard about the program from neighbors, friends or relatives, 17 percent heard about it from MSSD staff, and 17 percent said another agency referred them.

Program personnel usually perform outreach activities at night or on weekends and spend 20 hours per week, or 40 percent of their time, on this task.

*Selection:*

Beneficiaries are selected according to the following criteria: They should have an average monthly income of ₱200 ($25) to ₱300 ($37.50); should have resided in their home at least one year; should have inclination for the project, skills and experience; should have harmonious relationships with other family members; should be physically and mentally fit for the kind of project they want to pursue; and should be willing to accept supervision from the MSSD worker. Those meeting these criteria must be such as can benefit from a loan of no more than an average of ₱300 ($37.50).

If the initial intake report on the client suggests he meets the basic requirements, a home visit is scheduled. This interview normally takes place not more than one week after initial application. In the home visit and in any needed subsequent meetings with other family members, a psycho-social study is conducted. This may take three or more meetings and may consume an average of one month. During this phase, the social worker gains an in-depth knowledge of the client's problems and needs. He develops an assessment of the potential for a specific type of income-producing activity, along with a plan of action to remedy any social or psychological problems that might affect his productivity.

The next step is for the social worker and client (and sometimes the Project Evaluation Officer) to undertake a feasibility study. These studies provide information on the aptitude and skills of the client, sources of raw materials (including availability, cost, etc.), and market (demand). The several meetings required between the beneficiary and social worker may take up to two weeks to be completed.

In the early days, social workers completed this stage with minimal beneficiary involvement. They have since come to recognize that beneficiary involvement in preparation of the feasibility study is critical to project success. However, this has increased the amount of time needed for the feasibility study.

After completion, the feasibility study is reviewed by the Project Evaluation Officer. About 20 percent of the PEO's time is spent on feasibility studies. Review of these studies, along with follow-up on approved projects, are the major duties of the PEO.

Once the PEO provides his endorsement, the feasibility study goes to the provincial or city social work office for final approval. This component usually takes an average of two weeks, assuming the funding is available.

When the check is released, it is deposited in the local bank. The social worker and the client must both countersign the check to have it cashed.

The maximum loan size is P300 ($37.50) for an individual and P1,500 ($187.50) for groups. Loans are for 12 months or less, with no interest. However, many group projects are much bigger: The largest loan approved in 1979 was for P20,034 ($2504.25) for a large craft project in Quezon province. The smallest was for goat raising in Palawan Province. Average loan size for those interviewed was P164 ($20.50).

MSSD has found from experience that it is very important not to give someone more money than can be absorbed in the project. If too much money is given, it tends to be diverted to other uses such as schooling for children, medical problems or daily expenses. On the average, MSSD officials estimate that 30-40 percent of present loans get diverted. When this happens, it is difficult to get repayment.

Decisions on repayment scheduling are made between the social worker and the client on an individual basis. In the past this decision was made by the social worker. But with increasing recipient involvement, social workers have recognized that repayment should be keyed to the business rhythm, *i.e.*, if turnover of goods is daily, repayments should be daily. If the loan is for a chicken-raising project requiring a 12-14 week cycle, then borrowers should pay within that time frame. As a general matter, staff feel that amortization should be as short as possible within the framework of the particular business cash flow cycle. When asked about the best frequency for repayment, interviewees answered as follows: 1 said daily, 4 weekly, 4 monthly, 3 bi-monthly, and 6 quarterly, reflecting differences in their cash flow cycles. Also, when asked for their ideas on program improvements, the second most frequent response, after "more capital", was "longer period for repayment".

The MSSD staff estimate that it takes from two weeks to one month from the start of a project feasibility study to ultimate release of funds. However, of those interviewed, the average time indicated was 2½ months, with the shortest time being one week and the longest being 5 months. Interviewees may, however, be including the period from initial intake in their perceptions of total elapsed time.

*Technical assistance services:*

After receipt of the loan, staff visit beneficiaries twice a month for the first three months and once a month thereafter to help the client adjust to his new schedule of work and help overcome problems. The social worker, welfare aide or youth development worker usually stays with the client from about 30 minutes to 2 hours and discusses the status of the project or family problems and how these problems are being solved. They plan activities for the whole month with the client. The social worker tries to see to it that the client deposits 10-15 percent of net income in the bank according to the repayment agreement. This method encourages the client to develop the habit of saving and to appreciate the value of developing the habit of saving. The client sometimes reports to the office to submit his financial report to the social worker and to show his bankbook for record-keeping purposes.

When the client has deposited an amount equivalent to his loan, another deserving client is chosen and the repayment "rolls back" as a cash loan to the new recipient. This process is referred to as the "Tulong-Kapwas" scheme and is designed to create "social responsibility" among MSSD's SEAP beneficiaries. It has proven to be a very effective way of collecting loan repayments.

Of those interviewed, most said they were visited once a month after the release of the loan, for between 20 minutes and one hour. In most cases, clients said they talked about the project and family status. Most interviewees go to the bank to repay. Ten of 18 said they had been late in loan repayment. Reasons were diverse, but most often cited was "meeting family needs" and "sickness." PEO's said they spend about 40 percent of their time doing follow-up work with clients.

*Other supportive services:*

To help all members of the family tap their potential for contributing to overall family welfare, linkages with other services are explored and such services are made available where feasible. This refers specifically to families who present multiple problems at intake and who are already SEAP recipients. Typical examples might be a mother who has to care for young children and is likely to neglect an older pre-schooler, or a working mother who has to find someone to take care of her children. Emergency assistance could be given to families with sickness, lack of clothing for a pre-school child, no income, or the victims of natural and man-made disaster. Family planning motivation is extended in cases where there is a large family, with a child-bearing wife. Clients having children and who are unskilled, or with disabled family heads, may be given practical skills training. A SEAP beneficiary having a malnourished pre-school child or children can be served under the Supplemental Feeding Program. Out-of-school youth can receive counseling on Population Awareness and Sex Education classes. Dependent grandparents can be extended Special Social Services and, if hospitalization is needed for the client or any member of the family, he can be referred to hospitals outside the Ministry.

Also, if SEAP clients need management training, the MSSD staff provides this kind of training through cooperative arrangements with other agencies such as MCSI.

*Role of Beneficiaries*

Both social workers and senior MSSD staff emphasized the importance of involving beneficiaries in the project's development and implementation. The social workers interviewed said that this was the most important factor in ensuring project success.

A senior MSSD official emphasized that the best way to increase outreach capability was to utilize community people. This is corroborated in the interviews with clients, most of whom heard about SEAP through friends, neighbors or relatives.

The long-term goal is to have the people themselves decide who gets loans, and the criteria that should be applied. At the moment, it appears that the procedure for involving people varies from place to place. This is helpful, since local conditions and needs can vary significantly even in adjacent barrios. In some cases, formal barangay leaders are involved in client selection, while in other cases informal leaders select clients for loans. In some cases, to reduce loan delinquency, lists of delinquents are posted. In other places, taking the picture of loan recipients seems to help. The advantage of community involvement is that people can develop procedures for client selection and monitoring which are most likely to work under local conditions.

Social workers indicated that when they conducted their initial barangay survey, it was important to identify or develop some sort of formal or informal mechanism in the community through which to work. Sometimes their initial selection of such a mechanism proved later to be inadequate and had to be changed. But every effort was made to work with and through the community.

Social workers viewed clients as their most reliable source of referrals and the major source of information for community members on SEAP. They also found that in client selection, those clients referred by existing clients who repay regularly are also likely to be regular about repayment. Those referred by existing clients were also more likely than other sources of referral to meet all the SEAP eligibility requirements.

There is at the moment no strict requirement that social workers encourage the participation of clients in decision-making. However, social work training combined with experience to date, are encouraging movement in this direction.

Social work staff in Region IV are now spending as much as 40 percent of their time on SEAP. They still, however, view business assistance as a means to an end, not an end in itself. It is seen by them as a good entry point for a program of social development. Loans are something keenly desired by the clients. The social workers feel that in helping the client learn how to operate the business, they can also then deal with all the other social problems of the family.

Experience with SEAP has influenced the thinking of social workers considerably and this, in turn, is reflected in the way SEAP has evolved since its beginning. Social workers were reluctant at first to undertake the program because they lacked business expertise. However, as their clients were anxious to get involved, they were forced to recognize the importance of economic factors in the lives of the people and accept the necessity of dealing with them. Staff feel that the most important need of beneficiaries is budgeting skill. Most social work staff know enough about this subject to help the client to the extent needed.

As staff perceptions change and staff skill increases through experience and training, MSSD has been able to reach more people with SEAP, and to do so effectively. The average social worker has 40-50 SEAP beneficiaries at any one time. Although MSSD social work staff has not increased over the last few years, the number of those assisted by SEAP has.

An important additional resource has been the ties developed with various government agencies (and some private businesses) with expertise in particular fields. For instance, the Bureau of Fisheries provided technical staff to MSSD fishing projects. Thus, through a combination of linkages with other groups and their own increased skill levels, MSSD staff feel confident of their ability to constantly increase project success rates and repayments.

Staff feel that another important lesson is that beneficiaries must be involved to the maximum degree in selection of other beneficiaries and in project design. In many cases, they feel the change in approach to beneficiary involvement poses certain problems, most notably, favoritism. But they also believe that involving the clients themselves has been another major reason why as many as 70 percent of all business projects started in 1979 will succeed, as opposed to the old rate of 50 percent.

*Impact*

How does MSSD measure the impact of SEAP? Generally MSSD sets the following criteria for SEAP success:

—increased income and standard of living to make the family economically self-sufficient (defined as above the poverty level);
—improved habits of determining priorities in spending and saving money;
—improved social functioning and participation in community projects;
—recipient view of a positive impact on business activities, personal situation, and community;
—changed attitudes of MSSD staff and other groups about this sector; and
—ability to reach an ever-increasing number of clients with effective services at a lower per-unit cost.

*Increases in income:*

Few of those interviewed indicated income from sources other than the business. Only 8 claimed income from wages. Of these, 5 indicated that such wages were below P100 per week. Only two persons reported significant income from other sources. This would suggest that the most important source of income for a typical family interviewed was the business. However, projections based on income statistics provided by these questionnaires must be used with reservation. Questionnaires may not have been sensitive enough to indicate all sources of income and it is unlikely that those interviewed provided accurate information from memory. They may also wish to give inaccurate figures.

Business statistics are a more reliable indication of income. The average business yearly income when recipients began receiving assistance was P3,016 ($377)—below the poverty level for a family of six in the Philippines. The average business yearly income now is given as P11,180 ($1,319.75), well above the poverty line. This represents a 370 percent increase in family income. However, there is no way to determine what proportion is attributable to SEAP assistance and what to other economic forces.

*Determining priorities in spending and saving money:*

Unfortunately, there was no question in the interview which would provide insight into this issue. However, in recent MSSD loans, loan recipients were required to save at least 10 percent of their net earnings. The assumption was that if they repaid their loans, they were also saving some of their money.

MSSD staff feel that between 60 and 70 percent of recent loans are paid back, but there are no accurate statistics for this. Therefore, it is difficult to assess the impact of SEAP on saving habits and financial priorities without further study.

*Improved social functioning:*

Improved social functioning is indicated by answers to the following questions:

(a) When asked if they helped others with advice on business, 5 answered "yes" and none indicated they had done so before joining SEAP.

(b) When asked if they were involved in a community project, 11 answered "yes" and only 8 indicated they were involved in such projects before joining SEAP.

*Recipients' views of impact:*

When asked if SEAP had a positive impact on their business, 14 answered "yes". The major element of impact was that SEAP enabled them to start a business. When asked if SEAP had a positive impact on their family, 17 answered "yes". The major manifestation of this impact was that they were able to augment the husband's meager income. When asked if SEAP had a positive impact on the community, 8 answered "yes". The major reason was that others were given an opportunity to start and to own their own businesses.

*Changed attitudes of MSSD staff and other groups:*

Senior MSSD officials feel the change in MSSD staff attitudes toward SEAP is indicated by the rapidly increasing SEAP caseloads of the staff, despite the fact that numbers of staff have remained relatively constant. Social workers and PEOs interviewed had considerable enthusiasm for SEAP and spent 50 percent of their limited time on the program, a clear indication of support.

Changes in attitude of other groups are more difficult to quantify. Senior MSSD officials felt SEAP had influenced such organizations as the Development Bank of the Philippines, the Development Academy of the Philippines, the Ministry of Industry, the Ministry of Labor, the Bureau of Fisheries, and Manila Community Services, Inc. Evidence of this fact is that these organizations, at first only marginally involved or entirely uninterested in self-employment programs, are now heavily involved in individual MSSD projects, and all are pleased with the results of this involvement.

*Reaching more clients:*

According to MSSD statistics, the number reached by Region IV SEAP has been increasing significantly, with basically the same size staff. And the staff is believed to be capable of absorbing an even greater case load.

Average staff time with a client is about 15 hours a year, according to beneficiaries, and much more according to the MSSD staff. Assuming that the average is closer to 25 hours a year and that the average MSSD worker works 50 hours a week, half of which is devoted to SEAP, a staff person could assist approximately one SEAP client a week, or about 45 a year. With the lower figure of 15 hours per beneficiary, a worker could assist 75 businesses a year. There are 142 staff workers, therefore potentially 6,390 individual beneficiaries could be assisted, using MSSD staff time estimates; or 10,500 individual beneficiaries could be assisted using client staff time estimates. The figures would, of course, theoretically be increased greatly if groups were involved, unless individualized services were provided to each group member.

Whatever the figures, client numbers are growing. Also, clients seem to feel positively about the impact of the services.

### *Assessment*

*Suggestions for improvement identified by staff:*

1. *Better staff training.* Social workers interviewed felt they would be able to do a better job if they had specific training in the following areas: accounting, business management, specialized training in specific businesses (they suggested, for instance, that one social worker be trained in fisheries, another in shoe repair), techniques for assisting project managers, and training in locating resources for projects. They also suggested that at least some of the training be given to them as a team rather than as individuals, so they would develop approaches to mutual support in the field.
2. *Better technical assistance.* Technical assistance in general was viewed by staff as a critical need, and is often difficult to obtain. MSSD staff are not experts in a particular business. It is

difficult even for the PEO to undertake adequate feasibility studies for the wide arry of projects MSSD supports. There is a need, staff felt, for someone other than MSSD to undertake high quality feasibility studies and to make these available to MSSD projects along with technical assistance in their implementation. This need was communicated to the Ministry of Industry which was, at the time of this case study, attempting to devise ways of being responsive to this request.

3. *Involving businessmen.* The best untapped resource on how to run businesses in the community is businessmen themselves. But the fact that this resource remains largely unused suggests the difficulties involved. There are many suspicions on both sides that must be overcome. However, staff agreed that an effort must be made to bridge this gap and to involve businesspeople in specific projects.
4. *Client needs.* Staff felt that clients needed:
   — an increase to P500 ($62.50) of the average amount lent, in response to inflation;
   — better assistance in finding market outlets (this is the job of the PEO, but a difficult one for him to do alone); and
   — systematic management training.
5. *Constantly increasing level of experimentation.* If the program is to reach increasing numbers effectively at a low cost, staff felt it would be necessary to allow plenty of latitude for experimentation. Senior MSSD staff also encouraged experimentation on the part of social workers. Staff recommended experimenting with community volunteers. They also felt more people could be reached if they were in groups. They felt it takes between 8-12 months to get a group ready to take responsibility for their own loan collection.

*Suggestions for improvement identified by clients:*

1. *More loan capital.* The most universal request on the part of clients interviewed was for more loan capital to be made available, and on a basis longer than one year.
2. *Faster loan processing.* Although only one person made this suggestion, four answered "yes" to the question "is loan processing time too long?" Loan processing, therefore, seems to remain a significant problem in the eyes of clients.

*Suggestions for improvement made by people outside MSSD:*

1. *Increase linkages with other agencies.* Although MSSD staff interact regularly and increasingly with other agencies, some people felt that MSSD needs to be more aware of what is happening in self employment programs country-wide. These people felt this was especially needed at the senior level of MSSD. Communication is essential because change is so rapid in the Philippines that there is the danger of being left behind by new developments.
2. *Experiment with lower-cost service packages.* The feeling is often expressed that MSSD services, while comprehensive, are also quite expensive. The high cost (and high manpower input per client) mean that fewer clients can be assisted. There may be ways to provide effective assistance at a lower cost (and with lower manpower requirement) and thus be able to reach more people. This might be done by utilizing community volunteers to perform certain functions or utilizing other government and non-governmental agencies to perform tasks for which their staffs are better trained.

### *General Observations*

The MSSD approach is the classic social work case method, now widely practiced throughout the world. It is an approach which has emerged out of a particular view of people and their problems, heavily influenced by the United States' experiences with the uses of social service and the need to adapt the delivery mechanisms to the peculiarities of large government bureaucracies. The case work method is intensive and comprehensive in theory, and paternalistic in practice.

One notable aspect of SEAP is that it provides within MSSD a valuable example of institutional flexibility. There is a tendency for social work programs which are controlled by governmental agencies, in whatever country, to become rigid and unresponsive. However, while some rigidity can be seen in MSSD, it seems to have been willing to adapt to changing client needs to a remarkable degree.

MSSD staff indicate considerable ability to learn from experience. They have been willing to experiment with ideas and approaches which, at the time, must have seemed far-fetched and which were certainly not in the mainstream of social case work methods.

The principal lesson to be learned from the MSSD experience with SEAP is that a traditional government agency can adapt its programs to the needs of the very poorest individuals. Further, it can best do that by coordinating with and utilizing the resources of the wider community outside government.

Another interesting lesson is that MSSD has apparently found a way in SEAP to make the case work method less paternalistic. SEAP provides a method for genuinely assuring self-sufficiency for clients, a remarkable achievement.

A tremendous opportunity for further change remains. Continuing their present flexible approach to development, MSSD needs to experiment with even greater coordination with other agencies and individuals in an effort to further improve the likelihood of client self-sufficiency and to both reduce costs and increase the reach of services.

Social work staff should not be asked to perform services for which they are not trained. This is not fair to them or to the client. Neither social workers nor PEO's are really qualified in the technical or managerial aspects of business. Their role should be restricted to facilitation. Technical and managerial help should be sought from other ministries, where such skill exists, or more likely, from the business community itself.

*CASE IV*

CARMONA SOCIAL DEVELOPMENT CENTER
Tahanan Foundation, Inc.
San Gabriel, Carmona
Cavite, Philippines

Director: Mr. Roberto B. Jayme

Phone: 88-10-11, local 443

*Goals and History*

Incorporated on May 7, 1970 as a private, non-profit institution, Tahanan Foundation, Inc. has the goal of assisting the Carmona Resettlement Area, which was created by the 1968 squatter decongestion project in Manila. Specifically, the Tahanan program focuses on job creation to increase the income of Resettlement Area residents.

However, although the original goal of the Foundation was purely economic, there has been an increasing awareness of the social development needs of program participants. Therefore, activities in which the Tahanan Foundation now engages must also meet the criteria of promoting maximum positive social impact on the community, including that of encouraging community participation and cohesion.

The beneficiaries, however, see the program in economic terms, chiefly as a source of loan assistance to business ventures. Resulting business expansion and increased income is seen as the primary benefit of the Foundation to the individual and the community.

*History*: Tahanan is a one-community foundation. The Carmona community had its beginnings in 1969 as a relocation site resulting from urban renewal efforts in Manila. Sister Concepcion Basa and four other nuns began to work in the Carmona community that year when they set up food kitchens and other relief services to assist with critical relocation problems. They soon realized they could do very little unless they received more support. With the help of Father Araneta, they got financial assistance from some wealthy businessmen who were concerned about the increasing social unrest in the Philippines. One of these businessmen, Antonio R. Infante, urged that the Tahanan Foundation be set up.

The Tahanan Foundation, Inc., was created in October 1970. The Board consisted of Father Francisco Araneta, S.J. and his wealthy business friends. Its first chairman was Toni Infante who ran the program out of his residence in Manila. Robert (Bobby) Jayme was hired as Program Director. Funds were provided by the board members. The first year, the total sum managed by the Foundation was only P10,651 ($1,331.38).

The initial effort consisted of extending loans to residents who had started business ventures, thereby creating new income opportunities in the community. This early loan program failed because the beneficiaries lacked business knowledge and skills. The only successful project was an embroidery project started by the Franciscan Missionaries of Mary in 1969.

The banana-chips project, which received a loan of P400 ($50) had limited and unreliable markets for its weekly production of 5,000 packs. The coco-bowl venture, which obtained a P1,800 ($225) loan for a standing order of 5,000 pieces of coconut shell cups was discontinued not long after its organization because of production and mismanagement problems.

The same problems plagued the other ventures. The resident manager of the slippers project absconded with the P10,000 ($1,250) loan and only some of the equipment was recovered. The electric service cooperative which obtained a P5,000 ($625) loan for the purchase and resale of electric meters and other suppplies to its members was more successful, but funds were mismanaged by the cooperative officials and it was able to repay only half of the loan. The manager left suddenly and the cooperative dissolved.

In the face of those unsatisfactory results, Tahanan realized that changes had to be made in its assistance approach. For one thing, there had to be close supervision of the borrowers to ensure the proper management of the loan and of the project. A thorough and controlled loan processing system was also needed to check on the credibility and competence of the borrowers and on the feasibility of the projects. This could not be done with Bobby Jayme based in Manila, almost two hours from the project. More staff were hired, and in 1972, the Carmona Social Development Center was set up in Carmona.

Up until that time, Tahanan was only interested in providing and supervising loans to small businesses. However, in 1972, the first grant was received from an outside group, Philippine Business for Social Progress (PBSP). PBSP was also created by business as a reaction to social unrest in the Philippines. PBSP had community development as well as economic aims and pushed Tahanan in the direction of community development.

Bobby Jayme left and was replaced by another businessman, Jimmy Licauco who was also based in Manila. A retired army colonel was hired to run the Carmona compound. By 1972, the budget was P360,974 ($45,121.88) and the staff numbered 18.

Under Mr. Licauco, marketing was emphasized and community development was downplayed, despite PBSP pressure. A crafts trade center was set up in Manila to market products of the Carmona businesses. Tension between the CD workers hired at PBSP insistence and the retired colonel were considerable. Staff turnover was becoming an increasing problem. Four staff left in 1972 and ten more left during 1973 and 1974.

The major focus between 1972 and 1974 was to develop industries within the compound area set up at Carmona where business operations could be more easily monitored. Here, loom-weaving, doll-making, dress-making, woodwork, and shoe-making cooperatives were established. Because of close supervision, these businesses seemed to prosper.

By 1974, concern for social unrest had diminished as a result of the Marcos Martial Law. As a consequence, business support for Tahanan financing dwindled. Only one business continued its funding and PBSP was the principal donor. Tahanan could not now resist the pressure from PBSP to move into community development. The original Program Director, Bobby Jayme, returned to run the compound at Carmona, Mr. Licauco restricted his functions to what was by then called the Community Crafts Association in Manila. In 1973, the Tahanan budget was P66,032 ($8,254) and in 1974 it was P393,333 ($49,791). The quality of CD work was improved as the staff increased to 30, many of them CD workers.

Tahanan became more deeply involved in community development work than in business. Groups were formed for a variety of community-identified purposes. By 1974, however, Tahanan felt that they had gone too far in this direction. Even with functioning groups, the need for employment was still crucial.

Another problem was that CD projects were not based in the compound and were therefore more difficult to supervise. As a result, loan repayment declined and project failure increased.

After a careful review of the problems, the Small Business Assistance Program (SBAP) was created in 1975, with the following aims:

1. to respond to the increasing need of Carmona residents for loans for business purposes;
2. to improve the quality of loan supervision; and
3. to emphasize community organization and cooperatives as a base for economic projects.

The primary objectives were two in number: to provide a learning experience for community members in group work and to provide opportunities for groups to earn. With this emphasis, many more projects outside the compound were now funded. The budget for 1974 was P1,308,350 ($163,544). Loans totalling P38,600 ($4,825) were made, mostly to groups. There were a total of 95 beneficiaries in 1975. Of loans made in that year, 47 percent are considered uncollectable. The 1976 budget was P625,847 ($78,231 loans totalling P115,700 ($14,462.50) were made to groups (and to some individuals), with 551 direct beneficiaries. A high proportion of payments on these loans were late, but only one percent are currently considered uncollectable. Staff rose to a high of 32 in 1976, but rapid staff turnover was still a problem. (Ten left during that year.)

