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PROGRAM FOR INVESTMENT IN THE SMALL CAPITAL ENTERPRISE SECTOR (PISCES)

ASSISTING THE SMALLEST ECONOMIC ACTIVITIES OF THE URBAN POOR

A Report on the Third in a Series of PISCES Workshops

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PREFACE

A seminar was held on June 13, 1984 at the Washington Conference Center in Washington, D.C. to present lessons learned from demonstration projects mounted and evaluated in four countries during Phase II of the USAID-funded PISCES (Program for Investment in the Small Capital Enterprise Sector) Project.[1] The meeting included backward glances at Phase I research in 16 countries and discussions of future implications for project practitioners, donors and researchers in the field of informal sector development.

This conference document consists of abridged versions of the talks given by the members of the PISCES team at the conference and follows the order in which they were presented:

—Michael Farbman, the PISCES Project Manager (from the division of Employment and Small Enterprise in the Office of Rural and Insitutional Development of USAID) discussed the history of the PISCES Project and some of the impact it has already had in the development field;

—Jeffrey Ashe of ACCION International/AITEC, Director of PISCES, briefly outlined the characteristics of the informal sector and the issues involved in assisting it;

—Fred O'Regan and Doug Hellinger of the Development Group for Alternative Policies (DGap) presented the findings of the projects they assisted in Africa, which reached the "pre-entrepreneurial" type of client and made both business and social inputs;

—Jeffrey Ashe talked about the Latin American projects, which offered strictly business assistance for the "entrepreneurial" level of client;

—James Hochschwender of Partnership for Productivity/International (PfP/I) discussed the need for "umbrella" organizations to act as go-betweens for PVOs and large donor organizations as well as serve in many other functions;

—and finally, Jeffrey Ashe summarized the PISCES findings.

Brief summaries of some of the comments made by participants

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[1]PISCES Phase I, contract number SD-otr-C-0013; PISCES Phase II, contract number AID-otr-C-1823.

are appended to the talks.

A list of participants and their addresses appears at the end of this document.

Introduction to PISCES project and workshop -- **Michael Farbman, Agency for International Development**

The PISCES project began in 1976 in the old Office of Urban Development of USAID. In the mid-seventies the Agency (AID) and Congress had come up with a new policy for Agency operations that identified what was then characterized as "direct assistance" to the poor majority in developing countries. Whether the urban poor should be included in this category was somewhat in doubt, but their importance was well established, partly by the International Labor Office focusing in the late sixties and early seventies on the "informal sector" of very small businesses or "micro-enterprises."

There were three institutional tasks to be performed within AID in the process of designing the project:

- convincing people that this sector was a worthwhile target of assistance, that the businesses were productive, and that they provided very important goods or services to the formal sector;
- persuading the Agency that it was worthwhile to take the risks in trying to assist this sector, with which the Agency had no history of working;
- defining a methodology for assisting micro-businesses.

In 1978, USAID issued a request for proposals for PISCES Phase I, and the contract was won by a group of three agencies, with ACCION International as prime contractor and Partnership for Productivity (PfP) and the Development Group for Alternative Policies (DGap) as sub-contractors. The project was carved up regionally, with ACCION being responsible for Latin America and the Caribbean, PfP for Asia, and the DGap for Africa and the Near East. Phase I documented some of the organizations that had successfully worked with micro-enterprises, resulting in a document called The PISCES Studies, which reviews 20 programs in 16 countries which served as the learning points from which we drew a lot of inferences for Phase II operations. These were some of the lessons we learned:

• First, that appropriate assistance methodology to these smallest enterprises does exist, that it can be delivered by local organizations, and that it can be done cost-effectively.

• That there are many different institutional forms that were working in this field—churches, foundations, community development organizations, private sector organizations, and full-fledged public sector organizations.

• That we could systematically draw inferences about types of assistance appropriate to different types of enterprises.

Seeing these positive results, the PISCES team was given the green light to proceed with Phase II, to put together 4 to 6 demonstration projects with the cooperation and funding of our USAID field missions, in order to demonstrate to AID the worth of micro-enterprise assistance. The goal was ultimately to institutionalize this within AID just like agriculture or nutrition or the other sectors of assistance. Team members also undertook the responsibility for dissemination.

The early days of Phase II were difficult, mainly because the project tried to work through the USAID missions. There were often conflicting agendas, and the whole financial resource availability processes caused setbacks. This project was fortunate, however, in that it nicely bridged the change in policy between the Carter and Reagan administrations, with the current administration having a growing emphasis on the private sector. After all, numerically, these are the bulk, the majority of "private enterprises" in virtually all developing countries, operating very much privately and subject to the exigencies of the market place.

These are some of the longer term changes that have been catalyzed by PISCES:

• For one, PISCES seems to have contributed to a dynamic that is abroad in the PVO and NGO community characterized by a shift out of rehabilitation and other kinds of non-economic oriented approaches.

• Similarly, Agency projects have gone very heavily into this kind of small enterprise/micro-enterprise assistance.

- PISCES has also stimulated some government-to-government projects in several countries.
- The Peace Corps is now cooperating with AID on a joint program of micro-enterprise assistance.
- There have been, already, second-generation PISCES projects that have gone beyond the demonstration projects.
- These approaches have contributed strategically to AID Women in Development policy, and many beneficiaries of this project have been women.

The agenda for the future for micro-business development in AID is to strengthen NGOs and other institutions and to scale up efforts, to not let die what we've been working on for almost six years.

