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**PISCES:**  
**Program for Investment**  
**in the Small Capital**  
**Enterprise Sector Phase I**

**ASSISTING THE SMALLEST**  
**SCALE ECONOMIC**  
**ACTIVITIES OF**  
**THE URBAN POOR**

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J. A.  
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## Preface

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

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

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

are making optimum development, income-generating, and employment-stimulating use of available resources, particularly in respect of some of the poorest residents of developing countries.

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

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

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FORWARD

The Program for Investment in the Small Capital Enterprise Sector (PISCES Phase I) was designed to investigate methods of assisting the smallest-scale enterprises of the urban poor.

To learn from the successes and failures of existing programs, the Office of Urban Development of the U.S. Agency for International Development's Development Support Bureau, contracted ACCION International/AITEC (AITEC), a private and voluntary organization (PVO) with wide experience in small-enterprise development in Latin America, to study projects assisting the smallest scale enterprises of the urban poor in Africa, Asia and Latin America.<sup>1</sup> AITEC in turn contracted with two other PVOs, Partnership for Productivity (PfP), which carries out small-enterprise development projects in Africa, and The Development Group for Alternative Policies (The Development GAP), which has demonstrated alternative approaches to supporting income-generating efforts to a variety of donor organizations. Half of the total field research was targeted for Latin America to be conducted by AITEC, while the other half was to be split between Asia (PfP) and Africa (The Development GAP).

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<sup>1</sup> Contract Number AID/DS-otr-C-0013, Small Enterprise Approaches to Employment, PISCES Phase I.

The PISCES project team<sup>2</sup> addressed itself to the following questions:

- o Is it possible to reach very poor urban-dwellers and assist their income and employment-generating activities?
- o What methodologies seem effective?
- o What are the implications for donor agencies?

As one AITEC staff person put it: "We already demonstrated through our projects in Latin America that the artisan shoe manufacturer with three or four employees can be helped with a \$1000 loan. Now we are being asked if it is possible to assist the curbside food seller who serves lunch to the shoemakers."

A series of workshops was held in early 1979 to define the problem and to develop a methodology of investigation. Those attending were AID and World Bank representatives, other donor agency and PVO representatives, and university personnel interested in the issue.

The PISCES team then visited sixteen countries<sup>3</sup>-- AITEC

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<sup>2</sup> Project Coordinator Jeffrey Ashe, AITEC. Africa Team: Fred O'Regan and Douglas Hellinger, The Development GAP. Asia Team: Jason Brown, Partnership for Productivity. Latin America Team: Peter Fraser and William Tucker, AITEC.

<sup>3</sup> Africa: Kenya, Swaziland, Tanzania, Upper Volta, The Gambia, Cameroon, Zambia. Asia: India, Philippines. Latin America: El Salvador, Colombia, Ecuador, Honduras, Panama, Barbados, Peru.

in Latin America, PFP in Asia, and The Development GAP in Africa--to identify and learn from a number of projects which reached the urban poor and appeared to effectively assist their very small businesses. After determining that a number of such projects utilized interesting methodologies worthy of further study, those which best incorporated the various approaches were examined in detail. Later in the year, demonstration projects were planned with local organizations in collaboration with local USAID missions. This has formed the basis for Phase II of the PISCES project in which AITEC, PFP, and The Development CAP will continue to facilitate the development and extension of direct assistance programs to the smallest economic activities of the urban poor in developing countries.

This report summarizes the findings of Phase I of the PISCES project. Descriptions and analyses of the projects studied in depth are incorporated as the other four volumes of case studies focussing respectively on Africa, India, Philippines and Latin America/Caribbean.

4-

INTRODUCTION

CHAPTER 1: The Informal Sector

Definition and Characteristics  
Role in the Third World  
Constraints  
Summary

## 1.0 THE INFORMAL SECTOR

### 1.1 Definition and Characteristics<sup>4</sup>

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

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

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

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

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<sup>4</sup> Adapted from material developed for the PISCES project by David A. A. Smith, a graduate student at the Fletcher School of Law and Diplomacy.

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

In addition, informal sector enterprises may be characterized as:

- o Ubiquitous: Street newspaper vendors, cobblers, Mom and Pop grocery stores, cooked-food vendors, hawkers, and watch-repairmen are found in nearly every city and town of every country.
- o Small-scale: The average size for all industrial firms in Sierra Leone is 1.8 workers (Chuta and Liedholm, 1976, p. 10). The average value of the stock owned by traders in St. Martin, Haiti is \$17.00 (Fass, 1978, p. 85). In the Philippines, one could begin a trade (selling peanuts) with \$1.25 for stock, a service (shining shoes) with \$6.25 for a shoe-shine box, and an "industry" (manufacturing stuffed toys) with \$12.50 for materials (Brown, Philippine Case Studies).

- o Often linked to formal sector: Vendors are often the major marketers of formal sector goods--for example, cigarettes, newspapers, and soft drinks.
- o Localized: The vast majority of informal sector industries and stores serve to meet the needs of local, low-income workers. Local cobblers repair plastic sandals, and hawkers sell individual cigarettes instead of packs or cartons.
- o Labor-intensive: In most cities, labor is plentiful and cheap; capital is scarce and expensive. Entrepreneurs in the informal sector learn to deal effectively within those constraints, especially by intensifying all available labor inputs. In addition, this sector is often a principal user and innovator of appropriate, capital-saving technologies.
- o Low income: The majority of informal sector workers earn somewhat less than unskilled workers in the formal sector, but more than agricultural workers.
- o Low profit: The micro-business owner often has little more than a few cents a day to save for re-investment. Even slight increases in their margin of profit, however, can make business expansion possible.
- o Flexible: A food vendor in Colombia moves her cart next to a new construction site to provide workers with lunch. A bucket maker in Kenya switches to making wash-basins when water lines are installed in his community.
- o Competitive markets: Markets in the informal sector are often unregulated, and have relatively free entry and exit.<sup>5</sup> Hundreds of cobblers compete for a limited number of shoe repairs, thousands of food vendors compete for the purchases of urban housewives, and so on.

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<sup>5</sup> It must be kept in mind, as stated earlier, that significant barriers to entry often do exist, and they are as complex as the cultural settings within which the activities are found.

## 1.2 Role in the Third World

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

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

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<sup>6</sup> As John Friedmann & Flora Sullivan indicate in their study, "The Absorption of Labor in the Urban Economy", the informal sector is the most labor-intensive sector of the urban economy. (Barnet, 1980).