The Tahanan 1976 report indicates that the program had assisted 40 business projects in that year, most of which involved trading, directly assisting 171 individual beneficiaries. Of the 40 businesses, 19 were single proprietorships, 5 were partnerships, and 16 were cooperatives.

During another evaluation in 1977, it was found that an increasing number of groups still were not repaying their loans. Groups were seldom successful at running businesses. Inevitably, one or two persons actually ran the business. Part of the problem was that the groups had not been set up to run a business, but had been encouraged to add this to other functions. Because of these problems, Tahanan increased its lending to individuals. Individually-run businesses are much more successful, although groups have a higher sense of responsibility for payback.

PBSP, the source of the loan fund, began to pressure Tahanan to increase repayments. As a result of this pressure, Tahanan gradually shifted from business as a support of community development back to business as an end in itself to improve payback. The Tahanan budget in 1977 was P638,283 ($79,785). Total loans were P84,307 ($10,538) to individuals and groups, including 191 direct beneficiaries. Eight percent of those loans are now considered uncollectable. In 1978, the budget was P680,283 ($85,035). Loans totalling P64,484 ($8060.50) were made to individuals and groups, with 84 direct beneficiaries. Of those loans, sixteen percent are now considered uncollectable. Staff declined to 22 in 1978 and turnover also declined.

The Tahanan Foundation is presently faced with the problem of survival. PBSP has informed them that its support will end in December 1979. As of this writing (Sept. 1979), no other sources of funding are readily available.

The Community Crafts Association made a reasonable profit for the first time in 1979. The director hopes this will support modest activities at Carmona and that other small profit-making activities can be started in time to support Tahanan's continued existence on a much-reduced scale. In 1979 (through August) P24,095 ($3011.88) in loans were made to individuals and groups, with 37 direct beneficiaries. This decline represented the gearing down of the program.

*Organization and Staffing*

As indicated earlier, Tahanan Foundation is run by a Board of Directors who are predominantly businessmen. However, the Board has become less active over the years, and the director now makes most of the decisions.

Tahanan Foundation, Inc., has established the Carmona Social Development Center, an experimental working model of community development, as its major project at Carmona resettlement area. The Center has developed the following programs:

1. The Social Development Program which works toward the development of an organized, self-supporting and self-directing community;
2. The Compound Industries Program which facilitates the establishment of industries within the Resettlement Area, such as embroidery, woodwork, crochet and knitting industries;
3. The Small Business Assistance Program which provides financial, technical and managerial assistance to the small business ventures of residents in San Gabriel; and
4. The Educational Assistance Program which provides higher educational assistance to deserving students to develop potential managers and leaders for the community.

The Small Business Assistance Program is managed by a project coordinator who supervises three field workers. Each field worker is assigned particular projects. The field worker, together with the applicant, identifies the need and makes plans. Plans are then communicated to the SBAP project coordinator who approves funding for projects.

*Description of the SBAP Staff*

*Program Head*

The Program Head, Joel L. Rodriguez, is responsible for the development and implementation of the Program Scheme, including Social Credit and training at a grassroots level of people who want to learn business management. He is also responsible for securing the necessary financial and manpower resources for the program. Mr. Rodriguez has a BS with an accounting major, and his salary is P1,800 per month.

*SBAP Assistants*

The SBAP assistants are Rosario P. Tiu and Gomer P. Lagman. They have BS/BA degrees in economics and salaries range from P850 to P1,300 per month. They perform the following duties:

— general development work on projects assigned to them;
— directly handle processing of loan applications;
— prepare necessary feasibility studies and project proposals for presentation to the credit board; and
— monitor and supervise performances of participants/projects.

*Staff shared with other programs:*

*Accountants*

The accountants are Editha P. Misada and Elizabeth E. Andrada. They each have a BS/BA in accounting, and keep the books for the projects assigned to them. They also prepare periodic financial statements and reports for the projects. Their salaries are P1,000 to P1,300 per month. They spend fifty percent of their time working on SBAP.

*Clerk/General Assistant*

Grace Oloresisimo performs general clerical work, keeps records and files of projects and participants, and makes summaries of loans released and loan repayments. Her education is a BS in banking and finance. Her salary is P900, and fifty percent of her time goes to SBAP.

*Clerk/Typist*

Rosemary Reyes types project proposals, feasibility studies and correspondence of the program. Her salary is P750, and thirty percent of her working time goes to SBAP.

*Overhead Costs*

The Program's costs for 1978 are itemized as follows:

| | |
|---|---|
| Total income from grants/donations/interest/recovery | P680,283 |
| Expenditures: | |
| a) Program and Project Expenditures | 497,687 |
| b) General Operating Expenses | |
| Salaries and Wages | 68,864 |
| Professional fees | 10,000 |
| Depreciation | 9,406 |
| Office Supplies and Expenses | 4,232 |
| Insurance | 3,297 |
| SSS and Medicare | 2,598 |
| Transportation | 2,362 |
| Repairs and Maintenance | 377 |
| Miscellaneous | 2,016 |
| Total general operating expenses | P103,152 |

As is evident, a large percentage goes to program and project expenditures.

*Coordination with Other Agencies*

A Welfare Council composed of private, religious, and government organizations has been created to coordinate services in the area and to ensure that no service is duplicated. The private sector constituent is Tahanan Foundation, Inc. The religious sector member is ICURE, the Franciscan Missionaries of Mary who run the parish to which Carmona belongs. The participating government agencies are NHA, Barangay Council, MSSD, POPCOM, Medicare Health Center, and MLGCD. The Tahanan Foundation has made it clear that they are a private agency who have complete independence in their operations without direct policy control from the government.

*Beneficiaries*

Unemployment, lack of housing, malnutrition, and poverty are the major problems faced by the beneficiaries in the resettlement area. They also lack the knowledge and skills to engage in income-generating projects. Simple accounting and management procedures, as well as social skills are needed for small corporate community projects.

Sixteen beneficiaries were interviewed for this study and they reflect accurately the range of clients that the project has helped. All sixteen are women. Approximately 31 percent of the beneficiaries have lived in the Manila area from 1 to 10 years, another 31 percent from 11 to 20 years. Their average age is 45 years. Fifty percent are elementary school graduates, 25 percent are high school graduates.

The average total family income of the beneficiaries is ₱326.67 ($40.75) per week, and the average household size is eight. Of these families, 94 percent are owners of businesses, from which they get an average weekly income of ₱216.67 ($27). Ninety-five percent of those interviewed have no sources of income which are not related to their own small businesses, although half are engaged in more than one kind of business at once (38 percent in selling: slippers, fish, fruits, vegetables, popcorn; 19 percent in service: delivery of food, canteens/farming). Fifty-one percent of the beneficiaries had their businesses for 1 to 4 years, and 26 percent from 7 to 8 years.

The businesses in which they are now engaged include five in manufacturing (lampshades, wind chimes); five in selling (fish, plastics, used bottles, chickens, aluminum, canned goods); one in service (tailoring) and three in farming (vegetables and fruits). When asked why they were in business rather than working for wages, 31 percent said it was because they could be their own boss, 25 percent indicated that there was more income in business than through wage-earning, and 44 percent said that the business allows them to work at home and care for children. However, lack of formal education is also a serious barrier for these people in seeking wage employment. When asked why they had this particular business, 44 percent said that this was the only thing they knew how to do to earn money; 31 percent said that it was easy and could be done at home; and 25 percent said that they had enough marketing contacts to make it viable. Interestingly, 69 percent said they would want their children to be businesspersons rather than wage earners. The predominant reason given by 56 percent of respondents was that greater income possibilities exist in business.

The most serious problem for these small businesses is lack of capital (94 percent answered that capital was a problem). Only 25 percent of those interviewed said they received financial assistance from anyone other than Tahanan in starting their businesses. Three people got assistance from family or friends, one from a money lender. None had access to bank lending. Almost half of those interviewed (44 percent) saw lack of working capital as the reason for their inability to sell sufficient goods to make a decent profit.

The second most serious problem faced by these businesses is lack of raw materials (69 percent). Because they must buy in small quantities, they cannot compete with large buyers. Either the raw materials are not available, or when available, it is only at a price far above that paid by large competitors. The businessmen indicated problems in buying plastic, chicken feed, medicine, thread, scissors, fish, brass, paint, banana and sweet potatoes, rice and sugar.

The third most serious problem is marketing. Problems in marketing are tied to the previously mentioned problems and include lack of working capital, strong competition from big companies, lack of raw materials, and poor transportation. Minor irritants include lack of equipment, lack of space, poor location, lack of water, theft, and lack of record-keeping.

*SBAP Responses to These Problems*

SBAP has tried to help in three ways, which have received varying amounts of emphasis at different periods in the program's history:
— organizing the community to respond to needs;
— providing loans; and
— providing marketing assistance.
The most emphasized of the three types of assistance has been loans, and this form of assistance is perceived by beneficiaries as the most helpful (81 percent). Marketing assistance was perceived as only a minor source of help, and organizational assistance was not even mentioned.

*Program Activities*

*Outreach and selection:*
Through the community organizers, the people are informed about the Program's services.
The Program gives priority to project proposals which meet the following criteria:
— those within the scope of Tahanan's technical expertise and experience or in areas where necessary expertise can be easily obtained;
— those which are labor intensive and use labor skills that are available in the area or can be easily learned by the residents;
— those which fulfill a felt community need;
— those which use raw materials found in Carmona or its surrounding area;
— those which provide for the needs of larger industries, thus ensuring a market; and
— those which require minimal investment per Peso of wage earned.
Loan applicants are given priority when they fall in the following categories:
— groups with experience in self-government, self-discipline, and the achievement of objectives, and whose members agree to be held liable, jointly and individually, for whatever outcome their venture may have;
— groups that show potential for becoming a group similar to the one described above;
— individuals with leadership qualities who agree to run their ventures according to cooperative principles if they hire workers; and
— individuals who are of good moral character and who are competent, have good credibility and standing in the community, and have no other possible source of working capital.

*The loan processing system:*
A prospective borrower usually informs a Social Development worker of his proposed business venture. The SD worker refers him to an SBAP officer. Sometimes with the help of the Tahanan staff, the borrower fills in the Loan Application Form and a bio-data sheet. This may take only an hour (for about 31 percent of applicants), or it may take as much as a day. After this, the following documents must be obtained:
— a demolition paper or certification from the NHA to prove that the borrower is a bonafide resettler of San Gabriel;
— a recommendation from the SD worker to verify the borrower's standing in the community; and
— for individual loans, a guarantor is required. Groups must have a signed resolution of the group's governing council, attesting to the project's validity and to the governing council's consent to the project.
Once the borrower and his project fulfill the criteria set by the SBAP, the social development worker conducts a feasibility study with the help of an SBAP officer. He conducts interviews and research to assess the financial, economic, technical and organizational viability of the project.
An overall evaluation based on the feasibility study is performed by the SBAP officer, which forms the basis for the recommendation to the credit board. The credit board approves or rejects the loan application. Before the loan is approved the applicant usually receives several visits from a Tahanan staff member.

After the loan application is approved, the borrower may attend a series of courses on basic business management, accounting, bookkeeping and marketing. Each course is individually designed to meet each participant's specific needs. An important objective of the course is to enable the participant to set up and formulate his own management systems and controls. If the project will utilize certain technical skills, an expert in the field is employed to provide necessary training. Of those interviewed, 44 percent said they took these courses.

The borrower signs a Memorandum of Agreement with the Tahanan Foundation to formalize the entire transaction. The memo specifies, in simple and clear terms, the conditions of the loan and the responsibilities which the participant has to the Small Business Assistance Program. The memo also specifies the financial, technical, and managerial services which the SBAP promises to render to the participant.

The loan is then disbursed in staggered and scheduled amounts, according to the needs of the project.

*Loan Repayment*

A pay-back scheme is drawn up before the start of the project to introduce the participant to his responsibility for making prompt payments. The schedule is either weekly, bi-monthly or monthly, depending on the nature and profitability of the project.

In the original scheme of the loan program, repayment terms were stretched to their limit to try to ease the payback burden. However, this resulted in payment defaults, since stretched-out terms only allowed longer time for something unforeseen to happen or for the business to be depleted of cash.

In the second half of 1977, a new mechanism was worked out that allowed extended repayment terms yet permitted little chance for loose money to be in the participants' hands. The procedure requires that, at intervals agreed upon at the outset of the loan period, the participant will present for deposit at a nearby bank the loan principal plus an agreed-upon savings deposit. All succeeding loan releases will then be reduced by the periodic savings deposit until the participant finally builds up his own capital and simultaneously pays back the loan in full.

In essence, the procedure shortens the credit term and makes the loan receivable dependent on the payback performance of the participants and the business situation of the project. The new mechanism solved some of the prevailing problems of the participants and the program. The scheme accomplishes the following operational benefits:

— It lessens the temptation for participants to use the loan improperly.
— It provides SBAP with assurance on a regular basis that the loan fund is still intact.
— It provides an early warning system with which SBAP can identify ailing projects.
— It enforces a much-needed pattern of saving among loan clients.
— It makes monitoring and training easier.

No interest is charged on the loan. Only an administrative levy of between 3 percent and 12 percent of the loan per annum, computed on the declining balance, is charged. The rate of administrative cost depends on the type of project and the client, and this rate is determined on a case-by-case basis.

The collection process for loans begins with a written reminder which is sent to the borrower. The borrower then may go to the Tahanan office or wait for the BDA's visit to settle his obligation. The majority of the participants (81 percent) prefer to go to the office for payment of loans. Only a few (19 percent) prefer to have their payments collected from them.

*Monitoring of the Project*

An individual file on each participant is kept by the SBAP. This contains the participant's financial reports, a payment ledger, and a form called the Audit Evaluation of Assisted Venture (AEAV). The AEAV is a monthly evaluation of the project by the SBAP officer and the participant. The SBAP officer and SD worker conduct field visits and interviews with beneficiaries to determine how well the participant is performing and how helpful his project is to the community. Of those interviewed, 81 percent had received visits from staff. Thirty-one percent said they were visited twice a week, 25 percent said four times a week and, 25 percent said twice a month. Sixty-two percent said an average visit was less than an hour. They talked about their business progress, problems and difficulties; in turn, they were given management tips to deal with such difficulties.

The objective of this rather close monitoring is to help the participant succeed in his project, so that he will repay his loan and the project may expand to other prospective borrowers.

### *The Role of Beneficiaries*

There is little participation by beneficiaries in program outreach, selection of beneficiaries, or provision of services. Ninety-four percent of the beneficiaries have not been involved in forming other groups. Only one has helped a friend start a business similar to his and this one failed due to lack of capital.

A considerable number of program beneficiaries (63 percent) have given business advice to outside groups in subject areas related to their business. Of this 63 percent, half had done so also before they had joined the project. Fifty percent of the beneficiaries have participated in community improvement projects. This proportion has not increased as a result of participation in the program. This suggests that the potential for beneficiary involvement in the program has not been utilized.

### *Impact*

The beneficiaries' greatest expectation from the program was increased income. However, data collected from interviews with clients on this subject are difficult to assess. Since interviewees keep no records, they had to reconstruct their incomes from memory. Also, there may have been some deliberate distortions in the information provided.

Nevertheless, the data obtained are not encouraging. As indicated earlier, the majority of these people had been in business before being assisted. Of these, 63 percent indicated an increase in profits between the time they started and the time they were first assisted by Tahanan, and another 25 percent reported no change. However, between the time they were first assisted and the present (on the average, two years), only 38 percent showed an increase in profits, while the profits for 25 percent remained the same. Those showing a *decrease* in profits rose from 13, to 31 percent.

There are many possible reasons for these results, including inaccurate data collection and bias in the sample. It is also possible there were larger economic factors in operation at the time that went well beyond the scope of the project. However, this is the only project studied in which interviews showed beneficiaries as being economically worse off than when the project started. Also, it cannot be argued that beneficiaries were poorer and therefore less likely to succeed. Other programs which were studied worked with equally poor and disadvantaged people, and some showed a much more positive impact of credit on the profits from similar businesses.

The program also assisted beneficiaries in marketing (38 percent of respondents were helped) and in obtaining raw materials (31 percent were helped). Tahanan staff were able to link these businesses with markets through the craft marketing organization, sometimes also helping with transportation of goods or by finding individual buyers for products of the businesses. The staff also helped directly in the procurement of raw materials, financing purchasing in bulk in order to provide the commodity at the lowest price.

A major focus of Tahanan activity has been on community development, and its principal tool is group formation. However, in spite of the prodigious efforts of Tahanan in community development, none of those interviewed indicated perceiving Tahanan's impact in other than economic terms. This may well be due to the fact that interviews were not conducted with group members who were really affected by community development efforts. Nevertheless, 50 percent see Tahanan's impact in enabling people to go into business, and another 25 percent in the related terms of augmenting family income.

*Assessment*

*Recommendations of staff:*

The SBAP experience has provided the staff with the following insights about program management:

Clients at the lower end of the poverty scale* are less likely to repay a loan than those who are higher on the economic scale. Any unexpected family misfortune forces the client to dig into borrowed business funds to tide him over. This situation cannot be helped, even by close monitoring. Therefore, at this lowest level of poverty, credit does not work effectively as a development tool. Developmental tools such as basic education and job-training might be more applicable for those below-subsistence-level families.

In short, there are some participants who will not perform well, no matter how closely their business activities are monitored, because of the extremely precarious nature of their below-subsistence-level incomes. These may be called "bad" clients for credit assistance because there is really no chance of even minimal business profit or reliable loan repayment when family emergencies regularly encroach on business funds. Just above the level of those "poor risks", however, there are project beneficiaries who may be considered "good risks" for turning their businesses into profit-making ventures, especially with appropriate education and training. For such "good" participants, limited monitoring of businesses may suffice to ensure regular repayment on loans.

*Recommendations of Beneficiaries:*

The largest number of beneficiaries recommended that programs could be improved by providing more loans (56 percent) and by increasing the speed with which loans are disbursed (13 percent).

*General Observations*

There is a discrepancy in this program between the perception of needs and program benefits by the beneficiaries, and perception of needs and benefits by program staff. This discrepancy exists even if we discount for the distortion likely in the interviews.

The critical need of the beneficiaries is to increase their incomes as they pursue their present business activities. Very few express a preference for wage employment, which does not represent a viable alternative to what they are doing currently. They express their greatest needs as credit, assistance in obtaining raw materials, and marketing. They have no interest in non-business assistance.

Tahanan's perception of the needs of program beneficiaries has shifted repeatedly over the years and has been a severe handicap to program development. However, the proportion of the budget devoted to economic assistance has never been very high. In 1976, the largest total amount of loans was provided (₱115,700 or $14,462.50). The budget for that year was ₱625,847 ($78,231), and loans were just 18 percent of the budget. For most years, below 10 percent of the budget went for loans.

Much of the rest of the budget went to training and other support services to beneficiaries. However, it is estimated that well over 50 percent of the budget in any one year went for services which those interviewed did not feel they needed.

This is a well-funded program in comparison with others studied and the staff is very large. It is proportionately large compared to the number of beneficiaries assisted per year, which averaged 250 between 1975 and 1978, or only 10 per staff member. This is an enormous investment in a very few people. Also, the program as a whole is very expensive, whereas the impact measured by the increases in profits of the businesses involved was very small. Over a four-year period, less than one-fourth as much was generated in wages and profits for beneficiaries than was spent in project operations.

The lessons to be learned from the project are more on the negative side than on the positive:

— It is very important that a program be clear about what its objectives are and that these objectives coincide with those of the intended beneficiaries.

*Meaning those families whose combined incomes are below the subsistence level.

- It is important that programs not be given too much money, since that encourages the development of expensive activities which may be peripheral to the central development tasks at hand.
- Although this project was evaluated on several occasions, its critical problems were not identified at those times. Those problems which were identified were either not corrected or were not correctible. It is a disservice to beneficiaries and to the program to allow it to go on for so many years with so many unresolved difficulties.
- Contrary to the opinion of the staff, experience with other programs in the Philippines suggests that it is possible to deliver loans to beneficiaries at the lowest income levels and for such loans to be repaid. These findings suggest that it is important for staff from one program to have opportunities to learn from the experiences and approaches of others engaged in similar activities. This is usually extremely delicate because an atmosphere of competition between programs is unfortunately all-too-common. However, such exchanges are absolutely critical for avoiding mistakes such as those evident in the Tahanan experience. Exchanges of information and experiences should thus be encouraged at all cost.

*CASE V*

PHILIPPINE COMMERCIAL AND INDUSTRIAL BANK
Center for Social Credit and Money Shops

Two programs initiated by the Philippine Commercial and Industrial Bank (PCIB) are described below. The description of the short-lived Center for Social Credit, was prepared by the person formally responsible for that program at PCIB. The account given of the Money Shops was prepared from internal PCIB documents.

## CENTER FOR SOCIAL CREDIT

*Background*

The Social Credit program was officially instituted on January 2, 1974, on the basis of a study prepared in November 1973 and approved by Mr. R.S. Orosa, President of the Philippine Commercial and Industrial Bank, in December of the same year. This study explained the concept of, and the need for, social credit. It also showed how the program presented the PCI Bank with a new opportunity to assert its corporate leadership, and more generally, how the program would bring together various sectors of society in an effort of vital national significance.

As defined by the program, social credit is a system of financing the lowest level of society for meeting its basic needs. This financing is provided on terms which are understandable and accessible to businesspersons at the lowest income levels of the economy. The target beneficiaries included those people who could not obtain loans from banks simply because they lacked the traditional guaranties required by these financial institutions. Such businesspersons have had to go to usurers to obtain credit necessary to satisfy their basic needs.

Social credit is neither charity nor dole-out. The obligation for repayment under this program is as binding and valid as under other forms of credit. However, under the program, the guaranties for such repayment are in the form of other securities which would take the place of a material collateral. These "substitute collaterals" are certain human responses based in such Philippine social and cultural values as "*hiya*" (social shame), "*damayan*" (sense of community), "*utang na loob*" (gratitude and obligation), and especially "*pagkatao*" (individual/group integrity or sense of honor). Moreover, the quality of the borrower-groups as social units—that is, with a strong sense of community, stability of organization, participatory decision-making and sharing of responsibility—may also serve as collateral.

A fundamental requirement of the program is that the loan must be used to improve the performance of the members of the group in their principal means of livelihood. Thus, if the group happens to be one of farmers, the loan should be for farming (not, say, for the purchase of tricycles). The basic reason for this requirement is that if a person borrowed money to be able to continue earning his basic income, the loan would become all the more important to him, and the need to make good on it would become an extremely personal commitment. Thus would the chances of repayment be improved, and, above all, the educational value of the loans would also be enhanced.

The Social Credit program of the PCIB was mainly an experiment of the system, specifically aimed at the following: "substitute collaterals"; identifying a method of credit delivery to the grassroots; and proving the reliability of the system through a successful repayment history.

*Program Implementation*

*Systems and procedures of loan extension and collection:*

In extending social credit, the center adopted the following requirements/procedures: First, the prospective borrower would submit a loan application or project proposal specifying the purpose of the loan, users of the loan, needs and benefits to be derived from the loan, schedule for release and repayment, and some explanation of how the group intends to ensure collection and repayment of the loan. The center would then assess the credit-worthiness of the prospective borrower based on the loan application and usually through an interview. Here, the Center would apply three basic criteria in judging whether an applicant should be granted a loan or note—namely:

1. The loan is not otherwise bankable; that is, it cannot be serviced by another institution.
2. The loan is for basic livelihood. If the beneficiaries already meet their basic needs without the loan, then they do not qualify.
3. The prospective borrower should show signs of reliability, either present or potential, a strong sense of community, stability of organization, participative decision-making and sharing of responsibility.

