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PRIVATE VOLUNTARY ORGANIZATIONS AND
THE PROMOTION OF SMALL-SCALE ENTERPRISE

AID EVALUATION SPECIAL STUDY NO. 27

by

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The views and interpretations expressed in this report are those of the author and should not be attributed to the Agency for International Development or Illinois State University.

TABLE OF CONTENTS

	<u>Page</u>
Foreword.....	v
Acknowledgments.....	vi
Summary.....	vii
Preface.....	xi
Glossary of Abbreviations.....	xii
1. Introduction.....	1
2. The Private Sector and Development.....	1
3. Small-Scale Enterprise Development: Some Initial Considerations.....	6
4. A Summary of Knowledge on Small-Scale Enterprise Development.....	8
4.1 Credit and Small-Scale Enterprise Development.....	9
4.1.1 Economic and Entrepreneurial Aspects of Credit.....	9
4.1.2 The Social and Personal Implications of Credit.....	13
4.1.3 Nonproject Sources of Credit and Financial Assistance for the Small-Scale Enterprise Sector.....	17
4.1.4 Conclusions on Credit.....	18
4.2 Small-Scale Enterprise Development Through Extension and Training.....	21
4.2.1 Nonproject Support: Equivalents and Substitutes for Extension and Training Services.....	24
4.2.2 Conclusions on Extension and Training.....	26
4.3 Institution Building and Small-Scale Enterprise Development.....	27
4.3.1 Integrated Development Projects.....	28
4.3.2 Conclusions on Institution Building.....	29
4.4 AID Evaluations and Institutionalization.....	31
4.4.1 Opportunities Industrialization Centers, International.....	31
4.4.2 ACCION/International AITEC.....	32
4.4.3 Partnership for Productivity International..	35
4.4.4 Institute for International Development, Incorporated.....	36

TABLE OF CONTENTS (cont.)

	<u>Page</u>
4.4.5 Conclusions on Institutionalization Derived From Evaluation Examples.....	37
5. Small-Scale Enterprise Development From a System Perspective.....	38
5.1 Examples of Projects With a System Perspective.....	39
5.1.1 The UNO Project.....	39
5.1.2 Manila Community Services, Incorporated.....	41
5.1.3 Technoserve.....	43
5.2 Justification for System-Level Concerns in Enterprise Development Efforts.....	44
6. The Role of PVOs in the Promotion of Small-Scale Enterprise Development.....	44
Bibliography	

FOREWORD

This paper is one of three sponsored by the Office of Private and Voluntary Cooperation, Bureau of Food for Peace and Voluntary Assistance (FVA/PVC) of the Agency for International Development, on the role of private voluntary organizations and the development of PVO small-scale enterprises. The papers and workshop report represent a collaborative effort of FVA/PVC and the Bureau for Science and Technology, Office of Rural and Institutional Development (S&T/RD). All are available from the Center for Development Information and Evaluation.

The other two papers are:

A.I.D. Program Evaluation Discussion Paper No. 22, (PN-AAL 053) July 1985, Report On The Workshop On Private Voluntary Organizations And Small-Scale Enterprise Development, held on October 31 to November 2, 1983. This provides a summary of lessons learned from recent evaluations of PVO Small-Scale Enterprise projects, brief summaries of two papers (cited below) presented for the workshop discussion, as well as highlights of the workshop discussions and the list of participants.

A.I.D. Evaluation Special Study No. 28, (PN-AAL 056) June 1985, Searching for Benefits. This study examines five small or microenterprise development projects, four of which were designed and implemented by private voluntary organizations. It seeks to measure the costs and net economic benefits or additions to national income resulting from the projects.

We are indebted to the authors of these papers for their contributions to AID's understanding of the role of small-scale enterprises in development.

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I also appreciated the criticism and support I received from many participants in a workshop on the private voluntary sector's role in small enterprise development. This workshop, held October 31 to November 2, 1983, offered a first chance for a large-scale discussion of the synthesis and conclusions presented in this report. There I profited particularly from discussions with Andy Oerke, George Butler, and Cheryl Lassen of Partnership for Productivity International; Shirley Buzzard of Foster Parents Plan International; Suzanne Kindervatter of the Overseas Education Fund; Ed Bullard of Technoserve; Ron Howard of Opportunities Industrialization Centers International; Jeff Ashe of ACCION/International AITEC; and Fred O'Regan and Doug Hellinger of the Development Group for Alternative Policies. To a considerable extent, I have made the changes suggested by these workshop participants and others who have read and commented on earlier versions of the paper. Some will remain unsatisfied but should know that I have gained a great deal from their comments, even when I have not had the wisdom to act on their suggestions.

SUMMARY

Interest in the role of private voluntary organizations (PVOs) in small enterprise development is stimulated partly by concern for identifying new means for dealing with global poverty. Small-scale enterprises are seen as relatively easy to start and as a means through which even very poor individuals can channel funds and effort to increase income and security. They are also seen as more likely than larger firms to provide employment for other members of the poorer segments of society, either directly or through indirect impacts on the local economy, which are generally more substantial than those of larger, more modern firms. In this way, they may bring new resources to the poor relatively efficiently; they may also help to establish a base from which subsequent economic expansion is more likely.

For some observers of PVOs as development agencies, these institutions are particularly well positioned to facilitate the development and positive impacts of small-scale enterprises. PVOs tend to operate over extended periods in the same areas and to employ people who are highly motivated for work with the poor and willing to accept relatively modest salaries. In addition, PVO project managers commonly have flexibility in handling activities on-site, in part because of the inclination of international voluntary agencies to advocate projects that respond to locally felt needs. Finally, resources are usually quite limited, and this provides additional encouragement for working with the more deprived, because the interest of established classes in project activities tends to diminish with the level of available resources.

A central question for development agencies is whether these perceptions are correct. Do PVOs and small-scale enterprise projects generally promote growth and equity? Moreover, do PVOs have a special capacity for promoting small-scale enterprise projects? Recent work designed to answer these questions includes evaluations of small-scale enterprise projects conducted by major international donors. A number of recent evaluations of PVO small-scale enterprise projects have been conducted by the Agency for International Development (AID), the World Bank, and the PVOs themselves.

Results from these studies suggest that small-scale enterprises can be successfully promoted through the use of credit facilities and a variety of technical assistance programs. The latter include extended and short-term training as well as consultancy services. Where these programs have been most successful in promoting new firms, employment, and income, they have been well administered over extended periods of time by well-trained, cost-conscious project personnel. Successful projects have also had available regular information on their impact,

sometimes through the efforts of beneficiary associations. Finally, assistance to small- or medium-size manufacturing firms has been found to be particularly related to the generation of new employment and to the linkage of beneficiary firms to other sectors of the economy. Microenterprises and trading businesses of all sizes are less likely to generate employment or economic linkages.

These findings indicate the potential significance of small-scale enterprises for the development of a modern economy. They are also troubling in that they appear to imply relatively little concern for equity. Consequently, governments and especially PVOs have begun in recent years to seek the means for increasing the potential for small-scale enterprise (income-generation) projects to affect a broader range of beneficiaries. Experiments have been made with the grouping of clients, with the decentralization of project activities to ease the process of reaching the poor, and with the careful tailoring of resource packages and the requirements for assistance to increase the probability that poorer entrepreneurs will benefit. Some trade-offs appear necessary, as, for instance, in the attempt to balance the pursuit of new jobs and the promotion of equity. Projects that promote the development of very small firms do not generate many new jobs. On the other hand, it may be that new resources for many poor families create significant economic linkages and have sufficient impacts on social justice and political stability to more than compensate for any weaknesses elsewhere. These issues are still being argued, with many PVOs becoming even more active than before in developing projects focused on generating empowerment and equity. The challenge often posed to them is whether the economic price they pay is too high. Is there too much emphasis on social and political benefits and too little on the need for efficiency in the use of resources? After all, projects that do not produce economic self-sufficiency for beneficiary firms and credit and technical assistance bodies are unlikely to be sustainable and to bring about long-term social or political benefits.

Much of the debate over current and prospective PVO involvement in small-scale enterprise development and over the potential of small-scale enterprise for poor societies is consequently focused on the issue of costs. What price must be paid to ensure that projects do benefit those most difficult to reach? Because small-scale enterprises are often highly efficient in the use of capital, are there in fact economic as well as political and social benefits in assisting them? Still other critics wonder whether any type of PVO small-scale enterprise project is going to matter very much, even if efficient, given the scope of the problems of poverty and the limited resources available to PVOs.

These questions indicate the need for a systemwide perspective on small-scale enterprise development. Without such a perspective, there can be no end to debates over specific outcomes. Is employment production more valuable than the development of new firms? What are the comparative costs of credit programs or training efforts? When are loans to first-time borrowers significant enough to overcome other cost problems? Some public development agencies, including PVOs, are responding to the need for a systems perspective. They are not only pressing for the consideration of a greater range of social, economic, and political factors than have typically been identified in enterprise projects, but they also are seeking means for assessing these impacts in a manner that assures their relative equality with the shorter term economic changes normally central to the determination of impacts and the assessment of costs. Among appropriate additions to the core of relevant inputs and outcomes for small-scale enterprise projects are the extent of empowerment of beneficiary groups and the distribution of beneficial social and economic changes throughout targeted communities. Another is the creation and support of autonomous political and administrative institutions that facilitate small-scale enterprise development and provide means for brokerage and mediation among entrepreneurs and with the society at large.

These are not new issues, and they are gaining more attention and acceptance in the development literature. They also pose a serious challenge to project officials. For the systems analyst argues that development projects that do not accommodate and seek to influence systemic factors are less likely to have an effect on poverty. Even economically efficient projects are often unsustainable because they commonly reinforce systems of inequality and offer few incentives for change and effort on the part of the poor. Project evaluations that do not go beyond reductionist concerns to weigh and assess social and political questions are of limited utility. Projects that are economically viable will also fail, but economic and social factors must be weighed together.

Several evaluations of small-scale enterprise projects conducted by development agencies suggest specifically how these broader social and institutional concerns are affecting particular PVO projects. For instance, two evaluations of the Opportunities Industrialization Centers International (OICI) and its entrepreneurship training programs have indicated that returns are likely to result from a comprehensive institution-building effort. OICI spends considerable time and resources for each training project by establishing advisory and policymaking bodies with both public and private sector members. These efforts are expected to have a number of impacts. First, they are established to ensure the availability of expert advice on training and on business opportunities so that participants may receive

relevant instructions and find support for the entrepreneurial activity. These bodies also are designed to facilitate the establishment of working relationship with the government, thus increasing the capacity for local OICs to have an impact on the making of public policy. Recent evaluations of a still very new OICI effort in Lesotho indicate that these additional inputs are likely to make the training project more viable. They seem to be associated with an unusually positive response to the course offering by students and a related willingness to apply lessons learned in the course. They also seem to be associated with the strong support given by the Government of Lesotho to the project, support that has permitted an expansion of the training and its integration with national employment development efforts. Within 3 or 4 years it will be appropriate to judge whether the impact of training on enterprise performance is positive. However, from a systems perspective it also will be necessary when determining benefits and costs to deal with institution-building activities. Assessments should focus on the project's support for such things as national economic integration, as well as on the impact entrepreneurship training has had on individual firms.

Other organizations, such as those associated with the Sarvodaya Shramadana in Sri Lanka, the Northeast Union of Assistance to Small Business (UNO) project in Brazil, Partnership for Productivity's work in Upper Volta, and the Manila Community Services, Inc. in the Philippines, are involved in activities even more broadly focused than these. Not only are issues of equity central to the conception of benefits, but a range of social and political factors are assessed both as outcomes to be pursued and as causes of project success. There is a concern for networks, for finding a range and variety of organizational supports in the local, national, and international environments. The project designers and managers in these cases share a sense that specific benefits and inputs may be of greater significance in one project than in another. What matters is the degree to which the project's outcomes fit the context and support sustainable change. The more flexible and broadly focused a small-scale enterprise project is, the more chances there are to deal with the contradictions generated by more conventional approaches, which are limited by a rather narrow conception of costs and benefits.

It is possible for these "systems" projects to be small and simple. The key is not the number and range of inputs or activities, but the creation and cataloging of links among social, economic, and political factors associated with change in a given setting. The simpler the better, given inevitable cost constraints. What is crucial is that successful PVOs seem more and more to displaying entrepreneurial characteristics in their design and implementation of enterprise projects. They are looking relatively less at the firm and more at relationships that both facilitate its development and channel the resources produced to create significant and sustainable changes of benefit to the largest possible public.