Overview of the issues - Jeffrey Ashe, PISCES Project Director, ACCION International/AITEC

The informal sector is divided into three categories: (1) the petty commerce sector—street food vendors, market stall holders selling pots and pans, etc. (2) the service sector, made up of radio repairmen, laundry women and so forth, and (3) the micro-industry sector, including brick-makers, seamstresses and shoemakers.

The most important characteristic of these businesses is, of course, their extremely small scale. They are also very labor-intensive, and need little capital input—it might take as little as $15 or $20 to start up a business. A staggering 30% to 70% of the labor force in developing nations, depending on the country, is absorbed in informal sector activities: for example, half a million people are involved in micro-businesses in both Lima and Jakarta. This sector, far from disappearing, is growing both in terms of numbers and percentages in many Third World nations.

What is their role in the economy? Because this sector absorbs so many, these businesses are of vital importance for employment; 780 million new jobs need to be created in the Third World by the year 2000, and a majority of these are likely to be created in the informal sector. These businesses are also important as a source of employment for women, because the smaller the businesses, the more women business owners there are. Their importance in skill and entrepreneurial training is central—a survey of micro-business employees in Santo Domingo showed that 75% had learned to operate a new machine or how to make something in their present job.

Micro-businesses are also the major source of goods and services in a form the poor can consume—where else can you buy half an onion or one cigarette?—and are the main distributive channel of goods for the formal sector. They provide the optimal mix of capital, labor and energy within the context of poor communities, and their ability to recycle waste materials is phenomenal—a tuna fish can be converted into a small lamp, broken bottles into glasses, and old mattresses can be stripped, restuffed and resold.

These businesses face many problems, prime among them being almost total lack of access to institutional sources of credit. What credit they do get is usually obtained from moneylenders who charge up to 20% a day and who lend in very small amounts, leading to chronic shortages of raw materials and merchandise. Business owners are more likely to be harassed by authorities than helped, and seldom benefit from industrial development policies which tend to favor larger businesses.

An important finding of PISCES is that donor contributions to micro-enterprise programs make a sound social investment. Peter Kilby, in his recent report Searching for Benefits[2] states that investment in micro-enterprise effort has a higher cost-benefit ratio than investment in modern industry—more income for poor people is created. A little money invested in these programs

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[2]Peter Kilby and David D'Zmura, Wesleyan University, May 1984.

goes a long way—in the PISCES demonstration project in Costa Rica, a revolving loan fund of $65,000 served the needs of 447 enterprises. The result of loans given to these businesses was more than a doubling of income and the creation of over 100 new jobs.

If an organization is contemplating working with the informal sector, it is important to define clearly the level of enterprises that is to be reached. Something we've learned in the PISCES project is to distinguish two levels of clients. One group consists of owners of existing businesses, whose income is roughly equivalent to the minimum wage in their country, and the other group is what we call the "pre-entrepreneurs," people with no business or extremely low-productivity activities.
Those in the entrepreneurial group are entrepreneurs by choice. Many had been construction workers or factory hands before and had saved up to invest in their tiny businesses. They often have several years of experience, are skilled within the context of their activities, and often work long hours. The pre-entrepreneurial group have a business often because there is no alternative. Activities are extremely unproductive—activities such as the selling of a few tomatos or oranges a day. Income from these activities, not surprisingly, is much below minimum wage.

For each of these major sub-groups, there is an appropriate type of intervention. For the pre-entrepreneurial group, the integral community-based efforts, which have both business and non-business inputs, work better. These tend to be more complex and costly per participant, but poorer people are reached and the social impact is much greater. The PISCES demonstration projects in Kenya and Egypt are examples of this type of effort. For the entrepreneurial group, we have what we call "micro-enterprise" projects, such as the PISCES demonstration projects in the Dominican Republic and Costa Rica. Finally, the PISCES Project has experimented with "umbrella organizations" that can broker funds to a large number of small local organizations. Projects in Bangladesh, Indonesia and the Philippines are examples of this.

Before discussing the details of these types of projects, it is important to sum up the characteristics common to successful programs. Micro-enterprise projects are not easy to do well. Successful programs have:

- good leadership;
- concern about shaping program to clients' needs;
- conscientious, dedicated staff interested in progress of clients' businesses;
- community-based mechanisms for selection;
- outreach to reasonable number of clients without exhaustive analysis or undue delay;
- seriousness about payback and efficient administration.

Programs with these characteristics have a good chance for successfully reaching the micro-enterprise clients.

Lessons from Africa: Enterprise projects within integrated community improvement efforts - Fred O'Regan, Development Group for Alternative Policies (DGap)

The DGap looked at many types of programs in Phase I, from women's projects in rural areas to urban youth training projects. The beneficiaries were mostly at the "pre-entrepreneurial" level, and were involved mainly in retailing rather than production. Especially in rural Africa, the clients were in transition from traditional to organized types of economic activity, and many of the projects were assisting them in that transition. Programs offered a variety of inputs other than enterprise assistance—social integration, nutrition, and so forth. The goal was to stabilize and upgrade enterprises at the lowest level of development.

Projects that operated well tended to have a direct and participatory outreach, with decentralized program units and decentralized decision-making. Promotion and selection were integrated with community development efforts, sometimes—as in the case of the NCCK—working through the social work network already in place. Projects stressed group work, in order to reach more clients, promote skill sharing, and specialize production functions. Selection was often based as much on social as on economic factors.