Since, in the experience of the Center, this reliability was best seen in a group, only requests on behalf of a group or community were entertained. Credit needs of individuals alone were not considered, although in the majority of cases, the ultimate recipient of a loan was an individual. In most cases, an intermediary party or "cooperator" assumed such functions as introducing or endorsing the borrower-groups, helping in the preparation, screening, and assessment of loan proposals or prospective borrower, monitoring loans granted, supervising and assisting borrowers toward repayment, and actually accepting loans for further retailing at the grassroots level according to the spirit of social credit.

Depending on the results of the screening and assessment, the loan would either be approved or disapproved. Approval would be followed by the release of the loan and the subsequent monitoring and supervision often provided by the "cooperator" to help ensure repayment.

Actual repayment of loans would then be made following specific schedules tailored to the project's plans, earning capacity, or time frame, with particular attention paid to the seasonal aspects of the enterprise.

*Program Results*

*Beneficiaries and projects:*

The Center for Social Credit was operational for only about ten months (January - October 1974). It lent out approximately P1 million ($236,000) in loans which were directly released to 14 "cooperators". These loans directly assisted 1088 individuals and cooperators who benefited in terms of improved production inputs (such as purchase of work animals and farm implements, motor boats and fish nets and additional working capital for some small business ventures). These improved production inputs subsequently resulted in increased production levels and higher incomes.

Table 6 presents the 14 cooperators, amount of loan borrowed, and the number and types of beneficiaries.

**TABLE 6**
**CSC Loans, by Amount Borrowed, Number, and Types of Beneficiaries**

| | Borrower/Cooperator | Amount Borrowed | Number and Types of Beneficiaries |
|---|---|---|---|
| 1. | Bishop F. Claver<br>Malaybalay, Bukidnon | P500,000 | 600 individuals<br>7 cooperatives |
| 2. | Rev. Delbert Rice<br>Nueva Viscaya | 20,000 | 40 family units |
| 3. | Rev. Emmanuel Non, S.J.<br>SAPAK<br>Cebu Sity | 21,000 | 4 cooperatives |
| 4. | Samahang Nayon ng Adia<br>Sta. Maria, Laguna | 28,000 | 14 farmers & families |
| 5. | Community Crafts Association of the Philippines | 75,000 | 3 member organizations |
| 6. | Armando Gonzales et. al.<br>A.H. Lacson St., Bo. Magsaysay, Tondo | 5,000 | 27 families |
| 7. | Calinan Bo. Association<br>Calinan, Sta. Ana, Pampanga | 58,500 | 65 farmers & families |
| 8. | Kaunlaran sa Pangingisda<br>Baras, Rizal | 40,065 | 24 fishermen & families |
| 9. | Rev. Warren Ford<br>Social Action Center of Pagadian | 30,000 | 100 indigent Muslims & association of vendors |
| 10. | Rev. Donald Macdonald<br>Gingoog City, Misamis Or. | 90,000 | 3 fishermen's cooperatives |
| 11. | Buhi Multi-Purpose Producers Coop. Marketing Association, Camarines Sur | 70,000 | Association of farmers |
| 12. | Infanta Cooperative Credit Union<br>Infanta, Quezon | 51,450 | 103 individuals & an association of tricycle drivers |
| 13. | Sister Mary Tarcila<br>Buhi Rural Social Devt. Center | 10,000 | 120 weavers in 6 barrios |
| 14. | Rodolfo Legaspi et al<br>Bagong Barrio, Caloocan City | 400 | 3 cardmakers |
| | TOTAL | P999,415 | |

The various projects funded were classified under the following categories:

| | | |
|---|---|---|
| a. | Relending operations | 3 |
| b. | Priming projects for ultimate greater productivity | 1 |
| c. | Funds for small capital equipment | 3 |
| d. | Small and medium-scale industries | 7 |
| | | 14 |

*Repayment record:*

Loans were actually disbursed from March to September 1974. Payment terms ranged from 3 months to 5 years. The schedule of payments could be monthly, quarterly, semi-annual or annual installments or in a lump sum. An interest rate of eight percent on the diminishing balance was charged per year.

Collection results were generally satisfactory. Available records of the Center dated September 30, 1974 show that the initial repayments were made as scheduled—in full and on time. This trend went on even after the Center stopped operating in October 1974. Repayments were made with the PCI Bank branch offices. Significant problems were not encountered because the borrowers were generally prompt in meeting their obligations. A few were not able to pay back because of project failure. The following table presents the loans by date of disbursement, payment terms, interest rates and repayment results.

**TABLE 7**
**PCIB Social Credit Loans**

(Status as of March 31, 1979)

| | Borrower/Cooperator | Original Amount | Date | Outstanding as of 3/31/79 | Remarks |
|---|---|---|---|---|---|
| 1. | Buhi Multi-Purpose Producers Coop. Marketing Association | P 70,000 | 8-22-74 | P 60,000.00 | w/ SAG* |
| 2. | Rev. Emmanuel Non (Sapak Foundation) | 21,000 | 5-13-74 | 10,872.74 | w/ SAG |
| 3. | Armando Gonzales et al | 5,000 | 6-14-74 | 2,043.67 | w/ SAG |
| 4. | Calinan Barrio Association | 58,500 | 7-02-74 | 25,939.50 | w/ SAG |
| 5. | Infanta Coop Credit Union | 100,000 | 6-10-74 | 63.05 | w/ SAG |
| 6. | Donald McDonald | 90,000 | 7-12-74 | 90,000.00 | w/ SAG |
| 7. | Rodolfo Legaspi | 400 | 9-06-74 | 400.00 | w/ SAG |
| 8. | Rev. Delbert Rice (Kalahan Educational Fdtn.) | 20,000 | 5-05-74 | — | Fully paid |
| 9. | Sis. Constancia Villanueva (Rural Missionaries of the Philippines) | 3,000 | 11-02-74 | — | Fully paid |
| 10. | Samahang Nayon ng Adia (Felipe Visitacion) | 28,000 | 5-29-74 | 15,379.97 | Commercial (Current) |
| 11. | Amado Dili-dili/Sergio Robles (Kaunlaran sa Pangingisda) | 40,065 | 5-27-74 | 24,183.49 | Commercial (Current) |
| 12. | Pagadian Social Action Center | 30,000 | 6-19-74 | — | Fully paid |
| 13. | Bishop Francisco Claver (Bukidnon Social Action Center) | 500,000 | 3-04-74 | 104,338.18 | Commercial (Current) |
| 14. | Community Crafts Assn. of the Philippines | 100,000 | 3-03-74 | — | Fully paid |
| 15. | Sister Mary Tarcila | 10,000 | | — | Fully paid |
| | TOTAL | P1,075,965 | | P333,220.60 | |

*Special Accounts Group for collection

*Program Management*

The CSC was a very small unit of PCIB staffed by four people: the Executive Director, a sociologist, a communications man and an accountant. These people were responsible for developing the concepts and procedures for the extension of social credit. Since the social credit was just part of their regular job functions in the instituion, their involvement with the program was only on a part-time basis.

Operating costs incurred in the program were all reflected in the total operating costs on the larger division of PCIB to which the CSC belonged. CSC funds were only allocated for loans.

*Assessment*

Certain assumptions had been validated through the social credit experience of PCIB. For one thing, the program was able to prove that subjective factors, like "*pagkatao*", leaders' responsibility and experience, group responsibility to the Bank, are reliable substitutes for traditional collateral. Moreover, the program was able to identify reliable channels of credit, such as cooperatives/credit unions, strong self-help groups, and small business projects. It showed, further, that the viability or success of assisted projects, which often depends on the extent of technical assistance (monitoring, supervision, education) provided to the borrowers, is a significant factor in repayment.

The system of loan extension established had been effective within the context of the social credit program. The same system, however, may not turn out to be as effective in a program with a different objective or set-up. For instance, if a program is interested only in repayment, it should adopt very rigid screening, monitoring and collection systems to make sure that borrowers will repay. But in social credit, what matters more is the fact that the loan will boost the sense of dignity of people because somebody entrusted them money; and with this loan they are able to initiate a project which, if successful, would pave the way for their own development. In short, the experimental objective of social credit is to find out whether people who are trusted will respond in a trustworthy fashion. The CSC found out that some people did respond trustworthily, while others did not or they just could not appreciate what the program had done for them.

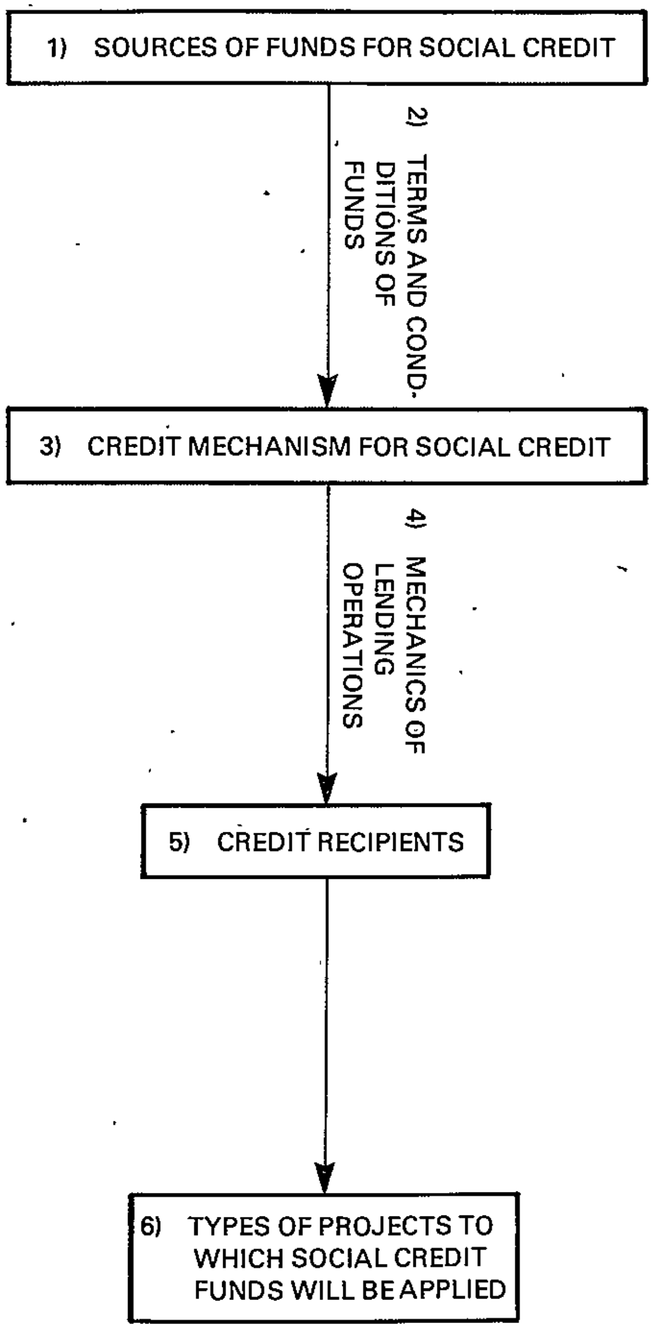
While the program was short-lived, the amount and intensity of goodwill it generated for PCIB have been very significant. The enthusiastic response from church and civic leaders who pledged their whole-hearted support for it spurred the CSC to reorganize under the auspices of a Social Credit Consortium. This new set-up would draw other banks and other funding sources into more active participation in the program to establish it as a truly multi-sectoral, national effort.

An initial working paper was drawn up and the proposed consortium was presented to the PCIB Board of Directors on November 8, 1974. The plan unfortunately did not meet with the approval of the Board because the other funding sources tapped, especially the commercial banks, were not willing to provide the needed moral and material support.

Nevertheless, the experience was worth all the effort. One clear insight has emerged: when social credit is treated on a small-scale personal basis, the chances are that it will succeed. Large-scale, more institutionalized, projects are more likely to fail since the mechanism for responsible payback behavior depends upon individuals operating in a framework of community-held values. Diagram I summarizes the interrelationships among the various elements of a typical social credit program.

## DIAGRAM I

## CRITICAL FACTORS DETERMINING SOCIAL CREDIT AND THEIR RELATIONSHIPS WITH EACH OTHER



## THE MONEY SHOPS

### *Background*

The Philippine Commercial and Industrial Bank (PCIB) is one of the oldest and largest in the Philippines. The Money Shops of PCIB are a mechanism through which it can make small loans of between $125 and $1,250 at a reasonable profit (14.5 percent theoretical earnings on the deposits, net of loan portfolio).

The first two Money Shops were opened in May 1973. By August 1979 there were 70 shops scattered throughout the Philippines. The capital flow through them (exposure) was $3,750,000 at the end of 1979.

PCIB's rationale for opening the Money Shops was to increase Bank profits. They were also under pressure from the Philippine Government to increase the availability of credit to small, relatively poor, borrowers. PCIB felt the Money Shops would satisfy both needs.

The Philippine banking community is extremely competitive. Banks aggressively seek new customers. The remaining, basically untapped, market is the small borrower. This borrower is particularly attractive in the Philippines, for once he or she begins to use a bank, he or she is unlikely ever to change. Thus, as small borrowers' businesses grow, their increasing needs for credit and other bank services will continue to flow to the same bank. PCIB saw the Money Shops in terms not only of immediate profit, but in terms of its longer term growth potential.

Thus, in setting up the Money Shops, PCIB identified its objectives as two-fold:

1. to provide the economic stream with a unique credit mechanism that is relevant to the daily needs of the Filipino consumer; and
2. to disperse the concept of credit use to as wide a popular base as possible.

### *Current Money Shop Operations**

The Money Shops are presently set up as sub-units of PCIB branch banks. They are located either within, or on the fringe of, private or public markets to meet the short-term 30-60 day credit needs of commercial customers.

The Money Shop facilities are extraordinarily simple. They quite often consist of nothing more than a wooden stall, of a sufficient size to accommodate four employees. There is little to distinguish it from other tightly-packed businesses in the market place which are selling everything from vegetables to dry goods to lottery tickets. The Money Shops usually function in fairly large urban centers, as they feel there must be 400 businesses in the immediate market site to justify placement.

The Money Shops accept deposits and also make loans. The average yearly operating cost of a Money Shop is now set at $13,600. To reach its yearly net income goal, now set at $18,500 per shop, it must have deposits of $59,219 and make loans totalling $47,375 (80 percent of deposits). The yearly income goal for all 70 Money Shops is $500,000.

Money Shop staff typically includes a Junior Officer, an experienced teller and two teller/collectors. All are college graduates. They are paid between $1,500 and $1,750 per year. Their duty is to accept deposits, appraise loans and accept daily repayments. They perform only simple accounting procedures. Each evening, funds are transferred to a branch bank where more complicated banking functions are carried out. Money Shops are generally open from 9:00 a.m. to 4:00 p.m., five days a week.

To qualify for the minimum loan of $125, a stall owner must have a daily sales volume of $7.50 to $8.75 and profits of 10 percent to 50 percent. No more than 30 percent of the profit ($0.75 to $1.12) can go to daily amortization of the loan.

Loans are unsecured. In the Philippines, stall leases in public markets are hereditary and cannot be sold, which increases their stability. However, sub-leasing does take place illegally. Therefore, an additional requirement is that the applicant must have operated in the market for at least three years and have a good reputation among other stall owners and creditors. A special document is signed by the loan recipient which indicates that goods are being released on what is essentially a consignment or trust/receipt-basis.

*The information in this section pertains to late 1979. The Money Shops program has since encountered some difficulties—due to changes in policy and in the economic climate—and has decreased the level of its operations.

Those receiving the smallest loans are usually vendors of fish, fruit or vegetables. Those receiving the largest loans ($1,250) own such businesses as grocery stores or rice dealerships. No loans are made for manufacturing or servicing businesses, which are served by other banks.

The terms are 14 percent for one year plus a 2 percent monthly service charge. Repayment is daily. Loans are restricted for the purpose of financing inventory. Depositors receive 9 percent interest compounded quarterly. Historically, 2 percent of all loans made have not been recoverable. Currently, one half of 1 percent must be written off as bad debt. The greatest earning feature of the system is the 2 percent monthly service charge.

*Evolution of the Money Shop Concept and Operations*

There has been a considerable amount of change in the Money Shop concept and operations since its inception over six years ago. Initially, it was planned to operate in the same way as a money lender. It would make loans on a daily basis, collecting principle and interest at the end of the day.

The maximum daily loan on this basis was $31.25. Interest charges were 1 percent plus 2 percent handling charges per month. These high rates were deemed necessary to cover the costs of lending. They were much lower, however, than the 10 percent to 20 percent daily interest charge of a typical money lender.

Initially, the Money Shops expanded very quickly. Within one year (May, 1974) there were 75. It was already clear, however, that daily loans were not manageable. Also, the smallest loans were proving unprofitable. Loan maturity was being extended, and by this time was averaging three months, which was now set as the maximum maturity period. Minimum loan size was increased to $125 and maximum size to $1,250. Interest charges were changed to 14 percent per year plus a 2 percent monthly service charge.

Other problems also emerged. Some Money Shops were small and flimsy, producing the image of the traditional money lender. Some sites were not well chosen. Security for some Money Shops, located in politically sensitive Muslim areas, was poor. Many loan recipients in these areas were forced into hiding by police actions and consequently defaulted. Also, other banks began to compete, offering lower monthly service charges. These included the Royal Savings Bank and several finance companies.

Despite these problems, prospects looked good. While Money Shops were accounting for only 5.74 percent of all PCIB branch deposits, these deposits made up 23.24 percent of the *increase* in deposits. Total past due accounts were 3.99 percent, with larger accounts being more likely to default than smaller ones. For the period May 1973 to May 1974, gross profits were 40 percent. Net income for the year was 20 percent of outstanding loans. Funds to finance the Money Shops were generated from collections (72.34 percent), deposits (9.92 percent), and borrowings (7.73 percent).

The Money Shops continued to expand for another year. In 1975, there were 90. This, however, turned out to be the maximum number, for as the number expanded, so did the problems. The period 1977 and 1978 was one of consolidation and assessment. The key question was, should the Money Shop concept be continued and if so, in what form?

The immediate need was to close shops that were unprofitable for various reasons. Twenty shops were closed either because the market was too small to maintain them, because of a shift in the market site due to fires, because of poor security, or because of other causes. Fire, in fact, was proving the most serious risk, with an average of three shops a year destroyed from this cause. Government rules restricted operations to within 100 meters of a commercial market, which proved unduly burdensome.

Even with these closures, not all sites are considered adequate. Some are still too distant from the market. Some that are inside the market still are too insubstantial. The cost of a good site often comes high, requiring up to $7,500 in payments to informal market leaders and others for "good will".

Defaults were increasing significantly, especially for the smaller loans, while deposits and loans were not. The key problem here seemed to be the staff. Most managers were young and lacked experience with this level of responsibility and this novel type of operation. They did not know how to market the bank product adequately, or assess loan applications, or make collections. As a result of these problems, PCIB asked Money Shop Managers to cease making new loans to previously unknown customers. In August 1979, there was three times as much in Money Shop deposits as was being lent.

In Mid-1979, it was decided that the problems were correctible and that the Money Shops would again be allowed to grow. PCIB decided to increase the capital flow (exposure) through the Money Shops by 50 percent to $3,750,000.

Part of this decision was an extensive plan to correct the problems with all changes to be implemented during the remainder of 1979. This plan included:

1. preparing a Credit Policy Manual, featuring a more controlled credit process, clear definition of staff responsibilities and accountability, and an elaboration of a monitoring and control system;
2. training of Money Shop personnel in new procedures;
3. increasing rotation for Money Shop personnel;
4. grouping of Money Shops under Area Managers, who are to supervise Money Shop Managers and assure regular training meetings;
5. developing a support unit in those PCIB branch banks which supervise Money Shops to undertake exclusively Money Shop transactions;
6. relocating some Money Shops to more strategic sites;
7. remodeling of Money Shops to project the image of a bank;
8. hiring of several staff whose sole function will be to collect delinquent loans;
9. shortening Money Shop hours to five days a week;
10. reducing and standardizing the forms used in Money Shops;
11. viewing the present four employees per Money Shop as the minimum manning level and increase number as volume of business justifies it; and
12. renaming Money Shops "PCIB Minibanks".

*Assessment*

The PCIB experience with its Money Shops indicates that extremely small loans can be made at a profit, in the right circumstances. Early experience with these loans suggested that those borrowers with the smaller outstanding loan commitments were the more likely to repay. This picture changed somewhat, however; by 1978 it was those loans below $625 which were the most likely to be defaulted. PCIB concluded that the reason was that loan applications for larger amounts were more carefully scrutinized than those for smaller amounts.

This is a perennial problem of banks. Even with the lower overhead of the Money Shops, the amount of time spent in scrutinizing a loan application must be kept under control. The 1974 solution to the problem was to raise the minimum loan size from $31 to $125. However, when this issue was again addressed in 1979, the decision was made not to further increase minimum loan size because it would put the Money Shops out of the reach of the target population. Instead, the choice was to improve the skills of Money Shop staff, increase staff size, and hire agents to collect delinquent loans. It remains to be seen how effective this approach will be.

Experience to date has not discouraged PCIB from the prospect of making even *smaller* loans through *sari-sari* stores. Their view seems to be that the problems of small lending are largely mechanical. Utilizing the right delivery mechanism, such loans are viable and profitable. They are still trying to perfect the delivery mechanism.

One important element in the success of the Money Shops seems to be its proximity to, and daily interaction with, its clientele. Markets seldom extend beyond one or two city blocks. Thus, it is unlikely that any borrower will be more than five minutes from the Money Shop. Merchants are known to each other and to Money Shop staff on a very personal basis. Quite often, PCIB hires as a Money Shop staff person a member of the family of the informal leader of the market. It is, therefore, relatively easy to keep track of business problems that emerge for any loan recipient. In the case in which someone fails to come in for several days to repay, he can be contacted easily. If necessary, social and economic sanctions can be applied through the informal market leadership.

This system is keyed to the unique situation prevailing in the Philippines. Exactly the same arrangement might not work elsewhere. However, banks interested in small lending should find this case helpful in guiding them in the design of their own programs.

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# CHAPTER IV

## SUMMARY AND CONCLUSIONS

The purpose of this study in the Philippines has been to determine whether it is possible to provide meaningful assistance to informal sector entrepreneurs and, if so, what form this assistance should take. Informal sector enterprise was defined as non-farm self-employment in which an individual and his or her immediate family are engaged with an investment in facility, equipment, and stock valued at less than P4,000 ($500).

The characteristics of the Philippines in respect of poverty and the resulting prevalence of informal sector enterprise were seen to be more or less representative of the Third World in general. The Philippines has in the past been a traditional peasant farming culture. Non-farm economic activity was minimal until after World War II, and it was nearly always linked to the production and marketing of farm products.

That pattern is now shifting because farming and farm-related activities cannot support the rapidly increasing population. Total population of the Philippines was 42 million in 1975 but will be 83 million by the year 2000. Employment was 14 million in 1976, 70 percent in rural areas. At least 500,000 new jobs must be created each year just to prevent further deterioration in the level of unemployment, which stands currently at about 5 percent.

Agriculture in the Philippines cannot absorb these growing numbers. The number of males engaged in agriculture has remained constant since 1965, and female employment in agriculture has grown only slightly. Industrial employment has proven even less satisfactory in absorbing manpower. Employment in this sector has actually been dropping for both men and women.

In connection with these developments, informal sector enterprise has been expanding rapidly as a source of employment. It is estimated to be the primary source of employment for 40 percent of the work force. If secondary employment were included this figure would be higher still.

While employment patterns have shifted, real per capita family income has been declining. The "poverty threshold", or amount needed to support an average family in a minimal way, is estimated to be between P5,000 and P7,000 ($625 and $876) a year. At least 80 percent of the population earn less than this and the proportion with incomes below the poverty line appears to be growing.

In Metro-Manila and its environs, where this study was focused, informal sector enterprise is a predominant source of employment for over a million workers, mostly women. Principal among informal sector enterprises is hawking and vending. Average income for hawkers is well below the "poverty threshold."

### *Programs which Assisted Informal Sector Enterprise*

To respond to the growing predominance of informal sector enterprise and to the specific problems these enterprises face, a variety of programs have emerged over the last ten years. The six case studies reported represent a sample of such programs sponsored by government agencies, private voluntary organizations, and banks.