PREFACE

This paper was written expressly for the workshop on small-scale enterprise development held in Washington, D.C. from October 31 to November 2, 1983. Its first purpose is to summarize the lessons learned from recent evaluations of small-scale enterprise projects, particularly those of private voluntary organizations (PVOs), and to illustrate how these lessons have been applied. The review and analysis were to be conducted to provide workshop participants with the opportunity to focus more clearly on issues such as the sources of more and less effective projects, the comparative advantages of PVOs in promoting small business, and the role donors can play in supporting effective small-scale enterprise projects.

GLOSSARY OF ABBREVIATIONS

- ACCION - ACCION/International AITEC
- AID - U.S. Agency for International Development
- DDF - Dominican Development Foundation
- IIDI - Institute for International Development, Inc.
- ILO - International Labor Organization
- OICI - Opportunities Industrialization Centers, International
- PfP - Partnership for Productivity
- PISCES - Project on Investment in the Small Capital Enterprise Sector (AID, Bureau for Science and Technology)
- PVOs - Private voluntary organizations
- UNO - Northeast Union of Assistance to Small Business (Brazil)

1. INTRODUCTION

The primary purpose of this work is to describe and to present the results of an analysis of the role of private voluntary organizations (PVOs) in development, particularly in the promotion of small-scale business enterprise. First, background material is presented on the changing role of PVOs in development. It highlights the issues involved in summarizing and comparing the approaches and managerial styles of widely divergent agencies and provides the basis for an assessment of the major arguments made in behalf of PVOs as development agencies. Major conclusions from evaluations of small-scale business projects are then reviewed, including those designed and carried out by PVOs. This provides a means for assessing the significance of differing types of development strategies and provides current information on the areas in which PVO development activity may be most and least effective. In conclusion, PVO strategies in the area of small-scale enterprise development are discussed and some guidelines are provided for selecting approaches, based on the evidence of past performance.

The search for more conclusive information on PVOs and economic development draws in large measure on evaluation materials collected by PVOs and the Agency for International Development (AID). Much of the evaluation material has been collected to satisfy contractual or other "in house" needs and has not been summarized or compared in light of more general goals or standards. There have been, so far as could be determined, no full-scale investigations of the impact of PVO sectoral program activity, especially in the area of small-scale enterprise development. Yet this latter area is one in which voluntary groups have been involved in significant numbers. Moreover, because the concerns for equity and outreach to the poor often focus on employment promotion, it is also one in which PVOs are especially likely to be involved in the future. For these reasons, this analysis focuses specifically on the small-scale enterprise sector and the PVO role in it.

2. THE PRIVATE SECTOR AND DEVELOPMENT

Over the past decade, private voluntary organizations have become more visible and more significant components of international development activity.¹ Transnational PVOs from richer nations have become responsible for a substantial percentage of

¹Chadwick Alger, "The Role of People in the Future Global Order," Alternatives IV (October 1978):233-262.

total development assistance transfers. Moreover, indigenous organizations within developing nations, sometimes associated with transnational bodies, have increasingly gained recognition as vehicles for local development efforts.²

These changes are often explained in terms of the relative insufficiency or decline in official development assistance, especially when compared to evident need. However, explanations also center on the supposed advantages of the private voluntary organizations themselves. They are seen by some development experts as particularly suited for delivering development services to the poorest segments of the population. For one thing, they are normally somewhat underfinanced themselves, when compared to governments. Consequently, PVOs are forced to think of projects in terms of small changes and to eschew the type of major resource transfers that inevitably involve financial and governmental elites as principals. This does not mean that the wealthy and established are uninterested in PVO projects or resources, only that the possibilities for the involvement of the poor are greater where resources are quite limited.

For many PVOs this smallness is a virtue. Their development activities have flowered during the period of increased criticism of large organizations--both government and private--and during the period when major technical and industrial changes were strongly associated with global resource shortages and environmental damage. They and their supporters argue that small organizations with a more circumscribed view of development possibilities are likely to generate changes that are both more human-scaled and more humane.³ This is largely due to the fact that their size and ideology combine to generate a responsiveness to beneficiaries more than to external requirements, and thus encourage an innovativeness and flexibility uncommon in larger projects. PVOs often speak of this characteristic in terms of their emphasis on process over outcomes, arguing that less visible, but more important changes--toward individual awareness and self-reliance--are thereby generated.

²Landrum Bolling and Craig Smith, Private Foreign Aid: U.S. Philanthropy in Relief and Development (Boulder, Colorado: Westview Press, 1982); Robert F. Gorman, "Development Through Basic Human Needs: The Role of the Private Voluntary Sector" (Mexico City: 24th Annual Meeting, International Studies Association, April 1983); B. Andemicael, "The Role of Non-Governmental Organizations in Economic Cooperation and Social Development," International Studies Notes IV, 1 (1977):17-22.

³W. Haque, N. Metha, A. Rahman, and P. Wignaraja, Towards a Theory of Rural Development (Bangkok: United Nations Asian Development Institute, 1975).

Companion arguments in behalf of PVO contributions and potential emphasize the motivation of staff members. The strongly social orientation of many PVOs, often rooted in their religious basis, is believed to be responsible for attracting an especially committed workforce, one willing to accept low salaries and difficult working conditions. This staff commitment, when coupled with smallness and flexibility, suggests a potential capability in PVOs for encouraging the production of "social knowledge"; that is, knowledge created by a beneficiary community from its own experiences, thereby facilitating more sustainable, system-wide change. Some analysts consider the capacity to tap this type of local involvement and knowledge as a source of PVO innovativeness and of the consequent impact PVO activities have had on other donors.⁴ As the antithesis of social knowledge, "scientific knowledge" is produced in academic settings separate from the experiences of the potential beneficiaries and then transferred to planners for conversion into project blueprints.

PVOs are also recognized as important global actors, helping to educate those in richer nations about the needs of the world's impoverished. In this way, they also serve as a means for tapping and channeling new financial contributions for development efforts. As a "third force" complementing nation states and international institutions, they are similarly seen as mediators, standing between individuals and the institutions of public life. As such, they are viewed as having the potential to serve some bridging functions in the movement toward a more interdependent world community.⁵

Obviously these contributions, if realized in fact and consistently over time, would be major ones. However, some observers have raised doubts about such claims. For one thing, it is difficult even to justify using a single term such as "PVO" to cover the whole range of nongovernmental actors working on development problems. More than 400 PVOs are registered with the American Council of Voluntary Agencies in the Foreign Service; other estimates suggest that about half again as many American

⁴Elliott Schwartz, "U.S. Private Voluntary Organizations in Development: An Assessment," Development Digest VIII, 4 (October 1980):67-71; Cheryl Lassen, "A Response to the DAI Evaluation of PVP/Upper Volta" (Washington, D.C.: Partnership for Productivity International, Typescript, 1983); Judith Tendler, Turning Voluntary Organizations Into Development Agencies: Questions for Evaluation (Washington, D.C.: U.S. Agency for International Development, 1982).

⁵Alger, "Role of People in the Future Global Order"; R. Falk, S. Kim, and S. Mendlovitz (eds.), Toward a Just World Order, Vol. I (Boulder, Colorado: Westview Press, 1982).

voluntary groups are currently active.⁶ Nor is such involvement specifically American. A recent statement on private associations as potential actors in Egyptian development lists several hundred in Cairo alone.⁷ Many voluntary associations have religious affiliations, but others are reflections of more secular pursuits and have emerged in the wake of particular world crises, such as wars. Others are outlets for the development concerns of organizations that had not previously been much involved with development activity. Some organizations design and administer field projects, alone or in alliance with other international PVOs and indigenous associations in the beneficiary countries. Others may serve more as sources of assistance for projects designed and implemented independently. Clearly, PVOs are actually a large and diverse group of associations, about which generalizations may be quite misleading. Determining their number is itself a difficult problem, and summarizing the full scope of action in the voluntary network is even more daunting a task. Partly as a consequence of these problems, recent studies of PVOs have been more circumspect in offering conclusions about their potential.⁸

Criticism is also leveled at some of the conventional assumptions about PVOs, because limited evidence exists to support many of these claims. In a summary of evaluation reports, including many that were performed by PVOs, Judith Tendler found, even in their own self-analyses, relatively little evidence of the level of participatory involvement that conventional PVO "articles of faith" suggest as typical.⁹ Their decisionmaking processes are often bureaucratic and inflexible, just as are those of larger, public organizations. PVOs are in a competitive situation for limited dollars for charitable purposes and need to spend time, as do less altruistic organizations, on maintenance and self-preservation. Central office and field staff conflicts

⁶Gorman, "Development Through Basic Human Needs"; D.H. Smith, F. Verhagen, B.R. Baldwin, and W. Chitlick, "Role of U.S. NGOs in International Cooperation for Development" to be published in B. Andemicael (ed.), "The Potential of Non-Governmental Organizations in International Cooperation for Development."

⁷Jason Brown, Discussion presented at PISCES II Workshop, summarized in Josh Beardsley, Report on Investment in the Small Capital Enterprise Sector: PISCES, Phase II (Boston: ACCION International/AITEC, 1982).

⁸Tendler, Voluntary Organizations.

⁹Tendler, Voluntary Organizations.

resemble those of large development organizations.¹⁰ Tendler also found little PVO innovativeness, commenting that PVOs are often more like contractors, carrying out someone else's tested designs. She did find some flexible, participatory, and innovative programs, and regards them as notable; but she also found numerous examples of projects demonstrating little sensitivity toward beneficiaries. Often recipients are given few opportunities to participate in project management. Moreover, there is often little utilization of current knowledge on project design and implementation in several sectors.¹¹

The search for more conclusive information on PVOs and development requires more differentiation of the PVOs and their project activities, as well as additional investigative work. Most of the limited research on PVO impact has been conducted in response to specific, in-house needs. Rarely have there been full-scale investigations of the outcomes of specific projects or of the impacts of several PVOs in a given region or sector of activity. This is beginning to change. PVOs are sensitive to the need for self-evaluation as a means of responding to public and donor queries. Moreover, as some PVOs become more development oriented, evaluation is viewed as an integral part of their operating requirements--a base for strategic planning.

Recently, voluntary organizations have paid considerable attention to enterprise development and income generation. They are actively involved in projects to promote business and the creation of jobs and view these areas as ones in which they can have a positive, and extensive, impact. PVOs are seeking to advance their case as experienced practitioners and innovators in this area, who are especially capable of effective leadership in small-scale enterprise development. At the same time, international and national development agencies are looking at the private sector. Facing a future where employment demands will far outstrip jobs and job potential, they are concerned with finding out what works to promote business and employment. PVOs and governments thus are focusing on the question of "what works" in this sector; at the same time, governments and other donors are also examining claims by PVOs that they may have the most to offer. Do they have much to offer? Is this an area in which the suggested advantages of PVOs can or do come into play? We face this question first by looking at what, based on a still small

¹⁰Coralie Bryant, "Organizational Impediments to Making Participation a Reality: 'Swimming Upstream' in AID," Rural Development Participation Review 1, 3 (Spring 1980):8-10.

¹¹Tendler, Voluntary Organizations; Gorman, "Development Through Basic Human Needs."

evaluation literature, seems to produce good small-scale enterprise development projects. During this discussion, we examine evaluations of PVO projects to determine how the approaches and management styles of PVOs compare with others, and the impacts they seem to have. We conclude with a closer look at the areas in which PVO activity might be most significant and useful.

3. SMALL-SCALE ENTERPRISE DEVELOPMENT: SOME INITIAL CONSIDERATIONS

The problems of poverty and joblessness, which have raised interest in the potential contributions of PVOs to development, have also increased consideration of the possibilities for assisting small-scale enterprises in developing nations. Enterprises classed as "small-scale" have from one to as many as a hundred or so employees, although predominately fewer than five, and usually have only minimal resources in terms of fixed assets or working capital.¹² They are widely dispersed, and recent evidence suggests that they exist in larger numbers than previously believed in the most remote and poorest of communities.¹³ Because they are relatively easy to establish and tend to rely on simple technologies, they provide more managerial and job opportunities, especially for the less skilled, than other forms of enterprise. There are strong indications that in the poorer rural areas of developing countries, small-scale enterprises are a primary or secondary source of income for half of the families.¹⁴ It follows that they have the additional effect of keeping populations dispersed, certainly more so than programs that center on the promotion of development through large-scale industrialization. With their impact on the distribution of skills and opportunities, they may be seen as forces that increase the possibility for stable and democratic change.¹⁵

¹²Robert Hunt, A Review of Evaluations of Small Enterprise Projects Designed and Implemented by Private Voluntary Organizations (Washington, D.C.: U.S. Agency for International Development, Bureau for Food for Peace and Voluntary Assistance, 1982); Enyinna Chuta and Carl Liedholm, Rural Non-Farm Employment: A Review of the State of the Art (East Lansing, Michigan: Michigan State University, Department of Agricultural Economics, 1979).

