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MANAGEMENT TRAINING FOR SMALL AND MEDIUM-SCALE ENTERPRISE DEVELOPMENT

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OAN-0699-C-00-2088-00

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for
Division of Employment and Small Enterprise
Office of Rural and Institutional Development
Bureau for Science and Technology
U.S. Agency for International Development
Washington, D.C. 20523
1983

INTRODUCTORY NOTE

In its effort to support vocational and management training, AID's Office of Rural and Institutional Development (Bureau for Science and Technology) contracted with Creative Associates, Inc. to:

- identify AID mission and regional bureau anticipated needs for information on and assistance with current and future programming in the areas of vocational and occupational training;

- prepare three background papers on pertinent issues related to future program development; and

- propose a set of action alternatives and recommendations for future programming efforts in the areas of vocational and occupational education.

The present paper, "Management Training for Small and Medium-Scale Enterprise Development" is one of three focused analytical papers prepared under the contract. The paper, which is written with AID-field staff as the intended audience, has been prepared for Creative Associates by George P. Butler, Partnership for Productivity International.

Creative Associates, Inc. wishes to thank those who served as reviewers for Mr. Butler's paper: Allan Broehl, David Levinthal, and Bruce Reinhart, AID/Washington; and Robert Young, ST/RD Project Officer.

EXECUTIVE SUMMARY

The recent emphasis in American foreign aid on private sector growth means that development officers will be increasingly involved in designing, implementing, and evaluating small and medium-scale enterprise (SME) assistance interventions in Third World countries. AID field staff can benefit from lessons learned from a wide variety of interventions aimed at strengthening third world SMEs during the last two decades. One such lesson is that business management training and consultation is not a simple matter of technology transfer. Target entrepreneurs face constraints ranging from their own cultural perception of themselves, to limited capacity to absorb training, to political climates which are unfavorable to the growth of SME sectors.

There is, nevertheless, reason for encouragement. Many small and medium-scale entrepreneurs in LDCs are hard-working and resourceful enough to have survived neglect, severe economic recessions, and constraints imposed by centralized government controls and elitist societies. Many are sufficiently motivated to respond constructively to uncomplicated management training and consultation tailored to their needs and administered in an atmosphere of mutual respect and trust.

Programs providing SME management training and consultancy in LDCs should involve target entrepreneurs in the process of identifying needs, designing program content, and developing training strategies and delivery systems. Insofar as possible, target entrepreneurs should be encouraged to form their own associations to provide the services they need and to gain a stronger voice in government policy decisions affecting the climate for SME growth.

Management training may be administered alone, or it may be one component of a multi-faceted intervention including technical, financial, and marketing assistance. No matter how the intervention is organized, the objective of management training is to enable entrepreneurs to make productive use of resources available to them.

When evaluating management training and consultancy interventions, it is vital to have reliable baseline data. Indicators selected to measure progress and cost effectiveness should reflect both the progress of target enterprises and the indirect impacts of the intervention. The latter are best measured through an examination of the linkages between SMEs assisted and larger-scale agricultural, industrial, and commercial productivity and community development.

Delivery of appropriate management training and consultation to small-scale rural entrepreneurs may require long time periods and be expensive. Therefore, SME interventions should be designed with economy of scale. Interventions should assist reasonable numbers of SMEs at locations where they are clustered so that managers can be trained in groups. And, SMEs selected for assistance should be those most likely to benefit therefrom.

Because SME management training is people training, every aspect of an intervention should be designed and administered to make target entrepreneurs more self-reliant as individuals. Programs with unrealistic goals which deliver too much assistance in too short a time tend to create dependency and erode self-reliance.

ACRONYMS

PVO = Private Voluntary Organization
LDC = Less Developed Country
SME = Small and Medium-Scale Enterprise
PRE = Bureau for Private Enterprise (AID)
AID = Agency for International Development
SSE = Small-Scale Enterprise
SBA = Small Business Administration (USA)
ILO = International Labour Office

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Introduction

With increasing frequency, AID is being requested to identify, design, and implement projects to help less developed countries (LDCs) increase the contribution of small and medium-scale enterprise (SMEs) to the achievement of national socio-economic objectives. A policy memorandum for AID's Bureau for Private Enterprise describes the goal of the Agency's new initiative: "...It is to foster the growth of productive, self-sustaining income and job-producing private sectors in developing countries using the financial, technological, and management expertise of the U.S. private business community, indigenous resources, multilateral institutions, and Agency resources, where appropriate" (McPherson, 1982: 1).

Implementation of this initiative requires specific skills and a thorough understanding of the management training needs of LDC entrepreneurs. For many members of the development community, working with SME entrepreneurs to bring about effective, long-term rural and urban economic development may be a new experience.

The purpose of this paper is to provide AID and contractor staff involved in private sector development for the first time with an overview of the state of management training for small and medium enterprise development. The paper discusses the problems and constraints impinging on small enterprise development; what has been tried and how it has worked or failed; and what is involved in identifying, designing, and implementing the management training and consultation components of SME development projects.

Past Experience

Recent attempts have been made to summarize and evaluate the lessons learned from 20 years of SME interventions implemented by a variety of agencies using a wide spectrum of project designs and strategies (Hunt 1983; Goldmark and Rosengard 1981; and Beardsley 1979). Some principles have been common to projects which have been successful; and conversely, the same principles have been overlooked in projects which have encountered serious problems. These principles are:

- artisans and traders selected for assistance should be those with appropriate entrepreneurial motivation, or those in whom such motivation can be developed (as opposed to those who are traditionally bound to a type and size of operation which they feel no need to improve);

- training and consultation must be geared to the sophistication and absorptive capacity of beneficiaries;

- assistance projects should consider the personal needs and aspirations of target beneficiaries;

- projects to assist small business should not be isolated, but rather should be designed in the light of many linkages which tie SME growth to community development (for example, use of improved agricultural practices creates demand and purchasing power for farm implements and related services provided by local SMEs);

- in order to create sustainable benefits, SME projects must bring together favorable individual, social, political, and environmental factors; and

- there is a need for accurate measurement of SME project impact, which entails collection of baseline data on beneficiaries and control groups, development of reliable indicators, continuous analysis, progress measurement, evaluation, and documentation thereof. Based on existing literature it appears that the development community still has much to learn about how to design, implement, and evaluate SME assistance interventions.

Although there is widespread agreement in the international aid community concerning the potential major contribution SMEs can make to the development process, there have been fewer projects designed to increase productivity of SME sectors than one might imagine. These sectors have been neglected for several reasons, four of which are described below.

In the past, it has been easier to get public support for efforts to help farmers and to improve the social and educational amenities of the rural and urban poor than it has been to get support for SMEs. The word "entrepreneur" suggests a self-reliant individual who does not need assistance, and, in fact, may be enjoying more than a just share of whatever wealth is available. Furthermore, private sector entrepreneurs, however small in scale, have been controversial target groups for development assistance because they could not be readily categorized into mandated beneficiary groups.

Secondly, because SME development projects usually involve a wider range of inputs than one agency can provide, they require complex, inter-agency collaboration which is difficult to organize and manage. In some cases, indecision between agencies as to which one is responsible has delayed SME project design and start-up. According to the president of PACT (Private Agencies Collaborating Together), there has been considerable resistance from member agencies asked by PACT to participate in apparently logical collaborations. PVOs were reluctant to subordinate their public image and autonomy.

A third reason for neglect has been the lack of host government acceptance and support for SME development projects. Too often, the host government's promised support has not materialized. In LDCs, government fulfillment of policy level promises to support SME projects has been frustrated by elite pressure groups protecting their own business interests. In some of the poorest, least stable, and most dependent LDCs, funds and resources pledged by government to support donor-designed SME development interventions have been diverted without notice to other public sector expansion.

Finally, interventions to upgrade SME sectors have sometimes been more expensive than anticipated, less successful than projected, and more apt to create project dependency than to stimulate self-generating progress. Some may disagree with the assessment that results have not generally justified project costs. The directors of AID, World Bank, UNDP, UNIDO, and other bilateral aid agencies have stated the need for more clear-cut evaluation data. Appraisals of SME development projects range from cautiously non-commital to generally negative. SME projects, especially in Africa, have experienced budget overruns, extensions into phases not originally anticipated, need for revolving loan funds to be replenished, and, in some instances, critical needs for unforeseen emergency inputs.

In spite of these shortcomings, two decades of experience in implementing and evaluating a small number, but wide variety, of SME development projects should lead to improved approaches, more relevant project designs, and economically justifiable results. Although the state-of-the-art might be termed embryonic, there is justification for encouragement.

New Directions

Future success of SME projects requires that project developers focus on the unique characteristics of the target audience (entrepreneurs) and develop a better understanding of the factors and conditions influencing the design of SME projects.

The real entrepreneur is inclined to be self-reliant, and will react negatively to being forced or enticed into a dependent role. To illustrate, one of the most comprehensive SME development projects ever implemented was the Small Enterprise Development Center in Eastern Nigeria (1964-1969). The Government of Nigeria, Government of the Netherlands, UNDP, Peace Corps, and Ford Foundation all participated in this AID-directed, multi-agency intervention. The project's main focus was the development of assistance packages for different enterprise classifications. In particular, the package for automotive repair shops included funds for the installation of grease pits to facilitate working on vehicle undercarriages.