The programs reported on were the Self-Employment Assistance Program (SEAP) of the Ministry of Social Services and Development (MSSD), the Metro-Manila Barangay Industries Development Program (MMBIDP) of the Ministry of Industry (MOI), the Self-Employment Program (SELP) of Manila Community Services, Inc. (MCSI), and the Carmona Social Development Center (CSDC) of Tahanan Foundation, Inc. The two bank programs were the Center for Social Credit and the Money Shops, both sponsored by the Philippine Commercial and Industrial Bank (PCIB).

It was seen that the most important activity of all these programs was to provide loans to enterprises in the informal sector. In a study of 80 beneficiaries of these programs, 83 percent feel that credit is their most important need; almost all say this is the most important service these programs provide. All programs are concerned to some degree with the managerial and technical aspects of business. The banks provide the least of these ancillary services. The Ministry of Industry does the most, providing a college trained technician to work with each group. Those interviewed generally view such assistance as much less important than credit; yet those receiving the most managerial assistance view it as more important than those receiving little or none.

A major difference in the programs is the degree to which they emphasize social development. The banks give little emphasis to social development, while other programs view credit as merely a means toward a goal of total family or community uplift and have heavy community development or social service components.

As Table 8 indicates, program costs (including loans) vary widely between programs. Overhead costs per beneficiary range from P44.57 ($5.57) to P2075 ($259). Average loan size per beneficiary varies from P224 ($28) to P1,500 ($188).

Program size varies greatly as well. One government program reached over 100,000 beneficiaries during 1977-78. Others reach an average of 150 entrepreneurs a year.

**Table 8**

**Costs of Services Provided Per Beneficiary**

| Agency | Average Loan Size | Average Overhead | Loan Size as Proportion of Total Cost |
|---|---|---|---|
| Ministry of Social Services & Development | P224.38 ($28.05) | P44.56 ($5.57) | .834 |
| Manila Community Services, Inc. | P500 ($62.50) | P800 ($100.00) | .385 |
| Tahanan Foundation, Inc. | P312.50 ($39.06) | P2,040 ($255.00) | .133 |
| Ministry of Industry | P1,505 ($188.13) | P2,075 ($259.00) | .420 |
| All Programs | P635.47 ($79.43) | P1,239.89 ($154.98) | .339 |

*CONCLUSIONS*

The Philippine experience argues strongly that the informal sector enterprise is deserving of assistance. If present trends continue, this sector will absorb an increasing proportion of those entering the labor force. It is likely that over 40 percent of the new jobs needed each year (200,000) will have to be created by individuals starting their own tiny enterprises, or by adding additional workers to the tiny businesses that already exist.

The case studies of ongoing programs show that such businesses can indeed be assisted, yet the costs of assistance per project beneficiary are often very high. Only one of the four programs is beyond the experimental stage (the Money Shops). It may be significant that this program has the lowest costs per beneficiary, P268 ($33.00) which indicates that it is possible to lower costs. With simpler, more cost-effective programs, far more businesses can be reached than is presently the case.

It seems clear that credit is both the most relevant and easiest service to deliver. Credit is seen by beneficiaries as the most important and often the only input that is important to their businesses. If a program can deliver credit, it will be viewed by the beneficiaries as having a positive impact. Unless carefully designed, community development, management assistance, and social welfare components are costly and have little positive impact.

The most efficient and practical way to deliver credit is to use banks and other commercial credit facilities. Banks have the skills necessary for extending and supervising credit and they know the importance of keeping administrative costs low. If a business grows it will need bank credit. Hence, it is important that clients get used to using banks early in their business careers.

In the Philippines, as in most other countries, few banks have been willing to grant small loans in large numbers. "Social credit" is an old idea, but it has been left to non-banking organizations like Philippine Business for Social Progress (PBSP) to implement. Recently, commercial bank programs like the Money Shops of the Philippine Industrial and Commercial Bank (PCIB) have made small commercial loans ($125 to $1,250) and plan to make smaller ones.

There is resistance to the idea that commercial banks should assist these businesses. Some argue that this area is not one ever likely to produce a profit; therefore, banks should not be involved. Others oppose the notion because banks are too hard on small borrowers. This latter group favors "social credit" which assumes a subsidized interest rate (3-12 percent) and uses credit as a small part of a larger program aimed at social uplift. Their argument is that charging "market" interest rates to very small borrowers is simply taking food directly out of people's mouths, since they are so poor.

Despite this criticism, PCIB is continuing to experiment with making smaller and smaller commercial loans and is apparently making a profit. Interest rates *are* high, amounting to 38 percent for one year. However, this is much lower than the 20 percent per day that is often charged by moneylenders. By reaching more businesses at a lower cost than the moneylenders, the bank feels it is providing a social service.

The Manila Community Services (MCSI) program represents an interesting compromise between heavily subsidized loans that reach few people, and market rate programs that can reach many more. They have a guarantee fund in the bank on the basis of which the bank (again PCIB) extends loans to small borrowers. MCSI provides loan processing and credit supervision services and loans are provided at 14 percent, the regular commercial rate. The bank feels the interest charges cover handling costs and their minimal supervisory responsibilities. The guarantee fund covers any major loss. MCSI keeps its supervision costs low by using community volunteer leaders and thus is able to lower the effective interest rate. Loan recipients are grouped by volunteer leaders, and the group leader is responsible for repayment, not the group or the individual members.

These experiences strongly suggest that a program to provide credit to small borrowers (below P800 or $100) could be developed in the Philippines which could eventually reach a large number of people at a low unit cost. The commercial banking community should be involved to the extent feasible, and some form of loan guarantee fund would probably be necessary to encourage this involvement. To cover expenses it is unlikely that interest charges lower than 14 percent would be feasible. Private or public agencies will have to bear a large proportion of the costs of supervision, at least until the banks become used to dealing with very small borrowers.

It is also possible that an organization could be attached to a bank, to provide "social credit" in cases where beneficiaries are extremely poor. It must be understood, however, that the subsidized interest rate would cause the bank to suffer an accounting loss.

To deliver credit effectively and economically it was found that:

1. community involvement is important;
2. loans can be supervised by community volunteers, and with good community-volunteer relations repayment can be excellent;
3. repayment should be as frequent as possible, and geared to the businesses' unique rhythms;
4. loans to groups are seldom effective in the Philippines; and
5. managerial and technical assistance is related only weakly to loan repayment performance.

This study was less clear on the ancillary supporting services needed by these businesses. Most programs believe managerial and technical assistance is important. However, only the Ministry of Industry program provides intensive management assistance and this program is too new to judge the importance of these services. Services are expensive, but more economical systems may be developed with the passage of time.

Other programs provide management assistance in short classroom training courses (seldom for more than a few days), often using the services of only minimally-trained volunteers. Most programs simply do not have the financial resources necessary to provide management assistance, and they would have difficulty building it into existing programs, even if money were available. The owners of the businesses expressed little interest in management assistance.

This study is inconclusive on this point. More experimentation seems warranted, to see if costs of management services can be reduced, before efforts are made to develop large management assistance programs.

Many programs also provide "social development" assistance. This may consist of community development or individual and family social services or a combination of both. Most agencies assisting small enterprises actually began as social service programs and only recently moved into economic development. They generally have more competence in social programs than in business.

Linking enterprise development to community development seems to be a very useful way to make programs work. As the size of the business decreases, technical and managerial concerns lessen, but social problems such as family disagreements, family sickness, or death, become much more critical to business success. Successful small credit programs in the Philippines seem to include a "social development" component, even though in interviews with beneficiaries this element is seldom perceived by them as being important.

Social development can be provided by either government or private agencies. Whether the program is governmental or private, it is essential that the agency staff have close ties with the community and be able to respond to needs in an individual way.

To sum up: assistance to informal sector entrepreneurs needs a credit component, preferably tied to a bank, and a social support component. The need for a managerial and technical assistance component to assist these smallest of businesses is still in question. No single agency in the Philippines provides all three of these services, nor is it necessarily desirable that they should. Agencies can share their areas of expertise and are in practice cooperating to a remarkable degree.

The Manila Community Services program provides an interesting model of cooperation. It has an excellent system of community volunteers, but it relies on a bank (PCIB) for credit, on the Ministry of Industry for technical help, and on contacts with a wide variety of governmental, commercial, and voluntary entities and resources to tailor its programs to the individual beneficiary.

## *IMPACT*

These programs exist to improve conditions in the poorest communities. Unfortunately, neither the data available from the agencies, nor the small number of interviews conducted were conclusive about the impact of the programs. Therefore, what follows is highly impressionistic.

The key to moving these entrepreneurs out of poverty is to break them out of petty trading and hawking. This is achieved through gradually changing the nature of their business by increasing their level of investment. Hawking and vending is the point of entry into the economic system. However, the interviews confirmed that to make more income as quickly as possible, people move from selling to wholesaling and service activities and from there to manufacturing. The pace of this movement is determined by how rapidly capital can be accumulated. Services require four times the investment of selling, and manufacturing requires seven times this investment. If the poor person owns a service enterprise or manufactures something, he is in a position to significantly increase family incomes since, compared to selling, disposable income is on the average twice as high for services and four times as high for manufacturing.

Therefore, what programs seek to do in respect of their clientele who are hawkers and vendors is to upgrade their investment in these economic activities so that they will be able to compete in more profitable markets, and thereby increase incomes and become more positively integrated into the economic mainstream.

This is not an easy task and none of the programs studied has a complete answer for how it can be accomplished. Credit is the most essential ingredient. Most of those interviewed indicated that business profits have significantly increased, sometimes as much as 200 to 300 percent in two years, primarily as a direct result of access to credit. Most agree that without additional capital, increases in profits would have been barely sufficient to keep up with inflation (15 percent a year.)

Another essential ingredient is social services. In almost all cases, there has been at least one serious personal problem which could have proved disastrous for the business, such as the death of the husband or a child, theft, "borrowing" capital for gambling and drinking, fire or flood, extortion, long-term sickness, or nervous breakdown from overwork. It is essential that the agency be there to help the client through the crisis. This "social support" can be extensive in some cases. In others, it might only include regular visits by a community volunteer. Refinancing of the loan, where one exists, may also be appropriate as part of this "social therapy". This form of assistance is especially needed for the poorest families, and has often dramatically increased the likelihood that the business will succeed.

### *Number of Beneficiaries*

The number of people reached by these programs is obviously not large in relation to the magnitude of the problem being addressed. Nevertheless, the programs have demonstrated that an alternative approach to entrepreneurship development is possible. An important question is: Can such programs be expanded so that significantly greater numbers of people can be reached? The Program Directors admit that their limited management capacity does not allow much room for further expansion. Since all four programs try to keep overhead costs low to bring unit costs of assistance down, one wonders whether the proper approach is to expand these organizations or to encourage the formation of many small organizations like them.

MCSI has successfully delegated much of its program work and responsibilities (screening, collection of loans) to volunteer community leaders. The other three programs pay their staff to perform all these tasks. All four Directors conclude that any entrepreneurial development program must be community-based and must emphasize the participation of beneficiaries in all phases of operation. A recent evaluation done by Philippine Business for Social Progress found that locally-based organizations were more likely to achieve their employment and income objectives than regional or national ones.

### *Formal vs. Informal Approaches*

While the four programs address themselves to the informal sector, they still use formal screening procedures for their clients. Detailed applications are filled out, feasibility studies are often required, thus increasing the need for a technical staff to evaluate these feasibility studies and greatly increasing the cost of these programs. The only exception is the ₱1,500 petty loan fund administered by MCSI's community leaders, which is lent out to clients without interest for small trading/food processing enterprises in amounts ranging from ₱100 to ₱200 ($12.50 to $25.00) per loan as well as for non-business "emergencies."

The elaborate formal system used by these programs stands in sharp contrast to the money lender system that makes small amounts of credit available to businessmen at 20 percent interest per day. That informal credit system flourishes throughout the country, as in most parts of the world. One well-known money lender in Guadalupe, Makati in Metro-Manila operates in six public markets with no less than ₱1.0 million ($125,000) lent to hundreds of small entrepreneurs. The money lender's whole family is involved in collecting the daily payments. The only security required is the word of another debtor, say a similarly situated small market stallholder. The repayment rate on these loans is 99 percent. The 5-6 credit scheme of the money lenders (or paying ₱6 for every ₱5 borrowed) is accepted even in plush offices in Ayala (Makati) among well-dressed office employees.

The formal procedures of the programs studied stem from the kind of funding which these agencies receive that requires strict accountability. The Ministry of Social Services and Development and the Ministry of Industry are funded through annual government appropriations; Manila Community Services by a foreign (German) development agency; and Tahanan by private business firms. To reduce program costs per beneficiary it will be necessary to experiment with different mixes of formal/informal controls. This will likely be a most fruitful area of innovation, and it should be fully explored.

### *Group Credit and Credibility*

The programs question the development concept of "group credit." Group credit does not seem to work in small business in the Philippines. Recipients work better as individuals than they do as group-members, at least in terms of meeting their direct financial responsibilities. MCSI reports:

> ". . . From the experience of SELP, reliance on group credit and group responsibility, a concept held dear at the start of the program, was almost completely debunked. Many repayment problems were found to lie in group credit. Most community leaders find that individual loan recipients perform better in-so-far as businesses and loan repayments are concerned . . . And their experience is that most groups have broken up to perform better with SELP assistance. Those groups which are still viable plan to disband once the group credit contracted with SELP is repaid.
>
> "An interesting compromise seems to have been worked out in SELP: the group exists, but the group does not guarantee the loan . . . only the group leader is held responsible for the loan, and, therefore, must exact discipline on the members. While the group meets and members help each other solve problems, the group leader is seen as the final arbiter since he is held responsible for the loan repayment."

The Metro-Manila Barangay Industries Development Program of the Ministry of Industry, while setting as its goal the establishment and activation of a permanent and organizational framework or legal entity for *beneficiary groups* and the introduction of economic projects to *socially viable groups*, had to admit that "organizing groups and developing them to be socially viable takes 60 percent of the staff's time and proves to be very difficult." Thus, it was agreed that "while the program initially sought to assist groups, it is recognized that to reach a greater number of people, individuals must also be assisted." Further,

> "The only thing that hampered immediate action was the group concept. The beneficiaries would prefer that they engaged in the project individually. They felt that it was very difficult to work with other individuals."

While the grouping of investors into a common undertaking is taken as a matter of course in big business, the poor, fighting for survival, cannot afford the luxury of group enterprises. They feel insecure in sharing the risks with others who are just as poor as they are.

This, in fact, reinforces another observation that while social groupings may be strong in the Filipino culture, economic groupings are not. MSSD and MCSI are therefore focusing on the family as the basic entrepreneurial unit and consider it the most viable group. While the enlistment of family members and relatives into an undertaking is viewed as anathema in corporate organizations, it seems essential for these tiny businesses.

### *Community-Based Operations*

How far should beneficiaries be involved in the operation of these programs? The economy of private money-lenders and merchants functions because people know each other. MCSI has embarked on a seemingly fruitful experiment that closely parallels the way business is usually done in poor communities by supplying a P1,500 petty loan fund to each of its 12 community leaders for lending without interest and without loan papers to their immediate community. Also, while the bigger loans pass through a more formal process, collections, responsibility for loan appraisal, and assessment of the credit-worthiness of a beneficiary are completely delegated by MCSI to its community leaders. In effect, the MCSI principle is to build on community leaders who operate within the geographic and social matrix of the community, just like the moneylender. Using the community leader approach, MCSI experiences a 100 percent repayment rate.

The other programs of the Ministry of Industry, the Ministry of Social Service and Development, and Tahanan, are more structured and formal and rely heavily on institutional capability. MCSI prefers to maintain a very small overhead, and compared with the other three, relies almost entirely on part-time workers and volunteer personnel, rather than on in-house capability.

### *A Business-like Orientation*

All four programs aim to inject hard business criteria into their social credit programs. They use education and training as the main vehicle through which beneficiaries acquire business management skills and a more business-like outlook, such as accepting the need for the keeping of accounts, being concerned with market development, and keeping track of production costs. Programs also provide pre-project monitoring and loan supervision.

To become more businesslike requires involving more businessmen as program staff. This is a recognized need, but no program has been successful in responding to it. It is difficult to hire businessmen because of the limited resources available to pay them, and it is hard to find businesspersons at any price with the right attitudes to work on advisory committees or as consultants. More effort needs to be made to involve businesses in projects.

### *Community Checks and Balances*

Community sanctions against home-grown swindlers, embezzlers, and bad credit, which are generally effective in informal rural credit systems, have not yet been fully developed in the programs under review. This could be due partly to the absence of such consensual norms in the urban environments where the programs operate, and partly to the limited visibility of some of the programs in the communities where they operate. MCSI uses its community-based coordinators as a means for imposing some (limited) discipline, and supports their credibility by allowing them personal discretion in the use of petty loan funds.

In time, assuming a degree of permanency in the residence of loan recipients and of community leaders, and given an awareness of the utility and effectiveness of the project in a community, effective community sanctions and the institutional checks supportive of informal credit could begin growing endogenously. These community mechanisms would be more compatible with small credit schemes than the usual legal sanctions exercised through the operation of the penal code using police and judicial processes.

If community sanctions form part of the development strategy in social credit for small self-employment projects, then geographic specificity of project locations should be a consciously planned tactic of the programs. This would mean planning the development of a series of community programs rather than a program without geographic focus. Scattered loans across a wide area provide no strong community-based institutional supports.

## *RECOMMENDATIONS*

This study suggests that larger numbers of informal sector entrepreneurs can be helped into the economic mainstream. What seems to be needed is a model for applying the ideas of the relatively modest programs studied in Manila to other areas throughout the Philippines.

Such a model would have to recognize that present programs seem to work only because of the support they receive—both formally and informally—from other complementary programs. No one program or agency is capable of responding to the full range of needs of the informal enterprise sector, nor does this seem to be desirable. Agencies which meet the requirement of being local and having strong community ties are not likely to be strong technically, or to have the management skills needed for full credit programs. The reverse is also true.

What is needed is a model that draws upon the special skills and resources of government agencies, the business community and voluntary organizations in a coordinated effort to respond to the needs of individual entrepreneurs. The experiences of the agencies studied in Manila and their collaborative relationships could serve as such a model. The implementing vehicle could be similar to the Rural Service Centers of the Philippine Government, which are currently partially financed by USAID.

The Rural Service Center program has as goals: (1) upgrading the administrative capacity of local government in selected chartered cities; (2) increasing citizen participation, with special emphasis on the disadvantaged, in planning and implementation of projects to improve the quality of life in those cities; (3) enhancing and amplifying both the quantity and the quality of projects, either financed or administered by city governments, which have as their end goal the upgrading of the quality of life of the disadvantaged; and (4) strengthening the capacity of the Philippine government to carry on sustained assistance to local government.

To achieve these goals, each of the 15 cities under the program has adopted a Social Action Plan, which outlines development projects for the poor. Among the projects identified in these cities are a large number of business projects for informal sector entrepreneurs, including sewing and needlecrafts, bamboo and woodcraft, goat rearing, and rabbit raising. Given the importance of employment to the poor, it is probable that many more programs would be generated if the staff had the business skills to assist them.

Thus, it would appear that a natural connection exists between the findings of this study and (to cite one example) the Rural Service Center program. To exploit this potential synergy, the first requirement would be to identify the local organizations that collectively would implement such an integrated program. These could be found among private voluntary organizations, government agencies, or business groups. Some critical resources, such as a vehicle for credit, may not be available locally and may need to be established either with a guarantee fund in a local bank or through a national-level program. Managerial and technical help may also be needed.

Once organizations have been identified, the second task is to build a network through which these organizations can mutually support the goal of establishing informal sector entrepreneurs and gradually move them into the economic mainstream.

The role of the Rural Service Center would differ markedly from city to city, depending on local capacities. A minimal role might involve it in coordinating the activities of other organizations to respond to the needs of individual entrepreneurs. At the other extreme, the Center could take a direct responsibility in all phases of business development.

The Center could supply not only credit but also technical guidance and could lease out or consign equipment and provide a supply of materials. Small enterprises could be linked to the Service Center either as independent operators (marketing their produce/services in the open market) or as subcontractors (the Service Center buying their output). This has been done successfully in India and in the Philippines. Contract poultry raisers are assured of chicks, feeds, medicine, and market. They build the chicken coops and provide labor and supervision for the project. The garments industry has also developed the concept, mainly in the sub-contract of assembly of parts, as in sewing and embroidery. Pre-cut materials are sent out to sewers/embroiderers. When the materials are returned, the workers are paid.

Having access to Service Centers would offer distinct advantages to many small businesses, since the types of problems that affect these businesses the most are precisely those which Service Centers deal with best. For example, the Service Center could help the small enterprises find markets and could teach simple accounting. Marketing constraints and lack of adequate systems to keep track of funds often prevent the rapid expansion of these businesses. The Service Center could also link small enterprises to big business. Contract poultry raising, for instance, now espoused in the Philippines by big feed manufacturers who are also distributors of high-breed chicks, has revolutionized livestock growing in many rural areas, linking producers to the cities where the markets and financing are located.

Lately, General Order 47 (which requires companies of over 500 employees to grow their own cereals) has created many contract arrangements among small farmers. The companies supply seeds, fertilizer, pesticides, herbicides, financing, and the assured purchase of the rice harvest, and the farmer supplies land and labor.

It would be important that each Service Center be set up as a parastatal or private corporation and be judged by the profitability of the businesses it assists. This would be a very difficult program to operate as a government agency.

A key component in the development of any model is "leadership development". Most of the people involved initially in starting these programs in any city will not have experience in business. They will be, for the most part, government officials and social workers. We have learned from hard experience that although these people may have good intentions, they seldom have the capability for setting up good business development programs. These people need new attitudes and approaches. This can be achieved best not in formal classroom settings, but through allowing them to see operating programs, and by interaction with successful program leaders. They also need to be encouraged to identify and draw people with business experience into their councils (from both large-scale and small enterprise, including the informal sector). An important conclusion of this study is that without this business involvement such programs are impossible to implement on a large scale.

In summary, large numbers of informal sector entrepreneurs can be effectively assisted in the Philippines, utilizing existing programmatic models as a framework. This study should be viewed as a modest base on which to begin to explore how to promote and to extend the reach of this known workable technology for the benefit of the presently growing numbers of these micro-entrepreneurs.

# Part V
# Case Studies: India

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by Jason Brown,
Partnership for Productivity

## CASE STUDIES: INDIA

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# CHAPTER 1

## INTRODUCTION: INDIAN GOVERNMENT POLICY AND MECHANISMS OF SUPPORT FOR TINY URBAN AND VILLAGE INDUSTRIES

This study is concerned with income-generating activities of the very poorest members of the community. India defines the "poorest" as those families with incomes of less than Rs. 3,000 ($375 U.S.)[1] a year for urban dwellers or less than Rs. 2,000 ($250) a year for rural dwellers.[2] This sector will be defined as that grouping of economic activities in which the poorest Indians are self-employed in trade, services, or manufacturing. The predominant activities are hawking and vending, petty trading and preparation of cooked foods. A smaller number of firms manufacture goods requiring little mechanization and minimal investment such as sandals, clothing, simple toys or jewelry. The typical range of investment would be from Rs. 2 ($.25) to Rs. 1,000 ($125).

### *The Size of the Informal Enterprise Sector*

The *Indian Draft Five Year Plan 1978-83* estimated India's total labor force to be 265.3 million in 1978. If present trends continue, the labor force will expand by 29.5 million persons by 1983; in other words, by nearly six million a year for the next five years.

The largest number of new jobs will be created in what the Indian Plan calls the Informal or Unorganized Employment Sector. By Indian definition, this includes agriculture and allied activities and the entire "small unit sector" which, in 1971, employed 91 percent of the total labor force. An astonishing 67 percent of the unorganized workforce is self-employed, mainly in tiny enterprises. The non-agricultural labor force in the informal sector in 1978 was 43 million. The Plan estimates that the informal enterprise sector will need to absorb at least 1.5 million new workers a year over the next five years.

### *Government Attitudes Toward the Informal Sectors*

It was Prime Minister Nehru's dream that India should be an industrialized nation, providing a desirable standard of living for all its citizens. The early Five Year Plans reflect this vision by emphasizing development of heavy industries. The emphasis began to shift in later plans: first toward rural *khadi* and handloom industries (reflecting Gandhi's philosophy of development), then, increasingly, toward other small and village industries as well. By the time the Janata party came to power in 1977, the pendulum had swung away from large scale industry, and the emphasis was fully on rural and village industries.