As for the specific methodological elements, the first management tool was the cash book in most programs, and later costing and pricing were taught. Skill training was focused on youth, because adults found it difficult to get away from work to concentrate on training. Marketing was a major problem in many projects, because the products and services at this lowest level were low in quality, and there was overcompetition due to lack of diversity. Because of this many of the projects did an "up-front demand analysis," meaning that they found out how a wider variety of goods and services could be produced locally. Another type of marketing intervention, especially with handicrafts, was exporting, but this raised problems because the market is fickle and the returns are often low.

On the subject of credit, the interest rate was not found to be a critical factor, but there did need to be flexibility in adapting to the type of enterprise, the seasonal factors, or the type of credit needed (in kind or cash), as well as flexible amortization rates. There was a need for tighter administration and supervision, because most PVOs were not originally set up as lending institutions and therefore late payback often soared.

The organizations that were relatively successful in reaching the poorest were mainly private and autonomous, and most staff were indigenous. Many of these programs also had an advocacy role related to policy problems and licensing and credit access. Just as an example, licensing in Mombasa can cost $100 a year, which is a fortune to someone at the bottom end of the sector.

In Phase II, the goal was to identify, help develop and monitor pilot projects and then get an in-depth look at what range, intensity and type of input was needed on a case-by-case client level basis. Here the DGap found that, as an intermediary between local organizations and a major donor such as USAID, there were many delays and expenses for local organizations resulting from AID's complex pre-registration process. After the projects were funded, the relationship with AID was without major problems.

In Phase II the National Christian Council of Kenya (NCCK) and the Coptic Evangelical Organization for Social Services (CEOSS) were studied in depth by the DGap, and, briefly, these are the characteristics of the two programs:

- The NCCK project, operating in Nairobi and six secondary cities, attempted to overlay a business assistance component onto a community upgrading scheme. There is a revolving loan fund and four small business experts working in conjunction with social workers, who assist in the selection of clients. The loans are small, about $150 per individual, and with terms of from 16 to 18 months and an interest rate of 8%. All lending is in cash, not in kind, and local communities review the loans.

- CEOSS, in Egypt, is a community development program, too, but with a very different approach. CEOSS puts four to five community workers into a village where they work intensively for three to five years, building up local community structures and developing programs. In the PISCES income-generation component, there are four elements: 1) an individual loan program for people either in retailing or petty production; 2) group loans, for group enterprises that aren't necessarily cooperatives; 3) a community enterprise project, which has spin-off enterprises owned by the community; and 4) skills training focusing mainly on youth.

Lessons from Africa (cont'd) - Doug Hellinger, DGap

Since there is not much performance data for the CEOSS program, having just recently gotten underway, the focus here will be on the NCCK program, which the DGap monitored in three ways: 1) by occasional visits to observe the progress of the program; 2) by having the NCCK do a social impact study; and 3) most importantly, by analyzing the data collected by the business promoters. These were the most significant points:

• The program has had some serious administrative problems. There were four program coordinators in three years, who left largely because of low salaries and an overwhelming work load. Also, in Nairobi there were so many snafus in administering loans that the staff was demoralized. Administratively, the program is on a much better footing now. For the first two years, only 50% of the loans funds were used because of backlogs due to poor administration. And the field's effectiveness has been limited by poor transport, so the promoters now have motorbikes, but the social workers can't travel with them.

• To date there have been 219 individual clients and 14 groups. Loan repayment has been mixed, and, in fact, in some cases—in Mombasa and in Nairobi—only about a third or a quarter of the money was collected. But in two other towns about 80% has been collected, showing that the problem is probably due to administration rather than to the clients. Many of the defaults are due to fires, thefts or family crises—often problems at the poorest level. Interest rates in the NCCK program started off low and increased with the client's ability to pay them.

• The major business inputs of the NCCK project have been in assistance in the use of credit, accounting, and procurement and stock control. The cash book is taught mainly to give people business discipline. Clients are advised to factor in transport costs, to buy in bulk where possible, to avoid over and under purchasing—especially for retailers of perishable foods—to improve product appearance and display, to diversify stock, and to move into new product lines.

• The assistance of social workers has been very critical. Most of the problems, particularly in the enterprises run by women, are social problems such as pregnancy, children's health problems or depression. Intensive assistance is reduced after about six months, and help is provided through seminars and group workshops in order to reach more people.

• The project's major success is that it has reached very poor clients, over 70% of whom are women. The typical client is a woman 30 to 50 years old with little or no education, with from 5 to 14 dependents. Outside Nairobi, starting assets average $117 for men and $90 for women; in Nairobi, these figures are roughly doubled. Business size and the sex or ethnicity of the owner were not found to be significant factors in performance. A very key finding was that only 14% could be considered entrepreneurs by choice—the others were in this role by necessity, to escape inadequate wage employment or unemployment.

- Most of the NCCK's assistance (20%) has been to fruit and vegetable retailers (outside Nairobi this figure is 40%). Next there were tailors and seamstresses (25%), owners of provision stores (18%), charcoal dealers (10%), small restaurant owners (9%), and fish sellers (8%). There were also some non-retailing activities, such as carpentry (3%), shoemaking and repair (5%), and agriculture and livestock (1%).