One promising workshop owner from the town of Owerri surprisingly refused the package, insisting that he wanted a hydraulic lift which cost twenty times the cost of the pit. He thereby eliminated himself as a project client and was left on his own to come to his senses and accept the project package. Two years later, this entrepreneur invited the project director to accompany him to Owerri to see his enterprise. A mile outside the town he stopped and asked the director to look at Owerri's skyline and describe what he saw. The director observed that the most eye-catching sight was a pick-up truck on top of a hydraulic lift fully one meter above the building rooftops. "You see," said the repair shop owner, "everyone sees what you see and knows who is the best mechanic in town."

In LDCs, factors and conditions influencing SME project design are varied, and in general, unrelated to existing conditions in industrialized countries. Development officers who have not had relevant experience need foreknowledge in order to cope. Without some prior exposure, it may be difficult to believe that profit motivation is a relatively minor incentive to many LDC entrepreneurs. How many development officers designing their first SME project would know that some LDC entrepreneurs who obtain money from project loan schemes, and fail to repay it, may be following the dictates of a code in which repayment is a transgression and a sign of moral weakness?

In one project, a Liberian furniture maker borrowed $1,200 from an AID-funded loan scheme to improve his workshop and buy tools. The day that the fifth monthly $110 repayment was due, he was prepared to repay. That morning his daughter, a sophomore at Cuttington College, was sent home for non-payment of a $95 tuition fee. The entrepreneur had been an alert participant in evening management training sessions which hammered home the point that a businessman's good credit reputation was his most valuable asset. He had to decide between damaging that reputation or interrupting his daughter's education. In his milieu, a college graduate daughter was equivalent to life-time family security. To the entrepreneur, the AID-financed loan scheme was another manifestation of limitless American wealth.

Whatever the entrepreneur's decision, awareness of what led to it will make an intervention more effective. This paper does not try to be a "how to" manual for the management training of small and medium entrepreneurs. It suggests guidelines for planning and implementing management training activities. The suggestions offered are more pragmatic than theoretical and are oriented toward developing an understanding of the limitations in the absorptive capacity of target group entrepreneurs, in project funding, and in the outreach potential for delivering training and consultation to large numbers of SMEs.

As with any development intervention, design relates to a defined target group. Success, however, will relate to how well the project performs the task of delivering relevant services to that target group.

The Target for SME Management Training

Entrepreneurs in LDCs are similar to entrepreneurs the world over in one respect. They prefer the risk involved in relying on their own initiative to the security inherent in wage earning. Despite comprehensive briefing, SME development project personnel exposed to LDCs for the first time are surprised that the enterprises are so small. A small business, as defined by the U.S. Small Business Administration (SBA), would be a large business in most LDCs.

In LDCs the majority of SMEs are engaged in:

a) retail trading (market vendors; provision storekeepers; sellers of artifacts, farm equipment, cosmetics, books, and stationery);

b) clothing manufacturing (tailors, seamstresses);

c) food processing (millers, bakers, butchers, caterers, cook shop operators, distillers);

d) construction contracting (masons, carpenters, roofers, pipe fitters, earthworks contractors, road builders and maintainers);

e) transportation (taxi operators, truckers, hand carters, animal traction carters);

f) vehicle, mechanical, and tire repair;

g) furniture and wood product manufacturing (including sawmilling and charcoal production);

h) metalworking (blacksmiths, welders, sheet metal workers, founders);

i) leather tanning and working (including shoemakers and fabricators of synthetic leather products);

j) handcraft artisanry (weavers, potters, carvers, dyers, jewelers);

k) miscellaneous services (barbers; hair dressers; private enterprise trade school operators; accountants and auditors; money lenders; bar, disco, and hotel keepers); or

l) miscellaneous manufacturing (building materials, soap, household utensils, mattresses, fishing equipment, sacks and other containers).

For the purpose of designing relevant assistance projects, SMEs can be divided into categories which have common characteristics and needs. Estimates made of average net worth, turnover, and number of employees are not based on limited observation. There will, of course, be exceptions.

Micro-Artisanal, Craft, and Technical Service Enterprises

This category includes all of the enterprises built around the artisanal skill of an individual or a small group. The net worth of these enterprises ranges from $100,000 in the case of some auto mechanics with moderately equipped workshops to $30 in the case of a Sahel harness maker with a few leather working tools and a rented stall in a rural market. Annual turnover may be as much as $50,000 and as little as $1,000 ($3 per day). The vast majority are self-employed individuals, i.e., one-person enterprises. Many have only one or two helpers or apprentices, while some have four or five. A few, such as building contractors, occasionally employ as many as fifty workers at a given time.

Enterprises in this category are usually classified as informal. That is, they operate outside of regulatory systems (unregistered, unlicensed, untaxed, and generally excluded from business and industrial censuses) as opposed to the formal or those which adhere to government regulations. Most small-scale rural enterprises are in the informal category. Goldmark and Rosengard (1981: 11), in their comprehensive SME project evaluations prepared for AID, use an International Labour Office (ILO) classification system. In it, the informal enterprise sector is characterized by:

- ease of entry;
- reliance on indigenous resources;
- family ownership;
- use of skills acquired outside the formal education system;
- competitiveness;
- lack of regulations; and
- employment of less than three individuals.

In addition, Goldmark and Rosengard report that informal enterprise is often not intended to be self-sustaining, but rather a series of temporary activities engaged in when additional family income is needed.

In an Accion International case study of SMEs in Brazil, Jackelen (1982: 26) attempts a profile of the typical micro-entrepreneur. His profile is similar to that of the ILO which is based on surveys in nine African, South American, and Asian informal enterprise concentrations. A composite of these and other profile attempts depicts an entrepreneur over 25 years old with a family; having only menial job experience and little education (6th grade); being a migrant, meaning that the site of his/her enterprise is not the owner's birthplace; engaged in a labor intensive activity built around a skill acquired from a relative; hardworking; and reasonably skillful. In addition, the entrepreneur is viewed as being motivated more by a desire to gain respect for his/her skill and earn a living than by desire to convert business management ability into profit; given to working long hours, seven days a week; unimpressed by arguments in favor of record keeping which he/she regards as irrelevant; concurrently engaged in subsistence agriculture (if rural); and having had some past experience which has made him/her deeply suspicious of government regulation or census taking and cynical about interventions presented as efforts to assist him/her. These characteristics are quite similiar to those identified by the Loan and Advice team of the AID-financed Mellassine Integrated Development Project in their study of 450 business owners in a South Tunis slum (Creative Associates, 1982).

Small-Scale Service, Retail, and Family Enterprises

This category is composed of small-scale professional and semi-professional entrepreneurs operating accountancy, consultancy, public relations, and marketing firms. It also includes private sector health clinics; secretarial, trade, and literacy schools; cook shops, hotels, and bars; street vendors and retailers. Net worth may be as much as $100,000 in the case of a hotel keeper and as little as $50 in the case of a small bookkeeping service. Most enterprises in this category require very little, or no investment in fixed assets.

Annual turnover ranges from $150,000 in the case of a general merchandise retailer down to $1,500 for a rural clinic operated by an individual with paramedical training. Average number of employees is estimated to be between two and three.

Some of the larger and urban enterprises in this category are formal, meaning registered, licensed, and tax paying. Rural enterprises in this category tend to be in the informal sector. Service and retail entrepreneurs, whether formal or informal, are more apt than artisans to have attended six or more years of school. As a result, they tend to be more literate and have less difficulty dealing with customers and suppliers. Many are street-wise andtruly entrepreneurial in their ability to convert almost any situation into an opportunity to make money.

Medium-Scale Enterprises

Medium-scale, indigenous private enterprises in less developed countries are engaged in producing, manufacturing, processing, transporting, providing technical services, and retailing. There are some, but very few, engaged in the importing, wholesaling, and exporting, all areas usually dominated by foreigners or parastatal corporations. Also in the medium-scale category are some production and marketing agricultural cooperatives, many of which are cooperatives in name only. Instead of being managed by consensus of the members, they are managed by government or parastatal appointed authorities.

In the U.S., third world medium-scale enterprises would be classified as small businesses. In LDCs, and for the purpose of designing management training, they are usually medium-scale. Investment and annual turnover exceeds $100,000. The number of employees probably exceeds five and is estimated to average between fifteen and twenty. A few will have more than 100 employees, or members, in the case of cooperatives.

For the purpose of designing interventions, medium-scale enterprises should be separated from micro-artisanal and small-scale enterprises. Medium-scale enterprises are often employers of skilled management and workers, and may be registered, licensed, taxed, and regulated. Some enjoy government initiated investment incentives such as start-up tax, import-duty relief, and protection from foreign competition. In general, medium-scale enterprises have proven quite capable in responding to more sophisticated interventions than small-scale enterprises.

SME Characteristics

Characteristics of SMEs and profiles of their owners would be too general to be useful if they embraced the entire spectrum of sizes, classifications, and owner characteristics. For example, staff of Accion International/Aitec observed that the total reliance of urban micro-entrepreneurs on business earnings for food and shelter (i.e. family survival) made them more willing to pay for training than their rural counterparts, who farmed for survival and engaged in business on the side. A YWCA program in Liberia designed to assist women in organizing their collective craft skills into an income-generating business society had to consider child care needs and homemaking responsibilities which limited each woman's business activity to four hours a day. Women business administration students at the University of Lagos were found by a New York University business education advisor to have more appreciation of the need for accounting, and to have a higher level of accounting aptitude than male students. He attributed this to the traditional experience young Yoruba girls acquired while engaged in petty trading in the market. Their mothers demanded an accurate accounting of items sold and cash received.