¹³Chuta and Liedholm, Rural Non-Farm Employment.

¹⁴World Bank, Rural Enterprises and Non-Farm Employment (Washington, D.C.: World Bank, 1978).

¹⁵Robert W. Hunt, "Social-Psychological Aspects of Active Citizenship and Economic Development" (Unpublished doctoral dissertation, Princeton University, 1974).

Many small-scale enterprise programs have been developed over the past few decades. Major funding agencies and developing country governments themselves have been deeply involved in such programs, particularly in recent years.¹⁶ Efforts that once focused on the generation of "modern," industrial firms have tended to become broad in scope and to encompass greater concern for much smaller firms with less chance for growth or for eventual integration with the larger commercial and industrial sector.¹⁷ Credit, extension services, and training continue to be the major forms of assistance, with the provision of basic infrastructure, typified by the construction of large numbers of industrial estates in the 1960s, declining as a source of support.

In spite of these efforts, development agencies have achieved mixed success. The reasons are many. For one thing, the firms they attempt to assist are often fragile ones, frequently dependent on one overworked individual. The entrepreneurs themselves are commonly lacking both in knowledge of the marketplace and in financial reserves necessary for survival. Such difficulties multiply the problems associated with founding, expanding, and adapting businesses in a competitive setting, particularly when large institutions (banks, governments) provide a variety of disincentives for small firms while they attempt to promote the fortunes of capital-intensive businesses.

Public officials have been disappointed in the face of these difficulties, but they have continued to believe that small-scale enterprises are among the critical means available for dealing with the daunting problems of unemployment. They have begun to raise hard questions about how to improve capabilities for promoting small-scale business. One consequence has been a striking increase in the advocacy of systematic evaluations of projects and of firm performance. Both public and private sector organizations have become interested in the comparative evaluation of enterprise project impacts. The World Bank has completed a major review effort under the auspices of its Development Enterprise Department.¹⁸ Many PVOs have begun to look more systematically

¹⁶Devres and Co., Small Scale Enterprise Development (Washington, D.C.: Devres and Co., 1981); Eugene Staley and Richard Morse, Modern Small Industry for Developing Countries (New York: McGraw-Hill, 1965).

¹⁷Michael Farbman (ed.), The PISCES Studies: Assisting the Smallest Economic Activity of the Urban Poor (Washington, D.C.: U.S. Agency for International Development, Development Support Bureau, 1981).

¹⁸Jacob Levitsky, "Assessment of Bank Small Scale Lending," (World Bank, Industry Department, Draft, November 1983).

at the long-term social effects of their enterprise projects. AID has undertaken evaluations recently, with efforts sponsored by the Offices of Evaluation, Multisectoral Development, and Private and Voluntary Cooperation.

The next section of this report presents a summary, based on the evaluations and relevant literature, of what is now known about success in the small-scale enterprise development sector.¹⁹ Sections 5 and 6 describe more specifically the role that PVOs can play in the promotion and development of small-scale enterprise.

4. A SUMMARY OF KNOWLEDGE ON SMALL-SCALE ENTERPRISE DEVELOPMENT

Many early small-scale enterprise projects dealt with infrastructure, involving in particular the development of industrial estates, as well as power, transportation, and communication facilities. Some of this work continues, but most small-scale enterprise projects over the past decade, particularly those involving PVOs, have been focused on credit, extension services, and a variety of training programs. Summaries of these projects should serve as a means for ordering information and comparing project impacts. However, this is not that easy to do, nor is it otherwise fully satisfactory as a technique. For instance, although credit programs have been common and fairly well defined, there is an increasing tendency to draw on the various other inputs to supplement lending activities or substitute for them. Project variety is thereby multiplied. Moreover, employment promotion activities are increasingly being introduced as components of rural development and other projects. This makes it still more difficult to isolate the comparative significance of particular project components. In fact, it is hard to identify precisely what the small-scale enterprise sector encompasses.

Partly as a consequence of these difficulties, few efforts have been made to evaluate small-scale enterprise projects. However, the prominence of the sector has increased as the range of options available to donors in bringing change has diminished. As a consequence, many large donor agencies, including AID, the World Bank, and the International Labor Organization (ILO), have become more active in supporting research and evaluation on the small-scale enterprise sector.

¹⁹Hunt, "A Review of Evaluations of Small Enterprise."

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Preliminary findings from these donor efforts, and from the literature on enterprise projects, are summarized below to consolidate what is known about small business promotion. The discussion is organized around major project inputs, despite the overlap and ambiguity that this sometimes produces. Following the consideration of each of these inputs is a list of propositions highlighting central themes and summarizing the relationships that are most strongly supported by the existing literature.

As a means for further clarifying the significance of the various project inputs, their effects are contrasted with those of the most significant external forces (externalities) influencing small-scale enterprise development. These latter factors are examined under the heading of "nonproject influences" on enterprise activity. This analysis leads to the conclusion that the most successful projects are those aimed at improving a whole system of relationships, which involves activities that go beyond the level of the individual firm.

Some specific implications of the conclusions offered in this section are presented in Section 5, together with a review of cases that illustrate a more broadly defined approach to small-scale enterprise project development. This assessment of the strengths and weaknesses of these "systemic" efforts sets the stage for a summary consideration of the role of PVOs in promoting small-scale enterprise activity.

4.1 Credit and Small-Scale Enterprise Development

4.1.1 Economic and Entrepreneurial Aspects of Credit

Most small-scale enterprises are financed by the income and profits of owners and the savings of their families or by borrowing from suppliers and dealers. These facts, coupled with evidence that credit difficulties are often symptoms of managerial or market-related problems, raise doubts in the minds of some concerning the importance of credit in small-scale enterprise development projects.²⁰ Despite this, in discussions with small-scale entrepreneurs, the need for credit is invariably at or near the top of their list of problems. Surveys, too, have identified cash shortfalls and lack of access to formal credit institutions as major reasons for the fragility and failure of these businesses.²¹ In fact, many project designers and managers regard

²⁰Chuta and Liedholm, Rural Non-Farm Employment.

²¹Philip Neck, Small Enterprise Development Policies and Programmes (Geneva: International Labor Office, 1977).

credit problems as the primary obstacle to the promotion and the protection of small firms and to the ultimate realization of their potential as promoters of employment opportunities and more equitable development. Of the projects recently evaluated by AID, those of the Institute for International Development Incorporated (IID) and the Northeast Union of Assistance to Small Business (UNO) project in Brazil strongly support this conclusion.

However realistic the assumptions of the credit seekers and those lenders who see credit as the critical component, there is significant evidence that the flow of credit does have substantial effect on both the number of new firms and their level of success and survival. Some evidence can be found in the report by Goldmark, Mooney, and Rosengard on the Upper Volta project of Partnership for Productivity (PFP).²² The authors suggest that this project's impressive capacity to provide numerous loans in a short time in the very poor eastern region of the country has had a major impact on enterprise development there. Approximately half of the loan recipients interviewed (about 20 percent of the total) had substantially increased their sales volume, clientele, and disposable income and had diversified their product lines. Such reports, linking credit programs with the rapid increases in the number of firms and in the sales and income of existing firms, are typical in the literature on small-scale enterprise.²³

Even better results are produced by a number of organizational and management reforms. Included are efforts to increase interaction between a project's staff and the potential beneficiary community, as well as those to improve efficiency in the processing of loan applications. An example of the significance of such changes appears in the experience of the UNO project for microenterprise development in Brazil. A second phase of the project, established in and around the city of Caruaru in the northeastern state of Pernambuco, featured attempts to deal with the previously rather slow dispersal of credit to informal sector entrepreneurs.²⁴ Program operations were decentralized so that

²²Susan Goldmark, Timothy Mooney, and Jay Rosengard, Aid to Entrepreneurs: An Evaluation of the Partnership for Productivity Project in Upper Volta (Washington, D.C.: Development Alternatives Inc., 1982); Lassen, "A Response to the DAI Evaluation."

²³Neck, Small Enterprise Development; Development Commissioner for Small Scale Industries, Report of a Census of Small Scale Industrial Units, Vols. I and II (New Delhi: Government of India, 1977).

²⁴Judith Tandler, Ventures in the Informal Sector and How They Worked Out in Brazil, AID Evaluation Special Study No. 12 (Washington, D.C.: U.S. Agency for International Development, 1983).

none of the targeted beneficiaries was far removed from a UNO office. Staff would thus have ample opportunity to interact with clients and potential clients and to come to know them. At the same time, an effort was made to secure an agreement with the state bank (BANDEPE) to expedite the processing of loans. A reorganization of the bank's operations permitted a change to be instituted that reduced by 90 percent the time needed to secure loan approvals. These two steps were apparently responsible for the substantial improvement in loans processed per staff member and the total number of loans granted by UNO/Caruaru. Many of the same improvements were later made in project activities in the original project center, the city of Recife, with the result that the rate of loans granted there has recently doubled.²⁵ There are other reports of decentralization of project activities working to the same effect in PVO projects in Kenya.²⁶

Grouping clients in cooperatives or business associations may provide additional efficiencies in the development of credit programs. Such groups cut the costs of promotion and processing credit applications and allow for more aggressive follow-up and collection efforts. They also provide an important source of information to project officials concerning client needs.²⁷ For instance, a recent evaluation of small-scale enterprise projects of the Dominican Development Foundation (DDF) in the Dominican Republic found the administrative costs of loans and extension services to informal sector entrepreneurs in solidarity associations to be less than half that for slightly larger, informal sector firms that were not grouped.²⁸ Moreover, in an evalua-

²⁵Henry Jackelen, "The UNO Program of Assistance to Micro-Enterprises in Caruaru, Brazil," in Marshall Bear, Henry Jackelen, and Michael Tiller (eds.), Microenterprise Development in the Urban Informal Sector, Working Paper (Washington, D.C.: Appropriate Technology International, 1982), pp. 19-93; Jeffrey Ashe, Memorandum to the Director of the Office of Private and Voluntary Cooperation, U.S. Agency for International Development, 1982.))

²⁶F. O'Regan, T. Schmidt, and J. Sebstad, "Kenya Rural Private Enterprise Project: Social Soundness Analysis, NGO Assessment and Recommendations on Project Design" (Manuscript) (Nairobi, Kenya: Report to USAID/Kenya, 1983).

²⁷Jeffrey Ashe, "Synthesis and Overall Findings," in Farbman, Assisting the Smallest Economic Activities; Jackelen, "The UNO Program"; O'Regan et al., "Kenya Rural Private Enterprise."

²⁸Jeffrey Ashe, Assisting the Survival Economy: The Microenterprise and Solidarity Group Projects of the Dominican Development Foundation, PISCES, Phase II (Boston: ACCION International/AITEC, 1983).

tion of PFP's commercial and enterprise development project in Upper Volta, the record of two women's cooperatives in channeling resources to low-income market women was considered to be particularly noteworthy. These cooperatives had begun group development activities in conjunction with the credit process and had secured high levels of on-time payments by borrowers. This program was seen as a potential model for replication because of both its social impact and its economic cost-effectiveness.²⁹

On the other hand, the Institute for International Development, Inc. (IID), has developed credit programs based largely on a policy of accepting all borrowers that come for assistance, provided they meet its lending criteria. Despite the successes of its programs (noted below), concerns have been expressed over the difficulties IID has in managing its diffuse and widely dispersed clientele. Problems in keeping track of clients, to provide advice and secure scheduled payments, have led in at least one case to efforts to compensate through increased paper work. Loan application forms were made more complex and the process of lending more bureaucratic as a means of substituting for direct contact. The result was that fewer loans were extended while administrative costs remained high.³⁰

When credit project goals emphasize the need to sustain enterprise profitability and entrepreneurial income, research suggests that extended loans to relatively larger enterprises, and loans for fixed investments, are most likely to contribute to those ends.³¹ Some of the evaluation materials suggest that credit to microsector firms only rarely produces enterprises that can be self-sustaining.³² Even those strongly favoring assistance for the microsector admit that the apparently positive impact of credit assistance to these firms can be misleading. O'Regan, Schmidt, and Sebstad found an increase in gross incomes of about 30 percent in the more than 150 microfirms aided by a credit program of the National Christian Council of Kenya.³³ But

²⁹Goldmark et al., Aid to Entrepreneurs.