- It was found at the beginning that a majority of clients, after receiving their loan, increased their sales two to five times and profit margins by 30% to 50%. But this subsequently leveled off because working capital is diverted to school fees or to personal crises or to higher standards of living. Success varies widely, with about a third of the clients either showing no gains or not sustaining the gains they made, and a quarter expanding enough to employ an outside person.

- About 14 groups have been funded through mid-1983, with about 21 members per group; the average age is 37, and 90% of the members are female. Interestingly, most of the groups relend or on-lend to individual enterprises owned by members. The owners pay back their loans plus a margin that goes into a group fund for emergencies or for setting up a collective economic activity. The main problems groups have are lack of cohesion and lack of managerial and business skills, which are the areas assistance focuses on. The average loan is much too small, about $900 per group, which means each member receives only about $45.

One of the things the DGap has learned is that social development programs can assist businesses of the very poor and that it is possible to integrate business and community development staff. It was also found in the NCCK program that male staff with a bias toward sheer economic development could be successfully sensitized to the need for reaching the poorest and dealing with social problems.

What such a regionalized, decentralized program needs in order to be successful is a firm central control, a uniform methodology, better tracking of credit, a consistent information flow, and proper transportation. Frequent meetings of credit review committees and regular loan collection are also essential elements, as well as a professional staff selection process and adequate salaries. To reach a greater number of clients, there need to be more seminars and group lending arrangements, which both require a great deal of prior organizational work.

In the NCCK project it was found, in terms of social impact, that both men and women use increased income for food, school fees for their children, health, new clothes and shelter. Social workers have found that it is much easier to give advice on cleanliness, health, personal appearance, and family planning, because people are more likely to listen once they get their loans. One important lesson has been that you have to be business-like with these people, but not too hard-line, because crises like a pregnancy or a fire just wipe them out. Ultimately, programs of this type can help the poor become more self-reliant and less dependent on hand-outs.

COMMENTS:

Q: Doesn't the type of lending in the NCCK program sometimes result in a zero-sum game, where increase in sales for one loan recipient may cause a decrease in a non-recipient's sales?

A: This is true with market vendors, and the NCCK is getting away from that type of lending and thinking about grouping people for bulk procurement We asked the NCCK to look at the issue of displacement, and they found that this occurs only after a business has reached a certain level. The real problem in Kenya is the static demand. Sometimes clients in both the CEOSS and NCCK projects are re-directed to less competitive areas where they can produce locally what is usually imported.

Q: Do clients have to be from a certain economic level?

A: The clients have to be needy—the social worker looks at character and need—but they have to make at least $70 a month to ensure that they can repay loans, keep up with daily expenses and emergencies, and still have enough to put back into their businesses.

Lessons from Latin America: Extending credit and management assistance to the informal sector—hawkers to artisan manufacturers with 2-5 employees - Jeffrey Ashe

Two of the PISCES demonstration projects were in Latin America—in the Dominican Republic and Costa Rica. In the Dominican Republic, ACCION technical assistance helped create PRODEME, the micro-enterprise component of the Dominican Development Foundation (DDF), a non-governmental organization founded in 1965 whose previous experience had been entirely with rural cooperatives. Between July 1981 and December 1983, PRODEME made 554 loans to 343 "solidarity groups" (groups of 5 to 8 people who co-guarantee each other's loans) with 1,998 members; loans averaged $233 per member with terms of one year at 24%. The clients were mostly **triciclero****s** (tricycle cart vendors), seamstresses, or other curbside sellers or artisans, all working as individuals. Another line of credit went to 211 "micro-enterprises" averaging 2.3 employees, all of whom were manufacturers or provided services, who received loans averaging $1,817 with terms of 14 months at 12% interest. Funding was from AID, the InterAmerican Foundation and Appropriate Technology International.

The Banco Popular y de Desarrollo Comunal, founded in 1969 to assist workers in Costa Rica, had experience with small enterprises, but none at the micro-level PISCES was concerned with. In 1982 AID funded a $65,000 revolving loan fund, and within a year, 83 solidarity group loans averaging $247 per individual to 447 members were given, with 20.5% interest rates. Roughly a third of the clients were street vendors, a third fixed commerces, and a third micro-industries and services. Other than the feasibility study, the initial design of the project, and evaluations done by ACCION, there was no outside technical assistance.

In both the Dominican Republic and in Costa Rica—in contrast to the Mathare Valley in Africa—the projects were working in fast-growing urban areas with expanding internal markets, although at the same time both countries were going through severe economic crises. They were not dealing with the absolute poorest—in Costa Rica about 17% of the clients were categorized as not having enough to buy basic foods, as compared to 37% of the total population. In the Dominican Republic the average client made considerably more than the minimum wage.

All beneficiaries had their own businesses before they started the program, with several years of experience, and within the context of the street economy they were experts in acquiring merchandise and raw materials, in production, and sales. A project was designed that would tap into the characteristics of typical level II enterprises—one that would assist clients in putting their own plans into effect and encourage mutual assistance. It was felt that the project should focus on inputs that outsiders could easily provide—an efficient credit mechanism and management assistance.

Two mechanisms were developed—1) the solidarity group, with 5 to 8 people mutually co-signing each other's loans, for businesses at the smallest level, and 2) a micro-enterprise mechanism with individual loans to manufacturers and services averaging 2 or 3 employees.

The main advantage of the solidarity group mechanism is that no collateral is required, making credit accessible to a poorer level of beneficiaries. Another advantage is that the operational costs are low because instead of handling 6 individual loans, you're handling one $1,800 loan to 6 people.