General consensus is that the majority of entrepreneurs comprising SME sectors in LDCs will respond constructively to management training and uncomplicated forms of direct assistance, if the project has established a relationship of trust with its target group. Recent evaluations suggest that it may be critical to keep project inputs in line with the target group's absorptive capacity in order to avoid placing entrepreneurs into positions of dependency. Project experience has shown that loss of self-esteem and initiative are by-products of dependency. To achieve the correct balance between inputs and absorptive capacity, indepth knowledge of target group entrepreneurs, their constraints, their needs, and their personal aspirations is essential.

Approach to Management Training Interventions

Extensive documentation exists on SME management training needs. AID's Policy Paper on Private Enterprise (1982: 89) states that "...emphasis will be on intensive management training for the private sector." A Burkholder Wallender International report (1982: 19) confirms the need for management training as the result of an LDC survey which indicated that in five research studies, lack of management experience and capability headed the list of factors inhibiting (SME) development. Steel, in his research in LDCs (1978: 12), also found that "...most business owners have a background in their trade, not in business. Thus, small-scale business owners, who typically manage all phases of the operation, often know little about the proper management of their enterprise."

No matter how the activity is set in motion, an AID and/or development contractor staff member may become responsible for the identification, design, and implementation of an SME management training intervention. That staff member's approach can be a vital factor in whether the design is relevant, whether the project gets approved, and whether eventual implementation is successful. If typical of Americans engaged in overseas development, the staff member responsible for the intervention will not have business management experience. For this reason, the soundest attitude to adopt in approaching the responsibility is to discard prejudgements and keep an open mind.

On Being an American Development Officer

In a cover letter attached to a recent AID Policy Paper quoted earlier in this paper, McPherson specifies that AID's private sector initiative in developing countries should use the financial, technological, and management expertise of the United States private sector. This strategy, no doubt workable in promotion of large-scale multinational and international ventures, may have a number of difficulties to overcome when applied to the development of SMEs in LDCs. Management expertise from industrialized countries can be overqualified, impersonal, controller-oriented, or too sophisticated to have real relevance when transferred and applied to SME management in LDCs.

In the early 1960s, when AID and major foundations started experimental projects to increase SME productivity in developing countries, many project officers were recruited because they had graduate degrees in business administration or economics. However, the gap between their level of academic expertise and the needs of SMEs in LDCs was difficult to bridge.

While some project officers were conceptualizing computerized record keeping, automated production, aggressive advertising, cash-flow projections, and problem-solving seminars, target group entrepreneurs were concerned with problems of preventing local elites from using services and refusing to pay; where to get a replacement pulley for the grain mill; or what to do about the village's only skilled mechanic's drinking problem. It often evolved that a Peace Corps Volunteer who had worked summers in his uncle's bicyle shop could establish closer rapport and a more productive advisory relationship with a small-scale entrepreneur than could his supervisor.

The principal advantage that Americans have over other nationalities with respect to SME interventions is that they have had indepth exposure, in the U.S., to a society in which private enterprise is pervasive and respected. Asians and Africans who visit the U.S. on travel and study grants are amazed when they learn that electricity, gas, railroad transportation, telephone communication, and garbage collection are provided by private enterprises. Americans also have a better understanding than other nationals of why parastatal enterprises tend to be expensive to operate, and sometimes inefficient.

While American development officers may be dedicated to the overall goal of SME management training, e.g. strengthening the SME sector, they also may be prone to a number of prejudgements and conditioned reflexes which can influence their thinking. For example, one prejudgement may be the concept that profit is the 'bottom-line' motivation and measure of entrepreneurial success. In LDCs, community recognition and contribution to village welfare are often primary motivations and more relevant measures of success. Profit is regarded by many micro-entrepreneurs as necessary only for the survival of the entrepreneur and his family. In LDCs emerging from national socialism, operating a profitable enterprise (one which generates more income than the owner requires to subsist at the same level as other villagers) can be a threat to the entrepreneur's community acceptance.

Commitment to Simplification

Simplification of vocabulary, forms, procedures, technologies, training methods, management principles, training session content, visual aids, and advice should always be a goal in SME interventions. The very concept of free enterprise may be new to target group entrepreneurs. Many Liberian artisans/

entrepreneurs, for example, do not perceive themselves as entrepreneurs. They see themselves as rural farmers with skills which they can use to produce something that other villagers need. For this reason, SME interventions have stressed the principles of free enterprise so that participants have grown to accept themselves as businessmen. During initial management training sessions, micro-entrepreneurs often have revealed that they believed business to be a category of activity reserved exclusively for foreigners.

The management training officer who talks about "amortizing investment" or "advertising" or "reinvesting in expansion" may lose many SME audiences. The trainer dedicated to simplification works out ways to convey the same thoughts: amortizing investment becomes "get back the money you spent to start this workshop;" advertising becomes "tell farmers that you make wheelbarrows right here in the village and that you sell them for $22 each;" reinvestment in expansion becomes "keep some of the money you get so you can buy the cement and lumber you need to make your shop bigger."

Projecting Achievable (Modest) Results

Many SME development project papers forecast results which appear achievable, and, in fact, may have been projected because they represent the minimum needed to meet economic justification criteria. The rate of achievement will parallel the absorptive capacity of the entrepreneurs receiving management training. Because rapid increases in productivity are technologically possible does not mean that they are achievable. It frequently happens that an SME project's efforts to meet its increased production goals, and thereby become eligible for continued funding, result in a trade-off which has negative long-term impact. In order to meet projected goals, the project provides management assistance at a rate which almost amounts to project takeover of client enterprises. The resulting disassociation of entrepreneurs from responsibility for their own destiny may have later repercussions in the form of a trend away from self-generating development toward long-term dependency.

Keeping the Long-Term Objective Paramount

A recent AID Policy Paper on recurrent costs notes that "The recent decision to extend life-of-project funding to ten years makes more realistic the length of time needed for a project to move from its development phase to an ongoing, revenue generating project which will generate as much recurrent finance as it will recurrent expenditure" (AID, Recurrent Costs, 1982: 18). In approaching an SME development project, it is important to keep the long-term objective, self-generating SME progress, firmly in mind. Each project component must eventually be provided and paid for by the beneficiaries. The more extensive and expensive the initial project components, the more difficult becomes the task of transferring responsibility for their implementation and cost to the recipient.

In designing a management training component, efforts to stimulate formation of entrepreneurial associations which have the potential to charge membership fees and tuition so as to encourage self-financing should be considered early. After such an association becomes self-supporting, it may benefit from foreign expertise in order to maintain an influx of new ideas. And, it is not unreasonable to expect target groups to pay the real cost of this management training expertise.

Planning the Pilot Phase

One approach to avoiding early commitment to a massive intervention which, once started, is almost impossible to roll back, is the pilot phase. A project pilot phase starting with a management training component can be inexpensive in comparison with the amount that can be learned from it. Feedback from trainees can be used to establish the priority among project components more clearly than a design team could using short-term exposure as the basis for its conclusions.

For example, the Partnership for Productivity (PfP) Small Enterprise Development project in western Kenya started with a planned pilot phase consisting of a single management trainer/consultant. After a year of close association with SMEs, other components which the target group requested were added. A technical consultant was added, then came a loan fund, an accounting advisor, a legal advisor, and a marketing specialist. Then, an extension service which could enlist the help of any specialist to assist with specific client problems was put in place. Three years later, the government added a combined technical training center/industrial estate. The project, which was started in 1969, is still ongoing. It has become a national, rather than regional, project totally staffed by Kenyans and largely financed by the Government of Kenya.

Establishing Relationships of Mutual Trust

No development project will accomplish its objectives if it does not establish a constructive relationship of mutual trust and respect between project personnel, the project itself, and the SME target group. The foundation for such a relationship starts with the project design and, if successful, manifests itself in the form of high levels of attendance at management training sessions and acceptance of project advice and consultation. Guidelines suggest that constructive relationships depend on target groups clearly understanding what the project can and cannot offer clients.

Nothing affects project/client relations more than unrealistic expectations. It is easy for target group entrepreneurs to turn references to possible project offerings into guarantees of immediate and generous assistance. Therefore, it takes sensitivity, patience, and firmness to avoid raising false expectations. Project/client rapport will be sound if:

- clients believe the project will be for their benefit,
- they have a voice in its design and implementation, and
- the project does not become a channel for the flow of privileged information to government departments, such as internal revenue.

In the project planning phase, it is also good practice to start building relationships of mutual trust with local government, larger-scale enterprises, bankers and major suppliers, and with representatives of assistance agencies. The best way to get off on the right foot is to seek advice and counsel on project design from officials in these categories before the project begins and to let them know when their advice or counsel has influenced project design. Soliciting promises for participation or contributions before the project is underway may lead to hostility because officials are fearful of making conditional commitments. If the project design officers are sensitive to these constraints, they may be pleasantly surprised at the amount of cooperation offered voluntarily.