### 1.3 Constraints

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

- o Lack of capital: Two-thirds of the Kenyan entrepreneurs surveyed by Marris and Somerset (1971) mentioned lack of capital as their biggest concern; few market-business owners thought any other problem was worth mentioning. In our survey of small business development programs in the Philippines, 83% of program beneficiaries felt credit was their most important need and the most important service rendered by these programs (Brown, Philippines Case Studies, this volume).
- o Lack of business skills: Many entrepreneurs are constrained by their lack of basic business skills such as bookkeeping. Activities develop only up to the level where such skills are necessary to keep track of the flow of resources. Without further training at this point, businesses tend simply to stabilize or to falter.
- o Restriction, regulation, and harassment by local authorities: In Nairobi, vendors, tailors, tea-sellers, barbers and hawkers, among others, have to obtain licenses from local authorities. Controls by the police also limit incomes by denying informal sector enterprises access to downtown markets and heavily trafficked streets which offer the highest income possibilities.
- o Lack of reliable sources for raw materials and supplies: Raw materials and needed supplies are either not available or are available only at high cost. Often a boom in a national industry will affect the smallest enterprises only by a rise in the cost of raw materials (Peattie, 1976).

### 1.4 Summary

The informal sector is a large if not major employer of urban workers, provides the majority of new income opportunities,

produces a surprisingly large amount of goods and services, a significant amount of value during manufacture, and is a major source of supply of inexpensive goods for the urban and rural poor in particular, and frequently uses capital saving technologies. The vitality and growth potential of the informal sector are impressive.

Recognizing that "the number of jobs that must be created in the Third World between now and the end of the century must equal at least the number of jobs that exist there today",<sup>7</sup> and that a major portion of these jobs will be generated in the urban informal sector, the need to understand and to assist this sector is clear.

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

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<sup>7</sup> Quoted in USAID's "World Development Letter", March 31, 1980.

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A TYPOLOGY OF BENEFICIARIES

AND PROGRAMS

CHAPTER 2: Characteristics of Beneficiaries

CHAPTER 3: Levels of Enterprise

CHAPTER 4: Program Objectives and Entry Points

### A TYPOLOGY OF BENEFICIARIES AND PROGRAMS

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

## 2.0 CHARACTERISTICS OF BENEFICIARIES

### 2.1 The Urban Dweller

Although the outside observer may have trouble differentiating the "street-wise" urban dweller from the recent migrant, the experiences of these two groups are distinct, as are the projects assisting each group. The native or long-term city resident probably has contacts with people outside the family: suppliers, buyers, money lenders, and officials -- people who may provide advice and help. Growing up in a community surrounded by business activities, the long-term resident has probably worked in some sort of eco-

nomic activity from childhood and has a good grasp of the notions of credit and marketing. Working with parents or relatives, skills may have developed that will serve in running a business. With some ability to save, this person can invest in a business and see it grow. (See Table I.)

## 2.2 The Rural Migrant

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

TABLE I

CHARACTERISTICS OF BENEFICIARIES

	Urban Experience	Knowledge of Business	Income	Education	Residence
Providing Assistance Less Difficult	<p>Established Urban Dwellers:</p> <ul style="list-style-type: none"> <li>- "street wise"</li> <li>- good contacts with suppliers, buyers, money lenders, officials, etc.</li> <li>- oriented to urban values</li> </ul>	<ul style="list-style-type: none"> <li>- Crew up in community surrounded by business activity</li> <li>- Parents work as artisans or vendors</li> <li>- Worked with business from early age</li> <li>- Grasps concepts of credit, costs, markets, etc.</li> <li>- Has developed marketable skills</li> </ul>	<p>Near Poverty Line:</p> <ul style="list-style-type: none"> <li>- can meet basic needs of family</li> <li>- some capacity to reinvest savings</li> <li>- access to basic services</li> </ul>	<p>Basic reading, writing, and arithmetic skills</p>	<ul style="list-style-type: none"> <li>- Lives in central city</li> <li>- Markets, supplies, and raw materials close at hand</li> </ul>
Providing Assistance More Difficult	<p>Recent Immigrants:</p> <ul style="list-style-type: none"> <li>- little urban experience</li> <li>- few contacts outside of family or recent migrants like themselves</li> <li>- oriented to rural values</li> </ul>	<ul style="list-style-type: none"> <li>- Parents are farmers</li> <li>- No personal business experience</li> <li>- Little exposure to business activities in rural community</li> <li>- Little grasp of concepts of credit, markets, etc.</li> <li>- Few or no marketable skills</li> </ul>	<p>Extreme Poverty:</p> <ul style="list-style-type: none"> <li>- fundamental concern is day to day survival</li> <li>- almost no capacity to save and reinvest</li> <li>- little access to basic services</li> </ul>	<p>Illiterate</p>	<ul style="list-style-type: none"> <li>- Lives in settlements distant from central city</li> <li>- Transportation to markets costly and time consuming</li> </ul>

### 3.0 LEVELS OF ENTERPRISE<sup>8</sup>

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

#### 3.1 Level I - Marginal

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

Activities are often extremely ephemeral -- selling chewing gum or cigarettes on a corner, or colas and candy during parades. In many cases these marginal workers, who are often women or children, work on a day-basis as unsalaried distributors of large corporations. They are

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<sup>8</sup> Adapted from material developed for the PISCES project by Susan Sawyer, a graduate student in the Harvard School of Education.

totally dependent on large producers for what they sell and seldom have enough capital to buy more than a day's worth of supplies at a time. They have extremely slim possibilities for reinvestment and/or capital accumulation. All of the above constraints limit these enterprises' adaptive abilities, where more often than not it is precisely the degree of flexibility that may determine an enterprise's viability.

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

Usually transient migrants from farming backgrounds, the "Marías" have no personal business experience. Even when they have potentially marketable skills such as sewing and weaving, they are unfamiliar with the competitive aspects of strategic planning and organization of profit-making business ventures. Their principle employment option is to work as servants in the homes of the upper and upper-middle classes. Yet many prefer the hazards of selling on

the street, as they do not like following orders, while they do like being outdoors with their children. In addition, both they and their husbands try to arrange their income-earning activities so they can return to their villages whenever the need or opportunity arises.

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

### 3.2 Level II - Very Small

Level II entrepreneurs have a fundamental understanding of business practices and generally have either a viable going concern, or good business opportunities. After living in an urban area for a while, they can be expected to diversify or grow in the existing businesses, or might start more substantial businesses, albeit at a low level. Typically, Level II entrepreneurs will reinvest whatever resources are available -- be it capital, raw materials, skills, effort, time, or ingenuity -- into the business once it has been started. For example, a woman in Colombia began a tortilla business by making a few extra tortillas for a neighbor who spent her days at the market and who did not have enough time to make tortillas for her family. Before long the woman discovered that many women in the

barrio were willing to pay for fresh tortillas. She employed one daughter who was old enough to make tortillas correctly and had the other daughter wash the clothes and tend the baby so she could devote more time to the income-producing activity of making tortillas. Often, as one woman in a barrio begins to specialize in a business, another woman's time is freed up to specialize in an activity which can add an income to her family. Within families, the use of older children as caretakers for younger siblings is often an important feature of the division of labor within a family, since the shifting of that burden of child care may be a prerequisite for the freeing of an adult woman's time for the purpose of specializing on income generation.