Staff costs are reduced because the clients are responsible for promotion and selection, group formation, and payback, and in the Dominican Republic, they have been responsible for the formation of an association. This mechanism has worked in a range of cultural settings, from India to the Philippines to El Salvador and other Latin American countries.

The main advantage of the micro-enterprise methodology, which is used for slightly larger businesses, is that there is intensive upgrading of management skills and considerable new employment is generated.

The following chart contrasts these two methodologies:

	SOLIDARITY GROUP	MICRO-ENTERPRISE
	BOTTOM UP (COMMUNITY DEVELOPMENT)	TOP DOWN (BANKS/GOV'T/SOC WORK)
PROMOTION:	WORD OF MOUTH	WORD OF MOUTH
SELECTION:	RECOMMENDATION OF FRIENDS	FINANCIAL ANALYSIS
GUARANTEE:	COSIGN AMONG GROUP/ PROPERTY	COSIGN/EQUIPMENT/ PROPERTY
MECHANISM:	CLIENTS FORM GROUP FOR LOAN	INDIVIDUAL BUSINESSES
MUTUAL HELP:	STRENGTHENED: GROUP/ ASSOCIATION	LIMITED: TRADE FAIR
LATE PAYMENT:	GROUP PRESSURE/ASSO./ PROMOTERS/LEGAL ACTION	PROMOTERS/LEGAL ACTION
CLIENT ROLE:	PROMOTION/SELECTION/ GROUP FORMATION/PAYMENT/ ASSOCIATION/INTERNAL CAREER LADDER	VERY LIMITED
IMPACT:	INCOME/MUTUAL ASSISTANCE	INCOME/EMPLOYMENT/ IMPROVED MANAGEMENT
COST:	20%+ OF $233 LOAN/NO MANAGEMENT ASSISTANCE	44% OF $1,817 LOAN/WITH MANAGEMENT ASSISTANCE
SELF-SUFFICIENCY:	POSSIBLE	DIFFICULT

In the evaluation of these projects we often asked if "solidarity" were real or just a Utopian dream of frustrated community developers. Responses to client questionnaires from both the Costa Rican and Dominican projects indicate that solidarity has increased: that virtually all of the members would take out another loan with members of the same group, groups meet frequently for reasons beyond loan payback, more than half have recruited someone for the program, and 30% of the Dominican groups and 70% of the Costa Rican groups had helped out a group member who couldn't pay a quota.

One of the most interesting outcomes of the Dominican project was the creation of the Association of Tricicleros, which evolved with very few inputs from the Dominican Development Foundation. At each major Association meeting perhaps 100 of the clients get together and discuss issues concerning them, and out of this comes a kind of ideology of community involvement and business progress. The Association has also started up an emergency loan fund and a funeral fund, and they visit members who are sick or in jail. No such organization came out of the Costa Rican project, possibly because there was no homogeneous group like the tricicleros, and because the Banco Popular made no effort to promote one.

In terms of increases in income in the solidarity group, there was a remarkable 145% increase registered in the Costa Rican project. In contrast, in the Dominican Republic there was an 11% decrease in income, which may be mitigated somewhat by a 16% increase in income the clients will get when they own their triciclos and no longer make payments. Similar projects in Colombia, Ecuador and Peru that were modeled on the PISCES demonstration projects have reported increases in income ranging from 11% to 30%.

In the micro-enterprise projects, impact in terms of solidarity and mutual assistance was nil because of the one-on-one methodology, but business skills improved noticeably in all areas—bookkeeping, marketing, employee management, organization of production, etc. To test the improved functioning of the businesses in the Dominican program, they were compared with a control group, and in all areas the businesses of the program did substantially better. Net increases of 20% in profits, 25% in sales and 67% in employment were registered by program participants. Also, the employment created is not marginal, as the average wage is above minimum wage.

What have we learned from the two PISCES demonstration projects in Latin America? First of all, that it is possible to reach the entrepreneurial group of business owners successfully; that charging commercial interest rates is not a problem; that programs can be promoted by clients; that the solidarity groups have considerable social impact, as well as increased income and employment (if you focus on manufacturers and services and not retailers); and that the employment created is not marginal. The main problems identified have been payback, because loans were given for a year rather than for a shorter period (it seems best to start with short-term loans and work up from there), and the cumbersome loan approval process with a consequent delay in granting loans.

In response to these problems, ACCION has been behind the creation of a new generation of PISCES "spin-off" projects in the Dominican Republic, Colombia, Peru and Ecuador that start with loans with terms as short as two weeks and and that are able to grant loans in days rather than months. The incentives for payback are "built in" because receiving a subsequent loan depends on payment of the previous one. High interest rates are charged because a major goal of these projects is self-sufficiency, and some projects have a forced savings component. Administrative systems are agile and highly simplified; consequently administrative costs are from 5% - 20% the value of the loans, rather than close to double that for the demonstration projects.

An example of these "spin-off" projects is ADEMI in the Dominican Republic, which in 12 months has assisted 575 micro-enterprises averaging 4 employees and 1,117 hawkers and vendors, using a loan fund of less than $300,000. Loans average $288 to the micro-enterprises and $44 to the solidarity group members, the late payment rate was only 1% in both components, and administrative costs were 11% the value of the loans, 750 new jobs have been created, income has increased 63% for micro-entrepreneurs and 11% for solidarity group members, and sales have increased 18% and 21% for the two groups respectively.