Recommendations for Development Officers

The recommendations which follow are addressed to development officers who are involved in the design, implementation, and evaluation of small and medium-scale enterprise (SME) interventions:

1. Read a representative selection of reports and analytical papers on SME development experience, giving special attention to the management training components.

2. Personally visit a cross section of SMEs in the project area to acquire a visual picture of their size, technical and managerial sophistication, and daily operational characteristics. Talk in some depth to entrepreneurs and SME managers in order to learn their perception of themselves and to estimate what level of management training and consultation will be relevant to their capacity to absorb and apply what they learn.

3. Research host government policies, and the regional administration of these policies in order to assess the climate for SME growth. This research will also identify significant constraints which may have to be dealt with as a prerequisite for the assistance project to have a chance for success.

4. Identify and evaluate the relevance of existing sources of managerial education and training available to target SMEs in order to avoid unnecessary duplication of any resource already in place and functional.

5. Recognize that administration of SME management training and consultation requires specialized and experienced personnel who can select relevant training content and materials and tailor them to a specific target group.

6. Interview individuals who have managed the implementation of SME interventions, giving attention to methods used to cultivate mutual respect and trust between the assistance project and beneficiaries.

7. Be careful not to raise expectations which may not be fulfilled and which consequently may impair the relationship between the project and intended beneficiaries.

8. Define the roll of SMEs in community and regional development, identifying linkages between SMEs and other sectors.

9. Keep in mind that whatever training and consultation the project delivers must eventually be organized and provided by the SMEs themselves, or by the SMEs via a voluntary or government-sanctioned association.

10. Insist on a methodical project start-up with provision for the collection of reliable baseline data and frequent measurement and analysis of progress.

Field Study, Research, and Analysis

Prior to the actual design of management training content and delivery systems, considerable research and field study of target group enterprises and their managers is needed. This research should be directed at developing:

- a census of target area SMEs which includes data on:
  - size and operating characteristics,
  - profile of owners and managers,
  - perceived growth constraints, and
  - economic and social environment.

- an analysis of data.

- possible separation of medium and small-scale enterprises for management training.

- linkages to other resources.

Census of Target Area SMEs

In most LDCs, reliable censuses of enterprises do not exist. Government departments, such as ministries of commerce and industry, are inclined to be aware only of large-scale and parastatal enterprises. One way to obtain census data on SMEs is to enlist the support of a host country university in designing research instruments, conducting a briefing of student enumerators, and having them take a one hundred percent census, at least of the pilot phase project area. This method can be less costly than a project-managed census. It is wise, in the case of a census taken by students, to spot check it in order to assess its accuracy.

Information obtained should include data on the size, classification, age, and location of the enterprise, as well as information about the owner and the managerial personnel. This data should include information on their origins, educational levels, language abilities, ages, administrative and technical skills, family status, and aspirations. If possible, financial information should be obtained. Information on amount invested, turnover, profitability, and trends (i.e. growth or downturn) is helpful. Perhaps the most significant information needed is the entrepreneur's own perception of the constraints he or she faces. That is, what prevents the enterprise from growing, producing more, earning more profit, expanding to other locations, and employing more workers?

If a sociological survey is feasible, it can provide information about the social status of entrepreneurs and about the environment in which they operate. This kind of information is usually acquired through interviews conducted by individuals with an indepth knowledge of the area, its culture, and traditions.

Finally, an overview of the economy of the project area, the present role of SMEs in that economy, and the opportunities for an augmented role should be assessed in order to assure that managment training objectives are realistic.

Analysis of Data

Analysis of the survey data should reveal the most significant constraints to SME growth and enable the project planner to distinguish between those which might be alleviated by improved managerial ability and those to be addressed through other components of the project. Survey analysis is often most valuable if coupled with ample opportunity to study the entrepreneurial environment and the actual operation of sample enterprises. When projects are designed purely in response to constraints as perceived by target group entrepreneurs, they sometimes give highest priority to needs such as additional capital which may not, in fact, be as immediately paramount as the need for improved skill in the management of capital already invested. Those analyzing the data might also wish to assess the practicality of incorporating business management institutions and assistance resources already established in the host country in the management training component of the project.

Separation of Medium and Small-Scale Enterprises for Management Training

Collation of enterprise census data will indicate whether there may be a need for two levels of training, one for medium-scale enterprise management and another for small-scale entrepreneurs. If there are a sufficient number of medium-scale enterprises employing more than 15 persons and turning over more than $100,000 per year in the project area (or more than ten in number responsible for more than 25 percent of aggregate SME productivity), it may be justifiable to make separate arrangements for training the owners and managers of these larger enterprises.

If there are only a few medium-scale enterprises in the project area, and these are small-scale enterprises which have grown up to medium-scale, then it can be advantageous to include their managerial personnel in training primarily directed toward small-scale and micro-entrepreneurs. Inclusion of these better educated, more experienced, and perhaps more successful managerial persons in training sessions with those who are less educated and less experienced can generate beneficial exchanges of views and information which do not arise when the trainees are all of the same level. If that option is not feasible, the more sophisticated managerial skill development needed by the medium-scale enterprises may be more efficiently administered by on-site consultations. Another approach involves arranging financial assistance and admittance of key individuals into business administration and accounting courses at local formal educational institutions.

Linkages to Other Resources

A primary function of SME management training is to inform entrepreneurs of the various assistance and learning resources available to them. In order to do this, the project officer or design consultant collects information about these resources including what they are, where they are, and how entrepreneurs can avail themselves of available offerings. In many formerly European administered LDCs, there are capable institutions engaged in research on production technologies, food processing methods, energy creation, and market demand. The problem is that most of these institutions work in academic isolation and have few or no outreach activities. Entrepreneurs and their development project personnel must learn how to extract useful information from these institutions.

In Togo, for example, there is a well equipped institution engaged in low-cost construction research near Lome. At least three highly-qualified researchers have been working there for many years. Interviews with several Togolese construction contractors in Lome and other expanding population centers revealed that few were aware of the institution and its potentially useful developments in low-cost construction techniques, brick and tile manufacture, cinder and rice hull block production, and wall board fabrication, roofing, and protective coating. Only recently a local PVO organized a linkage between the institution and contractor associations.

Organizing and Financing SME Management Training

Project Identification and Project Paper Teams provide mission development officers with reasonably complete intervention designs, including implementation plans and budgets. But these documents are sometimes vague on the subject of organizing and financing the project. Such questions as what agency will implement the project, who will conduct the training, and where the money to pay for it will come from are often touched on rather lightly.

Although multi-agency financing for SME interventions is often sought, AID usually ends up financing a larger percentage of the project than was originally planned. The host government may be genuinely supportive but simply have no means of funding the activity. Local managers of large-scale enterprises may want to realize some tangible benefits before they propose that their corporation make a contribution to a training project. PVOs may not have sufficient funds or may be unable to obtain matching grants.

There are consulting firms and universities with experienced personnel and effective support resources equipped to undertake SME development work in LDCs. Both are capable of executing SME management training and recruit from the same pool of experienced personnel as PVOs. To date, the majority of AID financed management training interventions have been implemented by international PVOs. Private consulting firms and universities have been involved to a lesser extent. All three arrangements relieve AID from project management and local hiring responsibility.

The PVO can be required, as part of an OPG agreement, to finance a major portion of the project from other-than-AID sources. It is more feasible for an international PVO to establish collaboration with other voluntary organizations than it is for AID to try and organize multi-agency participation. An agency invited by a PVO to participate in an SME development project may be required to finance its own input. If the invitation comes from AID, there may be an automatic assumption that AID will finance the participation.

It is not as difficult as it was ten years ago to locate an American PVO with substantial SME development experience (Goldmark and Rosengard, 1981: 7). Several American private and non-profit organizations have been increasing their activities in the enterprise development field during the past decade. In the introduction of Small Enterprise Development Assistance Abroad (1982), the American Council of Voluntary Agencies for Foreign Service lists 91 U.S. non-profit organizations active in overseas development projects which help promote and create employment and income generating opportunities benefiting the rural and urban poor. Many of these projects, according to the Council, reflect a growing interest in the small enterprise sector.

Regardless of which group undertakes the SME project, implementing organizations should be encouraged to find ways for SME interventions to become self-financing, or at least partially so. Nevin (1982: 26) maintains that "If micro-business (development) efforts are to be taken seriously and implemented on a large-scale, they must directly generate enough income to cover their costs. This involves charging entrepreneurs for services rendered both in the technical assistance and training areas." These changes could be phased in over a period of time after this value becomes evident to entrepreneurs.

Local Participation

Local participation should be encouraged as a basic strategy in all phases of developing an SME management training intervention. In project identification and design, local participation in obtaining survey data and identifying SME development constraints can improve the quality and relevance of information for project design. It is important, however, to check both data and analysis for accuracy and objectivity to insure against enumerator bias.

One SME development project which has been successful in incorporating local participation in management training, design, and implementation devotes considerable project effort to encouraging target group entrepreneurs to organize themselves. In the description of Accion's Latin America model, target entrepreneurs assemble periodically with community leaders in order to identify their own problems.

In Peru, for example, Accion held community meetings to give people an opportunity to meet and discuss how they could best solve their own problems. Key business leaders helped organize the meetings and played an important part in gaining widespread acceptance for a micro-business program. Participants felt that programs met their specific business needs because each business owner had played a major role in identifying and solving his/her own problems (Nevin, 1982: 42-43).