### 3.3 Level III - Small

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

The owner of a chicken shop in the Philippines exemplifies the characteristics of a Level III entrepreneur. On Saturdays the streets around her shop fill with people selling fresh produce and goods brought in from the country. The chicken vendor,

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

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

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

The owners of these tiny enterprises, at all three levels, are beneficiaries of the projects described in the following pages. These enterprises are far smaller than those served by commercial credit or by traditional small enterprise development

efforts. The next section discusses the objectives and entry points of programs assisting the poor at different levels.

#### 4.0 PROGRAM OBJECTIVES AND ENTRY POINTS

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

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

People without businesses or whose businesses are marginal (Level I) are often assisted by community-based development efforts, concerned as much with access to such basic services as health, education, nutrition and sanitation, as with enterprise development and income generation. Enterprise development usually involves creating new individual and collective businesses to provide enough income to meet basic needs while increasing self-esteem and self-worth. In turn, that process, as part of an integrated community development effort, tends to promote the collective solution of problems in the community. Promotion among marginal micro-entrepreneurs is intensive and long term, reflecting the time consuming task of directly promoting and organizing within poor communities projects that include several elements in addition to enterprise development.<sup>9</sup>

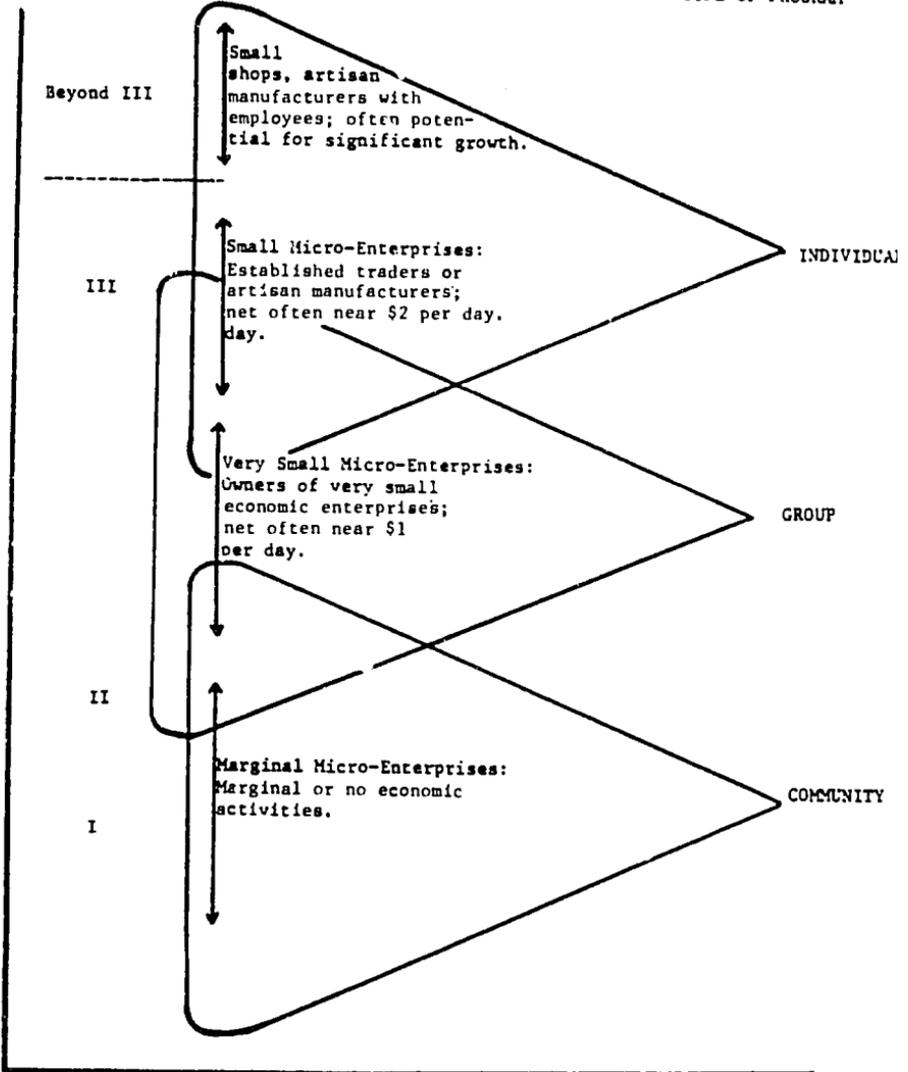
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<sup>9</sup> In at least one program (NCCK in Kenya) the program also assists existing businesses.

TABLE II: PROGRAM TYPE

LEVEL OF ENTERPRISE.

MOST APPROPRIATE  
TYPE OF PROGRAM



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

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

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

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

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

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



ENTERPRISE DEVELOPMENT METHODOLOGY

CHAPTER 5: Projects that Assist Existing Economic Activities

CHAPTER 6: Projects that Create New Enterprises

CHAPTER 7: Impact of Assistance

ENTERPRISE DEVELOPMENT METHODOLOGY

Projects can be further categorized into two types: those which assist existing businesses and those which create new ones. Projects which assist existing businesses provide credit and, in some cases, basic bookkeeping and management training to marginal and very small micro-enterprises (generally through group mechanisms) and to small micro-businesses directly to individual business owners. Similarly, some comprehensive community improvement projects also assist existing enterprises. Projects which create new businesses intervene directly to create new individual or collective businesses either within the context of comprehensive community improvement efforts, or within the context of the production group, without reference to the local community. Many of the projects which have created new businesses have been strikingly inventive and effective in working with the neediest, the least skilled, and the least business-oriented individuals.

As the projects are described, it is perhaps useful to keep in mind a simple model that specifies how much staff intervention there is in the enterprise development aspects of projects. Although there are some exceptions, projects which assist existing businesses tend to range between "low intervention" and "moderate intervention". Projects which start new businesses, however, tend to range between "moderate" and "high intervention". Table IV, which follows,

illustrates a rough way of conceptualizing projects with respect to the variable of staff intervention. In existing projects, there might be different degrees of intervention for the different elements, such as skills training or management, etc.