³⁰Peter Fraser and Bruce Tippet, Impact Evaluation: IID/IDH Honduras (Washington, D.C.: U.S. Agency for International Development, Bureau for Food for Peace and Voluntary Assistance, Office of Private and Voluntary Cooperation, 1982).

³¹O'Regan et al., "Kenya Rural Private Enterprise."

³²Marshall Bear and Michael Tiller, "The Micro-Industries Development Center of the Philippines," in Bear et al., Microenterprise Development, pp. 95-153.

³³O'Regan et al., "Kenya Rural Private Enterprise."

they also saw a tendency for these increases to level off after a period of time and concluded that this occurred because the owners had to consume most of the profits to meet family needs. Without more reinvestment in the enterprises themselves, the long-term impact of the loan would be minimized.

These conclusions may be premature, because firms used for family projects may well support other business endeavors. They may also support long-term human benefits that can have great significance, including not only better food and more education for family members, but also the psychological gains that can come from the successful use and repayment of loans by those with little previous experience with the formal credit sector.³⁴

This consideration of enduring impacts, coupled with the need to consider the benefits and costs of reaching the smallest firms, suggests a central question for credit programs. Can they be effective in promoting economic change and business growth, on the one hand, and create impacts that are equitable, on the other? Indeed, do credit projects that are believed to be successful sometimes do as much harm as good, in a social as well as an economic sense?

4.1.2 The Social and Personal Implications of Credit

Concerns for the social effects of credit programs have been more pronounced since the beginning of the "New Directions" era in AID development assistance. Early efforts to see that credit went to the least advantaged focused on attempts to categorize recipients on the basis of family income and firm size, or they tended to require that money go only to the unemployed or to young people just starting out. These tactics continue to be used to facilitate an equitable distribution of resources.³⁵ However, often they are not successful. It takes dedicated leaders and a better management information system than most project managers have available to enforce the preferred distinctions. One general standard that has been effective is the maximum limit on loan size. Such limits often automatically exclude

³⁴Partnership for Productivity, International, Annual Report, 1982 (Washington, D.C.: PFP International, 1983); Lassen, "A Response to the DAI Evaluation."

³⁵v.G. Patel, "Innovations in Banking: The Gujarat Experiments" (Mimeo) (Washington, D.C.: The World Bank, 1978.); Tendler, Voluntary Organizations; Jackelen, "The UNO Program of Assistance."

the more advantaged, who are accustomed to higher levels of return for their efforts.³⁶

As we will explain below, such tactics have additional implications for employment generation and other development impacts. Size limits may be less necessary, but still helpful, where organizations of poor recipients exist. Some reports have indicated that solidarity groups not only have made it possible for the very poor to get loans and repay them, but also have become effective mediators between the most deprived and the more powerful interests in the community.³⁷ One of the reasons suggested for the improved performance of the UNO project in reaching poor entrepreneurs in and around the city of Caruaru was the decision by project officials to support the creation and activities of a special administrative unit solely for establishing associations and cooperatives for the informal sector businessmen and women who were to be served. Forming these groups can be very difficult, but there is increasing evidence that the time and effort involved can pay economic as well as social benefits.³⁸

However, even projects that succeed in supplying credit to the poor can easily end up bolstering the power of local elites. In one study of a project in which an effort was made to trace the use of loan funds, it was found that substantial resources were going to raw material suppliers and wholesalers who required full price for goods on delivery. No discounts were offered, and prices remained at the inflated rate set by suppliers accustomed to providing goods on credit. For the customers, the arrangement was apparently satisfactory in that it offered a means to secure the good will of the supplier-patrons for some future time when money would be in short supply.³⁹ Risk minimization strategies of this sort are rational from the perspective of the entrepreneur who must operate in a system of patrons and clients.⁴⁰ But they are also integral to the structural obstacles that limit

³⁶Tendler, Voluntary Organizations.

³⁷Jason Brown, "Case Studies: India", in Farbman, Assisting the Smallest Economic Activities, pp. 337-378; Beardsley, Report on Investment; Ashe, "Synthesis and Overall Findings."

³⁸Jackelen, "The UNO Program of Assistance"; Ashe, Assisting the Survival Economy.

³⁹Jackelen, "The UNO Program of Assistance."

⁴⁰Robert Gamer, The Developing Nations: A Comparative Perspective, 2nd ed. (Boston: Allyn and Bacon, 1982).

efforts to assist small firms in entering a larger marketplace where they might make it very well on their own.⁴¹

Answers are easier to find when the focus shifts from firms and owners to jobs and the distribution of benefits to workers. On the whole, it is clear from the experience of those development agencies dealing with the larger of the small firms that they are likely to produce substantial numbers of new jobs, especially in the manufacturing sector. The favorable results reported for the IIDI effort in Honduras reflect this approach, even though the emphasis there was on support for all businesses (manufacturing or not) that seemed likely to survive and grow.⁴² However, critics of this emphasis point out that little is known about what job creation means--whether jobs produced actually increase the amount of income available in a region or its distribution.⁴³ Job creation may actually represent a reduction in total employment in an area as newer technologies turn out to be less labor intensive than the simple processes supplanted. Moreover, there are concerns about the quality of jobs in the small-scale enterprise sector. Some development analysts see dangers in offering these jobs as solutions for underemployment precisely because they turn out to be lower paying than jobs in larger scale enterprises and provide fewer of the extra benefits of such employment. Firms that produce the largest numbers of employment opportunities are also commonly those of the relatively affluent.⁴⁴

Some of the implications of these findings are challenged, however, by those favoring strategies that emphasize the direct employment capacities of beneficiary firms. In response to those arguing that jobs created in rural small-scale enterprise are of "low quality," they say that some employment is often better than none. Moreover, where the jobs created do result in new employment, the quality issue may be less significant. But this issue may be insignificant in any event. A short-term, intermittent, low-skill job may precisely fit the needs of the partially employed, especially rural women. These jobs often provide the flexibility such women need, given their other obligations. Such jobs also can provide opportunities for men to earn sufficient income to remain in their home community with their families.

⁴¹Doug Hill, "Overview," in Bear et al., Microenterprise Development, pp. 1-17.

⁴²Fraser and Tippet, Impact Evaluation IIDI/IDH.

⁴³Hazel Henderson, Politics of the Solar Age: Alternatives to Economics. (New York: McGraw-Hill, 1981).

⁴⁴Bear and Tiller, "The Micro-Industries."

Such social benefits can be substantial, even though difficult to document. The issue becomes that of assessing costs correctly.⁴⁵

One reason for raising the issue of employment as a project goal is the growing interest in the potential of informal sector economic activities. Innumerable microfirms exist in developing nations, and they intrigue development professionals as potential channels for reaching the urban and rural poor. On the one hand, most appear unlikely to grow, even though they may survive for extended periods of time. They are also unlikely to generate many new jobs in the usual sense. On the other hand, evaluations suggest that they may reduce underemployment within owner families. This is a factor that those assessing the PFP project in Upper Volta came to see as partial compensation for the relatively few jobs created by the assisted firms.⁴⁶ Therefore, if attention is accorded to underemployment and to the fact that microfirm owners are from the poorest sectors of society, the advantages of microfirms may become evident. Furthermore, they may have significant employment impacts beyond the family. Firms of this size may provide more economic linkages to local, smaller firms than do larger ones, depending on the type of firm in question and the amount of information on goods and services available in the local market.⁴⁷

The differences reviewed here point to the potential trade-offs among jobs, equity, and rural development goals in the design of small-scale enterprise projects. Such dilemmas are resolvable only through the consideration of systemic questions that are usually omitted in project formulation and evaluation. For instance, what are the general outcomes needed for a community, in terms of quality of life for all its members? There is little in small-scale enterprise evaluation materials concerning this type of outcome, or the linkages likely to promote development on a broad range of indicators. Yet, as these dilemmas become more evident in the literature on small-scale enterprises, they will stimulate concern for such questions. They also will provide important terms of reference concerning the roles PVOs can play singly or in groups in promoting small-scale enterprises and, through them, community welfare.

⁴⁵O'Regan et al., "Kenya Rural Private Enterprise."

⁴⁶Goldmark et al., Aid to Entrepreneurs.

⁴⁷Bear and Tiller, "The Micro-Industries"; S.R. Daines et al., Agribusiness and Rural Enterprise Project Manual (Washington, D.C.: U.S. Agency for International Development, Office of Agriculture, 1979).

4.1.3 Nonproject Sources of Credit and Financial Assistance for the Small-Scale Enterprise Sector

Questions remain concerning how effective inputs of development projects can be for stimulating small-scale enterprise development in comparison with general policy changes in dominant domestic institutions, such as banks or governments. Do these institutions and policies tend to dwarf the effects of project inputs? More positively, can they provide even greater boosts to small-scale enterprise development than do enterprise projects? No doubt they sometime can.⁴⁸

For instance, small-scale enterprises in developing countries benefit substantially from growth in consumer income. Contrary to the expectations of many economists, demand elasticities are quite favorable even for rural enterprises producing and selling simple products.⁴⁹ Consequently, government programs to aid agricultural development may provide a significant financial boost for rural enterprise, particularly where projects actually reach the poorest in the countryside. Although demand elasticities are favorable for small-scale enterprise products generally, they are most pronounced when income gains accrue to the poorest segments of the rural society.⁵⁰

Other significant government actions influencing the financial status of small-scale enterprises, in this case negatively, include trade regulations and tax laws. Exchange rates and tariffs often provide discriminatory advantages for more capital-intensive businesses. The same has been said of tax laws, which in many instances provide concessionary rates for bigger enterprises.⁵¹

Alternatively, governments have sometimes been willing to require that banks raise their percentage of loans to the small business sector. Some governments have created loan guarantee programs to facilitate these efforts. These programs have not often been successful, because it is difficult to guarantee compliance. However, there are exceptions, particularly when banks, alone or in conjunction with other agencies, provide

⁴⁸World Bank, Rural Enterprises.

⁴⁹See research cited in Chuta and Liedholm, Rural Non-Farm Employment.

⁵⁰Daines et al., Agribusiness.

⁵¹World Bank, Rural Enterprises; Chuta and Liedholm, Rural Non-Farm Employment; Neck, Small Enterprise Development.

concessionary assistance in the context of a broader development program.⁵²

Whether or not these policy factors are more significant than projects in a given instance is difficult to determine. What seems most necessary to understand is how small-scale enterprise project designers and managers can adapt to these factors or change them in ways supportive of their own goals. We will deal more extensively with this issue below. Here we can say that in few of the projects evaluated have attempts been made to deal systematically with these questions. Occasional references occur concerning the need for project officials and beneficiaries to have more influence over government economic policy.⁵³ PFP International attempted to build on existing government institutions in Upper Volta as a means for facilitating project activity, and to work to promote agricultural production and income through a demonstration farm and thereby benefit the rural small-scale enterprise sector.⁵⁴ Yet, little is known about the financial significance of these domestic factors in comparison or in conjunction with project financial assistance.

4.1.4 Conclusions on Credit

The following conclusions can be drawn from the discussion on credit:⁵⁵

1. The relative availability of credit for small-scale enterprises influences the rate of formation of new firms and the overall sustainability of small-scale enterprises, at least in the short term. Impacts are more likely to be felt, and broadly distributed, when credit applications can be processed rapidly and loans can be well monitored. Such efficiency is a function of several factors, including the following:

⁵²Brown, "Case Studies: India."

⁵³See discussion in Fraser and Tippett, Impact Evaluation IIDI/IDH.

⁵⁴Goldmark et al., Aid to Entrepreneurs.

⁵⁵The statements are not necessarily exclusive. Many are quite specific, others general. This reflects both the state of the evidence and the utility of including some observations that are interesting and useful for policymakers, even if relatively limited in scope. Some propositions common in the literature on small-scale enterprise are listed even though not discussed in the text.

- The proximity of credit institutions to those served, because decentralization of operations has been shown to relate to an increase in the number of loans made
- The extent to which beneficiaries and potential beneficiaries can be effectively grouped--through cooperative credit associations, solidarity groups and the like--with this, in turn, being the product of the availability of a variety of incentives to participants
- The experience of the credit agency or intermediary body in a given region
- The knowledge of the small-scale enterprise sector acquired by and available to the credit body, such as through a census of small-scale enterprises
- Staff management skills
- Effectiveness of relationships with formal sector credit institutions

Generally, the impacts of credit on firm profitability and the income of the entrepreneur and his or her family are more likely to endure when loans meet the following criteria:

- Are for longer rather than shorter terms
- Are for fixed rather than working capital
- Are provided to firms that are larger than microsector enterprises

2. Credit, especially when provided to entrepreneurs who have not previously borrowed from public institutions, tends to be associated with the recipient's level of self-confidence and disposition toward planning. Its impacts are most positive when loans are carefully tailored to the recipient's capacity to repay.