Target group participation in management training can involve:

- selecting training curriculum content,
- anticipating comprehension levels of trainees,
- determining session frequency and timing,
- arranging decentralized training locations,
- creating effective training aids,
- electing informal trainee leadership,
- planning observation trips,
- identifying constraints to be addressed,
- setting and collecting attendance fees,
- organizing guest speakers and panels, and
- establishing liaison with other resources.

Another desirable form of local participation in the project is the inclusion of local associations and institutions as providers of training expertise, developers of training materials, implementors of specific research to identify management problems, and facilitators of liaison with the community. General guidelines might be to encourage as much participation as possible from the target group itself; to be selective about participation by other organizations, assessing carefully their competence and motivation; and to avoid, if possible, participation by groups which may erode the project's autonomy and make target entrepreneurs wary of the project's underlying purpose.

Management Training

Analysis of field study data coupled with the recommendations of a person with SME development experience enables the project officer to establish relevant objectives for the management training component. In the case of small-scale enterprises, the managerial skill development objectives usually are achieved by training the proprietors directly. Such training is best described as entrepreneurship training. It has been hypothesized that the labor-intensive techniques used by small-scale entrepreneurs require more managerial skills than the capital-intensive techniques used by medium and larger-scale enterprises (AID, 1979: 50). One interpretation of this hypothesis is that small-scale entrepreneurs usually manage all aspects of their enterprises, whereas the medium and larger-scale enterprise managers delegate responsibility for specific activities to subordinates with specialized managerial skills.

In the case of medium-scale enterprises, training objectives might be to improve a full spectrum of managerial skills including general planning, production, marketing, procurement, personnel, and financial management. Achieving the objectives may require the administration of training, and/or consultation to the general manager, functional executives, and sometimes to owners and directors.

Issues to be addressed by the management training and their relative priority become the basis for training content and its sequencing. The sequencing of elements of managerial skill training relates to priorities of need and to the premise that one should understand a basic principle before trying to apply that principle to a specific situation. The educational level of the target group dictates the degree of sophistication or simplification to be used in presenting the training content. Major issues for training content and design are discussed in the following pages.

Selecting a Delivery System for Management Training

While target group SMEs are usually in clusters (in towns, villages, and market places), the clusters may be far apart. Few entrepreneurs can afford the time or money to travel ten or twenty miles to a training session. It is more logical to take the training to the sites where SMEs exist in clusters than it is to create a centralized training institute.

An AID memo on Design of Private Enterprise Promotion Activity (September, 1982) explains that "...business managers trained by centralized institutions, on the assumption that an increased national stock of trained managers will have an impact on SME productivity, seldom get the opportunity to apply their skills and knowledge in operational settings." The author noted that centralized training institutions often fail to develop relevant linkages with the private sector and thus tended to become "low status enclaves of irrelevant activity."

According to Steel (1978:5), a primary task for those designing SME training thus becomes the development of better methods of extending business advisory and assistance services to small businesses on location. Small businesses often cannot afford to send their managers away for training, even for short periods. An added advantage of decentralized delivery systems for management training is that the trainers can become the nucleus of a business advisory extension service. Group training sessions are conducted mostly after normal work hours so that trainers have work hours to use for follow-up and advisory visits to clients at their enterprise sites.

Training Trainers

Techniques appropriate for training SME entrepreneurs are appropriate also for training the trainers/consultants who will become the project's delivery system (outreach). Even though the two to three-month pre-service is intensive, experience has shown that it is best to limit classroom lecture and discussion to two or three hours a day, and use the remaining time for field observation, individual and group learning projects, demonstrations, role playing, and practice. Thus, trainers learn appropriate teaching/training methods through modeling preferred methods in their own training.

For example, a Ford Foundation management training specialist in Nigeria enlisted the support of client entrepreneurs in setting up demonstrations for training of trainers. Trainees would enter the entrepreneur's furniture workshop, see a finished desk on display, and be asked to compute its selling price. As they walked through the shop, they observed wood parts and hardware used in manufacturing the desk with tags showing the cost of each item. Shop workers had signs at their stations: "I earn five shillings an hour." "I can make four desk tops in one hour." "I earn six shillings an hour." "I can assemble and finish two desks in eight hours." Finally, trainers talked with the entrepreneur who gave them information on overhead costs for one month. When the future trainers/consultants added up all costs and presented the total as the recommended selling price, the trainer had an unusually good opportunity to open a discussion on the process.

Individuals selected and recruited to become trainers will often have more formal education than the entrepreneurs they will be advising. In LDCs, this could intensify an existing cultural tendency whereby those with formal education look down on and talk down to those who do not have formal education. The curriculum for trainers should stress the importance of establishing a socially equal-to-equal relationship between trainer and entrepreneur. Once trainers gain first hand exposure to the contribution SMEs make to local economic progress, they will, without conscious effort, tend to discard educational elitism. The most effective trainers perceive their role as "working with" a client as opposed to training the client.

Frequent in-service training, coupled with more advanced management training, should be provided to trainers throughout the life of the project. The feedback shared when trainers convene periodically is "here and now" feedback which can lead to valuable alterations of project strategies and implementation methods.

Selecting Entrepreneurs to Train

Most SME development projects cannot administer management training to all the entrepreneurs and individuals aspiring to become entrepreneurs in the project area. During a project's pilot phase, management training should be administered only to entrepreneurs already in business. Later, other entrepreneurs might be included if judged to be serious, to have an artisanal skill, or to have access to financial backing for a viable commercial idea which can become the basis of an enterprise.

Groups of 10-15 trainees appear to work best. When groups are small, rapport can emerge during group discussions of common business problems. It can be useful to require eligible entrepreneurs to prove the seriousness of their desire for training by accomplishing some reasonably difficult task, such as making a list of the most pressing problems facing their enterprise, or of the managerial skills they want most to improve.

If management training is a required step toward eligibility for other project inputs such as technical assistance and/or credit, participants should meet criteria for having a reasonable chance of entrepreneurial success. They should:

- perceive themselves as entrepreneurs instead of as community employees;

- have, or be willing to expend the effort to acquire sufficient functional literacy to participate in management training and consultation;

- be operating an enterprise which provides products or services for which there is a proven need;

- have a good personal and business reputation in their community and market place;

- be sufficiently committed to their locale to be judged unlikely to migrate elsewhere without notice (i.e. disappear); and

- have already demonstrated resourcefulness and perseverance.

LDC entrepreneurs destined for success and growth are often those most careful to preserve their individuality; often, they will avoid being pressured or enticed into any action imposed on them which does not conform to their own concept of progress.

The Relationship of Management Training to Other Components of SME Development Projects

A major responsibility of management training is to show entrepreneurs how to make constructive use of other project components such as technical and record keeping assistance and credit. Making improved technology available to small-scale entrepreneurs will not accomplish much if they are unprepared to make productive use of the technology. Assistance delivered by a development project to SMEs who are not prepared to receive new technologies can be damaging. Lack of financial management knowledge and consequent misuse of project administered credit, for example, can alienate target group entrepreneurs from a project intended to assist them.

Components of comprehensive SME projects cover a wide range of activities. Each must be examined to determine what role management training can play in making that component effective. Possible project components are:

- representation in host government policy-making,
- legal services,
- coordination with other interventions,
- provision of credit,
- technical training and advice,
- procurement assistance,
- market research,
- investment attraction,
- functional literacy training, and
- management training.

All project components should be viewed as interdependent. Modernizing production technology entails skills training. Procurement may require credit, and credit requires financial control and record keeping. Product development is based on market research. Expansion takes investment. And, impacting government policy may involve legalization and registration. Management training is the catalytic agent which improves individual performance and thereby renders all components more effective. Several of these components are discussed in the following pages.

Project representation to encourage the host government to adopt supportive SME development policies, regulatory requirements, and regulatory enforcement systems. In recommending such activities, Steel (1978: 20-21) states that a potentially fruitful area for immediate action is the development of specific proposals to implement the government's broadly stated position in support of SME development. Steel suggests that government policies affecting small enterprise include:

(a) taxation and registration;

(b) wage, social security, and employment regulation;

(c) local government urban renewal (planned space for enterprises);

(d) laws governing non-agricultural cooperatives;

(e) availability of materials, equipment and spare parts;

(f) regulatory enforcement systems (do they open the door for SME harassment by officials?);

(g) government purchasing and contract awarding (are they such that SMEs have a chance to participate?);

(h) price controls (do they encourage importation or SME development?);

(i) collection of information (does the host government collect, maintain, and disseminate useful enterprise census and market data?);

(j) support services (are government and parastatal services to support SMEs relevant and do they have outreach?);

(k) export promotion (do government policies assist SMEs to develop foreign markets for their products?); and

(l) availability of capital (are the government institutions established for this purpose relevant to SMEs?).

One role of management training with respect to maintaining favorable government policy is to encourage participation of target group members in the project's representation. LDC small-scale and micro-entrepreneurs often feel completely helpless in influencing the government policy climate in which they operate. A management training activity could be that of encouraging entrepreneurs to accept responsibility for keeping their government aware of policy constraints affecting them, and helping them propose changes to alleviate these constraints.