[1]All dollar figures given in parentheses are U.S. dollars. An exchange rate of $1 = Rs. 8 is used throughout this paper. The research was carried out in 1979, before the current (1981) Congress (I) government was elected.

[2]The Indian Government defines small industries as those with investments in plant and machinery of less than Rs. 1,000,000 ($125,000 U.S.). Tiny industries are those with investment of less than Rs. 100,000 ($12,500) in plant and equipment located in towns of populations less than 50,000. *Khadi* and village industries are defined by a list of 22 types of artisan activities which are assisted by the Khadi and Village Industries Commission. (*Khadi* is the handwoven cloth of India.) Sometimes the term cottage industries is applied to traditional activities such as weaving or to similar scale activities such as match making, with investment in plant and machinery of less than Rs. 10,000 ($1,250). There is no terminology for commercial activities since, until recently, no assistance was available to this sector.

As none of the Indian Government terminology described above fully covers the subject of this study, we will describe our sector of interest as the informal enterprise sector.

In December of 1977, the new Janata Government stated:[3]

> "The emphasis of industrial policy so far has been mainly on large industries, neglecting cottage industries completely, and relegating small industries to a minor role. It is the firm policy of this Government to change this approach.
>
> "The main thrust of the new Industrial Policy will be on effective promotion of cottage and small industries widely dispersed in rural areas and small towns. It is the policy of the Government that whatever can be produced by small and cottage industries must only be so produced . . ."

*Central Government Implementation*

Government programs to implement this policy are elaborate. One important component of these programs is the Small Industries Development Organization (SIDO) under the Ministry of Industry. Headed by the Development Commissioner of Small Scale Industries, SIDO has an extensive network of services, including 25 Small Industry Extension Centres. In addition, it coordinates the development of District Industrialization Centres to assist small and cottage industries in all 480 districts.

Under the Ministry of Commerce, there are 40 subsidiary corporations to deal with specific enterprise needs. These include Commodity Boards in 7 product areas, and Export Promotion Councils in 16 product areas. The Handicraft Board is the coordinating body for three other agencies: the Khadi and Village Industries Commission, All-India Handloom Board, and Small-Scale Industries Commission. Each of these agencies has the capacity to provide technical and financial assistance to informal sector entrepreneurs.

*State-Level Machinery for Implementation—Tamil Nadu*

Each state has its own framework of programs, but all frameworks generally follow the same patterns. As an example, let us examine the programs of one state, Tamil Nadu.

The *Tamil Nadu Department of Industries and Commerce* coordinates state government activities for small and cottage industries. The Director of Industries and Commerce is also Chairman of the *Tamil Nadu Small Industries Corporation.* This corporation manages 8 industrial estates, provides 1135 entrepreneurs with hire-purchase machinery, helps procure raw materials and identify markets, and provides the tiny sector in rural areas with margin money. It also works with the *Tamil Nadu Industrial Investment Corporation* to provide loans ranging from as low as Rs. 5,000 ($625) up to Rs. 1,500,000 ($187,500).

In Tamil Nadu, the *Khadi and Village Industries Board* operates 124 administrative centers, 360 craft and textile centers, and 205 village industry units. These organizations service the needs of 460,000 small producers, many of whom are organized in some 3,000 cooperatives. They are engaged primarily in production of palm products (50%), *Khadi* (25%), non-edible oils and soaps (15%), and honey (7%). The basic activities of the Board include forming cooperatives, marketing, training producers to secure bank financing, researching and developing new processes, and assisting producers in the registration and procurement of raw materials, marketing, and training. In addition, it provides technical assistance to 22 traditional village industries and can offer loans at 4 percent interest for up to five years and in amounts as little as Rs. 500 ($62.50).

The Board has received directives from the State Director of Industry to expand into match production and sericulture. These two programs are expected to generate 30,000 new jobs in the state over the next two years, of which 2,000 to 3,000 are to be in the city of Madras.

*The Tamil Nadu Handicrafts Development Corporation* runs 20 sales emporiums, 12 training centers, and 3 production centers and is heavily involved in foreign exports. It also helps artisans obtain raw materials and loans, and provides technical advice on design and production.

*The Industrial Cooperatives Department* is responsible for the creation and support of industrial cooperative societies in the state. There are 400 societies producing other than craft items. Assistance provided is similar to that of the Tamil Nadu Handicrafts Development Corporation.

[3]Government of India, *Statement of Industrial Policy,* Dec. 1977.

*The Tamil Nadu Handloom Development Corporation* provides assistance to the over 4 million weavers in the state.

The major orientation of these programs, however, is rural. Since the mandate of PISCES is to focus on programs which reach urban enterprises, we will examine programs in Madras, a large city in the State of Tamil Nadu.

### *Madras City Resources for the Informal Enterprise Sector*

Madras is neither typical nor atypical in India. The Tamils are generally considered to be more entrepreneurial than many Indian people, but less so than the Gujaratis or Bengalis. Madras is a major industrial city of India. It has a large concentration of heavy industry, including automobile production, but several other cities employ more people in large-scale industry. Estimates of the population of Madras range up to six million people, depending on how the boundaries are defined.[4]

Data on employment in the informal sector in Madras are inconsistent, but these figures are indicative: one World Bank report estimates 900,000 persons, or about 50 percent of the work force, are employed in business units employing less than 10 people; in the 1971 census, 88 percent of the establishments surveyed had fewer than 10 employees. Despite the importance of the informal sector in the economy of Madras, there is only one city agency charged with assistance to this sector.

*The Community Development Wing, Madras Metropolitan Development Authority (MMDA)* handles cooperative development and marketing for urban slum dwellers. It identifies useful small business projects and then helps slum dwellers complete the forms necessary to obtain bank credit. During 1978, the MMDA helped 130 people obtain loans. It plans to create 5,000 new jobs during the coming year.

Finally, it may be pointed out that, of the large variety of central and state government programs which assist entrepreneurs in Madras, many are being channeled through the newly-established District Industrialization Centre (referred to below).

### *Observations on the Operation of Government Programs*

The elaborate organizational framework described above is designed to reach the smallest and poorest of India's entrepreneurs at the district and block level. As is often the case, however, those who receive assistance from these programs are generally those who are better off. The new Five Year Plan admits that ". . . assistance was provided mostly to relatively large industrial units in and around the metropolitan urban areas."[5]

There are good reasons for this. By and large, government services to small industry are expensive. It is difficult to justify this expense when the enterprise involved may have daily sales of Rs. 24 ($3.00) or less. Another problem is the training and orientation of staff. Government technicians are generally university trained; consequently their predisposition is to work with large enterprises whose needs they are better prepared to understand.

The new Indian Plan suggests a solution to this problem, which might be summarized as "better targeting." It proposes a special focus on needy groups and a fine-tuning of program requirements so that staff are *forced* to serve the needy group. This is being done with considerable success in the credit area. "Better targeting" also translates as better planning, support and coordination.

> "So far the programmes for the development of different rural and small industries have consisted mainly of certain fiscal measures and a number of schemes for providing assistance and facilities in different forms to all types of these industries, without a careful assessment of their appropriateness and viability. This absence of focus and perspective has been responsible to a large extent for their sickness. Therefore, it is now proposed to formulate development programs for some selected industries based on (i) in-depth studies of their present position, and

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[4]Three million is a more conservative figure. See Simon Fass: "Inventory of Institutions and Agencies Engaged in the Promotion of Small Industries in Madras," unpublished paper for World Bank, June 20, 1979.

[5]*Five Year Plan, 1978-83*, p. 176.

potential problems; (ii) "growth" areas based on detailed inventories of the existing and potential rural development including tribal, hill and other backward areas. By concentrating on a smaller number of carefully chosen industries and areas, the pitfalls of the approach adopted so far will be avoided."[6]

The tool created to implement this new strategy is the *District Industrialization Centre.* These Centres, which already exist in 350 districts, are to be responsible for "targeting" and thus assuring adequate support from all the needed resources, located in whatever agency, to assure program success. This is an extremely ambitious undertaking. The Centres are new, and it remains to be seen if they can succeed in pulling together a wide variety of agencies and vested interests into a united effort, where each will have to give up some of its individual decision-making power to the Centre. Whatever the outcome, the effort is a laudable one and should be watched by other countries with great interest.

### *Commercial Credit for the Poor*

As in many other LDCs, the majority of small enterprises in India are financed through personal savings and through loans from families or friends.[7] When more capital is needed, these entrepreneurs are most likely to turn to money lenders. Vendors often obtain unsecured loans of less than Rs. 100 ($12) at an interest rate of 10 percent daily. Thirty-day secured loans carry 20 to 40 percent monthly interest rates, and 90 days secured loans can be obtained at 60 percent interest per month.

Money lenders also have a social role to fulfill. They may give advice on running businesses and help in times of family crises. With interest rates so high, however, the money lender system does not allow the fledgling entrepreneur to accumulate capital.

Owners of small enterprises would prefer to have access to commercial credit sources, as interest rates are generally lower there. Banks, though, are reluctant to lend to small business owners who cannot read a loan document, let alone provide collateral or a credit reference. Also, for conventional banking institutions, small loans to micro-enterprises are expensive, unprofitable, and therefore unacceptable.

Necessity, however, is the mother of invention. When the Indian Government mandated that banks must lend 1 percent of their total loan portfolio to these small business owners, banks (alone or in cooperation with private organizations) scrambled to develop inexpensive, profitable, and acceptable methods of lending money to informal sector enterprises. Some of these programs will be examined below.

### *Differential Rate of Interest Scheme*

One of the most interesting Indian programs is the Differential Rate of Interest (DIR) scheme, which has reached large numbers of the productive enterprises of the poor. This scheme provides loans for "productive endeavors" only to those with family incomes less than Rs. 3,000 ($375) per year in urban areas, or less than Rs. 2,000 ($250) per year in rural areas. Loans range from Rs. 50 ($6.25) to Rs. 1,500 ($1,875) for working capital, and up to Rs. 5,000 ($625) for fixed capital. Terms are 4 percent interest, with no collateral requirement. Working capital loans must be payed back in two years or less. Fixed capital loans generally must be payed back in five years, with a grace period of not more than two years.

The Reserve Bank of India rediscounts money to Indian banks, which in turn lend to poor people. Government-owned banks (which since 1969 include almost all large banks) are *required* to allocate 1 percent of their total loan portfolio to this program. Smaller, private banks may do so at their discretion. Up to 85 percent of the lending is guaranteed under the *Credit Guarantee Scheme of the Reserve*

[6] *Five Year Plan, 1978-83,* p. 179.

[7] Examples of enterprises are (1) retail: vendors of fruit, vegetables, flowers, candy, newspapers; (2) service: bicycle repair, barbers, key makers, launderers, hand cart pullers; (3) manufacturing: artificial flower makers, basket makers, blacksmiths, bangle makers, sweet meat making, doll making, bakers.

*Bank of India.* This is a heavily subsidized program since the Reserve Bank of India estimates it costs the bank 8-1/2 percent to raise and administer conventional loans. No one outside the individual banks has systematically assessed how much it costs to administer these small loans, although several people in individual banks estimated the costs at around 13-1/2 percent.

Apparently, banks do not make use of the Credit Guarantee Scheme to recover losses under DIR, which accounts for some of the high administrative costs. The Reserve Bank of India, which is responsible for the Scheme, is also responsible for bank audits. Since commercial banks would rather not report high default rates, only 291 of the 748 commercial banks eligible to participate in the Credit Guarantee Scheme do so.

The DIR scheme began in 1972, but for several years, its reach was modest. Initially, banks were required to allocate only one-half of one percent of their loan portfolios to the "weaker sector." With the new Janata Government, there was pressure to expand this scheme and other programs to benefit the poor. Banks were required to invest one percent of their portfolio in the scheme. By December 1978 there were 1.5 million loans totalling Rs. 900 million ($112.5 million); the average loan size was Rs. 556 ($69.50). Total commercial credit in 1978 was approximately 185 billion ($23 billion). This means that slightly less than one-half of one percent is currently being allocated to the DIR scheme.

In 1978 in Madras, one percent of the loan portfolio would have been Rs. 54.12 million ($6,765,000). Actual lending to the weaker sector in 1978 was Rs. 50.4 million ($6,300,000), according to the reports of 13 of the 15 major banks. These figures represent a 24 percent yearly increase since 1976. These banks lent between 0.2 percent and 4.4 percent of their portfolios to the "weaker sector" in amounts ranging from Rs. 50 ($6.25) to Rs. 1,500 ($1,875).

A significant number of the very poorest people have received loans from this program. What has been the impact of this assistance? Bank officials who were interviewed painted a mixed picture. The banks are under heavy pressure to act, but many are at a loss as to how to best proceed. Staff training, except in a few banks such as Canara, which have had a long-term commitment to the poor, does not prepare bank personnel for this type of program. In addition, such bank branches must "adopt" a village. Bank personnel must go to a village, identify needs, and work with the villagers to respond to these needs, not only in the form of finance, but in other ways as well. Some 70,000 Indian villages have been "adopted" in this way.

Some bank personnel have adapted to this new type of social responsibility, but it has been difficult for the vast majority of them. Banks are judged by the volume of money they lend, repayment rates, and profits. There is no financial incentive for bank personnel to perform the new tasks well. As a result, some banks have experienced bad repayment records and very high administrative costs. Bank officials "hinted" that in some cases repayment rates may be as low as 10-12 percent.

This picture was far from universal. Banks are desperately seeking ways to increase the number of loans provided, and, at the same time, to reduce administrative costs. This has led to considerable experimentation. I saw successful bank programs in Bangalore, Madras and Calcutta, which either utilized their own carefully trained staff or cooperated with voluntary agencies to increase their outreach. They increased their repayment rates to above 90 percent (and in one case above 99 percent), and significantly reduced overhead costs.

In Calcutta, the *Bank of Baroda* maintains a *Multi-Service Agency Branch,* which exists solely to make small loans under this and other schemes. (There are Multi-Service Agencies in other cities.) Four thousand loans are outstanding between Rs. 50 ($6.25) and Rs. 15,000 ($1,875). Only *some* of these loans are provided at 4 percent interest under DIR. The majority are at the commercial interest rate of 12 percent. According to the Branch Manager, over 90 percent of the loans made have been repayed, and only 15 percent have made one or more late payments.

The staff of the Branch consists of the manager, ten loan collectors, and support staff. Collectors are responsible for approximately 400 loans and visit clients at least once a month to collect payments. Loan collectors also identify potential loan recipients, relying on references from those already receiving loans or from neighbors. Collectors try to group loan recipients to make supervision easier and to develop groups of neighbors who will vouch for each other.

Loan applications are a single page and can be processed in one week. Loans are approved in batches after a brief individual interview of the applicant by the manager.

The Multi-Service Manager hopes to increase the Branch's portfolio to 6,000 loans using the same staff. Administrative costs can be reduced while keeping repayment rates high, because the staff is dedicated, does careful follow-up, and maintains good rapport within the communities of credit recipients. The staff have B.A.s, and collectors make about Rs. 700 ($87.50) a month.

In Madras, another branch of the Bank of Baroda has a similar program.[8] Through June 1978, this branch had made bout 2,000 loans to "small borrowers," averaging Rs. 1,572.00 ($197). The average loan to vegetable vendors was Rs. 671 ($84). Ninety-five percent of these were regular loans at 11 percent interest for 3-5 years; the remaining loans were under DIR. As of September 1978, the overall rate of overdue accounts was 8 percent. Sixteen payment collectors on motorbikes supervise the loans.

Although these examples from the Bank of Baroda are exceptions, in general, bank officials are not pleased with their loans to "small borrowers" because of high administrative costs and high default rates. In addition, these problems were mentioned frequently:

1. good entrepreneurs are hard to find at this level;
2. borrowers receive loans from several different banks;
3. loans are not used for productive activities and may be re-lent at higher interest rates;
4. borrowers lack knowledge of technical areas and market conditions;
5. bank staff have difficulty supervising widely scattered and often highly mobile borrowers;
6. borrowers often need other support services such as day care centers or medical clinics to continue their business and repay the loans;
7. small borrowers are highly vulnerable to market fluctuations and are more likely to go bankrupt than larger borrowers.

By pulling together scattered information and making a number of assumptions, one can estimate the program's break-even point. With a Manager, ten loan collectors, and support staff, the admininstrative overhead for the branch would be about $25,000 per year. Assuming the small borrowers have no deposits, the cost to the branch of the money to be lent would be about 5 percent. We assume 10 percent of loans will default and that the Loan Guarantee Scheme will cover 85 percent of the defaulted loans.

With 4,000 loans of $400, the total portfolio would be $1,600,000. Assuming an average rate of interest of 10 percent per year, the interest paid per year would be $160,000, less $16,000 for the interest lost on defaulted loans, or $144,000. Costs would be $25,000 for administrative overhead, $80,000 for the cost of the money to the bank, and $15,000 for other expenses. The cost of defaulted loans would be $160,000, but 85 percent or $136,000 would be covered by the Guarantee Scheme, for a net loss of $24,000.

To sum up, in order for the bank to break even:

| | |
|---|---|
| Income: | |
| Interest | $144,000 |
| | |
| Expenses | |
| Cost of money lent (at 5 percent) | 80,000 |
| Administrative overhead | 25,000 |
| Net loss on defaulted loans | 24,000 |
| Other expenses | 15,000 |
| | |
| Total Expenses | $144,000 |

The above analysis has shown us:

1. Administrative overhead costs are a *less important* factor. Staff size could be increased by half in the above case (from 10 to 15 collectors) and more than cover their costs by a lower default rate.
2. The *volume* of loans is far more important to profits than are administrative costs.
3. The loan guarantee is essential to a small business program. Without the guarantee the default rate could not exceed 3 percent for the bank to break even.

[8]These two pages are drawn in part from: Simon Fass, "Inventory of Institutions and Agencies Engaged in the Promotion of Small Enterprises in Madras," *op. cit.*

If interest rates are increased to 13-1/2 percent, a figure some bankers told me was their break-even point, the bank could absorb a default rate of 5.5 percent. At 16 percent interest it could absorb 8 percent, and at 25 percent interest it could absorb almost a 15 percent default rate.

Bankers, however, think it unlikely that the central government would allow them to increase interest rates to recover their costs. They also think the government will continue to pressure them to increase lending to small borrowers. Therefore, they are seeking to transfer some of their costs to other organizations that are better able to identify and supervise clients. The following case studies present examples of how this can be accomplished successfully.

# CHAPTER 2

## THE WORKING WOMEN'S FORUM

55 Bhim Sena Garden Rd.
Madras 600040, India
Executive Director: Jaya Arunachalam

### *Program Development*

The Working Women's Forum was registered as a Society in April 1978, to mobilize self-employed lower and lower-middle class working women to fight to improve their economic, social, and professional status. Although many were involved in its creation, the Forum emerged largely through the efforts of one woman—Jaya Arunachalam.

Mrs. Arunachalam is an agriculturist, writer, journalist and social worker. With a Bachelor of Arts in Geography and Economics, she had for many years been extremely active in the National Congress Party as well as in development programs for the poor. The split in the Congress Party in late 1976 led Mrs. Arunachalam to profound soul-searching. The new politics seemed to be regional and parochial in scope, not in keeping with her conception of national responsibilities. As a result, she withdrew from Party activity in early 1977.

Her immediate concern was what to do next. Friends and well-wishers had many suggestions. Toward the latter part of 1977, the monsoons came in earnest, bringing with them the usual rounds of flooding and misery for the poor. As in the previous years, Mrs. Arunachalam was invited to organize programs such as soup kitchens and shelter for flood victims.

As she undertook this work, many local leaders in Madras approached her for advice in dealing with the problems faced by these poor people, particularly by the women. She addressed groups brought together by the local leaders, and these groups expressed a wide variety of needs. In talking with many of the leaders, it became clear there was a critical need for these women to organize, if they were to address their own problems. The question was, around what issue would they organize?

As Mrs. Arunachalam continued to listen, some common threads emerged. She was surprised to find that most of the poor women were self-employed and not so surprised to hear that they were being exploited by money lenders, government officials, and larger businesses. Over and over again, these women cited credit as their most critical constraint. Women were paying a minimum interest rate of 120 percent a year; many were heavily in debt to money lenders. The women also cited police harassment, lack of toilets in the market places, lack of covered markets, and lack of day care for infants as business constraints.

Mrs. Arunachalam approached the banks and learned that the "small borrowers" program (the DIR Scheme described earlier) was ideally suited for the poor women. Furthermore, the banks were anxious to work with voluntary organizations that could help them identify and supervise borrowers. As a result, she helped create the Working Women's Forum as a vehicle for responding to the needs of the poor women for credit.

### *Program Goals*

The Forum sees credit as a catalyst that encourages women to organize. Once organized, however, the Forum has these broader goals for its members:

1. To federate existing organizations striving for working women and to establish branches of the Working Women's Forum in all districts and villages of Tamil Nadu State.

2. To assist in improving the conditions of working women through cooperation and to secure for them more time and leisure for creative work, cultural activities and recreation.
3. To help self-employed women expand their businesses through arranging loans from nationalized banks and to improve their professional and social status by giving them training and by providing day care centers for their children.
4. To solve the civic and other problems of its members by acting as a liaison agent between members and civic authorities, government and other national and international organizations.
5. To mobilize all working women to fight for their rights.

*Organization*

Initially, the Forum grew out of another organization, the Vidya Bharti Trust, a well-known voluntary organization of which Jaya Arunachalam is Executive Secretary. This organization runs a school, a rehabilitation center, day care centers, and other services throughout Madras. In Jaya's words, this organization "mothered" the Forum. Its reputation allowed her to develop contacts with the Indo-German Social Service Society. She received a small grant and loan from them which enabled her to form and charter the Working Women's Forum as a separate society in April, 1978.

The Working Women's Forum is headed by a Governing Body composed of its President, Jaya Arunachalam, two Vice-Presidents, an Executive Secretary, a Treasurer, and, at present, 150 group leaders, elected from each 10-50 member group associated with the Forum. Most of the staff volunteer their time.

The paid staff of the Forum consists of the Executive Secretary (also chief organizer) (salary: $31.25 a month); two organizers (salary: $12.05 each a month); two field workers (salary: $7.50 each a month); an accountant (salary: $43.75 a month); and 19 adult literacy teachers who work evenings only. Jaya and the Executive Secretary run the daily operations of the Forum. Most staff members are social workers and political activists by background. None of them, including Jaya, ever worked in small business before.

Forum staff meet with local leaders who request their intervention and suggest that these leaders organize groups of 10 to 50 women. Organizers from the Forum help by making speeches or giving advice. As a former political cadre, the staff is skilled in group organization and, in this manner, formed fifty groups in one six-month period. Once formed, the group approaches the Forum for membership and is accepted.

Groups must meet at least monthly on a regular basis, but usually they meet more often, especially when they are just forming. In the local meetings, group members and leaders decide what issues will become the focus of Forum attention. Group leaders, in turn, take these issues to regular meetings of the Governing Body, which decides what actions the Forum will take. The group leaders are vocal and articulate and it is their participation in the organization which gives the Forum its ability to reach the poor and which has contributed to its rapid expansion.

*Funding*

The Forum is operating on a grant of Rs. 25,000 ($3,000) from the Indo-German Social Service Society. This sum is used to pay staff, including teachers, and other administrative costs. The Society also provides an interest-free loan for 61 months of Rs. 50,000 ($6,000) to be used as "margin money" to cover the proportion of the funds the bank requires the borrower to put up and to guarantee loans. They can guarantee up to Rs. 200,000 ($25,000) in loans with this amount. Rs. 1 is collected from each member of the Forum each year as dues.