3. When credit is not effective in improving the business performance of small-scale enterprises, and the problems faced are other than basic structural obstacles (e.g., powerlessness), the main limits on the effectiveness of credit are most likely to be the following:

- The absence of demand for products produced
- The fact that the management skills of the recipient entrepreneurs are minimal (although this in turn may be a product of personal disadvantages)

- The unavailability of raw materials
- Regulations affecting procurement and operations generally

4. Unless credit programs are specifically designed to account for social and economic differences within the communities served, they will very likely reinforce inequality by promoting additional opportunities for the more privileged. Including the issues of equity, empowerment, and community development as integral concerns of credit projects can add to opportunities for both growth and equality among individuals and within the communities served.

Where opportunities for introducing social controls are minimal, the most effective mechanisms for promoting equality of opportunity among potential borrowers are the following:

- Limiting credit to those with minimum income
- Requiring that assets of borrowers and their firms not exceed given levels
- Strictly limiting the amount available for any given loan (The smaller the loan, the more likely it is that poorer individuals, and especially women, will benefit.)

Credit that is targeted to organized groups of the poor is more likely to have an equitable effect. (The process of finding and/or supporting the development of such organizations usually involves considerable front-end costs for the organizing efforts, and the project may therefore appear costly in the short run.)

5. Where the creation of jobs is of primary interest, the best results are likely where credit is provided as follows:

- For longer terms
- To new firms, rather than for the expansion (often capital intensive) of existing ones
- To firms larger than microenterprises--those generally called small or medium scale
- More to manufacturing enterprises than to those involved in service activities, and more to both of these than to those involved in retail trade

4.2 Small-Scale Enterprise Development Through Extension and Training

Many studies of small-scale enterprise have highlighted the importance of managerial skills in the survival and success of such firms.⁵⁶ As a consequence, the provision of training opportunities and various advisory services has been a component of most small-scale enterprise projects, particularly in recent years.⁵⁷ Some believe that these inputs are more important than credit, particularly for firms that have survived the early startup crises.⁵⁸ A recent evaluation of a microenterprise project of the Dominican Development Foundation tends to provide support for a strong priority for management training and advisory services. In this case, the most significant factor accounting for expansion in sales, fixed assets, and number of employees among those receiving credit was not the amount of credit, but the degree to which the entrepreneurs were using management skills taught as part of the assistance program.⁵⁹

Criticism of extension and training services focuses on the failure to match sufficiently the opportunities provided with beneficiary needs. Some failures are seen in psychological terms, such as the lack of appreciation for the usefulness of applied behavioral science research in entrepreneurship and enterprise development. This is striking because in many parts of the world, work in this area, together with supportive evaluations, has strongly influenced project design and development.⁶⁰ A more commonly cited failure to achieve compatibility between program and beneficiary is in projects that provide sophisticated business courses, which are bound to be insufficient, particularly for owner-operators of the smallest businesses, because these are unlikely to grow in any case. Critics increas-

⁵⁶Chuta and Liedholm, Rural Non-Farm Employment offers a list of some of these studies.

⁵⁷Devres, Small Scale Enterprise Development.

⁵⁸V.G. Patel, "Motivation and Small Business Training" (Ahmedabad, Indian Institute of Management, Guest lecture on management, 1976); Bear and Tiller, "The Micro Industries."

⁵⁹Ashe, Assisting the Survival Economy.

⁶⁰Malcolm Harper, Selection and Training for Entrepreneurship Development (Geneva: International Labor Office, Management Development Branch, 1983); Udai Pareek and T.V. Rao, Developing Entrepreneurship (Ahmedabad, India: Indian Institute of Management, 1978)

ingly argue that for these firms the simplest of training efforts may not only suffice but may even be superior to more sophisticated training.

Therefore, some development analysts recommend that training and advisory activities be limited to the provision of appropriate, basic services, such as training in separating personal and business accounts, starting an account at a bank, and maintaining and repairing tools.⁶¹ The teaching of such simple processes, and some rudiments of record keeping, has been shown to relate to improved business operations among small rural firms in several nations.⁶² Conversely, programs for informal sector entrepreneurs that require the completion of formal training courses, often as a prerequisite for loan approval, are regarded as probable failures. Trainees in these cases tend to offer only perfunctory responses to the course material. Moreover, any changes in the way such individuals operate their businesses are unlikely to extend beyond the period of supervision associated with the loan.⁶³

A counter argument is suggested by the experience of the Dominican Development Foundation. A recent evaluation of training efforts with informal sector firms suggests that even when there is some reversion to former ways, microenterprise owners know and display more effective management practices than they did before training was provided.⁶⁴ Nonetheless, more examples can be found of training and extension efforts, particularly for the smallest of businesses, that provide advice unconnected to the entrepreneur's needs.⁶⁵ Such incompatibilities observed by Tendler in the UNO project in Brazil led her to question the expenditure of nearly one-third of available resources on training.⁶⁶

These results make the reported successes of the Opportunities Industrialization Centers International (OICI) projects in three African nations appear somewhat anomalous. Yet, two recent evaluations of their entrepreneurship training courses have

⁶¹Jackelen, "The UNO Program of Assistance."

⁶²Chuta and Liedholm, Rural Non-Farm Employment.

⁶³Bear and Tiller, "The Micro-Industries"; O'Reagan et al., "Kenya Rural Private Enterprise."

⁶⁴Ashe, "Assisting the Survival Economy."

⁶⁵O'Regan et al., "Kenya Rural Private Enterprise."

⁶⁶Tendler, Ventures in the Informal Sector.

indicated that fairly standard business training programs were extremely well received by trainees.⁶⁷ They also appeared, to the evaluators and many public officials in the host countries, to be affecting business performance in a positive way. Despite the apparent discrepancy, these data may not run counter to the other conclusions on training. For one thing, OICI is primarily a training body and its reputation in the United States is built on vocational programs aimed at assisting the least skilled. It may be that recipient nations and trainees working with OICI know that they will receive only training and not financial assistance. Moreover, and probably more important, most of the trainees in the OICI projects operate firms larger than the informal sector enterprises that Tendler and others are considering. The record on the response to training by entrepreneurs from firms of this size is much more positive.⁶⁸

Training for extension agents and business faculty should also vary with the level of firms they are to serve. Studies of microfirms suggest that those agents and teachers with fewer business skills but more skills in problem solving do superior work and are better received. Those who are well trained technically are likely to be bored with the work and ineffective.⁶⁹ Alternatively, where slightly larger firms are serviced, these individuals need to have a broad command of management material and business knowledge, plus a sense of the particular dynamics of small firms and the problems they face at various stages of development.⁷⁰ Where there are supportive extension services for agents and trainers, their work is also facilitated. For example, OICI develops a number of advisory bodies at each of its training sites to provide regular analyses of market conditions

⁶⁷S. Barnett, S. Druben, N. Engle, and B. Ricci, An Assessment of the Institutional Capability of OIC International, Inc. (Philadelphia: Opportunities Industrialization Centers International, Inc., 1982); Robert W. Hunt, The Evaluation of Small Enterprise Programs and Projects, Special Evaluation Study No. 13 (Washington, D.C.: U.S. Agency for International Development, Office of Evaluation, June, 1983.)

⁶⁸Harper, "Selection and Training for Entrepreneurship"; David C. McClelland and David Winter, Motivating Economic Achievement (New York: Free Press, 1969); V.G. Patel and Anil Trivedi, Report of the Third Entrepreneurship Development Program (Ahmedabad, India: Gujarat Industrial Development Corporation, 1972).

⁶⁹Jackelen, "The UNO Program of Assistance."

⁷⁰pareek and Rao, Developing Entrepreneurship; Patel, "Motivation and Small Business Training."

and instructional materials for its faculty and field officers.⁷¹

The capacity to deliver training and extension services to small entrepreneurs is also made easier by the availability of mutual support groups, or solidarity associations of beneficiaries, which can include trade and manufacturing associations. Where such associations are effective (the women's group in Upper Volta or the cooperatives formed in stage two of the UNO project), they serve to reduce the costs of promoting development programs and dispensing services. These groups also may become involved in training and extension activities in their own behalf, as part of an effort to gain legitimacy and support among other potential group members.⁷²

4.2.1 Nonproject Support: Equivalents and Substitutes for Extension and Training Services

The references in the literature to small enterprises have changed over the years. An emphasis on their fragility continues, but overall assessments of these firms tend to be more differentiated. There is recognition that in many cases their owner-managers have the abilities and resources to carry on operations and even to do better when left alone. Certain social conditions and psychological dispositions, for example, have been described as sufficient to dispose some individuals toward successful business careers and to provide much of the tangible and intangible support that is needed.⁷³ Support is also provided by business experience itself; those who have had an opportunity to "learn by doing" have been found to have better chances for success. In fact, prior business activity is one of the best predictors of success for small-scale enterprises, whereas level of formal education has been found to be unrelated to success in most studies.⁷⁴ Thus, a few training programs have emphasized experience in the same or similar business skills, whether as manager, employee, or apprentice, as the strongest single reason

⁷¹Hunt, Evaluation of Small Enterprise.

⁷²Robert W. Hunt, "Business Association and the Small Manufacturing Sector in India," International Journal of Comparative Sociology, XXI, 3-4 (July-December, 1981):254-267.

⁷³David C. McClelland, The Achieving Society (New York: Free Press, 1967); Pareek and Rao, Developing Entrepreneurship; Harper, "Selection and Training for Entrepreneurship."

⁷⁴Chuta and Liedholm, Rural Non-Farm Employment.

for development agencies to provide credit, training, and extension services.⁷⁵

This does not mean that extensive, additional assistance is unnecessary. It means that the relationship between development agencies and extension agents, on the one hand, and the small-scale enterprises, on the other, may be more effective if there is recognition of what help not to offer through project activities or of how to utilize factors that have been generated by forces external to the project. To this end, some practitioners are inclined to view informal training efforts as something on which projects can build. Support for traditional apprenticeship systems, or the encouragement of them, may well be a relatively inexpensive and effective way of supporting types of training activity commonly associated with success in business.⁷⁶

Beyond the contribution that can be made by training services that are provided through apprenticeship programs, business leaders have considered at least two other means for assisting in the development of small-scale enterprise. These include efforts to establish ancillary links between large- and small-scale enterprises so that the latter have assured markets for their products, while the former can secure regular, relatively low-cost supplies of intermediate goods. Banks have been supporters of these types of programs, as have trade and manufacturing associations. The latter have in many cases also worked to create a number of consultancy services for small firms. Often they have not been very effective because of the difficulties of providing appropriate advice to a diverse body of enterprises.⁷⁷

Governments are, of course, involved in the development of extension services for small entrepreneurs. However, public regulatory policies also have important, if indirect, implications for the training and advisory needs of small-scale enterprises. Changes here, as in the case of financial policies previously discussed (see Section 4.1.3), may assist small business more than many training or extension activities. For example, the licensing procedures required for business operations in most developing countries, as well as extensive regulations regarding minimum wages, employee benefits, and the like, are major problems for small enterprises to handle. Government quotas can be

⁷⁵Patel, Innovations in Banking.

⁷⁶Chuta and Liedholm, Rural Non-Farm Employment.

⁷⁷Anwar Divechia, "The Management of Trade and Industry Associations," Indian Management XIV, 9 (September 1974):4-9ff; Hunt, "Business Associations."

of great assistance in facilitating access by entrepreneurs to critical raw materials, but they can also impose extremely difficult bargaining requirements on them. Small entrepreneurs need either a reduction in regulations or access to extension agents with brokering skills to handle these problems. In any event, government regulation is a critical determinant of the types of extension and training services needed by small businessmen and women. These political and bureaucratic influences, along with broader social factors, need to be accounted for in project decisionmaking, just as are domestic and international financial influences.

4.2.2 Conclusions on Extension and Training

The following conclusions can be drawn from this review of the evaluation literature on extension and training in small-scale enterprise development.

1. The number of years of formal education of small entrepreneurs does not relate to entrepreneurial disposition or to business success, at least in a direct way.

2. Business training courses are likely to contribute to the improvement of entrepreneurial skills and business development when the following circumstances exist:

- The trainees' firms are relatively large
- Training is integrated with other program inputs
- Trainees are personally motivated for business success

3. Essentially the same relationships exist for management advisory services. They contribute most to the stability and growth of microfirms and small firms when efforts are made to provide advice and information tailored to immediate business needs.