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

TABLE IV

DECREE OF STAFF INTERVENTION IN ENTERPRISE DEVELOPMENT PROJECTS

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

## 5.0 PROJECTS THAT ASSIST EXISTING ECONOMIC ACTIVITIES

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

### 5.1 The Credit Component

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

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

These three factors may make the expansion of the enterprise possible. Among the range of services provided by assistance programs to micro-enterprises, small loans are almost always considered to be the most important for improving or expanding their businesses. Indeed some of the projects studied show it is possible to increase significantly the incomes of owners of

existing micro-enterprises solely through extending credit. These projects rely on the ability of the business owner to find supplies, expand production, and increase sales. Staff assistance required is minimal.

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

Micro-entrepreneurs use small loans for several purposes:

1. To pay off money lenders: For larger loans to established customers, money lenders charge an interest rate of 20% or more a month. For smaller, unsecured loans, they may charge interest of 20% or more per day. These interest charges are a significant burden on the micro-entrepreneur. A program in Honduras which extended credit at 2% monthly interest to replace the 20% loans offered by money lenders resulted in a significant increase in profit and income for market women.
2. To reduce time-consuming trips for the purchase of raw materials and debt collection: Where there is insufficient working capital, each day's production depends on revenue collected from the previous day's sales. Numerous time-consuming trips must be made to collect revenues and to

purchase stock and raw materials. An elderly candymaker benefited from a credit program in El Salvador; she now has sufficient capital to purchase sugar and other ingredients in bulk, and to collect on consignment sales every few days instead of daily. The hours she works have been cut by 40%.

3. To reduce the cost of stock and raw materials: Lacking working capital, the owner buys stock and raw materials daily in small quantities at high cost. When a tortilla maker, a beneficiary of a program in El Salvador, bought cornmeal by the full sack, she enjoyed a substantial quantity discount. She also saved time and money when she purchased firewood for her stove by the truckload and had it delivered. Previously, she walked to the firewood seller and purchased it by the armload.

4. To reach new markets: With more working capital, the small trader or manufacturer can reach new markets by extending small amounts of credit to those who cannot pay cash. The tortilla maker mentioned earlier allows customers to pay weekly or biweekly, thereby reaching customers who were previously unavailable to her. A costume jewelry maker assisted by a program in the Philippines will open a stall on the principal avenue and sell at higher prices directly, rather than through a middleman.

5. To improve equipment and methods of production: The beneficiary of a commercial bank in Quito, Ecuador, used her loan to replace a treadle sewing machine with an electric one. Now she sews twice as much in the same time. A shoemaker bought a sewing machine to attach shoe uppers to their lowers, a task he previously contracted out to other shops at high cost and considerable delay.

6. To expand the existing business: Sales of small artisans assisted by a program in Ecuador increased by over 100%; monthly sales of small traders assisted by a program in the Philippines increased by over 200%. Although data is spotty and impressionistic, sales increases were reported in most of the programs we studied, indicating that the market is elastic and that these business owners have sufficient entrepreneurial talent to handle expanding sales.

7. To start a new business: Many business operators have used additional capital to start a new business. A seller of soft drinks in El Salvador now hawks cloth to rural villagers. The candymaker mentioned earlier now sells cheese in her neighborhood.

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

## 5.2 Group Programs

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

- o PRIDECO/FEDECCREDITO Program, El Salvador:<sup>10</sup> PRIDECO is a government-sponsored community development agency; FEDECCREDITO is a major credit union. Their program is based on solidarity groups of 5-8 members who are collectively responsible for paying back the individual loan of each business owner. Project staff do not form solidarity groups. Solidarity groups are formed when community members band together as required by the program to qualify for low-interest loans. Each group elects a leader responsible for handling group payments. Group members pay the leader daily. This money is then collected from the leader weekly by a program employee who is paid 1% of the total collected.

The PRIDECO/FEDECCREDITO Program in El Salvador has provided loans to 2735 businesses in 18 months. Initial loans average \$80 - \$200 with administrative costs of \$30 for the first loan and \$10 for the second and subsequent loans. The default rate is about 2%.

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<sup>10</sup> Each of the projects briefly referenced here is described in detail in the regional case study sections of this volume.

- o Working Women's Forum, Madras, India: The Working Women's Forum, a local PVO, uses a similar group mechanism. The leaders of each group stand as personal guarantors for the loans to the 5-50 group members. Group members pay the leader daily who in turn deposits the money in the lending bank. Each group leader is a member of a very active Forum Board of Directors that lobbies to improve conditions in the market and to end police harassment.

The Forum has channeled credit to 3,000 businesses in 18 months. Loans average \$12 - \$36. Administrative costs are less than \$2 per loan plus 10% of the loan's value. Ninety-nine percent of the loans are repayed.

- o Manila Community Services, Inc. (MCSI), Manila, Philippines: In this local PVO's program, the group leader also stands as guarantor for loans to group members. Group members usually pay their loans to the leader daily. Leaders average 5 years participation in various MCSI programs and have been carefully trained. Increasingly, they are given more responsibility to train other group leaders and to do more loan screening. Each leader also administers \$175 discretionary fund to provide \$5 - \$15 loans for emergencies to community people and to help those who are so disposed to get started as hawkers and vendors.

The MCSI program assists 80-90 new small businesses annually. Initial loans average \$62.50; second loans average \$93.75. Administrative costs are about \$100 per new business client, but this includes a 3-week orientation and training in basic business skills. Ninety-five percent of current loans are repaid.

### 5.3 Individual Programs

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

- o Bank of Baroda, Calcutta, India: The Bank of Baroda Multi-Service Center branch in Calcutta administers

its portfolio of 4000 loans with 10 bank-loan promoters. Each promoter is responsible for supervising 400 loans and for securing new clients. Interestingly, as in the programs described earlier, bank officials group their clients by communities and depend on recommendations from other clients to involve new people in the program, a kind of informal solidarity grouping. Administrative costs are low (only \$10 per loan) because loans require a minimum of processing and supervision.

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

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

The most salient elements and characteristics of group and individual projects are listed below.

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

- o Costs: A primary objective of projects that serve established micro-enterprises is to offer credit to large numbers of people, in amounts small enough for them to handle, and with effective guarantee mechanisms. If the solution is to be more than a stop-gap mechanism, the program's costs must be held within bounds.

### 5.5 Characteristics of Groups

The group selection mechanism in each of the programs reaching the smaller of these businesses appears to be the critical element in their success. Groups provide the essential loan guarantee and allow a large number of individuals to be reached with a relatively small number of staff. In most cases the solidarity groups:

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

### 5.6 Characteristics of Individual Projects

Those programs working with slightly larger businesses often did not use a grouping mechanism. Although the projects which utilize bank financing spanned three continents, they shared similar characteristics:

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

### 5.7 Limitations

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

The grouping mechanism also limits those selected for assistance. Groups select their members, leaving out those considered to be poor risks or recent migrants who might be good risks but who are unknown. Commercial bank programs are even more selective and generally require entrepreneurs to have physical assets or co-signers. Some selection process is necessary to ensure good payback; however, except indirectly as employees of businesses that

have expanded as a result of assistance, the most needy will probably remain unserved by projects which assist more established enterprises on an individual basis.