*Project Beneficiaries*

The Forum found a responsive chord among poor women entrepreneurs. Within six months of its formation, there were 1,000 members. Ten months later there were 5,000 members. Most of these women make between Rs. 2 and Rs. 15 a day ($.25 to $1.85 per day) and many are helping to support families of 8-10 people. Included among the 59 activities practiced by Forum members are selling vegetables and fish, making *idli* and *dara* (confections), selling sarees and blouses, making plastic flowers and wire bags, selling firewood, tinkering, running tea stalls, selling pottery, making *bidi*, and stitching leaf plates. Most of these women live in the slums of Madras, but due to its initial success, the Forum is now organizing throughout the state, particularly in rural areas. Family income for these women is generally below Rs. 3,000 ($375) a year.

Membership in the Forum is open to any poor self-employed woman who is willing to help organize or participate in a group of 25 to 50 similar women from her own neighborhood. She must be willing to pay membership dues of Rs. 1 per year.

*Project Activities*

The Forum concentrates primarily on organizing these very poor women to fight for their rights. It is a dynamic organization and resembles a political movement, complete with speeches and heavy emphasis on recruiting and organizing new members. As we mentioned, it has grown rapidly.

The Forum focuses on the immediate needs of working women. It has demanded that city officials build platforms, thatched sheds, and toilets for women in the markets. It has sought protection from police harassment, schooling for children, jobs for the unemployed, arrangements for inter-caste marriages (a delicate task in India), and literacy classes for 600 children and women.

The Forum staff uses all available means to tell the poor about Forum activities and successes; there are plenty of both. Police harassment seems to have disappeared, and the Government responds to most Forum requests. Where the Government has not responded with funds, Jaya has launched successful drives to raise private donations.

*The Loan Program*

The women feel the Forum is most useful in helping them obtain loans from the banks. In turn, the Forum has facilitated 3,000 loans from the banks. This seems to be their main reason for joining the Forum. The women seek an alternative to the money lenders who charge interest of 120 percent or more a year. These interest rates, while not necessarily usurious due to the high risks involved, keep the women from accumulating capital.

To receive a loan, individuals must form a group and elect a leader. Loans are to individuals, but the group must review the loan application, and the leader must agree to stand guarantor for the loan. At this point, the Forum gets in touch with the bank. A bank official will come to a meeting organized by the group leader of all those interested in obtaining loans and discuss the feasibility of the projects in general. Group leaders help applicants fill out an application form, a 10 minute process. The bank official then interviews each applicant. If the loan is approved, the loan applicant can receive the money in three days.

The average loan is Rs. 100-300 ($12-$36). Loan recipients who are classified as poor pay a yearly interest rate of 4 percent. People with higher incomes pay 12 percent.

The Forum works primarily with existing businesses which reduces the need for technical advice. If family or other problems emerge, the group or the Forum tries to help, and occasionally refers women to government services.

Every two months a bank officer is supposed to go to a meeting of loan recipients convened by a group leader. There, the bank officer will try to see 30-40 credit recipients in 3 hours. Actually there is very little follow-up, even of this sort.

Technical help to the businesswomen is minimal. The Forum counts on the simplicity of most of the petty trades, the ingenuity of the women, and the support of the group to assure success. This policy seems to work. The bank of India, which has 1,500 Forum loans, says loan repayment is about 90 percent, although some of these loans have required vigorous follow-up on the part of group leaders or Forum staff. The Forum attempts to keep a good repayment record with the banks so it will not have to use the guarantee fund.

The Forum thinks it is helpful to allow repayment of loans on a flexible basis. Repayments are often made to group leaders on a daily or weekly basis. The leader deposits the funds at the bank and pays off outstanding loans on a monthly basis. There has been no misappropriation of funds by group leaders.

*Impact*

Since the program has existed only a short time, it is difficult to assess its impact. One measure of impact, however, is the speed at which the Forum is growing. Apparently, many poor women feel it does them some good, for it is continuing to expand at the rate of about two new groups a week. This is corroborated by the banks that have close contact with the Forum.

The women I spoke to are unanimous in their praise of the Forum; they say it is the first organization that has really listened to and responded to their needs. Some were close to tears in describing their problems with money lenders, police, and government officials—problems they say the Forum has solved.

One woman who sells a confection called *idli* said she owed money lenders an average of $40 over a period of several years. With the loan, she paid off the money lenders and since she no longer pays a significant proportion of her earnings in interest, she has been able to purchase more stock. In 6 months, her daily profits doubled from $2 to $4 a day.

The banks are clearly impressed with the Forum and are ardent supporters. They feel the Forum's record in encouraging repayment and reducing bank administration costs is excellent. They are trying to use the Forum as a model in other areas.

*Future Plans*

According to Jaya Arunachalam, the women's greatest need is a cooperative bank of their own since commercial banks cannot affort to provide them with all the services they need. Their small businesses need a constant resupply of working capital, and they need money for funeral and medical expenses. Commercial banks are unwilling to supply money for these purposes. Indian law allows for the establishment of cooperative banks, and several good models do exist in India. Jaya Arunachalam plans to have a bank operating within a year, assuming she receives the necessary government clearances, which pose a formidable obstacle. She has been promised money from several sources, and each of the 3,000 Forum members has agreed to deposit Rs. 21 in such a bank, for a reserve of Rs. 105,000 ($13,125).

The Forum also has an elaborate plan for the integrated development of rural landless women laborers. Under this scheme a block of four or five villages would be selected in each district of the State. In each block of villages 100 women would receive loans to purchase baby chicks for poultry-raising, and 50 women would receive loans to purchase sheep for sheep raising. These loans would be arranged through the commercial banks and guaranteed by the Forum.

Since the project involves higher technical skills than needed for the present work with petty traders, a technically competent person would be hired to live in the villages and provide technical support. Several Indian organizations have already agreed to provide partial funding, and the first experimental efforts are under way.

The Forum also plans to expand its literacy centers through a new grant from the Indo-German Social Service Society.

*Assessment of Potential for Further Development*

The Forum will likely continue its rapid growth for several years and will at least double its size this year. It will be difficult for it to keep its costs as low as at present. It will be offered more money because of its initial success, and the money will probably be used to increase the salaries of staff and to add other services designed to increase program quality. These improvements, however, will increase the costs of serving each client.

It is difficult to assess the current cost of delivering services on a per-client basis. Although the Forum budget is small, it is heavily subsidized in the form of low staff salaries, free office space, and other support received from the Vidya Bharti Trust. As computed on the basis of the current income items—an operating grant of $3,000 and a $6,000 loan—the per client annual costs are RS 14.4 ($1.80 or $9,000 for 5,000 members.

### *Project Assessment*

The organization is built around a few highly committed and charismatic leaders. It has grown so rapidly that it has had no time to institutionalize many of its procedures. Things tend to be done on a highly personalized basis, which is probably appropriate for such a young organization.

Staff, group leaders, and members are extremely committed. They feel this is a movement that is bringing about change. The Forum generates excitement among those associated with it, and controversy among those on the outside.

The organizing activities of the Forum are dominant, but the enterprise activities are essential too. The two are mutually supportive. Without organizing, the Forum would not exist; without enterprise assistance, organizational efforts could not have succeeded. Thus, the Forum gives organizational recognition to a perceived need of the poor, and the poor join in ever-increasing numbers.

The beneficiaries I talked with were entirely positive in describing their relations with the Forum. There has been little time for problems to develop. Women generally felt they were an important part of the organization and were involved in its decision-making processes. In contrast, the recipient rarely has the opportunity to take part in the decision-making process of a government program.

Women were concerned about the resistance of the government or other outside groups to needed changes, but they felt confident that the Forum would overcome this resistance and that the government would make needed reforms.

More can be done. With a larger budget, the Forum could hire more competent technical people to help women break out of petty trading into more profitable cottage industries. They also need to induce the business community to provide more technical help to these women. Still, the organization is young, and programs should not be added too hastily. They are doing extremely well on a spartan budget and should be allowed to expand at their own pace. Their new rural project, for example, will allow them to explore the problem of setting up agri-businesses; their experiences may lead them to develop some unique approaches to these problems too.

### *Technical Assistance Needs*

Jaya Arunachalam is frank about her needs for technical assistance in the small business field. She realizes that she and other Forum women are missing many opportunities for enterprise development because none of the staff have the technical skills to recognize and assess those opportunities. They would like short-term consultants to help them identify their needs and to help them work out potential directions. They would also like staff members with business experience.

### *Lessons to be Learned from the Project*

1. The poorest and smallest enterprises can be reached by services perceived by them as relevant.
2. For a low overhead cost—with little accompanying bank supervision and no technical assistance—commercial banks can make loans of as little as $10, yet enjoy repayment rates of 90 percent or better.
3. The process seems to work because:
   a. the Forum is as much a movement as an organization;
   b. leadership is charismatic and astute;

c. staff are committed and working for low pay. They are skilled organizers and are responsive to member needs;
d. members feel committed to an organization responding to their critical needs. They give it their time and pay back their loans because they want to continue to be part of the Forum and have it grow stronger so it can meet their other needs;
e. group leaders accept a heavy responsibility for group members and assure that members repay their loans;
f. it relies almost entirely on volunteers, keeps its overhead low, and utilizes whatever it can of existing services such as commercial credit; and
g. it facilitates the functioning of a government credit program and is thus able to fill the needs of the banks and of its members.

*Project Replicability*

On the basis of this study it is difficult to determine just how essential each of the factors identified above is to project success. In many respects the Forum is similar to the Self-Employed Women's Association (SEWA) in Ahmedabad, although Jaya did not know of SEWA until recently. Both have strong leadership and staff who are skilled organizers; both have strong member commitment and both utilize government programs. SEWA, however, has a large, well-trained, expensive staff and seems to have much less volunteer commitment, which may reflect the fact that SEWA is several years old.[9]

That these similar organizations exist suggests that the approach is replicable. The key ingredient is leadership: without the right kind of leadership, programs like this cannot exist. There are potentially many people like Jaya, and it is the task of the development practitioner to find them and facilitate their emergence.

[9] For an in-depth case study of SEWA, see Jennefer Sebstad, *Struggle and Development Among Self Employed Women—A Report on The Self Employed Women's Association, Ahmedabad, India,* (Washington: Office of Urban Development USAID, forthcoming 1982).

## CHAPTER 3

NATIONAL ASSOCIATION OF EDUCATED SELF-EMPLOYED YOUTH (NAESEY)
Y-121 Anna Nagar
Madras 6000040, India
Executive Director: Loyola Joseph

*Program Development*

The National Association of Educated Self-Employed Youth (NAESEY) enables educated, unemployed young people to develop self-employment opportunities that help them become financially independent. NAESEY is the idea of Mr. Loyola Joseph. Mr. Joseph is a businessman. Prior to setting up NAESEY, he owned a substantial manufacturing operation. He had been involved in youth development for several years and had noticed that many educated youth remained unemployed for long periods after graduation.[10] He felt he could help these young people develop self-employment opportunities so they would become contributing members of society. He decided to devote himself to developing opportunities for others. He set up an organization and persuaded the Union Bank of India to put up money for an experiment. With their support, NAESEY was formed in October 1976.

*Program Goals*

NAESEY's goal is to provide educated unemployed youths the opportunity to be self-employed. Self-employment is defined by NAESEY as the status of being gainfully employed in an enterprise which has been created by an individual through his/her own effort:

> While an individual creates his own opportunity for self-employment, he indirectly creates employment for a few or many others as and when he expands. So, for every individual who thinks of self-employment, the contribution will be many-fold. Self-employment opportunities are available for everyone if looked for in the right places.[11]

"We Help Ourselves" is the motto of NAESEY. NAESEY views increased income as the key to general socio-economic improvement for the individual.

*The Organization*

NAESEY does not have a formal structure nor does it hold regular meetings of all participants. Instead, relationships among members grow out of the needs of their businesses. For example, a kiosk owner, a NAESEY member, will buy his supplies from a NAESEY member and pay his loan to another NAESEY member, each of whom are independent businessmen. Yet another NAESEY member constructs new kiosks.

[10] It is not unusual for a young person to be unemployed two years after graduation. The unemployment rate among B.A. graduates is currently 10 percent and is expected to rise to 15 percent in the next five years.

[11] Quotation from NAESEY pamphlet.

There are only two paid NAESEY staff. Loyola Joseph volunteers his time with NAESEY. He does, however, receive a salary for running Lijjat Pappad, a voluntary organization of poor women who produce a type of food sold throughout India. Loyola and his two paid staff run the day-to-day operations of NAESEY and develop new program ideas.

*Funding*

One of the attractive features of NAESEY is that its members support it through their profits. Union Bank's commitment amounted to Rs. 2,500,000 in 1978 ($312,500). NAESEY's current income is Rs. 720,000 a year ($90,000). Most of this is lent to individual members; the rest covers administrative costs.

*Project Beneficiaries*

To be a member of NAESEY one must be an unemployed or irregularly employed high school or university graduate under the age of thirty. Both male and female members are accepted. Most of those with whom I spoke had been unemployed for two or more years prior to joining the organization. Educated persons in India, as in other countries, first seek white-collar jobs. They seek self-employment only as a last resort.

NAESEY members tend to come from the upper levels of the lower classes. Youths from upper-income families usually have better connections and are more likely to get white-collar jobs. Lower-class youths, whose parents just managed to support them through school, are the ones with the greatest problems finding work. They are also more likely to have family members who were themselves small entrepreneurs; consequently, small businesses are more acceptable to them. Still, some of the older NAESEY programs require a substantial investment by Indian standards (Rs. 1,000 or $125 as margin money). NAESEY helps many obtain this sum, but the youths must have access to some financial resources. More recently NAESEY has sought to develop new projects—that require smaller investment—to allow poorer youths to become involved.

Given the disdain most educated young people have for unskilled labor, one of the remarkable things about this organization is the pride NAESEY members take in their work. Kiosk operators proudly display their names and degrees on the sides of their kiosks. Those I talked to seemed inspired by their work, reflecting Loyola Joseph's charismatic leadership of the organization.

*Project Activities*

NAESEY's first program involved setting up small tea stalls or kiosks. Mr. Joseph felt the Indian habit of tea breaks could be turned into a profit for unemployed youths. He felt that small, neat kiosks selling coffee, tea; milk, snacks, and soft drinks would be profitable.

The initial idea was that affiliates of the organization would pay Rs. 10 ($1.35) as an admission fee and Rs. 12 ($1.50) per annum as a membership fee to belong to NAESEY. They would be screened and given an aptitude test. If found satisfactory, they would be sponsored by NAESEY to the Union Bank of India. With Rs. 1,000 ($125) as their investment (margin), they would be granted a Rs. 9,000 ($1,125) loan. The loan would be used to construct the kiosk and provide its working capital. The kiosk was expected to make a net profit of Rs. 30-60 ($3.75 - 7.50) a day. Of this amount, Rs. 15 ($1.88) were to be applied towards loan payments, and 1 percent of the gross was to be returned to NAESEY to finance future expansion.

It was difficult to get started. The Kiosks needed good sites if they were to be profitable, but the best sites were already the property of government departments and large industry. After a good deal of effort and a NAESEY sponsored sit-in at City Hall, the Public Works Department and the Pollavan Transport Corporation provided them with sites. Their main argument had been especially persuasive: "The State will provide us with a 3 ft. by 6 ft. piece of ground to be buried in, but it will not provide us with the same space to remain alive."

Manufacturing the kiosks was also a problem. The original contractor failed to produce them so NAESEY had to manufacture the kiosks itself. Finally, in 1977, the first kiosks were established. By the end of 1977, 80 kiosks were operational, and NAESEY was growing rapidly. By the end of 1978 there were almost 300 kiosks.

A typical kiosk operates as follows. After receiving his location and kiosk, the youth is in business. He buys his basic commodities—tea, coffee, biscuits, and milk—from another self-employed youth. The kiosk operator is expected to be strictly disciplined in his conduct; he can charge only the fixed price and must record all his sales on a daily basis. He receives no formal training in sales or book-keeping, but he is shown how to keep simple records.

Each day, another self-employed youth comes around to collect Rs. 15 toward loan repayment. This youth obtains Rs. 20 per kiosk per month as his fee, or about Rs. 400 ($50.00) a month. After six months, he receives a loan for his own kiosk.

It was expected that kiosk operators would net Rs. 900-1,900 per month ($112 - $225); however, most of them net Rs. 2,000-3,000 per month ($250 - $375). This is more than a middle-level civil servant makes. Needless to say, kiosk operators are ecstatic over their good fortune.

Because NAESEY views increased income as the key to general socio-economic advancement of the individual, all of its activities are keyed to improved business operations. Although all NAESEY businesses are individually owned, they are highly interdependent and require considerable organizational discipline.

Encouraged by its success, NAESEY launched a variety of other projects. One is NAESEY's Guard Service. A young businessman is made responsible for the protection of 600 homes, each home owner paying Rs. 3 for this service. In turn, the businessman hires five persons to work for him so that two can work each eight-hour shift. Forty young people are now engaged in this activity. These young people can make as much as Rs. 1,000 a month ($125) *without any investment*. NAESEY hopes to employ 1,000 young people in this program. Incidentally, the local police say crime in areas covered had dropped dramatically, in one area from fifty-five to five incidents a month.

The NAESEY Village Renaissance programme was designed to test a model for village uplift. NAESEY adopted a village 15 kilometers from Madras. With NAESEY-sponsored bank loans, local educated youths were able to purchase fifty milk buffaloes. The youths were able to repay the loan and make a good profit.

Based on their success, NAESEY helped establish a dairy business. Each step of production and marketing of milk was assigned to a separate level of business. Youths in rural villages were given loans to buy one to three cows. For every 100 cows, a veterinary doctor was employed and paid for by fees from cow owners. Other youths started businesses to sell feed, purchase the milk from the farm, or pasteurize the milk. At the retail stage, other self-employed youths sold the milk door-to-door.

At first, the dairy produced only enough milk to supply the kiosks. Soon, however, it expanded considerably beyond that market. Each youth up and down the chain now makes between Rs. 500-800 ($62 - $100) per month. The milk is more expensive than other milk because it is undiluted, but those buying the milk seem very pleased. This project should employ 1,000 youths when fully developed.

NAESEY is increasingly marketing other products as well. It is now the distributor for sunflower oil produced by the Tamil Nadu Agro-Industries Corporation, Limited, and it recently began a service to provide temporary secretaries and other office staff to businesses and government offices. They also have a service to pay utility and other bills for people (a time-consuming process in India).

NAESEY's most recent project is an integrated rural development project for an entire district subunit of Tamil Nadu. Under this recently approved project, NAESEY will develop a wide range of industrial projects for the rural poor and for educated youths in dairy, leather, matches, soap, sericulture, kiosks, petty shops, and the marketing of agricultural products. They will utilize the same approach in Madras.

Repayment of loans to the Union Bank by NAESEY has been excellent. The Union Bank considers their relationship with NAESEY a model one and will extend participants in NAESEY as much credit as they need.

*Future Plans*

As NAESEY's name implies, they have national aims for the organization. Loyola Joseph has a variety of ideas and is limited only by organizational capability and his ability to find people to whom he may delegate responsibility in order to execute these ideas. He has just created the *Foundation of Occupational Development* (FOOD), which will implement their rural programs such as the just-approved sub-district integrated rural development program. With FOOD, he hopes to be able to move to the national level and break into the export market. NAESEY is already exporting leather gloves to Germany. Loyola Joseph hopes to find similar products that can be produced for export by small units owned by poor people. Thus, even larger profits could be returned to the producers.

*Assessment of Potential for Further Development*

NAESEY will grow rapidly and will probably have 10,000 members in 2-3 years. Other organizational mechanisms created by Loyola Joseph will doubtless also show rapid growth. So far, he has been able to keep his operating costs down and the enthusiasm of participants high. Low overhead means the cost of new venture start-up is small and funds are easier to raise. The enthusiasm of the participants ensures that he has people to carry out projects with the dedication needed for a new, risky venture.

Under the new integrated rural development project, NAESEY would have almost an unlimited potential to bring the very poorest people into entrepreneurial activity. This project will test the full capacity of the model to reach large numbers.

*Impact*

Although NAESEY is new and experimental, its members are convinced it is useful and they are enthusiastic in their support of it. The banks also view it as a success.

Its impact on members' incomes is impressive. Most of those I interviewed had moved from unemployment and near-zero income to the middle class. One kiosk operator I talked to was netting Rs. 3,000 ($375) a month. He had an M.A. in history. He has used his profits to get a loan from the bank to purchase 15 cows for a dairy project. He had been unemployed three years before joining NAESEY.

The results are not uncommon. Those running a guard service can make about Rs. 1,000 a month ($125), and those in milk production and marketing can clear Rs. 500-800 a month ($62.50-$100). While these incomes are not as high as those of kiosk operators, they are very high for an Indian just out of school.

The social impact of the program is also important. It is significant that young educated people are willing to sell, and perform other unskilled labor. NAESEY members feel they are part of a movement. They speak with pride, not only of how much they are earning, but of how many young people they are helping and what this is doing for the nation.

The banks are clearly pleased to be working with NAESEY. Union Bank prominently details its relationship with NAESEY in a brochure describing its small loans program to benefit the poor. There is no doubt that, through keeping loan repayment rates near 100 percent, NAESEY has reduced considerably the bank's administrative costs.

*Project Assessment*

NAESEY is developing a very interesting model. It takes the corporate business structure, breaks it down to its component parts, and sets up each component as an enterprise. Like a modern, vertically integrated business, NAESEY is an integrated system of companies, each receiving inputs from other member companies and providing products to others.

This model is a new and compelling alternative to cooperatives. First, profits are not aggregated and then divided. Instead, the profit structure of each unit is *independent* and profits depend on the initiative of each individual. At the same time, however, un-neighborly or predatory behavior is kept in line because each entrepreneur is an integral part of a system. If profits are made at the expense of others in the system, the others can apply sanctions by withholding supplies or by not purchasing the offender's output.

Another important advantage of the system is that once established, it seems to be self-regulating, requiring little in the way of outside management or technical support. Since profitability is the responsibility of the individual, each owner has great incentive to find out for himself how to increase profits. And since each owner is part of a system, products must be of high quality or the profits of the other businesses in the system will be jeopardized. Thus, the expensive overhead structure and extension system so characteristic of most cooperative programs are greatly reduced in this new model.

Third, there is a notable absence of hierarchy. In this system, the need for elaborate central organization is minimized; every individual is equal, yet interdependent.

NAESEY service sector projects are keyed to redistribution of income from the upper and middle classes downward. NAESEY's increasingly prominent production-oriented projects will clearly create new wealth. The commitment of the staff and members is extremely high, and there is a feeling that this is a movement bringing about real social and economic change.

I met no dissatisfied members. All were pleased with their increased incomes. Members generally talked as if NAESEY offered them unlimited opportunities, provided they worked hard. They seemed to feel that if they have a good idea, they can try it out.

Very little technical assistance seems to be provided to members directly. Indirectly, however, every need seems to be met through the support structure. Thus, village youths get proper feeds, proper veterinary care for buffaloes, and help in marketing, all at a guaranteed profit level. The system seems ideal—and cheap.

As regards money lenders, obviously the unemployed used them infrequently. NAESEY had several cases, however, in which money lenders were used to obtain the Rs. 1,000 necessary for a kiosk. In a few cases, NAESEY had to find funding through other sources for these people and even prosecute several money lenders, because they were trying to take over kiosks.

### *Lessons to be Learned*

1. Loans of as little as $100 can be made by commercial banks to *new enterprises*, with minimal supervision or technical assistance, if the right kind of support structure exists.
2. There is an alternative to the cooperative model for enterprise development that seems to solve the management difficulties of cooperatives without sacrificing its members' commitment to community betterment.
3. The process seems to work because:
   a. NAESEY is as much a movement as an organization.
   b. The leaders are astute and charismatic.
   c. Staff are highly committed and responsive to member needs; they are willing to work for low pay.
   d. Members feel their organization responds to their critical needs. They give it their time and pay back their loans because they want the program to grow stronger so it can meet their needs even better.
   e. It facilitates the functioning of a government credit program: it is able to fill the needs of the bank for good credit risks *and* the needs of NAESEY's members for credit.

### *Project Replicability*

This is a different model than any we have encountered elsewhere. It uses a *corporate* model of organization as opposed to a community or cooperative model of organization. The key distinction, in this regard, seems to be in the way profits are made and distributed.