4. The most successful training and extension service institutions have the following characteristics:⁷⁸

- Staffs with particular sets of skills relevant for several types and sizes of enterprises served

⁷⁸These conclusions also generally apply to those credit institutions that provide a range of additional services for small entrepreneurs.

- Sources of regular information on the needs of beneficiaries and enterprises and on the relevance of the training and advice provided

5. Training and extension services for the poor are most effective when their recipients can be, or are, organized into mutual support groups. Such groupings, when effective, reduce the costs for reaching scattered small-scale enterprises and can facilitate the exchange of advisory and training services among the enterprises themselves.

4.3 Institution Building and Small-Scale Enterprise Development

In the preceding sections, we reviewed the implications of credit, extension, and training on small-scale enterprise development. We turn now to a discussion of institution building, which is a common concern of PVOs and which has strong implications for the relevance of small-scale enterprise development in meeting the needs of the poor. This is true mainly because a broadly focused concern for institutional development can assist planners and managers to avoid the discrete and static emphasis common in most small-scale enterprise projects.

There are several costs associated with those approaches to small-scale enterprise project design and evaluation that emphasize specific inputs or clusters of inputs. Such approaches can generate serious dilemmas, because the reality of settings and of beneficiary responses invariably transcend the limited focus these approaches provide. The dilemmas posed may be positive ones, as when unexpected benefits accrue through the process of project implementation. Very often, however, they are negative, and threaten basic project goals.

We have reviewed some of the dilemmas posed in credit and technical assistance projects. Do donors seek to promote employment even if it means supporting the most privileged individuals? When do the costs in social terms become too great to tolerate? If donors work instead with the poorest individuals, organized in solidarity groups, can they be certain that the losses associated with the creation of jobs (e.g., reduction in total local employment, low quality of the new jobs) will be offset by the creation of productive resources through the activation of other family interests? Can donors and recipients afford to wait if these resources only appear with later generations? What are the tradeoffs between credit and training, or is the question better asked in terms of the nature and stage of the firm's development? At a more general level, can donors reduce the vulnerability of a project directed at the poor by involving host government officials and agencies to provide financial and political support? Could this also diminish the project's inde-

pendent base for action? Can projects effectively combine beneficiary participation and efficiency? Is it even possible to increase returns to capital through organizational support for very small enterprises, given the findings on the relative economic efficiency of these firms.⁷⁹ Are there times when it would be preferable to work to change public regulatory policy rather than to provide project-type benefits?

4.3.1 Integrated Development Projects

Attempts to deal with these dilemmas have been largely responsible for the emphasis on multisectoral or integrated development projects over the past decade. Projects so defined encompass a much wider range of concerns and more beneficiaries within a larger geographic area. In contemporary small-scale enterprise projects, extension services are more clearly allied with credit programs and sometimes coordinated with the activities of private sector banking institutions. Integrated projects may include organizational components that can encompass greater attention to such aspects as the development of a board of directors or efforts to create an elaborate support network that extends to international actors. This may lead to a "checklist" approach, which monitors targeted individuals and institutions to ascertain whether the expected effects and relationships are being produced. For example, how many women are being assisted? Are invaluable or irreplaceable ecological resources being damaged? What is the effect of the project on the price of intermediate goods?

Critics of these integrated approaches to project design and evaluation admit that they represent an improvement over past efforts. However, they are viewed as still too dependent on a tradition of analysis that minimizes system-level concerns while highlighting a world of components to be adjusted in the name of change and some higher level of equilibrium.⁸⁰ These critics believe it is more appropriate to view small-scale enterprise development in terms of the institutionalization of roles and relationships, specifically those that facilitate and support productive activities by the poor in conjunction with the rest of society.

Design and evaluation based on this approach would emphasize the interaction of a large number of individuals and organiza-

⁷⁹Chuta and Liedholm, Rural Non-Farm Employment.

⁸⁰David Korton, "The Management of Social Transformation," Public Administration Review (November-December 1981):609-618; Henderson, Politics of the Solar Age.

tions, and it would perceive success in terms of sustainable linkages among individuals, enterprises, the market, the political system, and communities of residence. There would be an effort to avoid the separation of means and ends in project activity. The institutionalization of small-scale enterprise project activities involves nothing less than the development of a way for projects to coexist with, and contribute to, a system of enforceable norms supportive of sustainable change.

After further specifying what institutionalization means in the context of small-scale enterprise evaluation, we will use the concept in two ways. First, in Section 5, we will introduce a final group of activities found in the literature to be associated with small-scale enterprise development. Then, in Section 6, we will draw on the concept of institutionalization to focus an analysis of the role of PVOs in enterprise development.

The impacts and costs of small-scale enterprise projects are best assessed through an analysis of the basic inputs already discussed--credit and technical assistance. But the role of four other "participants" in this process that affect project development also need to be assessed. These include, first, the targeted entrepreneurs and the broader community in which they live, because the latter is the intended beneficiary of the economic and social changes the assisted businessmen are supposed to promote. Second are the actors and institutions making up the political and administrative system in the project locale and beyond. Included are actual and potential interest groups, indigenous and transnational, that can be sources of support for project activities. Third are the local, regional, national, and international markets for goods and services. Finally, there are the relations among project staff members, and the internal structure and processes of the field agency. The latter relationships are important for facilitating effective link-ups with external actors and agencies critical to enduring project success.

4.3.2 Conclusions on Institution Building

Providing more or less simultaneous attention to these factors, the advocates of institutionalization argue, is fundamental to the success of small-scale enterprise projects. The inclusion of these factors keeps attention clearly focused (more than usual) on the interrelated set of outcomes that small-scale enterprise projects attempt to achieve. The following propositions provide a summary and clarification of this approach to institutionalization.

1. Carefully structured project efforts to encourage backward and forward economic linkages and to generate support for

project activities from associations of beneficiaries, public regulatory and policy bodies, and other national and international development agencies, tend to create the following circumstances:

- Reduce long-term project costs despite the expenses incurred in the development of autonomous organizations
- Increase the sustainability and spread of project impacts to all sectors of the community, broadening the economic linkages of project activities and increasing the chances for a relatively equitable distribution of project benefits
- Facilitate the development of mediating networks that can protect project interests and influence social, economic, and political elites toward behaviors supportive of project goals
- Create new human resources, including managerial skills and solidarity, as well as material resources
- Encourage a more plural, representative political process (thus increasing the potential for small-scale enterprise owners to exert continuing influence on public policy)

2. These networking efforts lead to the greatest success when project and associated institutions maintain high levels of independence (autonomy) and coherence in basic goals and strategy. Autonomy and coherence for project and related institutions depend a good deal on government actions. Autonomy in particular is increased where governments are basically democratic in nature and strong supporters of small-scale enterprise projects. Project autonomy and coherence are also enhanced by efforts to develop beneficiary organizations to legitimize project goals. Other ways to increase project autonomy and coherence include the following:

- Efforts to increase the quality of internal project management and the amount of information available to that management
- Efforts to minimize the capacity of others to interfere with project operations by (a) making project benefits difficult to disaggregate and (b) making benefits as unattractive to elites as possible (through limits on loan size, types of activities supported) without destroying their utility for targeted groups
- Efforts to expand linkages to indigenous and external agencies not directly involved in project activities in

order to generate a visible, politically significant support community, capable of checking on interference by the elite

4.4 AID Evaluations and Institutionalization

Recent AID evaluations of small-scale enterprise projects indicate that there is considerable interest in the institutionalization process. The evaluations reflect an increased sensitivity to such factors as solidarity groups and processes for accommodating political elites, as well as determined efforts to see that benefits achieved by targeted entrepreneurs are linked to other local businesses. Four examples from the evaluations will be discussed below to illustrate how current small-scale enterprise development projects seek to accommodate the broader institutional and economic environment. In addition, this will provide the opportunity to examine the strategy and tactics of the PVOs that have been evaluated by AID. It will also highlight some of the successes and problems with a systems approach to development. Finally, it will reintroduce an issue central to these considerations: when and where are PVOs most effective in small-scale enterprise development activities?

4.4.1 Opportunities Industrialization Centers, International

Our first example is that of Opportunities Industrialization Centers International (OICI), an organization whose development programs feature efforts to associate influential individuals with project activities. The OICI enterprise development efforts are centered in Africa, specifically in Liberia, Sierra Leone, and Lesotho. They involve training programs of 6 weeks' duration and emphasize work with small traders and manufacturers, many of whom are women. The OICI programs are now being moved into rural areas of these countries. Training efforts in all cases are coupled with a number of vocational programs directed at those who leave school early. Thus, the training activities of the organization tend to focus on the provision of a range of skills to the least advantaged and the development of human resources capable of meeting a wide range of economic needs in the nations served.

A particularly significant aspect of their efforts, both in Africa and in the United States where their work began in the 1960s, has been their work on program institutionalization. OICI attempts to set up three policy and advisory bodies for each of the country programs--a board of directors and two advisory committees to handle questions concerning training and the economy. These bodies comprise individuals from the public and private sec-

tors with specific technical skills--especially educators and business people--and those from policymaking levels of government. Their function is to provide policy guidance, assistance in the development and updating of curricula, and assessments of economic opportunities for students, as well as to ensure that the organization gets a hearing in government circles. The impact of these policy and advisory bodies generally seems to have been a consolidation of the status of the training organization: it appears more integrally involved with national training efforts. Benefits also have accrued to students, in terms of the relevance of the training and number of commercial and vocational opportunities available to graduates. This is reflected in the unusually positive response to the course offerings by former students and a related willingness to apply lessons learned in the course.⁸¹

The aspirations of OICI for this type of institutional development differ from those of most PVOs, both in the range of activities covered and the effort made to work closely with government elites. In some ways, their activities are riskier, given the potential costs of close association with governments in volatile societies. Still, many other PVOs are working more intensively to accomplish similar ends through the development of local boards of directors. In the AID sample, for instance, both IIDI and PFP report considerable interest in the development of autonomous boards to support the credit and extension programs they have set up.

4.4.2 ACCION/International AITEC

Our second example illustrates the process of political participation and mobilization. Just as PVOs are beginning to seek an effective means for accommodating political and regulatory forces in the society and for utilizing the sources of information these sectors command, so they are recognizing the importance of drawing on the support that beneficiaries themselves can provide. In the discussions of the credit and technical assistance components of small-scale enterprise projects, the reported advantages of having well-organized associations of beneficiaries as partners in the development effort were noted. Among these are potential cost savings and improved means of reaching poorer sectors of society.

⁸¹Robert W. Hunt, The Entrepreneurship Training Program of the Lesotho Opportunities Industrialization Center: An Evaluation of Its Impact (Washington, D.C.: U.S. Agency for International Development, Office of Private and Voluntary Cooperation, June 1983).

This second example from AID evaluations relates the efforts of ACCION/International AITEC, a PVO that works extensively in Central and South America. ACCION was one of the original sponsors of the UNO project in Brazil. Its experiences there, as well as its work with microsector enterprises in Colombia and Mexico, have shaped its efforts to develop ways to better reach the poor in the informal sector of the economy. Opportunities provided by an informal sector project (PISCES) sponsored by AID gave ACCION a further chance to test ways of doing this. One result has been the adaptation of work done in El Salvador and Madras, India with solidarity groups of microentrepreneurs.

As a consequence of these experiences, ACCION has become one of the more active PVOs involved in promoting associations of beneficiaries in small-scale enterprise projects. A recent evaluation of this work suggests that solidarity groups can provide the expected benefits of mobilizing the poor and reducing costs, but it also clearly indicates that the process of creating and working with these groups is complex.⁸² Conclusions reached on the development and maintenance of group morale and commitment, particularly with respect to the repayment of loans, are similar to those suggested in theoretical studies on the mobilization of the poor.⁸³

When these groups "work," it is usually the result of careful extension efforts in which the significance of the associations is stressed repeatedly during meetings with the beneficiaries, and of various demographic characteristics, such as long-term familiarity of members with each other. But success is also the product of carefully matching incentives with beneficiary needs, something that takes a great deal of time and effort. Smaller loans that give temporary ownership of beneficiary property to the solidarity group can be particularly helpful. Combined with administrative changes that expedite second and later loans for fixed and working capital, this may not only reduce the problems of late payments but also increase the spillover effects of group activity as members stay more active.⁸⁴

Overall, there is a good deal of positive evidence on the significance of establishing beneficiary groups for projects of

⁸²Ashe, Assisting the Survival Economy.