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

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

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

## 6.0 PROJECTS THAT CREATE NEW ENTERPRISES

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

### 6.1 Community-Based Projects

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

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

The NCCK program both assists existing enterprises and helps in the establishment of new cooperative

enterprises in conjunction with other community improvement efforts. These simple cooperative ventures -- promoted by NCKK social workers with no special expertise in enterprise development -- use the skills people already have, such as sewing and animal husbandry, as their starting point.

The cooperatives which are formed market their goods collectively, sometimes through shops run by the NCKK, and arrange for the collective purchase of raw materials. Sometimes they work in the same shop together. When these groups are successful, beneficiaries, many of whom have heretofore only marginally participated in the economic system, have increased their incomes by about a dollar a day. Administrative costs of these groups are moderate.

- o The Village Polytechnic Program, Kenya. The Village Polytechnic Program in Kenya trains poor youth at a low cost compared to traditional vocational education projects. It does so by involving a community in an assessment that determines the skills needed in the local community and then utilizing local skilled artisans as trainers. Early in their training, the youth sell their products cooperatively to defray part of the training costs. Part of the sales income is deposited in a fund that will help establish a cooperative enterprise for the group after the training program has been completed. This fund is also used to purchase tools for setting up new individual businesses or to help group members make the transition to wage labor in a factory or shop.

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

- o Institute of Cultural Affairs, Nairobi, Kenya. A comprehensive and intensive approach to new enterprise development has been adopted by the

Institute of Cultural Affairs<sup>11</sup> (ICA) project in Kawangware, a large squatter settlement on the outskirts of Nairobi. Although there are several ICA projects underway in Kawangware, the largest is a highly labor-intensive urban agriculture project. The scheme is based on single-acre units being worked by five-person teams, each having a team leader. The major crop is French beans, which are harvested every ten weeks throughout the year. Each acre is divided into three rotating plots with 1/3 maturing, 1/3 being cultivated, and 1/3 seeded. There are currently two farms in operation as well as a demonstration farm, which also serves as a training site.

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

In sharp contrast to projects for assisting existing enterprises which assume that with more capital the owner will find the market for increased sales, or to community-based projects like that of the NCKK that help organize and orient small-scale already existing groups, the Kawangware project is functionally so complex that it would soon fail without continuing and extensive staff input. Consequently, it is managed directly by the ICA although it is assumed that eventually the local Association will take over managerial functions. This transition is seen as a long and intensive process. It should be noted that such a project is generally quite expensive to operate, while returns may be no greater than those from less intensive approaches.

## 6.2 Salient Features of Community-Based Projects

Characteristics of effective community-based programs include the following:

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<sup>11</sup> The Institute of Cultural Affairs is a U.S.-based PVO.

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

quality products and services, work in very limited markets and lack access to the more profitable sectors, and face intense competition from both the formal and informal sectors.

In response to these difficult realities, the Village Polytechnic Program, for example, attempts to identify needs within the immediate locality. A second alternative, practiced by NCKK, involves a direct marketing intervention (both domestically and internationally) on the part of the agency itself. None of the programs, however, have come up with a wholly satisfactory answer to the marketing dilemma.

- o Credit. The provision of credit is an essential element of the projects studied. Credit is delivered as a part of a comprehensive assistance package. As most clients have never borrowed from formal credit channels, the programs are generally conservative and cautious, being diligent to match carefully credit terms with the needs and abilities of the borrowers. An aspect of the conservative approach involves very close supervision and the granting of in-kind credits, except in the case of retail businesses. Interest rates charged are lower than commercial rates and collateral requirements are waived. More important, perhaps, is that the terms of the loans (the interest rate, the amortization period and the principal) are carefully adjusted for each individual case. The high degree of flexibility and close supervision together appear to account for the very low default rates experienced by the programs.
- o Training and technical assistance. Most projects dealing with adults do not engage heavily in skills training because of the high costs and inability of adult clients, especially women, to free up enough time. The focus of the training is on on-site managerial and technical assistance to complement and build on existing skills. A different approach is taken in youth projects, such as The Village Polytechnic Program, in which long-term higher-level skills training is undertaken in response to specific needs at the local level.
- o Enterprise promotion. Reflecting the complementary approach of the training components, efforts are made

to tie spin-off enterprise initiatives to what is economically feasible and to existing economic skills and talents. Thus, most projects help promote such activities as handicraft production, bookkeeping, sewing, etc.

- o Management assistance. The management assistance provided reflects the basic assistance needs at this level, in the areas of costing of labor, pricing, marketing, and credit utilization.
- o Staffing. Projects take great pains to recruit staff from within the communities in which they work. Most senior administrative staff in many of the programs began as field-level personnel. The programs are also highly decentralized, with relatively small and autonomous units free to make many of the important decisions affecting the beneficiaries.
- o Wider significance of projects. The relationship of many programs to local and national governments is a critical aspect of their wider significance. Several have demonstrated an ability to attract public sector involvement and support to the level at which they operate. The Village Polytechnic Program, for example, which was started by NCKK, is now run by the Kenyan government.

### 6.3 Group-Base Projects

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

- o National Association of Educated Self-Employed Youth (NAESEY), Madras, India. NAESEY creates new enterprises by separating into its component parts large complex businesses. Each resulting unit then receives

support assistance as a separate business while at the same time remaining an integral part of the whole. One of NAESEY's projects, for example, divided a vertically organized dairy enterprise into its constituent milk production, collection, processing and distribution components, resulting in easily managed tasks, each performed by self-employed individuals with little business experience.

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

There is a strong sense of group loyalty among the young owners who view this project as a movement as much as an opportunity to earn a living. Average income in the milk business is \$65 to \$100 per month - quite high by Indian standards. When the milk project is fully developed, 1,000 new jobs will have been created. Program costs are completely covered by a 1% levy on the gross sales of each business. There is no subsidy.

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

## 7.0 IMPACT OF ASSISTANCE

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

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

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

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

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

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

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

ANALYSIS OF EFFECTIVE PROJECTS

CHAPTER 8: Characteristics of Effective Projects

CHAPTER 9: Lessons Learned

ANALYSIS OF EFFECTIVE PROJECTS

8.0 CHARACTERISTICS OF EFFECTIVE PROJECTS

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

- o Existing business can utilize profitably small amounts of capital. They presumably have already thought through how they can expand their sales. Sources of raw materials, the skills necessary to transform them and the market remain essentially the same.
- o New individual businesses can be set up more easily when they are no more complex than others that are common in the community. This way they can use the assistance of interested neighbors with business skills when they have a doubt or need support.
- o Enterprises consisting of large numbers of separate businesses can be set up when the task performed by each individual business within the system is well defined and the relation between different businesses is clear.
- o Inexpensive training programs are possible when the skills are known in the community and can be taught by local artisans.