To sum up—micro-enterprise projects to date have only reached perhaps 1% of the vast number of possible clients that exists. Their needs, especially for credit, can be met in fairly straightforward ways, administrative costs can be low, and the programs have demonstrated impact. The basic challenge is not methodology, but rather institutional development and leadership—I think this is where a lot of work needs to be done.

Lessons from Asia: Intermediary mechanisms to broker assistance to micro-enterprise programs - James Hochschwender, Partnership for Productivity/International

After hearing about the hundreds of thousands of micro-enterprises in the world, and about how few of the programs even reach 1,000 or 2,000 clients a year, one wonders: is the impact of these programs at all discernible at the macro level? There is a need to fund appreciable numbers of local organizations involved in micro-enterprise projects, yet the approval process of major funders is too cumbersome to efficiently assist many local efforts at the same time. An intermediary or "umbrella organization" is needed to effectively broker resources to these local groups and to facilitate information sharing about micro-enterprise development between PVOs with primarily social orientations.

What are some of the other purposes that an intermediary organization can have? It can serve the function of research and development, and disseminate its findings. It can serve as a wholesaler of credit to the NGOs or government programs that have direct contact with the micro-entrepreneurs. It can help integrate programs that have different types and levels of support services, or serve as a broker of resources—human, technical or capital. Quality control is another possible function, as well as policy advocacy on issues such as the price of licenses.

In Bangladesh, USAID provided support for the Micro-Industry Development Assistance Society (MIDAS), which serves as an example of what not to do in creating an intermediary organization. MIDAS wanted to help generate income and employment in rural industries, and their list of proposed services was very long, including feasibility and market studies, and financial analysis. They wanted to make loans to NGOs, invest in enterprises, broker resources, provide information to micro-entrepreneurs, and identify micro-industries with special potential for creating employment.

Essentially, the first problem was that they tried to do too many things at once, with only a small office in Dakka. They also never really decided who their target group of clients was to be, and they lacked programming techniques, standard recording systems or incentives for efficiency. It also took almost three years to register MIDAS with the government. With all these problems, AID never really felt secure in funding them, causing further delay. MIDAS went through two sets of staff and three sets of consultants, but never got established.

A much more positive example of what an intermediary organization might be is the Badan Kredit Kekamatan (BKK) program in Central Java, Indonesia, which works through 486 independent village-level "mini-banks." The purpose of each of these locally controlled units is to provide small amounts of credit to off-farm activities. Many loans go to petty trading activities, and sixty percent of the beneficiaries are women. In 1983 they made close to 300,000 loans totaling $15 million, demonstrating the possibilities of lending on a large scale.

The essential characteristic of the program is its balance between decentralization and maintaining effective control.

Decision-making is made at the local offices, and there is a community selection mechanism, based on personal references rather than collateral. Control is maintained through a standard reporting system, which allows them to monitor the individual BKK units, and there is a major incentive for efficiency in that the expansion of the unit depends on how well it manages its portfolio, includes new borrowers, and expands its outreach to neighboring villages. The strong sense of mission throughout the BKK system is also an important feature.

One of the reasons for the BKK's success is its clear set of objectives—in contrast to the MIDAS program—and a simple, straightforward methodology in providing credit. Another important factor is the political support and accountability that was built into the system by using political officials to choose clients. Other advantages are a socially homogeneous setting and a moderately expanding economy.

A third type of umbrella organization is being tried out in the Philippines. It is actually a combination of two programs—the Micro-Industry Development Center (MIDC), a private organization, and the Micro-Industry Development Program (MIDP), a government agency. In the first stage of development MIDP experimented with methodologies, and only when they came up with something effective did the MIDC emerge to coordinate scattered micro-enterprise efforts. They then needed to develop capabilities for assistance and for transferring methodologies to other organizations, and started a policy dialogue with the government. The third phase is the USAID project--SMED—which is currently disseminating and researching methodologies, and getting involved in the integration, advocacy and brokering functions.

Comparing the advantages of private and public sector intermediary organizations, we felt that private organizations tend to be more flexible and to allow a variety of methodologies, making them more appropriate for the research and development function. As a broker it could call on more kinds of resources than a government agency could, and integration of services by them rather than a government institution would tend to gain more confidence from NGOs. On the other hand, for the sake of quality control and monitoring, public agencies would have an advantage with their single methodology, and they would have an insider's edge in the area of policy advocacy. In the area of credit wholesaling, either type agency would do equally well.

COMMENTS:

[Susan Goldmark, Development Alternatives, Inc.(DAI)] Some other points that should be made about the BKK program are:

- It was established by and had the support of the governor of Central Java, which was a critical stabilizing factor when bureaucratic infighting and turf battles arose.
- The BKK was built upon an existing institution, the Central Java Provincial Development Bank (BPD), a regional development bank that had branches all over Central Java.
- Since PISCES is primarily an urban project, it is important to note that about 20% of the BKK units—mostly urban ones—failed during the first few years, because the character reference system that worked so well in the villages did not apply in the urban social setting. Consequently the urban units were dropped.
- BPD money was lent to the BKK units at a 1% per month interest rate; there were no grants given.
- The BPD couldn't handle all the information it was collecting from the 460 BKK units, so it has needed to computerize its system (with DAI's assistance).