⁸³James Downton, Rebel Leadership: Commitment and Charisma in the Revolutionary Process (New York: Free Press, 1973); Coralie Bryant and Louise White, Managing Development in the Third World (Boulder, Colorado: Westview Press, 1982).

⁸⁴Ashe, Assisting the Survival Economy.

this sort. A recent review by the Institute of Social Studies in the Hague of successful PVO activities concluded that having an organized group of the poor to deal with was one of the best guarantees of PVO success in reaching the poor.⁸⁵ As one study of the impact of rural roads in Liberia concluded, donors have to build the political (organizational) base for the poor at approximately the same time that they build other infrastructure if the poor are to benefit from the introduction of new resources.⁸⁶ It is not enough simply to set up an association of small entrepreneurs and expect that it can serve as a vehicle for change.

A study of small traders and manufacturers in India revealed that although the correlation between membership in a business association and a range of economic improvements in the enterprise was strong and could account for nearly 50 percent of the variation in success, it was strong and positive only among small businessmen and women who ranked highly on several indicators of social status.⁸⁷ The conclusion drawn in this case was that business associations (even those for small businesses) generally were dominated by, and provided benefits to, the more established members of the business community. Later studies of business associations in India have offered additional evidence in support of this conclusion.⁸⁸ However, of greatest relevance here is the support these studies provide to the ACCION conclusion about the importance of solidarity groups and mediation activities, and the reinforcement of the finding that special efforts are required to ensure that these bodies are responsive to the poor.

An even more broadly defined concern for promoting the grouping of beneficiaries can be seen in the efforts by organizations such as the Sarvodaya Shramadana in Sri Lanka. This organization was started in the late 1950s as a movement for community self-help in very poor villages. Programs in each community began with attempts to create a sense of solidarity, where possible involving Buddhist priests as leaders and symbolic sources of unity. The community-building efforts were designed to lead to community plans for a broad range of activities, including the development of business enterprise. Central to the efforts,

⁸⁵Jan van Heemst, The Role of NGOs in Development (The Hague: Institute of Social Studies, 1981).

⁸⁶Richard Cobb, Robert Hunt, Carolyn Bledsoe, Charles Vanderveen, and Robert McClosky, Rural Roads in Liberia Impact Evaluation Report No. 6 (Washington, D.C.: U.S. Agency for International Development, June 1980).

⁸⁷Hunt, "Social-Psychological Aspects."

⁸⁸Hunt, "Business Associations."

however, was the goal of having village members collectively define appropriate business activity and share in the benefits through the institution of a variety of public programs. Enterprise development was therefore considered more or less as an adjunct to community development activities. Although such goals were not always realized in practice, there were significant successes.⁸⁹

Whatever the primary stimulus for involving beneficiaries directly in enterprise promotion, the core concerns of those who do so are similar. They assume that this involvement of beneficiaries is of fundamental importance for the translation of credit and technical inputs into benefits that are fairly and inexpensively distributed and that produce outputs sustainable over time.

4.4.3 Partnership for Productivity International

A third example is provided by Partnership for Productivity International (PFP) a PVO that has begun to emphasize the creation of complementary economic relationships in the communities in which it promotes small-scale enterprise development. PFP has been involved in enterprise promotion projects since the early 1970s, beginning in East Africa and now including eight countries in Africa and Asia. Its experiences have highlighted the need to ensure that credit and technical assistance are provided in a manner supportive of economic linkages within the target community.⁹⁰

Partly as a consequence of these concerns, its small-scale enterprise project in Upper Volta has evolved into an effort to assist both the urban and rural microsectors, while at the same time working through demonstration farms to generate technologies helpful in improving agricultural production. The justification for this approach is that such activity supports rural enterprise through the generation of more purchasing power in these areas, while a more dynamic, commercial agricultural sector also provides intermediate and finished goods beneficial to area business. PFP decided to go beyond this approach through the implementation of a credit program and training operations. Its goal

⁸⁹Nandesena Ratnapala, "The Sarvodaya Movement: Self-Help Rural Development in Sri Lanka," in P. Coombes (ed.), Meeting the Basic Needs of the Rural Poor (New York: Pergamon Press, 1980) pp. 469-523; Denis Goulet, "Development as Liberation: Policy Lessons from Case Studies," World Development VII (1980):555-566.

⁹⁰PFP, Annual Report, 1982.

is to provide loans that seem likely to stimulate various complementary business lines as well as training that will serve the same purpose. The evaluation of the PFP/Upper Volta project uncovered problems in carrying out the various steps suggested by these concerns, but it also found reason for optimism in the plans PFP had for stage two of the project. There was evidence that a learning process was occurring that appears likely to contribute to efforts to create complementary linkages.⁹¹

Other means also are available for attempting to establish economic relationships. PVOs could collaborate with other organizations to assist complementary economic sectors, with each organization emphasizing the types and sizes of firms with which it has had the greatest experience. This might provide a means for "scaling up" small-scale enterprise project efforts and for achieving the broader impacts that PVOs and developing countries desire. This issue will be considered in more detail below.

4.4.4 Institute for International Development, Incorporated

A final concern that PVOs involved in small-scale enterprise activities need to emphasize is the quality and independence of indigenous field staff. Among PVOs that rank high in this regard is the Institute for International Development, Incorporated (IID). IID begins the process of setting up a credit fund with field visits by volunteer representatives who search for appropriate project locales. Among the issues raised in the preliminary work is the assumption that IID's commitment will be limited in duration and that the indigenous body will be required quite soon to secure funds from operations and other donors if the credit project is to continue.

Once the loan funds have been provided by IID and the technical assistance effort has begun, it becomes evident to project field staff that the survival and potential for expansion of the activities of the credit body depend on their own efficiency of operations and the learning of skills, including fund raising. IID works to help them develop these skills and calls on the support of local church networks to provide moral support and assistance in securing clients for the program. A central concern is institutional autonomy. The emphasis on the development of internal management processes compatible with this goal is well-developed as a part of IID's efforts. Other PVOs certainly also show concern with management issues and, in some ways, show a greater awareness of relationships affecting institutional autonomy than does IID. But IID's program for staff develop-

⁹¹Goldmark et al., Aid to Entrepreneurs.

ment demonstrates in an exemplary way the importance of this element of project institutionalization.

4.4.5 Conclusions on Institutionalization Derived From Evaluation Examples

These project examples and approaches indicate contemporary concerns for setting operations within the larger context of environmental constraints and opportunities. Most project officials would say that effective project activity requires an effort to establish compatible relationships with individuals and organizations that impinge on project operations and, most important, that it requires placing a high priority on this effort, ranking it on a level with other inputs. In this latter sense, these officials differ from those who see some need to establish a base in the external environment, but treat it as an ancillary concern. It is rare to find development professionals who deny any concern with the wider social and political environment, but many would see activities to support these concerns as secondary, or at least beyond their capabilities.

Although the PVOs discussed in these examples try to account for issues raised in more than one of the relationship categories, it is rare to find anything approaching an equivalent interest in more than one of them. OICI, for instance, has recently worked to develop an alumni association to give more representation to program graduates, although probably the major reason for the effort is to gather support for the Lesotho OICI fundraising activities. Officials from ACCION might well suggest to them the benefits of viewing the alumni association as a solidarity group, perhaps as a means for providing support in finding new trainees or in expressing the needs of the small-scale business sector to government. There are few functioning business associations in Lesotho that are responsive to the small-scale enterprise sector.⁹² A successful alumni association also could serve at some future time to limit any efforts at untoward influence from government, a type of interference that is clearly a risk OICI takes with its attempts to involve political elites closely in its activities.

Similarly, PFP's concerns for facilitating economic linkages among sectors of the economy might provide a basis for second-stage efforts by ACCION and its solidarity groups. Evidence from surveys conducted by ACCION as part of a recent evaluation suggests that many entrepreneurs would like to branch out into

⁹²Hunt, The Evaluation of Small Enterprise, and Farbman, The PISCES Studies.

related lines of activity--for example, delivery men and women who would like to start fixed retail outlets or firms to supply the goods for those involved in hauling operations.⁹³ Finally, all of these organizations might consider the suggestions originating from a conference sponsored by the Institute for Social Studies in the Hague. A common theme expressed there was that PVOs must find the broadest possible network of organizational supporters, especially in the local and international private sector. Just as beneficiary organizations can be useful for countering demands by political elites, so can the broader coalitions. The conference summary refers to these as "umbrella organizations" protective of project autonomy.⁹⁴ We turn now to a discussion of the benefits that can be gained from a more complete systems-level perspective.

5. SMALL-SCALE ENTERPRISE DEVELOPMENT FROM A SYSTEM PERSPECTIVE

Some PVO small-scale enterprise projects demonstrate unusual sensitivity to the need for a concurrent accounting, over time, for the activities of a wide range of beneficiary, political, and voluntary sector institutions. Although the extent of their activity in practice may fall short of this goal, on the whole they show considerable sensitivity to the need for systemic planning. They come close to what David Korten has in mind when he speaks of managers as responsible for systems of development activity.⁹⁵

One more point should be emphasized. More comprehensive programs such as these are not necessarily better than more limited ones. It is possible for a narrowly defined program to be comprehensive in impact and quite effective in conforming to system needs--a point that will be discussed below. What is being emphasized here is that there are small-scale enterprise development efforts that show sensitivity to the need for doing this type of work. Most also show an awareness of the need to recognize their own limits and view comprehensiveness primarily as a means for filling gaps that they perceive on the basis of system-level thinking.

Three examples will be sufficient to illustrate these arguments. One of them, the UNO project in Brazil, will be dealt with in some detail here. The enterprise development projects of

⁹³Ashe, Assisting the Survival Economy.

⁹⁴van Heemst, Role of NGOs.

⁹⁵Korton, "The Management of Social Transformation."

two other PVOs, Manila Community Services Incorporated (MCSI) and Technoserve in Kenya, will be considered more briefly to highlight additional issues.

5.1 Examples of Projects With a System Perspective

5.1.1 The UNO Project

Judith Tendler's evaluation of UNO project operations in Recife noted the strength of the institution-building thrust of this operation.⁹⁶ Although she found numerous problems with the management effort and the choice of beneficiaries, she concluded that significant steps had been taken toward the institutionalization of project activities. Successful efforts were made to build alliances with private sector interests and local political officials who supported increased assistance to the informal sector. Local political officials also were interested in protecting an important regional program from any encroachment by higher government officials. These sources of support, coupled with a careful effort by project managers to keep the project small and thus to maintain a low profile (in which they were assisted by the project's limited funds), tended to allow for the emergence of an autonomous credit institution. UNO's continued activities over the years in serving the poor with credit, while operating with limited resources, built its reputation. Its visibility and reputation, in turn, made it more difficult for anyone to interfere with its operations in a search for special favors.

This success was important in bringing the project to the attention of international donors, which subsequently led to UNO's association with the World Bank in an integrated development project for the northeastern state of Pernambuco. UNO expanded its activities significantly. However, these changes caused some concern, because they seemed to bring into question the continuation of some of those elements that had initially led to UNO's success. In particular, the careful staff work that had characterized relations between creditor and borrower in the past might be threatened by the very rapid increase in the size of activities. Additional money might well bring more intense effort by members of the elite to interfere with the lending process.

An evaluation of activities in the city of Caruaru, one of the expansion sites, suggests that UNO is building well on the base described by Tendler.⁹⁷ Successes have been reported, as

⁹⁶Tendler, Ventures in the Informal Sector.

⁹⁷Tendler, Ventures in the Informal Sector.

well, in efforts to overcome some of the problems that she noted in the management of costs and in reaching the poor. One apparent reason is the effort being made to expand activities to encompass a fuller range of the external and internal forces acting on the project. This is supported by what appears from Jackelen's analysis to be UNO's emerging strategic sense of where its activities fit overall in the development of the region.⁹⁸ The clearest indication of this is UNO's interest in the development of cooperatives and enterprise associations as a regular part of project activities. Although traditional patronage relationships still affect cooperative activities, in some settings these beneficiary groups are emerging as worthy competitors and are increasing the resources and the options of small entrepreneurs.

One of the reasons that the UNO project is able to create beneficiary institutions relatively free of domination by local elites is that it has maintained a high level of autonomy over the years. While generally supported by the national government as an effective program, and defended locally by regional interests, its acquisition of major international support also adds in some ways to its independence. If it can maintain some distance from the powerful influence of the World Bank through a continued expansion of its financial support base, it will at least approach the type of "umbrella of support" discussed at the Hague conference on nongovernmental organizations and development.⁹⁹ UNO should be able to continue to develop significant relationships with a variety of basically supportive, but independent, agencies in both the public and private sectors, nationally and internationally. To the extent that it continues to build this support base with beneficiaries, it will add perhaps the most vital component to this umbrella coalition.