- o Cooperative enterprises can be established more easily if they are built on a group that is already working informally together, if they share a common production technology and if they can identify a local market.

Programs which follow these principles tend to:

- o Be simple and low cost;
- o Actively involve the community or groups in the planning process.

They also tend to:

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

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

### 8.1 Project Design

Every project described in the four volumes of case studies is the product of an extended process of project design as well as of a continuous process of change since project inception. Most were developed only after an intensive exercise

was carried out to identify the problems of poor people. Most important, the major source of program modification seems to have come from daily interaction with program beneficiaries. Good project staff has the ability to listen.

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

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

## 8.2 Staffing

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

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

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

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

As programs intervene more directly in the process of enterprise development — e.g., in respect of selecting viable businesses, job skills training, marketing, and establishing larger cooperative ventures — the need for technical expertise increases. Yet, assisting uneducated, often dispersed, informal

sector entrepreneurs is vastly different from working with even small formal sector business people. Adapting the skills of the technician to the realities of promoting businesses at this level is a major area of needed innovation.

### 8.3 Outreach

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

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

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

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

#### 8.4 Selection

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

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

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

#### 8.5 Credit

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

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

- o Loan amounts: To reach the smallest businesses, the projects we observed delivered first loans averaging \$12 - \$100, depending on the project. Loans for the slightly larger micro-businesses served by bank projects tend to be higher: \$200 in India, and \$1,100 in Ecuador. Minimum loans of the Money Shops in the Philippines were \$125. The first loan should be very small for two reasons: first, it tests the individual's ability to repay; second, it avoids overburdening the business with more money than can be invested wisely.
- o Staging: To minimize risk both to the program and to the client, loans to very poor people should be staged when possible. For example, in the Bangalore Layout program in India, when a woman was granted a loan to start a kerosene distribution business, she was given a \$54 loan to rent all the necessary equipment and purchase kerosene. With two additional loans of \$125 each, she was able to purchase a cart and a bullock. Each subsequent loan was paid back before the next was granted.
- o Terms: Most programs appeared to provide a first loan to existing businesses for no more than three to six months. A series of small loans with increased amounts repaid quickly presents a manageable risk to both the businesses and the program. After business owners have a proven record of payback and business expansion, they can be considered for a longer term loan for equipment or installations. Programs starting cooperative businesses, however, often grant loans for longer periods, arguing that businesses need more time to begin to accumulate savings. This is especially true if there is a considerable investment in equipment and installations.
- o Interest Rates: It is generally thought that interest rates for micro-businesses should be low. Yet, if interest rates do not cover costs of risk and administration, financial institutions have little incentive to

more than that decreed by government regulations, or by their sense of corporate responsibility. While those who receive loans at concessionary rates have an important advantage, many others equally well qualified, will not receive loans because of lack of funds. Loans even at comparatively high interest rates are generally more advantageous for the micro-business borrower than would be the alternative of securing funds from a money lender.

Others argue convincingly that the owners of the smallest enterprises should receive a concessionary interest rate, at least for their initial loans, so that their businesses can become better established. Alternatively, the amount of time for paying back the loan can be extended. Resolution of this issue is beyond the scope of this study. A project funded by A.I.D. in Bangladesh is experimenting with variable interest rates up to 35%. Evaluation of that study may throw some light on this issue.

- o Frequency of loan payback: Loan payback periods should reflect the cash flow cycle of the economic activity in question, and the time frame in which the client is used to thinking. Retailers generally pay their solidarity group leaders daily, since they purchase and sell their stock daily. Clothing or shoe manufacturers might pay their loans back on a weekly or monthly basis.
- o Loan collection: Almost all the programs are businesslike about loan payback to maintain good relations with financial institutions, encourage good habits among beneficiaries and avoid the depletion of the loan fund. This is accomplished through several mechanisms:
  - o group members pay group leaders;
  - o loan holders pay the "Money Shops" daily;
  - o banks hire local people as loan collectors and pay them a commission; and
  - o loans are collected by project staff.

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

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

#### 8.6 Bookkeeping and Management Training

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

To overcome these limitations, some programs have attempted to train business owners in simple bookkeeping and management. This has brought mixed results because it is difficult to convince owners of micro-businesses of the necessity of business training, since they often perceive that their own informal systems are adequate at this level. At the same time, it is difficult to translate apparently simple business concepts into

terms understandable to largely illiterate or functionally illiterate slum dwellers who keep no records of any kind. At the minimum, what is required is that the notion of the business's economy must be kept distinct from the family economy in the mind of the entrepreneur.

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

#### 8.7 Job Skills Training

Many of those living in urban areas are unskilled and illiterate; most of these people are destined to work as unskilled laborers, hawkers, or petty traders. Some of the unskilled will find jobs where they can learn trades or be apprenticed. In addition, a good case can be made for providing special skills training opportunities for the youth of the very poor. For instance, with training in carpentry,

automobile mechanics, radio repair, or sewing, particularly when supplemented with management training, people who might not otherwise be absorbed into formal sector wage employment can start their own businesses and earn more money than they could as petty traders or unskilled laborers.

Our study of training components of programs revealed that:

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

A combination of job skills training, business training, and intensive follow-up is essential if the job skills learned are to be put into practice. Separating technical training from business training and follow-up is a major limitation of most vocational education programs. The Village Polytechnic Program in Kenya creatively dealt with this problem by organizing students into work groups that start producing to defray the cost of training from the earliest months. The program tries to provide small amounts of capital to graduates so that they can start their own businesses. Although it has had mixed results in

enterprise creation because of a shortage of staff to follow up and assist the graduates, its mechanism is certainly worthy of further experimentation. The key is to distinguish among the set of occupational skills those that are critical from a technical point of view, and those essential to entrepreneurship and business management.

### 8.8 Marketing Assistance

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

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

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

specialized in areas of production which are heavily dependent on market forces well beyond their control or understanding.