This model could not be duplicated in every situation. It can only work where activities can be broken down into units small enough to be run by an individual or a small group. The NAESEY system starts the individual with a small amount of responsibility commensurate with his abilities, and requires him to pull others up with him. This approach seems to make sense in a cultural situation where entrepreneurship is at a low level. It appears to be the best system for developing new entrepeneurs that this study has been able to identify.

Loyola Joseph has proved the approach is not only replicable, but can reach poorer and poorer people as it is tried in new situations. The new integrated rural development project will be dealing with the very poorest segment, those without any formal education. If it can make the concept work with the very poorest group, it may offer a major breakthrough.

As with so many similar programs, in India and elsewhere, the key ingredient for success seems to be leadership. This fact must be borne in mind by development practitioners when they ponder the optimum mix of inputs in attempting to initiate similar projects.

## CHAPTER 4

BANGALUR LAYOUT
Contact through: Social Action Section
Development Wing
Canara Bank, H.G.
Bangalore 2, India
Contact person: Mrs. Jayalakshmi

*Program Development*

Developed on the one square kilometer site of a graveyard, the Bangalur Layout is one of the largest slums in Bangalore. It has a population of 12,000 people: 2,400 families wedged into 1455 tiny dwellings. It has a cross section of caste and religious groups. By 1970, it was one of the biggest slums in the city, perhaps the worst.

Mrs. Jayalakshmi is a high-caste woman, her parents were powerful, her husband was wealthy. She had met much unhappiness, however, and decided to devote her life to the service of others. In 1972 she gave up her wealth and position and moved into Bangalur Layout as a government-employed social worker. In part through her efforts and those of the others she has inspired over the last seven years, the Bangalur Layout has been completely transformed. Local officials consider it a model of slum improvement.

*Program Goals*

The goal of the program is the complete social and economic uplifting of the 12,000 people in the community. The program focuses on all aspects of community life, with programs in health and sanitation, personal grooming, day-care, literacy, vocational training, marriage arranging, funerals, savings and bank loan programs, counseling, community beautification, housing construction, and recreation.

*Organization*

There are a variety of special purpose organizations that deal with specific problems. Some have overlapping leadership and membership. Some programs have no eligibility restrictions, while others may be limited to women or young adults.

1. *The Slum Dweller Association* was created to deal with general slum problems and has a membership of 1,200. Formed in 1972, this organization is not very active now.
2. *The Women's Welfare Center* trains women for a variety of jobs, runs a day care center, and encourages savings by having its activities funded by the government (in the case of day-care) or by voluntary agencies such as the Indian Social Institute Training Centre and the William Carey Foundation. It was formed in 1973.
3. *The Multipurpose Cooperative Society* is the most active community-based group. Formed in 1975, it is operated on a cooperative basis, with equal responsibilities for all members, under elected leaders.
4. *The Lion's Club-sponsored dispensary* has treated over 15,000 patients. It was formed in 1974.

5. *The Slum Women's Self-Help Association* plans to construct 102 low cost houses. Formed in 1978, it is also run on a cooperative basis by its leaders.

Mrs. Jayalakshmi relies heavily on a large number of volunteers. Ten young boys and girls are community "volunteers" who get Rs. 50 ($6.25) a month for full-time work. Ten other boys volunteer as teachers in the evening literacy classes for 56 juvenile delinquents. Women community leaders take responsibility for the various programs in the areas.

### *Funding*

Funds come from a variety of sources. The government has invested heavily in infrastructure over the past few years. Amounts provided by groups like the Lions are small, but commitments seem to be long-term.

### *Project Beneficiaries*

These people, all recent migrants to the city, were once some of its poorest inhabitants. Average family income in the early 1970s was well below the Indian poverty level—Rs. 3,000 ($375) per year. Mrs. Jayalakshmi estimates that the average income has at least tripled to Rs. 9,000 ($1,125) a year. People are rapidly improving their social and economic position at least partly as a result of these programs.

### *Project Activities*

Mrs. Jayalakshmi began her work in 1973 by organizing the Women's Welfare Centre. The Centre provided a nursery school for 60 children so their mothers could work. It taught tailoring to a small number of young girls, and carpentry to boys. It also encourages women to start kitchen gardens and to bank their savings.

The Multipurpose Industrial Cooperative Society was formed in 1975. Currently, it has 96 members. The Society has as its purpose the development of employment opportunities for its almost exclusively female membership. Canara Bank provides employment for about 30 people who make envelopes from used paper supplied by the bank. Those employed earn Rs. 6 for each 1,000 envelopes produced, about 1 day's production. The women have also started a wide range of other enterprises.

The government now provides funding for the nursery. The William Carey Foundation, Women's Wing, funds tailoring, typing, and literacy training.

Mrs. Jayalakshmi has increasingly stressed self-employment in the various programs of Bangalur Layout, and this is now the dominant theme. The critical need is to increase income. The success of these programs explains at least part of the increase in family income level over the last few years. Many residents are already involved in some small self-employment activity, but a large percentage of these are heavily in debt to money lenders who charge interest rates so high that only the interest and never the principle can be repayed.

Part of the self-employment emphasis is on saving. Children in the nursery are encouraged to save at least 1 paise a day, (100 paise equal one Rupee) which they put in toy banks provided by Canara Bank. Adults may save from Rs. 1 to Rs. 10 a day. There are now 918 savings accounts in the community with total deposits of over Rs. 100,000 ($12,500). Slum women are saving anywhere from Rs. 3 ($.37) to Rs. 100 ($12.50) a month.

Slum dwellers have been able to mobilize these savings through their self-employment activities. Mrs. Jayalakshmi says she is currently working with 120 families who have demonstrated a desire to become better off. Mostly, she works with the women, as the men reputedly are often drunkards, irresponsible, or prefer to work for someone else.

The women choose a business that seems to them likely to succeed and are introduced to a bank for a loan. Their first business is most often retailing since manufacturing generally requires training and a larger investment. They have supported sellers of fruits (15 persons), vegetables (15), firewood (15), cloth (6), fish (5), kerosene (5), sarees (3), brooms (3), fried roots, soap, country cloth, poultry, and coconut milk. They also helped a knife sharpening business and helped one man buy a truck.

Most of these activities require more in investment than a typical slum dweller can handle initially, even as a loan. For instance, to sell kerosene at a good profit requires an investment of about Rs. 3,400 ($425). This includes:

| | | |
|---|---|---|
| Working capital | Rs. 400 | ( $50) |
| Three barrels | Rs. 1,000 | ($125) |
| Cart | Rs. 1,000 | ($125) |
| Bullock | Rs. 1,000 | ($125) |
| TOTAL | Rs. 3,400 | ($425) |

Usually, the initial loan will be for Rs. 400 ($50) to cover working capital. The bullock, cart, and barrels must be rented. With this loan, the business women will net Rs. 25-35 ($3.13-$4.38) a day out of which she must repay Rs. 40 ($5) each week. When the first loan is paid off, she is lent Rs. 1,000 ($125). When this is paid off, another loan is given until the investment in the business is paid off.

During the years 1976-1978, Rs. 92,000 ($11,500) was saved and Rs. 130,000 ($16,250) was lent. Only Rs. 600 ($75) has not been paid back, less than one-half of one percent, the result of careful support and follow-up and the people's sense of responsibility. People from the community have been hired by the banks to do *daily* collections. Each person collects about Rs. 500 ($62) a day, of which they receive 3.5 percent or Rs. 17.5 ($2.19). Mrs. Jayalakshmi feels that, especially in the first year, daily collections are essential until people can develop the habit of saving.

If someone is having trouble repaying, they are visited, their problem identified, and a solution found. The solution may be helping with a medical problem that is draining income or finding day care, etc.

People repay loans out of a sense of responsibility and to keep their good name. One lady who still owed Rs. 36 ($4.50) died. After 2 years, the principal and interest amounted to Rs. 102 ($12.75). Her granddaughter is paying this off at the rate of 8 paise ($0.01) a day because she doesn't want her grandmother's name to be dishonored.

The most ambitious activity is the construction of 102 houses with Rs. 650,000 ($81,250) in funds provided by a Swiss group. They want to provide housing for 1,000 people, but even with the Swiss funds, do not have enough money. However, by building 20 x 20 ft. houses, at Rs. 6,000 ($750) each, using bricks they make themselves and their own labor, they will house as many people as possible. They also want to start a variety of larger "cottage" industries in this new village, including cane, bamboo, lacquer, and wood mosaic.

### *Future Plans*

Bangalur Layout's groups plan to carry on and expand existing activities. Mrs. Jayalakshmi has no plans to leave the slum. At the present rate of development, conditions will continue to improve in the next few years.

### *Assessment of Potential for Future Development*

The progress to date has been remarkable. The issue will soon become whether or not the people here still need attention, since they are so much better off.

Although sources and uses of funding were too complicated to unravel in this assessment, on the average it cost Rs. 500 ($62.50) to set up one new business—Rs. 490 ($61.25) as an average loan and Rs. 10 ($1.25) for support services.

*Impact*

Much of Mrs. Jayalakshmi's and the volunteers' time over the years has been spent trying to generate responses to the various slum problems such as poor drainage, lack of water, and so forth. Partly because of the prominence of Mrs. Jayalakshmi's family and her ability to articulate problems, she has been remarkably successful in getting government support. The impact on the community of this activity has been dramatic. The area no longer *looks* like a slum. The main streets are paved. There is water and good drainage. The houses, though small, are neat, and most are not constructed of wood or thatch, but of brick and plaster. As a result of relatively good health care, health in the area has improved markedly, and more children attend school than in surrounding areas.

Business activity is everywhere in evidence: some of the case histories are dramatic. Since receiving an initial loan to sell fried roots in 1976, one woman has saved over Rs. 2,000 ($250). Her husband wants a delivery van, for which she will borrow Rs. 20,000 ($2,500) and pay back Rs. 50 ($6.25) a day. Another woman earned Rs. 1,417 ($177) during her first year in business and was able to get her gold ornaments back from the money lender. Her husband, formerly a drunkard, is now the owner of a cycle rickshaw, from which he earns about Rs. 35 ($4.38) a day and his drinking has dropped considerably.

*Project Assessment*

The remarkable aspect of this program is that it is a classic example of the successful implementation of a community development program in the relatively short time of only seven years. Every important aspect of community life has been dealt with. These programs grew out of the needs of the slum dwellers and were conceived and developed by them *prior* to any outside support. Mrs. Jayalakshmi seems to have played a catalytic role of helping slum dwellers determine and articulate their needs. Obtaining outside assistance was no doubt facilitated by her status and connections, but the real story is about individual women and the way they were enabled to increase their economic and social well-being with the limited services offered. Mrs. Jayalakshmi's approach demonstrates how self-employment programs can provide the keystone to broader community uplift. It shows how self-employment can be tied to total community betterment and how this assistance can be provided at an extremely low per-person cost by utilizing volunteer help and diversified funding.

Bangalur Layout indicates that it is possible to have a dramatic impact on development by working intensively with a small group of people in a single geographic area. Like all successful efforts, this seems to require charismatic leadership, considerable energy, and more time than many donors consider necessary.

An interesting aspect of the Bangalur model is that so many different organizations have emerged. It is sometimes argued that dispersed organizational development will diffuse leadership and energy. In this program, however, problems were divided into units which organizations could manage, another example of the "small is beautiful" approach in practice.

Another reason for having so many different activities is to increase the number of people involved. Women may be most interested in day-care, while men are most interested in housing.

Community participation is high. Mrs. Jayalakshmi said she depended on seven women volunteers to provide leadership and to do an enormous amount of the work.

*Lessons Learned*

1. Assistance in amounts under $100 can be provided to small entrepreneurs as the keystone of other low cost services. Together these have the impact of lifting the entire family out of poverty.
2. The classic community development model can be used without technical or managerial assistance to individual businesses.
3. This approach seems to work because:
   a. People feel part of a community based movement.
   b. The leaders are astute and charismatic.

c. The low paid staff is highly committed, skilled at organization, and responsive to community needs.
d. Members feel that the organizations are responding to their critical needs. They give of their time and pay back loans because they want the organization to grow stronger so it can meet their other needs even better.
e. As a result of high levels of commitment, volunteer leaders accept heavy responsibility for community members by helping them to solve problems, urging them to repay loans, and getting them involved in other tasks.
f. It relies almost exclusively on volunteer help which keeps the overhead low.
g. Mrs. Jayalakshmi is able to attract people by her ability to get responses to stated community needs. In the case of commercial credit, she was able to assist the people who needed money and the banks that needed help identifying and supervising clients.

*Project Replicability*

This is a highly replicable model since it follows the community development model. The only critical limitation on replication is leadership. Leaders of Mrs. Jayalakshmi's caliber do not exist in large numbers.

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## CHAPTER 5

Calcutta 'Y' Self-Employment Centre
11, Dr. U.M. Brahmachari Street
Calcutta 700017, India
Executive Director: Mrs. Koely Roy

*Program Development*

The Calcutta 'Y' (Youth) Self-Employment Center (CYSEC) was registered as a Society in December 1971, to promote programs of self-employment for the unemployed youth of Calcutta and, more recently, the surrounding rural areas.

The unemployment and underemployment figures for India are high—as high as 40 million for the country. As a document prepared by CYSEC indicated: "... the average young Indian has gloomy prospects of obtaining a gainful means of livelihood at the end of his educational career ... There is obviously the need for voluntary organizations devoted to the task of encouraging entrepreneurship."

CYSEC was organized by a number of prominent bankers, businessmen, industrialists, professional people, and social workers in response to the rapidly increasing unemployment and social unrest in Calcutta in the early 1970s. Government programs alone were unable to meet the growing need, and people outside Government felt they might be able to help. Initially, CYSEC received a grant of Rs. 100,000 ($12,500) from the Ministry of Education of the Government of India to develop a training centre. This centre was to provide unemployed youth with vocational training and assistance in establishing their own businesses.

By December 1978, over 500 young men and women had been trained and 378 businesses set up. During 1978, 83 persons completed training, and 91 business units were established.

*Program Goals*

The basic assumptions of CYSEC can be summarized in the following three ideas:

a. a belief that entrepreneurship can be developed through training;
b. a belief that training and business assistance can be packaged; and
c. a faith in voluntary service.

The principal goals of CYSEC are:

a. to provide technical training to young men and women in productive enterprises:
b. to assist them in acquiring economically viable business skills;
c. to help them secure bank loans; and
d. to arrange initial business contacts for their services and production.

*Organization*

CYSEC is a Society governed by a Board of Directors composed of 28 prominent businessmen, bankers, and professional people who serve for fixed terms. Under the Board are the Managing Committee (Urban) with 16 members and the Managing Committee (Rural) with 21 members. Members of the Board serve on these committees, and, with some additional members, oversee the respective programs under their jurisdiction. The Board meets quarterly; the Managing Committees meet monthly.

There is also a Project Screening Committee, composed of representatives of eight local banks plus representatives of the Managing Committees. The Committee screens requests for loans to be sanctioned by the banks.

CYSEC is operated on a day-to-day basis by paid administrative staff selected by the Board. Mrs. Koely Roy is the Chief Executive and has been for some years. There are, in addition to Mrs. Roy, an accountant, a Project Superintendent, a Senior Project Officer, 3 Project Officers, 12 teachers and 3 office support staff. The total budget for salaries and benefits for the staff in 1978 was Rs. 204,600 ($25,575).

There is no role in CYSEC for beneficiary involvement in control or direct management. Beneficiaries can only make their changing needs known to CYSEC staff indirectly, who must then be sensitive to their needs and alter programs accordingly.

CYSEC's total expenditures for 1978 were Rs. 367,112 ($45,849). Funding has come from a variety of sources over the years. In 1978 CYSEC received funds from the following sources:

| | | |
|---|---|---|
| Mennonite Central Committee | | |
| Grant for general overhead | Rs. 251,283 | ($31,410) |
| Grant for capital fund | 21,000 | ($ 2,625) |
| Sales relating to Training Center | 99,886 | ($12,486) |
| Government of India | 25,414 | ($ 3,177) |
| Sales of unused materials | 8,242 | ($ 1,030) |
| Interest on revolving credit fund | 2,888 | ($ 361) |
| Union Carbide | 2,000 | ($ 250) |
| Kanoria Chemicals Limited | 1,000 | ($ 125) |
| Kothani Foundation | 1,000 | ($ 125) |
| Fees from trainees | 850 | ($ 106) |
| TOTAL | Rs. 413,563 | ($51,695) |

*Project Beneficiaries*

The only requirement for participation in the CYSEC program is that one be from 18 to 30 years of age and unemployed. Fifty percent of the trainees are high school graduates.

Although there is no minimum on the size of loans provided, and while loans of as little as Rs. 150 ($18.75) are given with some regularity, the average loan appears to be about Rs. 2,500 ($310). This suggests that the businesses are of a substantial size, above that normally undertaken by the very poorest group. CYSEC clients cluster in what Indians term the "educated unemployed," mostly lower-middle class youths or the upper part of the lower economic class.

*Project Activities*

The principal activities of CYSEC are twofold: vocational training, and helping young unemployed men and women obtain the financial and other support needed to establish and run their businesses.

At their training centre at Behala in 1978, 110 trainees were admitted to courses in: (1) air conditioning and refrigerator repair and services; (2) electrical maintenance and service; (3) radio/electronic repair and service; (4) television repair; (5) baking; (6) typewriter/duplicator repair and service; (7) clock/watch repair and service; and (8) tailoring. Of these 110 trainees, 83 successfully completed training.

A second training centre is nearing completion at Salt Lake on the opposite end of the city from the present site. In addition to courses provided at the Behala Centre, the new program will train youths to manufacture: (1) transformers and wound armatures; (2) printed and painted textiles; (3) leather products; (4) sports goods; (5) plastic bakelite moldings; (6) preserved and canned foods; (7) wood products and tea chests; (8) electro/mechanical plastic toys; (9) bamboo/cane products; and (10) shoes.

1. *Selection of Trainees (Entrepreneurs)*[12]

The process of selection begins with advertisements in the leading newspapers inviting applications for entrepreneurship training. The responses are always overwhelming. Applications are then evaluated, and those selected are invited for an interview.

The members of the Executive Committee, assisted by the Administrative Officer of the training center, interview the candidates, usually on weekends. The interview is qualitative, and it stresses three things: (1) the applicant's motivation in business; (2) his desire to work hard; and (3) his expectations. Each interview takes about half an hour. Those who pass the first interview are asked to return for a detailed interview which takes an hour or longer. During the second interview, an applicant's business plans, if any, specific skills, knowlege of the market, and other related aspects of the small enterprise, are screened. If the applicant's ideas or plans match with CYSEC training resources, he or she is asked to join the free training.

At CYSEC, the selection process does not just identify prospective entrepreneurs; more importantly, the process matches the individual's education and skills with current training schemes that reflect business opportunity. If there is no match between the business plan of an individual and a CYSEC training scheme, the individual may be denied the services or asked to wait until this match occurs. In the absence of reliable data, it is difficult to calculate the number of rejections on this ground, but it is probably not higher than 12 percent of those accepted.

2. *Selection of Instructors*

Most of the instructors are on salary and are drawn from industry. The members of the Managing Committee sometimes help locate instructors. The qualifications of an instructor vary from one training scheme to another. One of the major criteria for selection, in addition to his technical skill is the instructor's knowlege of business. For example, the instructor in v-belt making did not have formal schooling, but he had worked in this line for more than 30 years. On the other hand, the instructor for radio/electronics was a science graduate and had been an entrepreneur for more than twenty years. Management training is given by volunteers from industry.

3. *Training*

The training for skill development is an integral part of CYSEC's assistance package. CYSEC puts much effort into identifying the training schemes and planning the programs. The selection of a new training program is done through market research, begun systematically in 1974. These training schemes reflect the current market opportunities for small entrepreneurs. Proper selection of a training scheme, therefore, is crucial to the success of the whole program.

Prior to 1974, members of the Managing Committee used to help identify the prospective areas of business, and programs were developed on their recommendations. About twenty-five courses were tried at the center. Some of the successful training programs were: air conditioner and refrigerator maintenance, radio/electronics servicing, electrical wiring and servicing, welding and fabricating, and wood products manufacturing.

Since the training has to offer current market opportunities to the small entrepreneurs, the program changes training schemes continuously. New training items are added and old ones dropped. CYSEC's vigilance in this area is an important reason for the success of the project.

The training courses are practice-oriented, intensive (averaging 32 hours a week), and thorough (they last for about twelve months). During the training the trainees learn technical skills and elementary business management. They also learn how to prepare a business plan and how to fill out bank loan applications. Training is free. A mid-day meal is provided, but there are no live-in facilities. The student must pay his or her transportation to and from the training centre. Through the end of 1978, over 500 students had been trained.

Training is not an absolute requirement for receiving assistance from CYSEC. CYSEC will assist a needy person with a viable scheme who already has the required vocational and business skills. The majority of those receiving loans and other support from CYSEC, however, have completed a training program.

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[12]The following section on training is from Debabrata Sen, "Educational Planning for Generating Self-Employment: One Aspect of Manpower Planning," Unpublished Ph.D. Dissertation, Harvard University, 1979. Dr. Sen was the Director of CYSEC in 1974.

4. *Business Development*

CYSEC training is *specifically* designed to support self-employment, and about 75 percent of the trainees set up their own businesses. CYSEC helps them obtain financing, and project officers provide technical and management assistance to deal with start-up problems.

CYSEC assists graduates of the training programs to prepare a business proposal or feasibility study outlining their financial needs. The proposal is presented to the project Screening Committee, which reviews not only the proposal, but the individual's history as well. The Committee may approve the proposal for bank financing, in which case one of the banks represented on the Committee will immediately begin processing the loan for disbursement. The Committee may also recommend that the proposal be redone or reject it entirely. Loan requests range from Rs. 150 ($18.75) to Rs. 5,000 ($625).

If the proposal is rejected, the CYSEC staff may consider funding the project from the revolving credit fund, despite Committee rejection. In this case, the proposal will be submitted to the Managing Committee for approval.

It generally takes at least one year after completion of training for the trainee to become established in business. It takes a minimum of three months for financing to be arranged after the application is received, and it may take that long for the trainee to find a suitable shop or work space.[13] Also, trainees often lack the confidence at first to start their own business.

One of the key issues CYSEC faces is how to identify those with entrepreneurial potential. Some of those who completed training never set up their own businesses. Over 500 people have been trained, but only 378 business units were set up. Some of these units were run by people who had not been trained.

CYSEC's repayment rates improved steadily from a low of 60 to 65 percent for the revolving loan fund, as it increased its follow-up support of borrowers and tightened up its lending procedures. The banks are pleased with their arrangement with CYSEC and feel that CYSEC assistance guarantees them a higher repayment rate than they could otherwise obtain.

In 1978 CYSEC began functioning in the rural areas surrounding Calcutta. In one new project, the revolving credit fund was used to finance 12 traders, including mat makers and grocery shops, in the village of Sangrami Nagar. Later, the Indian Overseas Bank "adopted" the village under CYSEC sponsorship in order to help more than 150 families living there. CYSEC now sponsors such businesses as rickshaw drivers, glove makers, retail shopkeepers and weavers in several other villages. Most of these people have not received CYSEC training.

*Future Plans*

CYSEC plans to expand considerably in the near future. A rural technology centre is being planned in collaboration with the Sunderban Development Board and, possibly, UNICEF. It will undertake programs in mini rice mills, fruit processing plants, fish drying plants, solar driers, grain storage bins, seed processing plants, and other installations.

A non-formal vocational training centre for rural industries is also being planned in collaboration with the Ramakhrishna Mission. These industries include crop husbandry, poultry production, fish-culture, honey production, and canning. A marketing consortium is being developed to relieve small businesses of their present problems related to marketing. This consortium will not only sell products, but will supply market information and technical guidance on product design and development as well. The consortium will also act as an intermediary between buyer and seller, providing its own guarantee as to product reliability, quality and pricing.