During project identification and design, donors may require host governments, as a condition for project implementation, to remove debilitating constraints to private sector growth. After project implementation starts, efforts can be made to encourage formation of SME associations designed to give the target group a direct voice in government policy decisions. According to Accién International/Aitec senior staff, the "Solidarity Group" known as UNO, which Accién encouraged Brazilian micro-entrepreneurs to form, gave members considerable "clout" in influencing local and national government to keep the official climate conducive to small-scale private sector development. Accion has adopted the "solidarity group" concept in its SME project design model because it involves the beneficiaries in the solution of their own problems and gives them a voice in government policy making which will outlive the project.

Legal assistance to foster the establishment of entrepreneurial entities which conform to laws and regulations whether sole proprietorships, family enterprises, partnerships, cooperatives, corporations, or associations. Most, but not all, SMEs operate in the informal sector and, as such, are unregulated and untaxed. Moreover, it frequently happens that the act of providing development assistance to entrepreneurs brings them to the government's attention, and thereby moves the enterprise from the informal to the formal sector. Development assistance projects, either as a strategy for maintaining constructive relationships with host governments or as a pre-condition for loan eligibility, often require target group entrepreneurs to be properly registered, to pay taxes, and to abide by laws and regulations.

One role of management training is to help entrepreneurs understand the reasons for government regulation and taxation and the advantages of conforming to both. This process may involve engineering major changes in attitude, and may take some time to achieve. As one AID consultant noted:

> "In many DCs (developing countries) the orientation of government creates a significant level of distrust between the private and public sectors" (Burkholder Wallender Int., 1982: 7).

Another function of management training may be to assist the entrepreneur in conforming to government regulations and taxation. This might mean developing simple, step by step procedures for preparing registration documents, tax declarations, employment policies, and land tenure certificates. It could also involve training the entrepreneur in knowing when and how to use the project's legal advisory services.

A coordinating body to encourage and monitor parallel interventions designed to increase primary sector (usually agricultural) productivity and thereby maintain a national level of purchasing power conducive to SME development. Because the management training unit usually has the most continuous and frequent contact with target group entrepreneurs, it is the logical component to collect and disseminate data on the progress and impact of parallel development interventions affecting the project assisted SMEs. In doing so, however, the unit should involve target entrepreneurs in obtaining and analyzing the information and incorporating it in SME growth plans. If such a coordinating body is a component of a multi-faceted SME development intervention, it will likely include representatives of host government and donor agencies.

If one accepts Steel's premise (1978: 10) that, "The most effective general support to the artisan sector is likely to be increasing the amount of income in the hands of those who purchase its products ...", and the belief that this premise applies to the whole SME sector as well as the artisan sector, then the role of the project's management training component would be to assure that increased SME productivity relates to increased purchasing power and demand. In Senegal, for example, an SME project design team translated projected increases in primary sector agricultural productivity into increased farmer income and demand for locally-produced tools and implements. In another Sengalese situation, an intervention to increase national fish production suggested need for more dugout canoes and outboard motor repair services.

Provision of credit for operating capital, factoring orders and contracts, posting performance bonds, modernizing production facilities, and/or financing growth. Academic writers often define business management skill as the ability to make productive use of capital. SME development projects which include credit components rely heavily on management training to make the credit extended to target group entrepreneurs productive. In this sense, productive means resulting in improved or increased productivity and sufficient income generation to cover repayment. It is the management training unit that prepares an entrepreneur to qualify for and receive credit, helps him/her apply for it, gives consultation on its use, and monitors the entrepreneur's relationship with the institution or project component extending the credit. Experience has shown however, that credit administration, including collection, should not be a direct responsibility of the project's management training unit. In other words, management training and the credit administration are both more effective if kept separate. The relationship between client and management trainer is impaired if the trainer is also a loan collector and the objectivity required for sound credit administration is lost if the management trainer is directly involved in loan decisions.

Technical assistance, including skills training, introduction of new technologies, selection of appropriate tools and equipment, and relevant maintenance and repair procedures. Whether a project's technical assistance is institutional (administered at a technical training institution) or consultative (administered at or near the beneficiary's workshop), management training's responsibility is to assure that the technical assistance is appropriate. It often happens that a technical training institution is already established and in operation before an SME development project starts. If the SME project incorporates the existing technical training institution as a project component, the management training unit must coordinate the project's use of the technical training facility with the project's overall SME development strategy. This process may involve persuading the technical training institute to introduce short-duration courses and conduct appropriate technology research. Or, it may be asked to add an extension service to conduct on-site training for artisan entrepreneurs who cannot attend courses at the institution itself. The coordination process could also involve the management training unit in selecting the target group entrepreneurs who will attend the technical training institution. Or, the unit might be involved in determining the most feasible method for paying trainee fees.

In other SME projects, the technical assistance component is specifically and solely for the SME development project, and falls under its direction. Assuming that its role in the project and implementation strategy have already been designed, the management training unit's job is to determine when and what technical assistance selected client entrepreneurs need, can absorb, and can use to advantage.

Perhaps the most prevalent problem in coordinating technical assistance with other project components is in the area of follow-up. Technical trainers need help in identifying their target group's needs for frequent injections of technical assistance follow-up. This is particularly true in the case of SME projects where new equipment and machinery is being introduced. Technical and procurement assistance is often provided but there is little or no thought given to training in the use and maintenance of equipment. In some SME projects, the acquisition of the machinery will be an entrepreneur's first venture into mechanization. In such cases, it may be management training's responsibility to help client entrepreneurs see the need for preventative maintenance which the successful mechanization of their enterprises requires.

Conducting Management Training

It is not this paper's function to propose specific SME management training curricula, as that curriculum design must be tailored to the target group. The Small Business Administration publishes a series of management aids which might be used as a checklist to assure that in the training curriculum includes all enterprise management responsibilities. The SBA subjects to follow might be applicable to a broad spectrum of LDC informal or lower-scale formal sector enterprises. They are:

General Management: business planning, organization, personnel, leadership, business ethics and policies, and working with directors and owners.

Functional Management: production, design, technical development, maintenance, purchasing, inventory control, marketing, pricing, and market research.

Financial Management: record keeping, budgeting, analysis, cost control, banking, credit, security, and insurance.

Other content areas include government relations, public relations, and legal matters. More relevant to LDC small enterprises is a series of four booklets published in 1981 by the Accion/Micro-Enterprise Development Project: The Business Review, The Business Plan, Basic Marketing, and Basic Finances.

Some subjects which are peripheral in countries classified as developed or industrial, (because procedures are routine) may have special importance in an LDC. For example, security of an enterprise's cash and assets is handled in the developed world by locks, safes, cash registers, frequent bank deposits, and regular police surveillance. If provision for security of an enterprise's cash and assets in an LDC is inadequate, a simple break-in burglary can wipe out an enterprise because it is not possible to insure against that type of loss.

Functional Literacy and Numeracy. For some members of SME target groups, a short, yet intensive, functional literacy and numeracy course may be a prerequisite for participation in management training. For many Third World entrepreneurs, whose businesses are often marginal in nature, acquisition of literacy (and numeracy) skills, and their application to immediate economic activities, can offer the difference between continued marginal subsistence and the ability to move into more viable and sustained economic situations (Creative Associates, 1982: 2).

Past research has linked motivation to participate in literacy training activities with the economic value accorded to the literacy skills being taught and the immediate relevancy of those skills to the learner's current economic situation. Issues of how and by whom the desired economic results of the activity are identified are crucial to the learner's motivation for literacy. Program efforts to date have also shown that the economic value of literacy skills depends on their applicability and relevancy to specific and immediate tasks related to entrepreneurial activity. Motivation can be quite high when small enterprise owners identify and experience opportunities for immediate economic returns as a result of their participation in SME management/literacy-related training.

The inability of small enterprise owners to access information on or to complete forms and procedures necessary to make themselves legally viable enterprises are but two of the many constraints under which small enterprise owners work. SME management training programs which actively involve the participants in the identification of learning objectives can create a linkage between the acquisition of literacy skills and their application to business management situations. SME training programs in Ecuador and Tunisia have been successful in establishing this link (Creative Associates, 1982).

Short-term training, which requires that entrepreneurs leave their businesses for minimal amounts of time, appears to be the best approach. Experience has shown that literacy programs for small enterprise owners are not easily pre-packaged, but rather need to be tailored to the specific needs of one particular occupational group. Small enterprise owners can be used effectively as content informants during the training and materials design phase of a project, thus increasing their ownership of the training activity.

And, most literacy training efforts with small enterprise owners will probably need to give an inordinate amount of attention to numeracy, as computational skills are central to accounting and inventory management issues. Attention to these four factors will help to ensure positive outcomes from training.

Emphasis on Business Planning in Training and Consultancy. The consensus among management training and consultation practitioners working with SME entrepreneurs is that the ability to prepare and follow a rudimentary business plan is the managerial skill most likely to generate progress. A prevalent constraint to SME progress is the tendency of LDC entrepreneurs to take action only when there is no other alternative:

- "The tank is empty, I will order more kerosene."
- "The money is finished, I must try to collect from credit customers." or
- "The new rice mill arrived, now I will build a shed for it."

The experience of PfP and Acción International/Aitec supports the premise that the ability to prepare and act upon a rudimentary business plan may be the managerial skill most lacking and needed in LDCs.