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

## 9.0 LESSONS LEARNED

### 9.1 General Conclusions

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

4. trained poor youths at relatively low cost, and provided the necessary experiences and follow-up support to help them start new collective and individual businesses; and
  5. established cooperative businesses where people working together were able to pool resources and equipment and to sell collectively.
- o Programs have significant impact on the family and community. Although evidence is scattered and often impressionistic, our initial observations are that:
1. programs that assist the smallest of already existing businesses often increase the income of the owners substantially. Many who were earning one dollar a day are now earning two dollars or more. New individual and collective businesses often provide one to two dollars of income a day to those with marginal economic activities who are outside even informal sector economic activities. New income is most commonly used for basic necessities, such as food, health care, schooling, and shelter. As these businesses expand, new employment is often created for the family or neighborhood;
  2. there are also non-economic impacts. In some projects enterprise development is a core around which a comprehensive effort of community change is organized, while in others, enterprise development has emerged out of community improvement efforts. At least one project helped form an organization of poor women entrepreneurs that led to improved conditions in the markets and a lessening of police harassment. Project participants in the Philippines tended to provide more business assistance to each other, and to help more in community improvement efforts, than before they joined these projects. Increased self-confidence and motivation is notable in all programs; and
  3. finally, projects mostly assist women entrepreneurs. In general, the smaller the size of the businesses reached, the larger the proportion of women business owners.

- o Enterprise assistance is a strongly felt need among the poorest urban dwellers.
  1. Many projects moved into enterprise development even though their original goal was community development or to provide social services. The urban poor often made it evident to project staff that their most immediate need was earning an income.
  2. The intensity of this need is demonstrated by the extremely rapid growth of these programs. Many could have served a larger clientele if they had additional funding for loans and staff expansion.

## 9.2 Program Setting

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

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

- o if a government policy favors the urban informal sector, then banks and other financial institutions tend to be more receptive to extending credit to this level directly or through local intermediary organizations;
- o if the local population is rapidly increasing and if economic conditions are improving, then the local market will also be growing, and new opportunities will tend to open up at the bottom as more established informal sector firms expand to serve new markets,
- o if there is adequate physical infrastructure, then it will be easier and cheaper to transport raw materials and finished goods;

- o if the project beneficiaries live close to the city center, then markets and supplies and needed contacts will be closer at hand;
- o if the community has a tradition of working together, possesses trust and solidarity, and is open and experienced in working with outsiders, then the initial barriers of suspicion of outsiders (and of each other) will be easier to overcome; and
- o finally, if the program beneficiaries are long-term residents, already own their own micro-businesses, have enough income to save as little as a few cents a day, and are literate and have job-related skills, then program inputs with each business may be less intensive.

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

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

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

### 9.3 Types of Projects

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

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

#### 9.4 Project Objectives

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

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

The conclusion of this study is that all three levels of beneficiaries should be served by informal sector assistance projects. The benefits of the programs examined have to be carefully weighed. It is possible to reach large numbers of

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

IMPLICATIONS AND CHALLENGES FOR

DONORS AND PRACTITIONERS

CHAPTER 10: Implications for Donors

CHAPTER 11: Major Challenges for Donors and Practitioners

CHAPTER 12: PISCES Phase II

#### 10.0 IMPLICATIONS FOR DONORS

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

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

at least make a serious attempt to provide direct assistance to informal sector and micro-enterprises as a method of accelerating the alleviation of poverty.

#### 10.1 Characteristics of Implementing Organizations

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

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

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

- o a compact size that permits intensive staff contact and the exchange of ideas.

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

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

- o Community-based programs are directed by private and voluntary organizations (local, national, and expatriate). Community-based programs appear ideal for PVOs, since they require grass roots organizing skills more than business skills, intensive contact with those receiving assistance, highly flexible promotional systems, the mobilization of community volunteers, and active community involvement in the development process.
- o Most group-based programs are also directed by PVOs, which are the logical choice for this type of program for many of the same reasons as mentioned above. Significantly, however, three group-based programs studied are directed by local governmental agencies -- Community Development (El Salvador), Ministry of Industries (Philippines), and Ministry of Social Welfare (Philippines). The first two programs are relatively small, autonomous, newly-formed units functioning within their larger parent organizations. As in the PVO programs, the staffs are generally enthusiastic and highly committed. The Ministry of Social Welfare program provides enterprise development assistance as a regular part of its casework services.
- o Most individual programs work through commercial banks. Here too, the banking programs often are based on special units administratively separate from general banking functions. They use highly simplified business systems and selection criteria, and personnel are usually specifically trained.

## 10.2 Types of Projects to be Funded

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

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

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

- o In Bangladesh, a small enterprise PVO is being set up, funded by the local A.I.D. mission. Since there are few projects actually assisting the smallest level businesses in Bangladesh, the first task is to identify interested local organizations. It is expected that many of the groups identified will be small and community-based.

To facilitate the exchange of ideas and mutual assistance, and to identify other organizations to participate, the small enterprise

office will set up an advisory committee of project directors. The advisory committee will play a key role in the next stage, when small pilot demonstration projects will be designed, thus helping to ensure that programs will be responsive to local needs.

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

Similar small enterprise organizations could be set up in other countries. Local groups in the Philippines have expressed interest in this approach and are now setting up a similar foundation for this purpose.

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

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

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

Other types of activities that might be funded include:

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

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

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

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

It is expected that at least in the initial stages, many of the projects will be funded by A.I.D. and will use Operational Program Grants (OPGs)<sup>12</sup> to local organizations. Regular USAID development loans and grants are also envisaged for use in later projects. Alternatives for funding include the Small Project Fund of the Inter-American Development Bank, the Inter-American Foundation, Private Agencies Collaborating Together (PACT), and AT International, all being organizations with similar commitment to funding informal sector and micro-enterprise assistance projects.

#### 11.0 MAJOR CHALLENGES FOR DONORS AND PRACTITIONERS

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

For practitioners, some of the major challenges for reaching the smallest economic activities of the poor, are as

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<sup>12</sup> An OPG is a funding mechanism normally used by an A.I.D. overseas mission to support a development activity of a U.S.-based or host country private and voluntary organization operating in that country.

follows: (These are also indicative of the types of efforts that donors might help to facilitate.)

- o Reaching smaller businesses. Some programs have been able to reach smaller businesses, or are at least contemplating doing so. For example, The National Association of Educated Self-Employed Youth, which began by assisting unemployed university students, is currently assisting village youth with much less education. The Calcutta "Y" program, which provided job skill training exclusively to educated youth, is now helping untrained rural people start businesses. The tendency of many projects, however, is to gradually increase the size of the businesses assisted. It seems to require a strong commitment to assist the smallest businesses, and considerable innovation to ensure that they will be reached.
- o Increasing technical competence. As long as programs work with the owners of existing small businesses which are expected to produce and/or sell more without further program assistance, the major challenge of project development is to design systems for appraising and administering loans, and for delivering simple, basic business guidance. Where programs provide a wider and continuing range of services, however, there are several areas where more comprehensive outreach and assistance capabilities need to be developed, including:
  - o guidelines for selecting or creating businesses with significant potential for increasing their owner's earnings;
  - o methods for teaching rudimentary business concepts to illiterates, and for providing day-to-day assistance to business owners;
  - o local market studies and programs to develop and secure national and international markets;
  - o methods for improving production techniques; and
  - o ways of dealing with raw material constraints.