From the perspective of system-building efforts, the UNO project is perhaps weakest in its concern for the economic linkage effects of its credit activities. Project lending continues to focus on helping those who come in for assistance. An applicant is judged not on his or her firm's potential for growth or the degree to which it complements others already aided, but mainly on its size. However, as other sources have shown, micro-firms may have broad and positive economic effects through family commercial activity that is hard to sort out and document. Anthropological case studies may be required to determine what the potential linkage effects are in these cases.

In any event, the UNO project has also expanded efforts in recent years to provide systematic research data on the commer-

⁹⁸Jackelen, "The UNO Program of Assistance."

⁹⁹van Heemst, Role of NGOs.

cial environment and on technologies appropriate for local business activity. The World Bank has arranged for the establishment of a local, appropriate technology research center to provide information. Additional assistance comes from neighboring academic institutions, which now provide regional economic analyses on which selection efforts can be based. To the extent that these resources affect future decisions on beneficiaries, they should increase the probability that beneficiary firms will be economically more complementary than they have been in the past.

The additions to and changes in UNO's mode of operations have served to improve the project's operational efficiency. Questions remain, however, concerning how general and enduring this effect will be. Even with other improvements, such as the increased opportunities for staff training represented by the new relations with educational and research institutions, there are problems. Although UNO project staff has had generally high morale, it remains to be seen what effect the substantial expansion of activity will have. There already seems to be considerable sensitivity among UNO/Recife staff members as a result of evidence of greater cost effectiveness and impact of the Caruaru portion of the project. This may be exacerbated by the salary differential too, because the Caruaru staff have more experience and thus receive a higher salary. These factors, together with those related to the economic linkage effects of the project, may limit UNO's current record as a "system builder." But overall, the project is emerging as a significant example of what this type of broader perspective can produce.

5.1.2 Manila Community Services, Incorporated

By way of comparison, brief reference can be made to the microenterprise development effort of Manila Community Services, Incorporated (MCSI). There are many similarities with the UNO project, particularly in the fact that lending to informal sector enterprises is based more on size than linkage potential. But there are differences as well.

MCSI depends substantially on volunteers as promoters and mediators between the lending agency and beneficiaries. These volunteers (who in fact receive some modest benefits, mainly priorities for small loans) are given limited amounts of money that they can lend for short periods. Most of these individuals are also involved in business and know both the local economy and the people requesting assistance. This combination would seem to encourage these volunteers to themselves become patrons, using the money for building their own business and increasing their influence. However, the project evaluation done by Bear and Tiller for Appropriate Technology International suggests that

this has not happened.¹⁰⁰ Perhaps the prominence gained from being part of this volunteer network, plus the opportunity to be involved in decisions that can be so important to the borrowers--when coupled with the relatively small amounts of money involved--together constitute a satisfactory check on such tendencies. On the clearly positive side, it is evident from the evaluation that the volunteers have been motivated and active in their promotional role, providing relatively low-cost outreach services for the project. They have developed effective systems of rapid assessment for finding and judging potential borrowers. Moreover, their proximity to these individuals and their businesses has helped to generate good monitoring efforts and high levels of loan repayment. The monitoring has been coupled with effective technical advice; beneficiaries report considerable satisfaction with the volunteer extension effort.¹⁰¹ It is hoped that volunteers will eventually contribute to the development of communitywide organizations of small entrepreneurs, and thus broaden and strengthen the latter's capacity for mutual support and brokerage activity. However, not much has yet been accomplished in this area.

The most important contribution in institutional terms of MCSI's efforts compared with UNO's is the relationship that MCSI has begun to develop with the Micro Industries Development Center (MIDC). MIDC is a nonprofit, nonstock company with no paid staff or regular offices. Its leadership comes, in turn, from individuals seconded from sponsoring agencies. These agencies include MCSI and other public and private small-scale enterprise promotion organizations. MIDC's purpose is to serve as catalyst and facilitator, helping with the development of skills in project design and implementation and with the diffusion of information on activities that support enterprise development. It also serves in various ways as a liaison with government agencies. Liaison activities can include arranging for subcontracting opportunities within the context of the government's development efforts, and consultations with bilateral donors on the resources available for small-scale enterprise promotion. MIDC also has been involved directly in lobbying for the interests of small business and the development agencies promoting it.

In short, MIDC has the potential to fulfill many of the "umbrella" and brokerage functions that students of development see as necessary for reaching targets such as small firms.¹⁰² Together with the contributions of MCSI's voluntary project asso-

¹⁰⁰Bear and Tiller, "The Micro-Industries."

¹⁰¹Bear and Tiller, "The Micro-Industries."

¹⁰²Guy Gran, Development by People (New York: Praeger, 1983).

ciates, it can provide the type of external support we have argued is necessary for the development of sustainable projects that benefit the poor. These projects do not approach perfection, although additional arguments on their relative merits are presented below. What is claimed is that they have shown appropriate sensitivity to the wide range of forces that impinge most decisively on enterprise project goals.

5.1.3 Technoserve

It may not be clear from these two examples that projects that accommodate this range of environmental forces are not necessarily as complex as the UNO and MCSI projects may appear to be. The argument is not for doing everything, but rather for doing enough. The projects of Technoserve in Kenya can be used to illustrate this point. We also could have used the IIDI projects in either Kenya or Honduras for this discussion. The IIDI projects place substantial emphasis on assisting the larger of the small enterprises. Technoserve also assists cooperative groups of rather large scale; often these are substantial agribusinesses, such as cattle ranches. However, Technoserve also provides consultative services for a range of organizations that provide assistance to the small business sector. Through this activity, Technoserve becomes an important source of advice, and of brokerage services with larger agencies. In this sense it resembles MIDC.

A significant role exists for PVOs in working with the larger of the small enterprises. Technoserve may, in this sense, be "filling gaps" in the system in a way similar to what UNO and its associated indigenous and international supporters are doing. This is especially true to the extent that Technoserve (and IIDI) is strategically aware of what it does best and how what it does fits into the system. Technoserve can well argue that there is a need for agencies that handle "graduate" small firms, those well beyond the microsector in size. What would add to the system-relevance of its projects would be efforts to coordinate activities with organizations serving the smallest of entrepreneurs. Organizations like Technoserve could continue to provide consultative support to these organizations and then commit themselves to assist the relatively few firms that "graduate" from these small-scale enterprise programs. Its efforts would then encourage the broader economic linkages we have been discussing. Technoserve also could accomplish this with more aggressive efforts to link its firms with those in the informal sector. Technoserve, and similar organizations, could subsequently become a portion of the "umbrella" of support for smaller firms and their donor organizations.

5.2 Justification for System-Level Concerns in Enterprise Development Efforts

The evidence suggesting that the projects discussed above are somehow superior to those that do not attend to the same range of issues has been limited. Some of it, at least by inference, has been negative. Most development practitioners are well aware of projects that have failed to meet their goals after governments changed policies or were overthrown in a coup. There is ample opportunity to study small-scale enterprise programs that were aimed at mobilizing the poor but which ended up bringing unexpected benefits to the prosperous. Also common are situations in which the commercialization of a community's economic processes contributes less to the stimulation of local entrepreneurship than to new patronage relationships that retard creative potential.¹⁰³ These add costs that would be judged as intolerable in light of project goals, if they were commonly calculated in some form. However, because they normally have been perceived as outside the area of control of project officials, they have not been regarded as factors to be monitored and confronted. The fact that many enterprise development projects are now dealing with them suggests that a larger range of previously external factors are now being taken as integral to project activity. These factors are now considered to influence not only the way a project fits in its setting, but also how well its managers can handle the day-to-day activities associated with the promotion of firms and entrepreneurs.

6. THE ROLE OF PVOs IN THE PROMOTION OF SMALL-SCALE ENTERPRISE DEVELOPMENT

What then can we conclude from the evaluations and other materials about the role of PVOs in the development of business enterprise? Is the evidence sufficient to provide some insights into the comparative advantages of these organizations? Are they likely to be particularly helpful in resolving some of the dilemmas, sketched throughout this study, relating to the apparent tradeoffs among project alternatives? To a considerable extent the conclusions offered here are suggested in the preceding discussion but merit summary restatement.

1. Efforts to find matches between types of PVOs and types of enterprise projects may be in vain. What is critical in a given situation is whether a match is made between inputs and the development requirements of the project setting. Are the typical

¹⁰³Gamer, The Developing Nations.

"gaps" (in the development of, and relations among, entrepreneurs, firms, and the wider political economy) filled? Does the PVO see how what it does completes the process of filling the gaps, and what companion efforts are required? More specifically, it is important to consider whether project supports are geared to allow the following:

- Improvement of business operations, especially among the poor, and establishment and strengthening of links to other local businesses
- Development of new business skills by entrepreneurs
- Linkages among small-scale enterprises to facilitate effective bargaining coalitions and to provide mutual support in project-related activities
- Establishment of supportive relations with political and administrative elites

2. This matchmaking is in large measure synonymous with what can be called "entrepreneurial behavior," in the sense that it places a premium on seeing what is missing in a production function and providing it. It also requires knowing what is unessential and avoiding it. It appears that where PVOs are capable of this type of gap-filling, they are most likely to be effective.

This means that reputed PVO advantages may or may not be important. On the one hand, large, relatively technical and non-participatory organizations may still handle the entrepreneurial function very well if they can gather intelligence sufficient to find a place for their activity in a larger project network. Reaching the poor is necessary for reasons both of equity and the establishment of an integrated economy, but not all sponsoring organizations have to be associated with the formation of solidarity groups.

On the other hand, the most commonly presumed (if not proven) advantages of private voluntary organizations seem to be quite helpful for the type of entrepreneurial activity required in the majority of development settings. It is necessary not only to fit in, but also to assist in the creation of agencies with which activities can be shared and coordinated. The availability of motivated staff, willing to spend long periods in the project area, would seem to be particularly compatible with entrepreneurial project design and implementation. The relatively small amounts of money available to these projects should encourage reliance on beneficiaries for basic research and tactical information. Beneficiaries are likely sources of meaningful intelligence on gaps in the project setting, which organizations with staying power can use. These attributes should be

helpful for many situations faced by voluntary associations. The training of PVO staff in concepts of development that stress interrelationships and institutional concerns should make it possible for them to make the best use of these development resources.

3. These points also suggest that PVO project successes are not a function of a particular characteristic or action--as usually defined. For instance, although a concern for participation is necessary, the amount and range of involvement depends very much on the participatory gaps in the setting. Where little or no opportunity exists for beneficiary firms to express their policy concerns or work free of inequitable patronage networks, a participatory component needs to be stressed. Alternatively, when the poor cannot be organized without generating dangerous responses by the elite (a rarer event than most would think), it is possible to reduce the incentives for members of the elite to secure project benefits for themselves. As has already been mentioned, this can be achieved through stringent limits on size of loans, lending for economic activities in traditionally low-status activities, and the like.

In addition, in situations where a base has been built by others, PVOs with special skills in working with "graduate" firms may usefully contribute to a more participatory political economy by aiding the larger of the small firms to serve as bridges between the microsector and the industrial sector. In such cases, there is less reason to become involved in the organizing of beneficiary activities. Businessmen and women at this level may well have trade associations to represent them, and institutional support efforts could focus on offering training for the professional staff in these organizations.

A related point can be made about concerns for innovativeness. It has been argued that PVOs with fewer bureaucratic constraints and motivated staff tend to be more innovative. However, in light of the arguments presented here, even the one-hundredth replication of a tired project package could be a creative act. What is significant is whether it supplies the missing piece that will make it possible for a project to generate business and to adapt to its beneficiaries and their environment. Totally new ideas that produce excellent results, but which are not congruent with system-level needs or processes, are very likely to be regarded as less valuable.

It is clear that the broadly social or institution-building approach described here is increasingly important for many PVOs. Such activity should be fruitful, presenting extraordinary opportunities for new global linkages (e.g., more elaborate PVO networks, PVO-multinational corporation collaborations). These should further facilitate attempts to tie enterprise promotion to more ambitious development efforts. Successes in these ventures

will require some of what psychologists call "tolerance for ambiguity." Indeed, few answers will be clear or easily quantifiable, although there will be every reason to consider economic costs of alternative strategies. But the concept of costs and benefits would need to be broadened to encompass more than discrete economic and social indicators; it should also be able to indicate how the larger system of human relationships in a community of beneficiaries is evolving.

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