> PfP initially took a traditional approach to management training, attempting to teach disciplines such as elementary bookkeeping, inventory control, and completion of monthly balance sheets and profit and loss statements. However, few clients learned these techniques, and almost none used the information as a management tool to analyze what was happening in their businesses. As a result of these observations, general business planning was promoted by requesting clients to perform tasks, such as preparing a six month business plan and expense budget, surveying a market, or identifying a source of supply. The task was used as both a training device and sign of entrepreneurial commitment and competence (Goldmark, Mooney and Rosengard, 1982: 7).

In an interview with the Senior Associate Director of Acción International/Aitec, there was concurrence with PfP findings in Upper Volta that "...business planning is by far the most important managerial skill to strengthen in small-scale entrepreneurs." According to Acción staff, business planning is explained as answers to the questions: Where are you going? What are you trying to be? What do you consider to be progress? What do you want to do differently? Where would you like to be two months from now? In two years? In ten years? In Acción's projects, simple business improvement plans worked out by the beneficiary with a project advisor become the basis for regular consultancy visits as well as for monitoring progress.

Two examples showing the first steps in simple business improvement plans taken from a recent project design (Senegal PVO Community and Enterprise Development Project 685-0260) illustrate the step-by-step approach in which the achievement of one intermediate objective makes possible the achievement of another.

Business Improvement Plan, Example 1

A Rural Artisan Making Farm Implements

Component Area	Intermediate Objective
Literacy	To achieve functional literacy and numeracy
Financial Management	To keep an up-to-date cash-in, cash-out journal
Production Planning	To prepare monthly projections of what farm implements the enterprise will make, and to agree to make components in lots instead of one at a time
Personnel Development	To train apprentices to do certain tasks and to make apprentices responsible for specific amounts of production per day
Inventory Control	To take inventory of materials on hand and to prepare a list of materials needed for work projected
Marketing	To make, or have made, a sign indicating that the shop is a metal-working enterprise producing high quality farm implements and doing reliable repair work
Credit Worthiness	To produce quarterly operating statements (profit and loss statements)

Business Improvement Plan, Example 2

A Trader Buying, Transporting and Selling Fresh Fish

Component Area	Intermediate Objective
Business Management	To perceive oneself as the owner of an enterprise instead of as a truck driver
Financial Management	To produce monthly operating (profit and loss) statements which include vehicle depreciation as a business expense
	To produce a balance sheet (statement of assets and liabilities)
	To draw a fixed amount of cash each month for personal use so that business expenses can be kept separate from personal expenses in the enterprise's accounts
Credit Worthiness	To open a bank account in the name of his enterprise
Cost Analysis	To compute individual trip profitability and the impact on overall profitability of operating a second pick-up truck
Appropriate Technology	To implement the vehicle preventative maintenance schedule of activities recommended by the Project's Appropriate Technology Center

Training Philosophy. Management training is people training. It should try to build on the positive qualities already demonstrated by small and medium-scale entrepreneurs. Many already demonstrate leadership qualities as well as ability, initiative, self-reliance, and willingness to assume responsibility for the productivity and support of others. In the foreword to The Survival Economy (1982), written about micro-enterprises in Latin America, Burrus is critical of development project designs which have approached the needs of small-scale enterprises from a statistical, impersonal point of view. He maintains that the enterprises are a reflection of the skills, abilities, and aspirations of the individuals and their families; in essence, a description of the people involved. The development of the enterprise, he concludes, is the development of the people.

Training Techniques. Conducting management training sessions for groups of SME entrepreneurs can, and should be an enjoyable experience for the trainer and for the entrepreneurs. Trainers should be encouraged to develop training materials which are geared to principles of adult learning and which place value on the adult's life experience. Role-playing to illustrate how to make customers feel welcome, how to delegate responsibility to others, and how to turn down a request for credit courteously, can be more relevant and more fun when the trainees set it up themselves. Simple assignments (list all the costs and expenses that go into making your product or delivering your service) and periodic discussions will provide learning experiences and keep the trainer informed of individual progress.

Sustaining Interest. To sustain interest and encourage an atmosphere of participation, it is advisable to devote at least half of each training session to group discussion which also serves as a means for gauging comprehension. For maximum impact, the objective of each session might be limited to covering one or two major points in depth and with a certain amount of repetition. For example, the two major points for one session might be:

1. All of the money which comes into your enterprise is not yours (some belongs to suppliers to whom you owe money, some to your helpers who have to be paid weekly); and

2. It is better to pay yourself a salary than to simply take money from the cash box when you need it (mixing your money with the business money makes it difficult to determine whether your enterprise is making money or losing money).

Reality-based Examples. It is important for the trainer to work out carefully, in advance, how a subject will be presented. For example, if the subject is "planning for depreciation," the trainer might follow a definition/explanation of depreciation and why it is good business practice to plan for it, with an example based on immediately reality:

> "Olo, when that old rice mill of yours is spoiled and you want to buy a new one, OAC is going to ask you for cash... right? When the old one stops running, no money will be coming in... right? Maybe you had better start saving money for a new

mill now, before the old one quits. Bayo, tell Olo how you saved the money for the new pick-up truck you have parked outside..."

Recognition. LDC entrepreneurs receive very little recognition for their achievements from their governments and from their communities. Because many are migrants, they are not accepted as genuine villagers or townspeople. Consequently, they respond well to any recognition of their hard work, their skill, or of the quality of their output. In western Kenya, PfP found that issuing course completion certificates and training group photographs to entrepreneurs who had attended regularly was a strong incentive to attend and to accept follow-up consultation. SME managers framed the certificates and photos and displayed them in their shops.

Evaluating SME Management Training

There is little agreement on how to evaluate SME development projects and almost no agreement on how to evaluate management training. In his review of small-scale enterprise (SSE) development assistance, Hawbaker discusses this methodological issue:

> The attribution of impact to SSE development assistance is the most difficult methodological issue in small-scale enterprise evaluation... The diverse nature of SSE projects (different scales, assistance strategies, time frames, etc.) and the lack of standardized impact indicators impedes comparison of SSE projects... Direct and indirect income and employment generated by SSE projects are the two most difficult and costly impacts to quantify (1981: 71).

Indicators

Perhaps one reason for general disagreement in what indicators to use in evaluating an SME management training intervention relates to the time when evaluation is undertaken. Indicators of training impact differ according to the early stage of an intervention or the length of time it has been in existence. During the project's start-up phase, the quality of the relationship between target group entrepreneurs and management trainers might be a significant indicator of project success in building a foundation for increased target group productivity. Increased productivity and profitability are certainly bottom-line indicators, but it may not be valid to compare a single management training component with a full spectrum of SME development activities on the basis of those indicators. If a primary objective of the training is to increase SME sector employment, then an evaluator needs to be aware that the increased employment objective might be achieved at the expense of profitability. A new employee needing training usually costs an enterprise money until the employee's contribution to the enterprise generates enough income to offset his/her cost. If eventual self-generating development is a paramount objective, a project's success in encouraging formation of SME associations could outweigh other indicators.

In an effort to measure progress, some SME development evaluators have selected indicators tailored to specific project objectives. An evaluation of a Malawian project compared project client entrepreneurs with a control group of entrepreneurs not affected by the project. The percentage of client entrepreneurs keeping daily cash books, purchase and expense books, creditor and debtor books, taking stock, and computing profit was significantly higher than that of control group entrepreneurs conducting the same activities. This operation was interpreted as project success in the development of client business management skills (Williams, Sarles, and Mkandawire, 1982: 31).

A rural enterprise extension service in Botswana was evaluated in its third year to determine whether it had met its institution building objectives. When the project started, it had only informal linkages to indigenous agencies. Three years into the project, the Ministry of Commerce and Industry (MCI) and the Botswana Development Corporation had assumed major and permanent project implementation roles. This was interpreted as satisfactory progress in the achievement of institutionalization objectives (Lintz, 1981: 18-22).

In an evaluation of AID-financed private sector assistance projects in two LDCs, project success was measured by examining two factors. The first was the degree to which each project's target group participated in identifying its own managerial skill training needs. The second was the degree to which participants overcame constraints imposed by elitism and bureaucratic interference. In addition, a significant indicator of project progress in the case of both evaluations appeared to be lessons learned during implementation and the ways in which this formative evaluation data led to project redesign (Hull, 1980a: 14-17; Hull, 1980b: 29).

A review of SME development project evaluations conducted during the preparation of this paper did not disclose any which endeavored to measure cost effectiveness by comparing project cost to the value of project-related increased productivity, employment, or profit. A number of evaluations identified indirect project area benefits such as stimulus to economic activity in general, increased economic awareness, local decision-making, and interest in business activity.

Among the indicators listed by Hunt in The Evaluation of Small Enterprise Programs and Projects (1983), those which reflect the effectiveness of management training are:

a. evidence of entrepreneurial disposition, including such specific indicators as:

   - operating according to a business plan;
   - use of contingency planning; and
   - commitment to self-improvement, employee development, and business expansion; and

b. evidence of achievement orientation including such specific indicators as:

- adherence to production schedules;
- ability to overcome obstacles; and
- management control of primary business functions.