Assisting the Smallest Economic Activities of the Poor: Major conclusions of Phase I and II — Implications for Donors-Jeffrey Ashe

To summarize the PISCES findings, there are two basic levels of enterprises: 1) the "entrepreneurial" group, with established businesses and 2) the "pre-entrepreneurial" group, with extremely low-productivity activities or none at all. For each level there are distinct approaches to providing assistance which have proved to be most appropriate: 1) for the entrepreneurial group—enterprise development projects, which focus on credit, management and organizational assistance; and 2) for the pre-entrepreneurial group—integral community-based projects, which include a wide range of both social and enterprise-related services. Whatever type of project, however, there are common problems that cut across all levels of micro-enterprises, such as a hostile policy environment, lack of institutional credit, high prices for raw materials, and limited markets.

There were also common lessons learned in all of the PISCES demonstration projects, whatever level of enterprise they were working at, and the following list describes for donors and practitioners some common characteristics of "good" projects:

- Philosophical underpinnings: Micro-enterprise projects have what might be called a "Jeffersonian bias"—that is, they make the assumption that it is important to work with the smallest enterprises for reasons of equity.

- Project design: The design process should begin with a feasibility study to make its services congruent with client needs, and the project should continually re-design its services and management systems.

- Promotion and outreach: For the entrepreneurial group in urban areas, and to a lesser degree in rural areas, outreach is done by word of mouth. With a well-designed program there is no lack of demand for these services; if clients are hard to find or require considerable convincing, it is probably the fault of the project design. The pre-entrepreneurial group needs intensive promotion, requiring first the gaining of trust and development of self-esteem, because the clients have a very limited experience with formal sector institutions.

- Selection and guarantees: How do you select from among clients with no collateral? One way is for the promoter to get to know candidates individually, but a less costly way is to use the solidarity group mechanism or various kinds of community selection mechanisms. Once again, there is a difference between levels of enterprise, with the most intensive work done with the pre-entrepreneurs and the various types of community selection most appropriate for the entrepreneurs.

- Credit: There is a debate among practitioners about the importance of credit, but from the beneficiaries' perspective credit is very often the most important and immediate need. Even if the program has other objectives, credit is the carrot that attracts clients. In fact, credit by itself often stimulates progress in the areas of new job creation and increased income. Should credit be given before management training or other inputs? For the entrepreneurial group the answer is often yes—if you start with a small short-term loan to test the enterprise and the business owner. This way there is little risk for the client or the program. For the pre-entrepreneurs, there often needs to be considerable training and orientation before a loan is given, especially in the case of collective enterprises. The same is true of larger long-term loans to the entrepreneurial group.

It is important to make credit congruent with the client's needs. The most common problems of loan programs are loans that are too big and payback periods that are too long or too infrequent. At this level, people are used to thinking in terms of one-day or one-week paybacks to moneylenders, so the loan package should reflect this. Another problem faced by programs procuring good rates of loan payback; one of the most effective incentives is the immediate availability of subsequent loans. If loans are not being paid back, quick action is needed to prevent the payback problem from getting out of hand and compounding itself. One other point that needs to be considered in structuring a credit package is whether or not credit should be given in cash or in kind. From the perspective of the clients, cash is generally preferred to in kind payments, because clients, with their contacts and knowledge, can, quite frankly, generally work out better prices than the staff can—getting materials from pawn shops, using odd pieces and recycled materials and the like.

• Savings: There is a great untapped savings potential among loan clients. Savings are important because with savings, clients can lessen their dependence on moneylenders. Another advantage of savings is that there is a real possibility that the programs can gain independence from donors by using savings to capitalize the loan fund, at least in part.

• Interest rates: This subject is hotly debated. The main argument for subsidized rates is that micro-businesses are too unprofitable to pay the higher rates. Yet this argument is called into question by the fact that people pay from five to twenty times the commercial rate to the moneylenders already. Unsubsidized rates encourage independence of the clients and the self-sufficiency of the program. Various evaluations have shown that interest rates are not as important a factor to clients as quick and easy access to funds. It should be recognized, however, that subsidized rates may be essential when dealing with the start-up of businesses or collective enterprises, at least in the short term.

• Credit administration: Loan programs need simple procedures (one-page application forms), a quick decision-making process, and good follow-up to prevent problems from emerging later. Administering a credit program is inevitably complex and time-consuming, and this should be carefully considered before a PVO decides to begin loaning money.

• Management assistance: Not all clients need management assistance. Many abandon bookkeeping when not supervised and go to courses because it is required, and, at least with the entrepreneurial group, considerable progress can be made initially with no management assistance at all. Once a business begins to expand significantly, then management assistance is often called for. Management assistance is vital to the pre-entrepreneurial group, especially in the case of start-up or collective businesses.

Once it is decided to have a management assistance component, what should be taught in the courses? The worst approach is to give watered-down business administration lectures appropriate for an educated audience. The best approach seems to be to present concrete, specific examples of problems that micro-entrepreneurs can identify with and give opportunities to owners to exchange ideas and assist each other. Also, the common assumption that management assistance begins and ends with bookkeeping is being contested. Time may be better spent talking informally about how the businesses can expand. Bookkeeping is not in itself a practical planning tool and requires a more formal conception of how to run a business than people at this level are easily able to accept.