*Impact*

As examples of the impact of these loans we cite the following case studies:

— A loan of Rs. 5,000 ($624) was given for the manufacture of cotton gloves. The owner used the loan to purchase 6 glove weaving machines at Rs. 400 ($50) each. He also purchased furniture,

[13] Dr. Sen says getting a loan often requires one year.

yarn and needles. He employed young boys to operate the machines on eight-hour shifts and paid them Rs. 2.50 (31¢) per dozen gloves. Most of the boys turned out 2 dozen gloves a day for Rs. 5 ($.62), a decent wage for a young Indian boy. The owner purchased 2 to 3 machines quarterly from the profits and now has 29 for weaving gloves and 4 for weaving glove ribs. He employs 33 boys to tend the machines and 40 women to stitch the gloves together. The capital investment per job created is about $50.

— A young widow with eight dependents received a CYSEC loan of Rs. 1,600 ($200) to continue her husband's business of repairing and dying old mosquito nets. Since receiving assistance, her business grosses Rs. 6,000 ($750). She earns a living of Rs. 500 ($62.50) per month and employs four people at an average wage of Rs. 150 per month ($18.75).
— A maker of leather sandals received a loan of Rs. 4,000 ($500) to allow him to buy raw materials for the festival in September and October. He employs eleven people who earn 250 per month ($31.25). Gross sales are Rs. 12,600 per month ($1,575) and his income is Rs. 600 per month ($75).
— A woman who was trained by CYSEC as a tailor received a loan of Rs. 600 ($75) to buy a sewing machine. She nets an average of Rs. 300 ($37.50) per month by sewing and embroidering ladies' and children's dresses.

The average daily gross income for the very small retailing operations CYSEC has assisted is Rs. 25 ($3.13), with a daily net of Rs. 7 or 8 ($1.00). At Rs. 210 ($26.25) per month, this is a subsistence level income for an average family of eight. This is similar to the wages paid to workers in the case studies for CYSEC-assisted industries.

An average of 90 new businesses are set up each year. Up to 1975, the failure rate of the businesses set up was about 50 percent; since then it has declined to 25 percent.

Banks are positive about the program. As a result of their association with CYSEC, the banks can meet their commitment to lending in this sector, obtain satisfactory repayments, and transfer the administrative costs to CYSEC. Bank staff who are members of the Project Screening Committee spend two afternoons a month at CYSEC, a substantial commitment of their time.

*Assessment of Potential for Further Development*

CYSEC plans on modest growth over the next few years in terms of the numbers of people assisted. This is in keeping with its historical approach, which has been to provide relatively sophisticated assistance to a small number of people.

Since 1978, however, it has been experimenting in its rural program with the provision of much less sophisticated services to larger numbers of people. It is working closely with the banks to do this. CYSEC has not yet decided what the programmatic implications of this type of assistance might be for them in the long run.

*Project Assessment*

CYSEC is currently following two approaches to entrepreneurial development. The older program is strictly urban, works with the educated unemployed, provides vocational training of a fairly sophisticated type, and results in the establishment of relatively large (by Indian standards) businesses, requiring an average investment of Rs. 4,000 ($500).

The second approach was developed for rural areas because of the lower level of education on the part of the participants. In this case, no vocational training is provided; instead, persons with existing businesses are helped to expand or to move from selling to manufacturing. In this case, businesses are much smaller, requiring an average investment of Rs. 1,000 ($125).

Transportation costs to reach rural clients are higher, but costs on a per client basis appear to be lower for rural clients because no expensive vocational training is provided. Although the newer approach is the rural one, CYSEC has no plans to downgrade its more expensive urban program and is even opening a new training site at Salt Lake. They feel the two approaches are aimed at two different kinds of needs, that should not be mixed. The very bottom level requires greater liquidity and a minimal amount of supervision. But once the businesses reach a certain size (especially with new enterprises), it is necessary to provide beneficiaries with technical and business training.

CYSEC is concerned, however, that at least 25 percent of their trainees never start businesses and that another 25 percent of those set up fail. Since they are in the business of creating businesses, this is an expensive waste of scarce resources. It costs CYSEC approximately Rs. 3,612 ($451.50) per trainee to provide this assistance. Thus, although the training is not "lost" (in the sense that the person often uses his training in his wage employment), the relatively expensive facilities of CYSEC are being used for a purpose other than that intended.

One means of dealing with this problem would be to combine the two programs. Assistance would not start with expensive vocational training. Instead, small loans and limited supervision would be provided to all applicants. This way the new entrepreneur could see if business was to his liking. The loan would be kept small so the risk to CYSEC would not be too great. Then, if after two years or more, the business started to grow and the entrepreneur wanted training, it could be given to him. In this way, a larger percentage of the benefits of training would be likely to be returned directly to business, and it might also be possible to let the student pay for part of the cost.

Clearly, CYSEC's current cost of operations is comparatively high. Given these high costs, it is not likely that it will be able to reach much larger numbers of people.

Organizationally, CYSEC tends to be rather formal. In order to obtain funds, Board members are drawn from the elite structure of Calcutta—businesspersons and officials. This is understandable given the large budget CYSEC must raise each year. It also reflects the way CYSEC originated—as the response of a group of businessmen and community leaders to the social unrest and growing unemployment of the early 1970s. Unlike other programs we have seen, these community leaders did not manage the program. They hired others to do this. The problem was defined by one set of people and solved by another.

This is not a problem as long as there are high quality people on both sides and good communication between them. If staff listen to beneficiary needs and can convince board members of those needs, it is possible for this form of organization to be as effective as one in which the beneficiaries have direct control over decision-making.

### *Lessons to be Learned from the Project*

1. Tiny new enterprises can be established through a combination of loans and vocational and management training.
2. Vocational training significantly increases the cost of services on a per-client basis. Programs such as this will thus have difficulty reaching more than a relatively small number of clients.
3. The CYSEC process seems to work because:
   a. they have a dedicated Board and staff. Staff are relatively well paid;
   b. they keep the numbers of those assisted modest;
   c. staff are sensitive to the needs of the clients;
   d. training is carefully geared to the needs of the market place; and
   e. in its early years, it relied heavily on volunteer help.

### *Project Replicability*

This program is probably replicable. Its principal advantage is that its major component is vocational training—a traditional approach to upgrading earning capabilities that has been implemented widely. The novel features of CYSEC are its methods of client selection, orientation, and support in setting up a new business. By setting up relatively few businesses, it reduces its potential problems.

These factors make strong leadership much less essential in this program than it has appeared to be in other programs previously described. The program can also be implemented with relatively frequent staff changes and even with some conflict between staff and the Board, both of which CYSEC has experienced.

## CHAPTER 6

## SUMMARY AND CONCLUSIONS

The purpose of this study was to see if it were possible to establish programs to provide assistance to the informal enterprise sector in urban and semi-urban areas. Our conclusion to this question, based on the Indian experience, is yes. We are impressed by the variety and magnitude of current Indian governmental and non-governmental work being done in this field and by the considerable amount of experimentation taking place. India may not be typical of the rest of the Third World, but it is an important laboratory. It justifies careful monitoring and much more careful research than was possible in this report.

For the purposes of this report, we have defined the informal enterprise sector as that in which the poorest Indians are engaged in self-employment. The Indian Government defines "poorest" as those families in urban areas having a yearly income of less than Rs. 3,000 ($375), and in rural areas Rs. 2,000 ($250). Activities can include manufacturing, services, retailing, and wholesaling.

The Indian Draft Five Year Plan (1978-83) estimated the informal enterprise sector as employing approximately 32 million workers.[14] Further, given the employment difficulties in other sectors, this number is probably growing by at least 1 million persons a year. In India, the informal enterprise sector is the employer of last resort.

Barriers to entry—other than the psychological and social ones, which may be substantial—are lower in this sector than in the formal sector where employment opportunities are more limited. Hawking requires no education. Stock is often purchased in the morning and sold during the day so that profits can cover daily expenses for food and shelter. Initial investment is minimal. Although, in theory, continued entry into the sector may only further subdivide the market and depress incomes, in practice demand seems to be increasing fast enough, due to population growth, to dampen the potential impact of this factor—even in situations where the larger economy is stagnating.

The key problem of the informal enterprise sector is that, in many cases, it locks the entrepreneur into a closed economic system. The economic system is closed in two important respects. First, sources of supply, including credit, come from within the sector, while most products are designed for and sold to others within the same sector. Relatively few business persons are able to compete for raw materials and markets in the larger economy. Since the number of poor people is growing, the demand for their services is increasing, and they are relatively unaffected by larger economic factors.

Second, the system is also closed because the average person entering upon this activity probably hopes it will be a stepping stone to something better. The key to breaking out of the system is the accumulation of savings, but this is extremely difficult in the sector for a variety of reasons, including those related to poverty, sickness, family problems and lack of entrepreneurial skills. Entrepreneurs may also be hampered by institutional problems such as official indifference or hostility, and the high cost of services, including credit.

The Indian Government's approach to the sector is symptomatic of the types of problems those entering it face. For the first 20 years following independence, India pursued a policy of massive investment in large-scale industry. The theory was that the benefit of these investments would trickle down through the system and pull the poor up. There was also support for traditional industries—especially cloth weaving, which employed millions of people—as part of the Gandhian legacy.

As it became clear that investment in large industry had little impact on the growing population of the poor, there was a gradual shift in favor of smaller industries and the rural farmer. Until recently,

[14] This includes those engaged in wholesaling, retailing, services, and manufacturing. It does not include small farmers.

however, these shifts had little impact on those involved in trade. Indians continued to view this sector with antipathy born of traditional values; trading is perceived as exploitative.

Gradually, as the realities of the explosion of the informal enterprise sector became evident, the Government's view changed. It now recognizes trade as the increasingly prevalent point of entry for the very poor into economic life. The Indian Government does not see assistance to this sector as an end in itself, but rather as a *means* to the end of moving people *out* of the sector to something better.

The Government is trying a number of different methods to open the present, closed economic system. First, and probably most importantly, it is focusing on policy. These policies relate to such issues as: reserving certain items for small scale manufacture; reserving certain percentages of supplies for small-scale businesses; requiring that small-scale suppliers are utilized in government procurement; easing import restrictions for small-scale operations; providing export subsidies to the sector; and developing or extending a series of credit schemes to the sector. The Government is also encouraging and supporting private voluntary agencies to work with the sector. Although these policies are still experimental, over the long run they could have a dramatic impact.

On the program side, the Government, through its elaborate mechanisms to assist business, including the recently created District Industrialization Centres (DIC), is trying to reach the smallest units with technical assistance. For the first time, it has included retail units. So far, this type of assistance is very expensive, and, as far as one can tell from cursory contacts, relatively small numbers in the informal enterprise sector are being assisted.

The really exciting activity in India, however—providing credit to informal enterprises—is taking place in the private sector. This is made possible by supportive Government policy.

The importance of credit to people in the informal enterprise sector is a complicated question. Credit was at the core of every program studied in India that was attempting to work with this sector. It is easy to argue that it is the point of access to working with the sector. To wit:

1. the majority of informal sector entrepreneurs believe credit to be their most critical need; and
2. credit is the easiest and most inexpensive service to deliver to the sector.

This still does not, however, answer the question of the importance of credit. The importance of credit depends on the type of program. For a program aimed at uplifting an entire community or group of people, not only economically, but socially and politically as well, credit may not be important relative to other factors. Mrs. Jayalakshmi's program in Bangalore is an example. For a program trying to set up people in business, it may be absolutely critical. Loyola Joseph's program in Madras is an example.

These Indian case studies prove that credit can be a powerful tool. It also makes clear, however, that this tool must be molded to the unique circumstances of each program situation. There is no universally replicable model; the India case studies broaden the range of choice beyond that which was previously thought available.

The conclusions of the study are:

1. *Government policy is essential to create that climate which requires credit to be provided to large numbers of people in the informal sector.* The Indian program is, of course, highly subsidized, including extremely low interest rates and a loan guarantee fund. Indian commercial banks, however, *operate* in such a way as to reduce the subsidy, by making these low interest rate loans only a small proportion of their total loans to the sector. In 1976, a Government Commission looked at interest rates and was in favor or raising them, but viewed such an act as politically impossible. Most other countries would reach the same conclusion. An experimental credit scheme in Bangladesh is trying out a flexible interest rate, which may go as high as 35 percent, to reflect the true costs of lending. This program has started only recently and should be watched with great interest by those interested in this issue.
2. *Commercial banks can, under the right circumstances, lend to this sector at a profit.* The key requirements are to keep loan supervision costs low, keep supervision effective (as reflected in low default rates), and reduce, to the extent possible, the number of loans given at the lowest interest rates. In the best informal sector bank lending programs each field staff person can supervise up to 400 loans and keep the default rate under 10 percent. The banks can also utilize community leaders as volunteer assistants to the bank staff.

   There does not appear to be any formula to select and supervise loan recipients. With a dedicated and sensitive staff, there appear to be few problems and low default rates.

One radical experiment which indicates the expanded development role that banks can play is the government-imposed requirement that banks "adopt" villages. Thus far, 70,000 villages have been adopted by banks. Adoption requires bank staff to function as community development officers and not merely as loan agents. This is a new role and there are many difficulties. Still, some thoughtful bank officers feel it is helping to broaden the roles and responsibilities of bankers beyond that traditionally assumed. The various ways banks can take a development role warrants more careful study.

3. *Specialized governmental or quasi-governmental machinery can be created to work with the sector*. Examples of this are the Khadi and Village Industries Commission, the District Industrialization Centres, and the Women's Cooperative Financial Corporation of Hyderabad. Others are government-regulated cooperatives like the Indira Mahila Cooperative Bank in Bombay. The differences in cost, quality, and outreach of services among these various programs are enormous, ranging from expensive services of low quality that reach few people to relatively inexpensive programs of better quality that reach many. Many government agencies have trouble getting good staff. Their structure and system of rewards and expectations may make it difficult to reach very poor people, but there are notable exceptions to this. This area too warrants more careful study.
4. *Banks and voluntary agencies can cooperate*. It is sometimes in the interest of banks and voluntary agencies to collaborate to provide credit. The banks often have difficulty in identifying potential borrowers of tiny loans since these people are not used to using formal credit and are frightened to approach a bank. Likewise, banks complain that the needs of tiny borrowers often go beyond the mere provision of credit. Money borrowed may be used for a variety of non-business purposes. Sickness or family problems may prevent business development. Police harassment or failure to grant a license may intervene. Raw materials or markets may be unreliable. Business skills may be lacking. The banks have looked to voluntary agencies to perform these functions because they have close ties with community groups and are skilled in dealing with at least some of the borrowers' social and political problems.

Most of the voluntary agencies have little experience with business and credit. Although many agencies feel that credit is not the key problem, they view it as a point of access to begin to deal with more complicated problems. Many of them feel their relationship with the bank is ideal, since the bank can perform the complicated task of lending and keeping track of funds, while they are assured their clients have access to credit.

In many cases the voluntary agencies have shown themselves to be good enough at dealing with the problems of borrowers to reduce the default rate from 10 percent to below 1 percent with low supervisory costs. The voluntary agencies are particularly good at encouraging borrowers to use the money for business purposes and in dealing with problems created by governmental policy. Lacking business experience, typically, the staffs of these voluntary agencies have not dealt with problems like management, raw material procurement, or marketing. But in working with these tiniest of businesses, these technical inputs do not seem to be a major area of need. It is interesting to note that the agency with the lowest default rate was the one with the least capacity to help on business problems.

What makes the relationship between the voluntary agency and the bank work? The simple answer is mutual trust. In each of the programs reviewed, a relationship of trust had been painstakingly nurtured. Real trust, of course, is built on success—meaning large numbers of happy loan recipients, most of whom must repay their loans. In India, if loan repayments are about 90 percent, the banks appear satisfied, but this must be put in the context of government pressure to lend to this sector. Without this pressure, banks would likely require a 97 percent payback and an interest rate of 10 percent to break even, unless there were a loan guarantee scheme.

Aside from a low default rate, trust can be built in a variety of ways. In one program, a committee composed of representatives from eight banks meets bi-weekly with agency staff to review and sanction all loan requests. This mutual acceptance of responsibility seems to foster trust and respect. In another program, an agency volunteer accompanies a bank loan officer to meetings of potential loan recipients. The agency volunteer expedites the meeting so that it takes as little of the loan officer's time as possible. In yet another case, the bank actually pays a fee to agency-selected collection agents for the loan repayments collected. These are all ways of keeping communication open, sharing responsibility and building trust.

5. *Voluntary agencies can take the initiative in providing these services.* The key to successful voluntary agency assistance to this sector seems to be:
   a. astute and charismatic leadership;
   b. committed staff responsive to client needs and willing to work for low pay;
   c. heavy use of highly committed volunteers;
   d. the wise use of available governmental programs, initiatives, and resources; and
   e. a feeling on the part of beneficiaries that this is an organization responsive to their needs.

   Not all of these factors were present in all the programs described earlier, but they are *all* present in the *most* successful ones. Of these, the most important factor is leadership. Astute leadership can make up for the initial lack of business experience. With strong leadership the other elements of a good program can be added relatively rapidly. The key seems to be to find an organization with good leadership that is dedicated to working with businesses in this sector. For this reason, a significant expansion in the assistance to this sector would occur if strong voluntary agencies with astute leadership were identified, shown various approaches to reach these businesses, and provided with a link to banks and other financial institutions that provide needed credit.

What can we learn from approaches used by these agencies to assist the informal sector? Each program reviewed has a unique approach based on its own particular purpose.

The purpose of both NAESEY and CYSEC is to establish new businesses. These two agencies achieve that purpose in very different ways. NAESEY is following a very innovative approach, which we might call the "corporate" model. This approach has the advantages of requiring little overhead and placing a maximum responsibility on the participants to assist each other. It has demonstrated that it can grow rapidly. There is no training component in this approach, and minimal technical and managerial assistance are provided, yet loan repayments are excellent and practically none of the businesses fail. NAESEY *is* achieving its purpose: there has been a substantial increase in income for participants, usually beginning at zero since they were previously unemployed.

CYSEC uses a more traditional approach, which we might call the "educational" model, and stresses vocational education and follow-up by a highly qualified professional staff. This approach is comparatively expensive and requires a large subsidy, thus limiting the number of clients it can reach. Also, loan repayment rates are not nearly as good as those of NAESEY, and a larger percentage of businesses fail. Unlike the other programs CYSEC was not developed through the strong involvement of the community; participation of beneficiaries in the organization is the lowest of any organization studied. Community participation seems to be an important factor in ensuring a high rate of repayment and business success. Also, unlike other programs, there has been frequent staff turnover. The program, however, has managed to survive and grow. It serves a modest number of clients sufficiently well so that 75 percent of them set themselves up in business. The newer rural program seems to be pursuing a much different approach by downplaying vocational training and utilizing traditional community support structures. The unit cost of assistance is lower and the number of people reached is increasing. In both of CYSEC's programs there has been a substantial increase in income for many participants.

The purpose of the Working Women's Forum is to organize the women to fight for their economic and social rights. As such, the Forum is more a movement than an organization. Its activities vary from organizing meetings to protest police harassment, to literacy classes, to providing credit. It depends heavily on charismatic leadership and staff, and on the heavy use of volunteers. Its cost of reaching members is extremely low, less than $2 per member. With this approach, it has been able to organize over 5,000 women in 18 months. It also has managed to help 3,000 women get loans (default is less than 10 percent) without any technical or managerial supervision by having volunteer group leaders stand as guarantors for loan repayments. The Forum has been able to increase incomes and self esteem, reduce police harassment, and get better conditions in the markets.

The purpose of the Bangalur Layout is to move an entire community of 12,000 out of poverty. To accomplish this, it has a wide range of programs in health, education, housing, etc., including one to provide loans to mostly women entrepreneurs. To operate these various programs, they depend heavily on dedicated and poorly paid staff and unpaid volunteers, who view this as *their* organization. In seven years, as a result of what is basically a community development approach, the community has been completely transformed from one of the worst slums in Bangalore to a model area with all the basic physical and social amenities. As part of this effort, they have arranged a large number of loans with a default rate below I percent, the lowest for any program reviewed. The impact has been to completely change the lives of the people and to move them well on their way out of poverty.

We have identified a number of approaches, all of which seem to have a positive impact. Yet one cannot escape the conclusion that the best programs with the highest impact are not models at all, but rather a unique mixture emerging out of the expressions of need of local people.

On the credit side, a number of approaches have been used in these programs either singly or in combination:

1. Credit has been tied to a savings program (the savings and loan cooperative approach).
2. Groups are created with the leader as guarantor.
3. Businesses are linked together in an interdependent chain so that each business is dependent for its success on the others.
4. Banks have hired local people as collection agents and paid them commissions.
5. The organization has hired collection agents and paid them commissions.
6. Community volunteers or staff have done intensive follow-up.
7. A committee of bank staff has reviewed loan applications and has approved only those which are likely to be repaid.
8. Vocational and business training has been provided to increase the likelihood of business success.
9. "Tiered" loans have been given, starting with a tiny one to test the borrower, to get recipients gradually accustomed to using credit.

A particularly difficult issue for these programs is how to move businesses up the ladder in terms of size and investment. The consensus seems to be that, at the very bottom, the amount of technical and managerial assistance needed is minimal, perhaps unnecessary, while social support requirements are considerable. The needs for other kinds of services increase as the size of business increases. CYSEC is trying to develop a more sophisticated type of business and they feel more training is required for this.

Since these services are rather expensive, are there novel ways in which they could be provided more cheaply? The NAESEY system, utilizing a "corporate" model, establishes every service needed by its entrepreneurs as another business, rather than having these services provided by the agency. This means setting up the suppliers of feeds, the veterinarian, the wholesaler, and the retailer of milk as independent businessmen. The owner of the dairy herd pays *directly* to support the doctor and the feed suppliers. Indirectly, he supports wholesaling and retailing through the price he receives for his milk. NAESEY's approach requires an experienced businessman to implement it, but people such as Loyola Joseph can be found.

*Recommendations*

Given the many program variables cited above, including the crucial role of leadership and the need for programs to grow out of the unique fabric of local conditions in response to local needs, we do not recommend a single national model program. The government policy with the greatest impact on the enterprise sector has been to require that credit be made available. Credit then becomes a *resource* which local agencies can adapt to their needs.

Credit is doubtless the easiest and cheapest assistance to extend to these tiny businesses. Its positive impact is also fairly clear. For the banks to administer a credit scheme, however, an interest rate that reflects true costs must be charged, and any subvention should be provided through a guarantee fund mechanism, at least initially.

In India, credit policy is currently being reviewed. There is some thought of setting up a separate bank for lending to small industries. This may or may not include lending either to the informal sector or the DIR. A separate institution might be very useful for several reasons. Currently, the Reserve Bank of India handles rediscounting loan guarantees *and* bank audits. Setting up a *separate* institution might make banks more willing to utilize the loan scheme and, thus, more willing to finance the sector since this new bank might focus attention on the sector's problems and needs. Finally, many bank officials complained about the lack of information on other banks' programs and approaches which made it difficult for them to know how to proceed. This new bank might serve as an information broker and facilitate the exchange of information on successful programs.

Other programs such as vocational training and managerial and technical assistance could be provided to help tiny businesses. Such programs, however, should be undertaken with great caution. They are *very* expensive in most cases, and, *for this size of enterprise*, their importance has not been established. With the exception of the corporate model, management assistance programs should not be implemented at this level until new methodologies have been developed and tested which can lower costs to reasonable levels.

Since leadership is the key to local program success, it would seem desirable to nurture and develop such leadership as a conscious policy. Developing leadership to run programs of assistance to informal sector entrepreneurs, however, is not like training secondary school teachers. One does not develop program leaders in classrooms. These leaders need *most* the opportunity to exchange ideas with other people like themselves. This is best achieved by: (1) letting them travel to see other programs; (2) having them meet occasionally to exchange ideas; (3) and by establishing a classroom program for them of no more than five weeks' duration, in which they would use a case-study approach to look at each other's programs and help each other design solutions to their most pressing problems.

This approach to leadership development is *not* one which Government can itself implement. Arranging travel for leaders and coordinating visits with local agencies requires flexibility. Selecting those for participation in various programs requires objectivity. For these reasons, such a program could best be carried out by a voluntary agency. In the case of India, this might be AVARD, the Ghandi Peace Foundation, or even one of the programs studied in this report which has national aspirations. This includes NAESEY and Working Women's Forum. Actually, these small voluntary organizations would probably do a better job, since assisting these businesses is their area of expertise. Larger agencies have many programs but no particular experience in the informal enterprise sector.

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