- o Flexibly assisting different types of local small enterprise opportunities. A limitation of many programs is that they only address one area of need -- credit assistance to small existing businesses, for example -- while other needs are ignored. A major challenge in program design might be the development of a "package" of simple enterprise development activities that could be understood and implemented by the field staff. Such a "package" of activities might incorporate ideas from several of the programs studied, such as:
  - c assisting tiny existing businesses organized in solidarity groups (e.g., FAI DECO/FEDECREDITO program);
  - o having solidarity group leaders administer a small discretionary loan fund that would help the poorest would-be group members enter economic activities such as hawking and vending (e.g., Manila Community Services);
  - o promoting cooperative businesses, consisting of producers of similar goods or services who are interested in working together -- perhaps for the collective purchase of raw materials, equipment or marketing (e.g., The National Christian Council of Kenya); and
  - o financing the training of youth by local artisans through the sale of the goods and services produced by the groups of trainees (e.g., The Village Polytechnic Program).
- o Reaching large numbers and institutionalizing small programs. As projects reach more people, the intensive, ad hoc and personalized system of promotion that served the program when it reached smaller numbers, will need to be streamlined. Authority will need to be delegated to less skilled (and perhaps less dedicated) promoters, and more systematic record keeping procedures will need to be introduced. At the same time, programs must continue to be flexible and innovative if they are to serve the smaller businesses as well. Increasing the size of a program without losing flexibility is another major challenge faced by these programs.

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

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

## 12.0 PISCES PHASE II

The examination of programs that reach the smallest economic activities of the urban poor was encouraging. These programs are for the most part very new, however, and reach only a tiny

fraction of those that potentially could be served. Their impacts on the beneficiaries and on the larger community is also imperfectly understood, as are the ways donor organizations can assist these and similar efforts in the field.

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

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

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

1. Demonstration Project Development. Over the life of the project, six PISCES demonstration projects will be designed, funded and implemented in collaboration with A.I.D. missions overseas. As mentioned earlier, projects developed are expected to reflect at least three assistance modes for donors:

- o the creation of local "intermediary" or "umbrella" organizations, the functions of which will be to identify small local efforts, help design projects and provide a conduit for funding for these projects;
- o the provision of intensive assistance to a local development organization interested in establishing a capacity for PISCES-level enterprise development; and
- o the expansion and technical upgrading of an ongoing PISCES-level enterprise development effort.

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

2. Design a methodology for evaluation. As important as the development of specific projects is, the most significant output of PISCES Phase II may be to use the demonstration projects to answer fundamental questions on the impact of these programs, the relationships among specific program inputs and changes in the target population, and the implications of these findings for the role of A.I.D and other donor agencies and practitioners. The issues to be examined have never been successfully answered for programs of this type so the methodology should, in itself, be of interest to the development community.

3. Monitoring and evaluation. For the monitoring and evaluation systems to generate the data needed, the project or program to be evaluated will have to perceive evaluation as a beneficial and non-threatening project component. Evaluation guidelines will be flexible in order to permit the inclusion of issues and concerns of the local agency, and results of the evaluation will be fed back in a way that will contribute to better project/program planning. As always, the importance of close working relations with the local organization is paramount.

Since not only the impact on the beneficiaries will be measured, but also the way specific program inputs have caused these changes, both the program and its impact on beneficiaries will be monitored. In addition, the strictly economic monitoring and evaluation of program impact on the beneficiaries will be expanded to include social indicators as well as changes in the businesses assisted. For example, in the PISCES Phase I studies, our impressions were that several programs facilitated a positive community orientation towards change; also, the fundamental way these businesses were seen to operate (in terms of management, production and marketing) changed as a result of the program.

4. Dissemination and workshops. In addition to developing demonstration projects and monitoring and evaluating them, an integral part of this project concerns the dissemination of the results to donors and practitioners. Dissemination will be achieved through several mechanisms. Each member of the PISCES team is a spokesperson for the project, and will have numerous opportunities to explain PISCES to interested people, and to assist groups with project development. Also, the reports written for PISCES Phase I, the reports to be written for PISCES Phase II, will be distributed to the network of persons now known to be interested in the PISCES approach, as well as to those whose interest these activities may help to stimulate.

Workshops will be another major vehicle to disseminate information and to receive feedback from scholars and practitioners of informal sector assistance. There will be at least two interim workshops and a final workshop held over the life of the project.

5. Secretariat. The PISCES staff will design and maintain on a continuing basis a centralized monitoring system for supporting the field components of PISCES Phase II. This "secretariat" will provide an institutional memory, and will be the point of cognizance for monitoring, evaluation, analysis and dissemination of the experimental information generated in the course of executing this project in the field. It will also serve to integrate this information with similar information on other ongoing projects not affiliated with PISCES.

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APPENDIX

Projects Studied

AFRICA:

- The Urban Community Improvement Programme of the National Christian Council of Kenya (NCCK)
- The Village Polytechnic Program (VP), Kenya
- Institute for Cultural Affairs (ICA), Kawangware Community Upgrading Project, Nairobi, Kenya
- Tanzania Small Business Industries Development Organization (SIDO)
- Artisan Training and Credit Program of the Centre National de Perfectionnement des Artisans Ruraux (CNPAR), Upper Volta
- Women in Development Project (WID-Swaziland), Mtonjeni, Swaziland
- Indigenous Business Advisory Service (IBAS), Banjul, The Gambia
- Centre d'Education a la Promotion Collective (CEPEC), Yaounde, Cameroon
- Institut Panafricain pour le Developpement (IPD), Douala, Cameroon

ASIA:

India:

- The Working Women's Forum
- National Association of Educated Self-Employed Youth (NAESEY)
- Bangalur Layout
- Calcutta "Y" Self-Employment Centre

Philippines:

Philippine Industrial and Commercial Bank

Manila Community Services, Inc.

Metro Manila Barangay Industries Development Program

Self-Employment Assistance Program

LATIN AMERICA:

FEDECCREDITO (Federación de Cajas de Credito)  
(Federation of Credit Agencies)

PRIDECO (Programa Integral de Desarrollo Comunal)  
(Integral Community Development Program)  
El Salvador

FNCS (Federación Nacional de Cruzada Social)  
(National Federation of the Social Crusade)

CIDES (Cooperativa Multiactiva de Desarrollo Social)  
(Multifaceted Social Development Cooperative)  
Colombia

Banco del Pacífico (Bank of the Pacific)  
Ecuador

ASEPADE (Asesores para el Desarrollo)  
(Advisors for Development)  
Honduras

INEDES (Instituto Ecuatoriano de Desarrollo Social)  
(Ecuadorian Social Development Institute)  
Ecuador