- Monitoring: Few programs have adequate monitoring systems; often there is adequate data but inadequate access to it for planning purposes. A good monitoring system probably will force a definition of the objectives of the program and how they are to be measured. It is important to emphasize that a monitoring system, if it is not integrated into the decision-making process, is useless. Finally, monitoring need not be complex; it can be kept simple by building it into the credit application and loan record systems.

- Project management: The key components of good project management are: 1) focused goals; 2) commitment to the goals by leadership and staff; 3) streamlined procedures; 4) a good internal monitoring system; 5) specific goals for staff; 6) inclusion of field staff in decision-making; 7) inclusion of beneficiaries in assessment of program; and 8) continual fine-tuning of management.

- Staff efficiency: To keep staff efficiency high, good morale is indispensable, and for this staff needs to be imbued with a sense of social mission, and to identify with clients.

Implications for donors

Good micro-business projects are notable for what they are not. They are not scaled-down small business projects, with one-on-one assistance, complex financial analysis, traditional guarantees and training systems. They are not social welfare programs, because they foster independence and are businesslike. A good project walks the fine line between these two approaches and synthesizes the best ideas of each.

One direction micro-enterprise development needs to take in the future lies in institution-building--assisting the many small private agencies interested in these efforts but with little knowledge of how to go about it. Another major new area is thinking about increasing the size of programs. Programs need to be scaled up if they are to have any appreciable impact. Finally, methodologies need to be fine-tuned, and the most proven methodologies need to be packaged. Training programs will make these approaches accessible to PVOs, cooperatives, banks and other financial institutions.

What PISCES Phase II has demonstrated is that it is possible to reach the informal sector, and that these programs can be effective. Also, recent research by Peter Kilby shows that micro-enterprise assistance is one of the most successful categories for AID programs. But the donor mechanisms, with their cumbersome procedures, are often ill-suited for stimulating a large number of small NGO efforts, which is essential if these programs are going to be more important in the future. It is generally the case that government institutions are too bureaucratic for efficient micro-enterprise assistance, and banks usually aren't interested. Some kind of intermediary "wholesaler" mechanism is needed if donors are to effectively reach the sector.

If a major donor has a commitment to reaching micro-enterprises similar to its commitment to agricultural or health programs, the following is an outline of a three-phase strategy for a donor agency interested in doing this:

1. In Phase I, it would identify interested local institutions—some with enterprise experience, some not—and involve them in the design process.

2. In Phase II, it would create an umbrella structure with perhaps $2 or $3 million, making funds available to capitalize loan funds. It should focus on training of organizations and give out small grants at first to test its methodologies.

3. The most developed PVOs would be funded with larger grants in Phase III, other projects would continue being funded at their previous level, and new projects could be added. Experi-

ments could also be made with direct funding to larger PVOs or with funding and training to banks or other financial institutions.

In conclusion, the PISCES Project has found that micro-business programs can be effective; the problem now lies in reaching enough tiny enterprises to make a difference. The major donors, such as AID, need to have a commitment to reaching this sector and to train more field staff. Most importantly, project assistance needs to be tied into policy changes, so that economic benefits will go to smaller enterprises as well as the larger ones.

COMMENTS:

Q: Many PVOs have to dialogue with AID missions, and they have to deal with macro-economic problems. Could micro-enterprise development be analyzed in terms of a macro-economic development strategy for a Third World country?

A: [Michael Farbman] Each field mission annually goes through a strategic exercise—a country development strategy—and decides to what degree they should focus on agriculture, science and technology transfer, or whatever. At this point such an issue could be raised. But I don't see the means for an individual PVO to have a large impact.

Q: Stepping back and putting on a donor hat, I would probably say, "I can see how you are helping some people, but I don't see what it has to do with sustained social change." Maybe more research is needed, for example, on what the effect of increased savings in the household is on the rest of the economy.

A: [M. Farbman] We are in the process of preparing a final manual for PISCES, which may answer some of this question. But we basically don't have answers to this question as a result of PISCES.

[Fred O'Regan] You can make the case that to support the informal sector is to support the real economy. But the PISCES approach does not result in the structural change that is needed.

[Bruce Tippett] On the question of policy, and how far this field has come in the last few years—I've just come back from Brazil, and found when I arrived that there is a project in the Brazilian Congress that presents a national law for the micro-enterprise sector that involves the entire tax system.

Over a 12-year period, they have gone from what was like the PISCES Phase II experiment to an actual major legislative change which clears away barriers and opens up credit opportunities. Brazil provides credit to somewhere between 20,000 and 50,000 micro-enterprises a year now, but they hope to go to half a million or a million, and are trying to create a legislative framework.

[Comment: Doug Hellinger] I think this whole movement towards self-sufficiency is poorly grounded. Implicitly it means that you move away from the poorest people and from social inputs that prepare the poor to get credit.

I also think we're setting up dangerous standards that we're not holding ourselves to. AID is allowing us to go 80-20 on funding, and then we're laying down standards on self-sufficicney and saying it's not good to be dependent on donors.

Q: Why should a project like ADEMI be receiving government subsidies, if it can cover its own costs?

A: We've actually only been able to cover a percentage of operational costs in the first year. Almost all funding is from donor sources. Something on the back burner for ACCION is to develop projects that are truly self-sufficient.

Q: Do you think there is a danger that you are edging out poorer people by trying to get better repayment rates, cover costs, etc.?

A: Yes—a project like the Carvajal program in Colombia has a phenomenally low default rate, but they are extremely selective. The great thing about the solidarity group programs is that you are getting down to the lower levels.

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