Influence of Other Factors

Efforts to base evaluation on project area socio-economic progress make good sense but involve the difficult task of distinguishing between project-related progress and influences on the project area by other factors as diverse as rainfall and world market prices. A number of African LDCs are experiencing economic downturns because of drought-related reductions in agricultural productivity and declines in world market prices for primary exports such as peanut oil, iron ore and lumber. The objective of SME management training in those countries might be to enable target enterprises to survive on 25 percent less income from sales, or to train the entrepreneurs to undertake diversified economic activities and reduce their vulnerability to forces over which they have no control.

Attitude Toward Evaluation

The term "evaluation" often causes strong reactions in project personnel and in their U.S.-based home office personnel. Who are the evaluators to think they have the right, and the competence, to judge us? Comparative evaluations in which the achievements of one project are compared to those of another are those most likely to engender counterproductive reactions, interagency hostility, and thoughtless gossip. Too often in the development community one hears such comments as: "The evaluation was unfair, it compared apples to oranges," or, "One isolated negative comment quoted out of context is threatening our reputation." or an expression of the most serious of all anxieties, "That evaluation may cost the project its funding."

Perhaps it would be more acceptable to use a term like "appraisal" to describe the process of independently monitoring a field project and writing a summary of what was observed. In the case of pilot projects where experimentation with new strategies and methodologies is on-going, a periodic objective appraisal of what is being done, and how it appears to be working would be useful as feedback to the project and as resource information for other projects. Efforts to compare the effectiveness of different SME development projects, to rank them, and to measure impact statistically, appear to be premature in the case of most SME development interventions presently underway. Reactions to such evaluation efforts are more apt to be emotional than rational. "Appraisals" focused on the methodologies being tried, their appropriateness, and the amount of genuine local participation engendered by the project would contribute much more positively to the development of interagency relationships.

One statement can be made with certainty. If the agency implementing an SME management training project does a thorough job of collecting and recording project area economic data, and if the agency carries out accurate and detailed surveys of enterprises selected for assistance, there will be reliable baseline information available for evaluation, or appraisal, whatever indicators and methodologies are used.

Discussion of Critical Issues

Recent emphasis on private sector development in LDCs and an increase in funds and resources likely to be allocated to SME development give rise to policy issues which appear to be unresolved. Some of these issues are discussed in the following paragraphs.

1. **Is management training for very small-scale entrepreneurs worth the costs involved, and is it economically justifiable?**

Project evaluation data addressing this issue is scant. Those who argue for management training interventions point out that immediate economic return for investments in management training is generally low. Yet, they note investment in training sets in motion a self-improvement trend which can eventuallly generate a formidable return.

Current research studies sponsored by the World Bank and AID stress the acknowledged role and importance of small-scale enterprises as sources of employment in both rural and urban areas of Third World countries. Bank studies have found little information available on the nature and functioning of small enterprises, especially on the constraints faced by small enterprises in expanding earnings. In their review of off-farm employment in the Third World, Chuta and Liedholm (1979) note that a common finding in studies of rural entrepreneurs that focus on the determinants of entrepreneurial supply is that there are "generally serious deficiencies in the entrepreneur's managerial and technical performance" (p. 49). Some studies cited argue that the provision of training will not remedy the situation. Others, such as Harris (1970) argue that management and entrepreneurship training would provide the impetus for entrepreneurial growth. From Chuta and Liedholm's review of the literature it appears that nonformal education, especially that related to record keeping, may be a more relevant form of training for rural enterprises than formal education (p. 50).

Case studies being prepared by the Bank represent an attempt to bolster and improve our information base on small enterprises. The case studies are to include analysis and evaluation of existing policy and will examine issues surrounding estimation of costs and benefits of various policies currently in existence. As a recent Bank (1982) document notes,

> It is already apparent that, for example, the implementation of credit and technical assistance programs can be quite costly in relation to the economic benefits generated (p. 131).

Management competence has been cited in AID studies as a key determinant of business success in rural off-farm enterprises (Chuta and Liedholm, 1979). There appear to be three critical programming issues:

- ascertaining whether or not there is a perceived need for management assistance;

- what management skills are actually needed by rural non-farm enterprises; and

- what delivery system is most appropriate (and cost effective) in providing management training to rural enterprise owners who, for the most part, use simple technologies and have little or no educational background.

Any investment in management training and SME development must be based, as Binswanger (1983) notes, ..."on a thorough understanding of the opportunities and limitations of final demand and activities" that complement existing development activities. This is particularly true for SME activities related to off-farm employment, where over three quarters of Third World employment opportunities exist.

2. Is the provision of management training and consultation to SMEs patronizing? Might the intervention become a replacement for self-generated progress and a deterrent to initiative?

The negative impacts suggested by this question are real possibilities. Training and consultation which are directive, rigid, and administered with a heavy hand, can erode initiative and undermine self-reliance. The result can be increasing dependency of recipients on the project. Warning signals become evident when target entrepreneurs become passive and expect trainer-consultants to complete tasks for them. Recipients develop a tendency to complain about what they perceive as project shortcomings. For example, "I attend sessions regularly, but the project hasn't been able to get me any government contracts," or, "The consultant who visits my enterprise offered to help me set up a bookkeeping system, but he hasn't done it yet," or, "They advised me to clean up my workshop before the credit committee's visit, but they refused to give me money to pay a helper."

Effective trainer-consultants engaged in extension follow-up keep their advice and assistance responsive (as opposed to directive) and flexible enough to reflect sensitivity to each entrepreneur's own ideas and aspirations. Signals of effective policy implementation also manifest themselves in client comments. For example, "My consultant advised me to inventory all my tools. When I realized how many were missing, I made a cabinet with a hasp and padlock to keep them in," or, "I saw a government request for tenders on 200 school desks. My consultant helped me prepare a bid. I'm taking it to the Ministry of Education tomorrow," or, "My consultant thinks 40¢ may be too much to charge logging customers for a cubic-meter-mile of hauling. He doesn't know how much diesel truck repairs cost. I'm keeping my price at 40¢. When my competitors go broke, the customers will come back to me."

When the project is able to transfer a portion of its cost to recipients, and when they pay this portion in the form of consulting fees or association dues, target group concern for the welfare of the project will increase. It is probably not feasible to transfer project costs to recipients until training and consultation costs can be shown to increase recipient income substantially.

Once increases in income are noticeable, experience has shown that recipients develop an attitude that goes with being the agent of their own progress.

3. Is there a proven way to implement AID's policy using the management expertise of the U.S. private business community in the development of SMEs in LDCs"?

Past efforts to interest middle level U.S. entrepreneurs in opportunities to collaborate with LDC entrepreneurs in joint ventures abroad have been notably unsuccessful. U.S. businessmen have taken a firsthand look at opportunities and met with potential LDC partners and government officials. Some of the potential investors were, in reality, promoters seeking finder's fees. Others were shocked by the "primitive" production facilities and living conditions they saw. It is unlikely additional efforts planned in the same way will meet with any greater success in the future.

There are, however, other approaches to transferring U.S. business management expertise to SMEs in LDCs. Multinational and international ventures, in which U.S. corporations are often major participants, are becoming increasingly aware that well-run local enterprises serving their LDC ventures and concession areas can save them money and improve their relations with host governments. By using U.S. management, corporations with major investments in LDCs can be encouraged and assisted in their efforts to provide management training for the indigenous entrepreneurs important to their operations. Some corporate ventures in LDCs have engaged in SME management training which extends beyond their own corporate interests. This is due, in part, to the enlightened realization that economic progress in their investment areas advances their own interests.

In the case of multinational and international agricultural corporations involved in LDC ventures, the strategy for development assistance to local farmers has functioned well because of resultant mutual benefits and the presence of large numbers of skilled managerial personnel in their overseas operations. With a little encouragement, international corporations might be persuaded that improved management of indigenous enterprises, as well as farms, would serve their interests and justify the allocation of funds and expertise to LDC management training programs.

RECOMMENDATIONS FOR ACTION

The lack of management experience and capability is a major contributing factor inhibiting the development of small and medium-scale enterprises in LDCs. The small-scale entrepreneur usually manages all aspects of the enterprise, thus requiring more managerial skills than managers of larger-scale enterprises where the responsibility for specialized activities are delegated to subordinates with specialized skills. Many small-scale entrepreneurs have often advanced on the basis of their technical skills, and have little understanding of enterprise management techniques; their skill is in the trade, not business management.

The skills required will vary according to the scale of the enterprise and by local contexts. In the case of small and medium-scale enterprises, training needs to be focused on the full spectrum of managerial skills; planning, production, marketing, procurement, personnel, and financial management. The focus of the training, however, needs to be accessible to the local entrepreneur, formulated in the context of local business activity, use existing training resources when possible, and reflect cost considerations. In general, low cost training interventions may be best.

It is recommended that AID:

- Study the relative costs and benefits to be derived from different training delivery mechanisms, including PVOs, private enterprise, university satellite programs and extension models.
- Fund selected field-based studies focusing on institution building within the informal economic sector, especially the creation of business advisory or extension services. Equally important would be the study of the use of local entrepreneurial expertise in designing and implementing training for SME development projects.
- Evaluate the benefits derived through management training for different clientele, for example small-scale enterprises and medium-scale enterprises or managers versus owners.
- Identify and evaluate instructional techniques and the costs associated with their use for training SME entrepreneurs in the informal economic sector.

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